Other Information

The ***Other Information*** section contains information on Tax Burden/Tax Gap, Combined Schedule of Spending, Summary of Financial Statement Audit and Management Assurances, Improper Payments Elimination and Recovery Improvement Act, Freeze the Footprint, and Other Key Regulatory Requirements. Also included in this section are the OIG's Summary of Major Management and Performance Challenges Facing the Department of Homeland Security and Management's Response.

Unaudited, see accompanying Auditors' Report

Tax Burden/Tax Gap

Revenue Gap

The Entry Summary of Trade Compliance Measurement (TCM) program collects objective statistical data to determine the compliance level of commercial imports with U.S. trade laws, regulations and agreements, and is used to produce a dollar amount for Estimated Net Under-Collections, and a percent of Revenue Gap. The Revenue Gap is a calculated estimate that measures potential loss of revenue owing to noncompliance with trade laws, regulations, and trade agreements using a statistically valid sample of the revenue losses and overpayments detected during TCM entry summary reviews conducted throughout the year.

Entry Summary of Trade Compliance Measurement
($ in millions)

	FY 2016 (Preliminary)	FY 2015 (Final)
Estimated Revenue Gap	$ 396.5	$ 970.6
Preliminary Revenue Gap of all collectable revenue for year (%)	0.88%	2.07%
Estimated Over-Collection	$ 66.2	$ 48.4
Estimated Under-Collection	$ 462.7	$ 1,019.0
Overall Trade Compliance Rate (%)	99.2%	98.8%

The preliminary overall compliance rate for Fiscal Year (FY) 2016 is 99.2 percent. The final overall trade compliance rate and estimated revenue gap for FY 2016 will be issued in February 2017.

Combined Schedule of Spending

The Combined Schedule of Spending (SOS) presents an overview of how departments or agencies are spending money. The SOS presents combined budgetary resources and obligations incurred for the reporting entity. Obligations incurred reflect an agreement to either pay for goods and services, or provide financial assistance once agreed upon conditions are met. The data used to populate this schedule is the same underlying data used to populate the Statement of Budgetary Resources (SBR). Simplified terms are used to improve the public's understanding of the budgetary accounting terminology used in the SBR.

USASpending.gov reports obligations incurred for various financial assistance and contracts payment types. The major difference between information presented on the SBR and SOS versus USAspending.gov is that the SBR and SOS present all obligations incurred for the fiscal year; whereas USASpending.gov reports only a subset of those obligations related to various types of financial assistance and contracts. For example, the following types of obligations are presented in the SBR and SOS, but are not included in USASpending.gov: personnel compensation and benefits, agreements between Federal Government agencies (referred to as inter-agency agreements), and bankcard purchases below the micro-purchase threshold.

What Money is Available to Spend? This section presents resources that were available to spend as reported in the SBR.

- ***Total Resources*** refers to total budgetary resources as described in the SBR and represents amounts approved for spending by law.
- ***Amounts Not Agreed to be Spent*** represents amounts that the Department was allowed to spend but did not take action to spend by the end of the fiscal year.
- ***Amounts Not Available to Spend*** represents amounts that the Department was not approved to spend during the current fiscal year.
- ***Total Amounts Agreed to be Spent*** represents amounts that the Department has made arrangements to pay for goods or services through contracts, orders, grants, or other legally binding agreements of the Federal Government. This line total agrees to the Obligations Incurred line in the SBR.

How was the Money Spent/Issued? This section presents services or items that were purchased, categorized by Components. Those Components that have a material impact on the SBR are presented separately. Other Components are summarized under Directorates and Other Components, which includes the Domestic Nuclear Detection Office (DNDO), the Federal Law Enforcement Training Centers (FLETC), the Office of Intelligence and Analysis (I&A), the Office of Operations Coordination (OPS), the Management Directorate (MGMT), the Office of Health Affairs (OHA), the Office of Inspector General (OIG), the National Protection and Programs Directorate (NPPD), the Science and Technology Directorate (S&T), U.S. Citizenship and Immigration Services (USCIS), and the U.S. Secret Service (USSS).

For purposes of this schedule, the breakdown of "How Was the Money Spent/Issued" is based on the Office of Management and Budget (OMB) definitions for budget object class found in OMB Circular A-11.

- ***Personnel Compensation and Benefits*** represents compensation, including benefits directly related to duties performed for the government by federal civilian employees, military personnel, and non-federal personnel.
- ***Contractual Service and Supplies*** represents purchases of contractual services and supplies. It includes items like transportation of persons and things, rent, communications, utilities, printing and reproduction, advisory and assistance services, operation and maintenance of facilities, research and development, medical care, operation and maintenance of equipment, subsistence and support of persons, and purchase of supplies and materials.
- ***Acquisition of Assets*** represents the purchase of equipment, land, structures, investments, and loans.
- ***Grants, Subsidies, and Contributions*** represents, in general, funds to states, local governments, foreign governments, corporations, associations (domestic and international), and individuals for compliance with such programs allowed by law to distribute funds in this manner.
- ***Insurance, Refunds, and Other Spending*** represents benefits from insurance and federal retirement trust funds, interest, dividends, refunds, unvouchered or undistributed charges, and financial transfers.

Who did the Money Go To? This section identifies the recipient of the money, by federal and non-federal entities. Amounts in this section reflect "amounts agreed to be spent" and agree to the Obligations Incurred line on the SBR.

The Department encourages public feedback on the presentation of this schedule. Feedback may be sent via email to par@hq.dhs.gov.

Department of Homeland Security
Combined Schedule of Spending
For the Years Ended September 30, 2016 and 2015
(In Millions)

	2016	2015
What Money is Available to Spend?		
Total Resources	$ 88,113	$ 89,074
Less Amount Available but Not Agreed to be Spent	(10,287)	(12,955)
Less Amount Not Available to be Spent	(3,191)	(3,267)
TOTAL AMOUNT AGREED TO BE SPENT	**$ 74,635**	**$ 72,852**
How Was the Money Spent/Issued?		
U.S. Customs and Border Protection		
Personnel Compensation and Benefits	$ 10,866	$ 10,426
Contractual Services and Supplies	3,864	3,584
Acquisition of Assets	1,002	827
Grants, Subsidies, and Contributions	-	11
Insurance, Refunds, and Other Spending	2,047	2,933
Total Spending	**17,779**	**17,781**
U.S. Coast Guard		
Personnel Compensation and Benefits	5,408	5,285
Contractual Services and Supplies	4,396	4,602
Acquisition of Assets	887	950
Grants, Subsidies, and Contributions	43	44
Insurance, Refunds, and Other Spending	5	128
Total Spending	**10,739**	**11,009**
Federal Emergency Management Agency		
Personnel Compensation and Benefits	1,225	1,079
Contractual Services and Supplies	2,000	1,520
Acquisition of Assets	360	266
Grants, Subsidies, and Contributions	11,427	10,763
Insurance, Refunds, and Other Spending	3,956	2,283
Total Spending	**18,968**	**15,911**
U.S. Immigration and Customs Enforcement		
Personnel Compensation and Benefits	3,102	2,940
Contractual Services and Supplies	3,142	3,081
Acquisition of Assets	150	185
Insurance, Refunds, and Other Spending	37	37
Total Spending	**6,431**	**6,243**

(Continued)

Department of Homeland Security
Combined Schedule of Spending
For the Years Ended September 30, 2016 and 2015
(In Millions)

	2016	2015
Transportation Security Administration		
Personnel Compensation and Benefits	4,794	4,692
Contractual Services and Supplies	2,645	2,603
Acquisition of Assets	192	292
Grants, Subsidies, and Contributions	84	87
Insurance, Refunds, and Other Spending	4	3
Total Spending	**7,719**	**7,677**
Directorates and Other Components		
Personnel Compensation and Benefits	4,528	4,263
Contractual Services and Supplies	7,752	7,486
Acquisition of Assets	567	2,329
Grants, Subsidies, and Contributions	149	158
Insurance, Refunds, and Other Spending	3	(5)
Total Spending	**12,999**	**14,231**
Department Totals		
Personnel Compensation and Benefits	29,923	28,685
Contractual Services and Supplies	23,799	22,876
Acquisition of Assets	3,158	4,849
Grants, Subsidies, and Contributions	11,703	11,063
Insurance, Refunds, and Other Spending	6,052	5,379
TOTAL AMOUNT AGREED TO BE SPENT	**$ 74,635**	**$ 72,852**
Who Did the Money Go To?		
Non-Federal Governments, Individuals and Organizations	$ 61,654	$ 57,301
Federal Agencies	12,981	15,551
TOTAL AMOUNT AGREED TO BE SPENT	**$ 74,635**	**$ 72,852**

Summary of Financial Statement Audit and Management Assurances

Table 1 and Table 2 below provide a summary of the financial statement audit results and management assurances for FY 2016.

Table 1: FY 2016 Summary of the Financial Statement Integrated Audit Results

Audit Opinion	Unmodified				
Restatement	No				
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidate**	**Ending Balance**
Financial Reporting	1	0	0	0	1
IT Controls & System Functionality	1	0	0	0	1
Property, Plant & Equipment	1	0	0	0	1
Total Material Weaknesses	**3**	**0**	**0**	**0**	**3**

In FY 2016, the Independent Auditor's Report on the integrated financial statement audit identified three material weakness conditions at the Department level. Consistent with the Independent Auditor's Reports, the Department is providing reasonable assurance on internal control over financial reporting, with the exception of three material weaknesses as identified in Table 2 in FY 2016. Management has performed its evaluation, and the assurance is provided based upon the cumulative assessment work performed on Entity Level Controls, Financial Reporting, Budgetary Resources, Fund Balance with Treasury, Human Resources and Payroll Management, Payment Management, Insurance Management, Grants Management, Property Plant and Equipment, and Revenue and Receivables across the Department. DHS management has remediation work to continue in FY 2017; however, no additional material weaknesses were identified as a result of the assessment work performed in FY 2016. The following table provides those areas where material weaknesses were identified and remediation work continues.

Table 2: FY 2016 Effectiveness of Internal Control Over Financial Reporting

Effectiveness of Internal Control Over Financial Reporting (FMFIA Section 2)					
Statement of Assurance	**Modified**				
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Financial Reporting	1	0	0	0	1
IT Controls & System Functionality	1	0	0	0	1
Property, Plant & Equipment	1	0	0	0	1
Total Material Weaknesses	**3**	**0**	**0**	**0**	**3**
Effectiveness of Internal Control Over Operations (FMFIA Section 2)					
Statement of Assurance	**Unmodified**				
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
None noted	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**

Conformance with Financial Management Systems Requirements (FMFIA Section 4)					
Statement of Assurance	**Systems do not fully conform with financial system requirements**				
Non Conformances	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Federal Financial Management Systems Requirements, including Financial Systems Security & Integrate Financial Management Systems	1	0	0	0	1
Noncompliance with the U.S. Standard General Ledger	1	0	0	0	1
Federal Accounting Standards	1	0	0	0	1
Total Non-Conformances	**3**	**0**	**0**	**0**	**3**

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	DHS	**Auditor**
1. System Requirements	**Lack of compliance**	**Instances of noncompliance**
2. Accounting Standards	**Lack of compliance**	**Instances of noncompliance**
3. USSGL at Transaction Level	**Lack of compliance**	**Instances of noncompliance**

Effectiveness of Internal Control Over Financial Reporting

Pursuant to the Department of Homeland Security Financial Accountability Act, the Department has focused its efforts on evaluating corrective actions to assess whether previously reported material weaknesses continue to exist. Since FY 2005, the Department reduced audit qualifications from 10 to zero and material weaknesses by more than half. In FY 2015, the Department implemented and demonstrated successful remediation activities that corrected budgetary accounting conditions. As a result, DHS reduced one of its four material weaknesses. Although the Department continues to report three material weaknesses in FY 2016, the USCG made significant strides in addressing audit conditions around Real Property—a substantial contributor to the consolidated FY 2015 Department-wide Property, Plant, and Equipment (PP&E) condition.

In FY 2017, DHS will build on USCG's FY 2016 efforts and continue to make internal control improvements across the Department with focused efforts on correcting Financial Reporting, IT Controls and System Functionality, and PPE weaknesses. To support its remediation efforts, the Department's CFO initiated a financial system modernization initiative to address the Component's challenges with remediating the existing material weaknesses and non-compliance with federal financial systems requirements. The Department continues to mature the enterprise-wide financial management framework and its internal control program. The CFO conducts monthly risk management meetings with applicable Components, senior management, and staff.

Table 3 summarizes financial statement audit material weaknesses in internal controls as well as planned corrective actions with estimated target correction dates.

Table 3: FY 2016 Internal Control Over Financial Reporting Corrective Actions

Material Weakness	Component	Year Identified	Target Correction Date
	USCG, NPPD, FEMA, USSS, and CBP	FY 2003	FY 2017
Financial Reporting	NPPD, FEMA, USSS, and CBP experienced challenges with deficiencies in multiple business processes. These issues directly impacted financial reporting. USCG did not establish an effective financial reporting process due to the lack of integrated financial processes and systems resulting in heavy reliance on manual processes.		
Corrective Actions	The DHS CFO will continue to support Components in implementing corrective actions to establish effective financial reporting control activities. In financial reporting areas primarily due to a lack of integrated financial systems, the Department will continue to focus on implementing and executing interim manual compensating measures.		

Material Weakness	Component	Year Identified	Target Correction Date
	DHS	FY 2003	FY 2017
IT Controls and System Functionality	The Department's Independent Public Auditor has identified Financial Systems Security as a material weakness in internal controls since FY 2003 due to inherited control deficiencies surrounding general computer and application controls. FY 2016 showed enterprise-wide IT internal control conditions. The Federal Information Security Management Act mandates that federal agencies maintain IT security programs in accordance with OMB and National Institute of Standards and Technology guidance. In addition, the Department's financial systems do not fully comply with the Federal Financial Management Improvement Act (FFMIA).		
Corrective Actions	The DHS CFO and CIO will support the Components in the design and implementation of internal controls in accordance with DHS 4300A, *Sensitive Systems Handbook, Attachment R: Compliance Framework for CFO Designated Financial Systems*. Remediation efforts will occur across the Department with a risk-based approach to correcting thematic system weaknesses across all CFO designated systems. In addition, the Department will continue to move forward with financial system modernization that will provide substantial compliance with FFMIA.		

Material Weakness	Component	Year Identified	Target Correction Date
	USCG, NPPD, USSS	FY 2003	FY 2017
PP&E	The controls and related processes surrounding PP&E to accurately and consistently record activity are either not in place or contain errors and omissions.		
Corrective Actions	USCG, NPPD, and USSS will implement and sustain policies and procedures to support completeness, existence, and valuation over PP&E. Specifically, USCG will build upon its FY 2016 progress over remediating real property and expand its focus to correcting remaining Construction-in-Process conditions. The DHS CFO will continue efforts to support USCG, NPPD, and USSS in implementing corrective actions to address capital asset conditions and develop policies and procedures to establish effective property management and internal control over financial reporting activities.		

Effectiveness of Internal Control Over Operations

The Department's Management Directorate (MGMT) is dedicated to ensuring that departmental offices and Components perform as an integrated and cohesive organization, focused on the Department's frontline operations to lead efforts to achieve a safe, secure, and resilient homeland. Critical to this mission is a strong internal control structure. As we strengthen and unify DHS operations and management, we will continually assess and evaluate internal controls to ensure the effectiveness and efficiency of operations and compliance with laws and regulations. We continue to make tremendous progress in strengthening Department-wide internal control over operations, as evidenced by the following FY 2016 achievements:

- During FY 2016, the Office of the Chief Financial Officer through the Cost Analysis Division (CAD) continued to provide direct support, direction, and guidance to DHS Component Acquisition Executives, which strengthened the Department's cost estimating capabilities. As a result, CAD achieved 100 percent compliance, meaning that all major acquisition programs across DHS have a Department approved Life Cycle Cost Estimate.

- The Office of Program Accountability and Risk Management (PARM) created an infrastructure that promotes DHS-wide acquisition program data accuracy. PARM automated the Master Acquisition Oversight List, which is a tool for acquisition management and reporting purposes. This tool increases efficiency and effectiveness by automating the change request process. PARM will continue to track the tools usage and effectiveness in FY 2017.

- The Office of the Chief Security Officer enhanced its personnel security metrics report that enables the Personal Security Division to identify areas for process improvement and accurately depict current levels of service being provided to the supported Components. The Personnel Security Division is in the final stages of implementing this report for the entire DHS personnel security enterprise, including operational Components.

- The Office of the Chief Readiness Support Office (OCRSO) increased operational efficiency within multiple programs. OCRSO established the Marine Governance Board to bring together and provide centralized oversight of those Component programs that acquire and operate marine assets to ensure the tools, equipment and processes are integrated whenever possible. OCRSO chartered and established the strategic plan for the OCRSO "Systems Integration Office," which acts as a single authority for positioning data as a strategic asset, driving data-driven decision making, and maturing the consistency, quality, and timeliness of enterprise asset and sustainability information.

- The Office of the Chief Information Officer (OCIO) strengthened DHS's cybersecurity by achieving ongoing Department-wide improvements, established in 2015, through the FY 2016 DHS Annual Information Security Performance Plan. In addition, DHS continued its aggressive implementation of the HSPD-12 Smartcard usage for logical access (login capability) to DHS unclassified networks. This resulted in an increase for unprivileged users to 99 percent and maintenance of 99 percent for privileged DHS Federal and contract staff Smartcard users across the nation. DHS was able to successfully exceed OMB's FY 2016 goal for unprivileged users by 14 percent.

Improper Payments Elimination and Recovery Improvement Act

The Improper Payments Information Act of 2002 (IPIA) (Pub. L. 107-300), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) (Pub. L. 111-204) and Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA); (Pub. L. 112-248), requires agencies to review and assess all programs and activities they administer and identify those determined to be susceptible to significant improper payments, estimate the annual amount of improper payments, and submit those estimates to Congress. A program with significant improper payments (or a high-risk program) has both a 1.5 percent improper rate and at least $10 million in improper payments, or exceeds $100 million dollars regardless of the error rate. Additionally, federal agencies are required to reduce improper payments and report annually on their efforts according to guidance promulgated by the Office of Management and Budget (OMB) in OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*. The Department performs testing to estimate the rates and amounts of improper payment, establishes improper payment reduction targets in accordance with OMB guidance, and develops and implements corrective actions.

In FY 2016, the Department's overall improper payment error rate over FY 2015 disbursements is 1.02%. Despite demonstrating an overall improper payment error rate reduction from FY 2015 to FY 2016, the Department did not meet its annual improper payment reduction targets within 0.1% established for every program identified as susceptible to improper payments, which is an OMB requirement. The Department will continue its efforts to prevent and reduce improper payments and meet annual reduction targets. We remain strongly committed to ensuring our agency's transparency and accountability to the American taxpayer and achieving the most cost effective strategy on the reduction of improper payments.

I. Risk Assessments

In accordance with IPERA Section 2(a), agency heads are required to "review all programs to identify risk susceptibility for improper payments every three years." In FY 2016, the Department established quantitative and qualitative criteria that allowed Components to identify programs with lower risk susceptibility. DHS allows these programs to be evaluated through a detailed risk assessment process every three years. The Department requires all other programs to be detail risk assessed annually. In FY 2016, DHS conducted risk assessments on 56 DHS programs and over $52.8B of disbursements. The Department assessed all payment types except for federal Intra-governmental payments which were excluded based on the definition of an improper payment contained in IPERIA.

In late October 2012, Hurricane Sandy devastated portions of the Mid-Atlantic and northeastern United States, leaving victims of the storm and their communities in need of immediate disaster relief aid. On January 29, 2013, the President signed the Disaster Relief Appropriations Act (DRAA). According to DRAA, all Federal programs or activities receiving funds under that Act are automatically considered susceptible to significant improper payments, regardless of any previous improper payment risk-assessment results, and are required to calculate and report an improper payment estimate. The Department tested all Hurricane Sandy-related FY 2015 payments for the remaining programs receiving this funding.

For all 56 DHS programs that were risk assessed in FY 2016, risk assessment meetings were held with program owners, key personnel, and other stakeholders to discuss the inherent risk of improper payments according to eight risk factors which directly or indirectly affect the likelihood of improper payments within the program. The risk factors that were considered are as follows:

1. Payment Processing Controls – Includes review of: management's implementation of internal controls over payment processes, including existence of current documentation, the assessment of design and operating effectiveness of internal controls over payments, the identification of deficiencies related to payment processes and whether or not effective compensating controls are present, and the results of prior improper payment sample testing.
2. Quality of Internal Monitoring Controls – Includes review of: periodic internal program reviews to determine if payments are made properly, strength of documentation requirements and standards to support tests of design and operating effectiveness for payment controls, and presence or absence of compensating controls.
3. Human Capital – Includes review of: experience and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate, ability of staff to handle peak payment requirements, level of management oversight and monitoring against fraudulent activity, and newness of program to the agency.
4. Complexity of Program – Includes the review of: complexity and variability of interpreting and applying laws, regulations, and standards required of the program, changes in funding, authorities, practices or procedures, and newness of program to the agency.
5. Nature of Payments and Recipients – Includes the review of: the type, volume, and size of payments, length of payment period, quality of recipient financial infrastructure and procedures, and recipient experience with federal award requirements.
6. Operating Environment – Includes the review of: inherent risks of improper payments due to nature of programs or operations, existence of factors that necessitate or allow for loosening of financial controls, any known instances of fraud, and management's experience with designing and implementing compensating controls.
7. Additional Grant Programs Factors – Includes the review of: Federal Audit Clearinghouse information on quality of controls within grant recipients, identification of deficiencies or history of improper payments within recipients, type and size of program recipients and sub-recipients, maturity of recipients' financial infrastructure, experience with administering federal payments, number of vendors being paid, and number of layers of sub-grantees.
8. Contract Payment Management – Includes the review of: identification of contract management weaknesses identified in previous payment testing, discrepancies between Contracting Officer Representatives (COR) reviewing and approving invoices with the COR(s) listed in the contract, contractors reviewing and approving invoices on behalf of the COR, lack of familiarity with goods and services listed on invoices, time available to review invoices prior to payment, sufficiency of supporting documentation to support invoice amount prior to payment, and completeness of contract file in order used to verify agreed upon amounts for goods and/or services.

Program managers and Component's internal controls division assigned a risk rating to each risk factor based on their detailed understanding of the processes and risk of improper payment. Weighted percentages were assigned to each risk factor rating based on a judgmental determination of the direct or indirect impact on improper payments. An overall risk score was then computed for each program, calculated by the sum of the weighted scores for each risk factor and overall rating scale. The susceptibility of programs to make improper payments was determined using both qualitative and quantitative risk analysis. A weighted average of 65 percent for Qualitative factors and 35 percent for Quantitative Risk yields the program's overall risk score.

Additionally, the Office of Risk Management and Assurance conducted reviews and comparison to previous year's program risk assessment and improper payment testing results to identify significant changes in the program and assess the reasonableness of the risk ratings. The Department also reviewed the results from the Office of Inspector General, Department of Homeland Security's FY 2015 Compliance with the Improper Payments Elimination and Recovery Act of 2010, (OIG-16-88). All recommendations from the report were implemented during FY 2016.

Exhibit 4: Programs Assessed for Risk of Improper Payments in FY 2016[1]

Item	Component	Program ID	Below Statutory Thresholds	Susceptible to Significant Improper Payments	Year Rate and Amount will be Reported
1	CBP	Continued Dumping Subsidy Offset Act of 2000 (CDSOA) & Wool	Yes	No	N/A
2	CBP	Construction	Yes	No	N/A
3	CBP	Operations & Maintenance	Yes	No	N/A
4	CBP	User Fees	Yes	No	N/A
5	CBP	Automation Modernization	Yes	No	N/A
6	CBP	Salaries and Expense (excluding Administrative Uncontrollable Overtime-AUO)	Yes	No	N/A
7	CBP	Border Security Fencing	Yes	No	N/A
8	CBP	Puerto Rico & Virgin Islands	Yes	No	N/A
9	DNDO	Management Administration	Yes	No	N/A
10	DNDO	System Acquisition	Yes	No	N/A
11	DNDO	Research Development & Operations	Yes	No	N/A
12	FEMA	Payroll (Disaster Relief Fund) DRF & Non-DRF/DRF Sandy Disbursements	Yes	No	N/A
13	FEMA	DRF Travel	Yes	No	N/A
14	FEMA	DRF Hazard Mitigation Grant Program	Yes	No	N/A
15	FEMA	DRF Individual & Household Program (IHP)	Yes	No	N/A
16	FEMA	AFG Fire Prevention Program	Yes	No	N/A
17	FEMA	AFG Staffing for Adequate Fire and Emergency Response (SAFER)	Yes	No	N/A
18	FEMA	Emergency Food & Shelter Program (EFSP)	Yes	No	N/A
19	FEMA	Emergency Management Performance Grant (EMPG)	Yes	No	N/A

Item	Component	Program ID	Below Statutory Thresholds	Susceptible to Significant Improper Payments	Year Rate and Amount will be Reported
20	FEMA	Training and Grants (Grants and Training)	Yes	No	N/A
21	FLETC	Management & Administration (FMA)	Yes	No	N/A
22	FLETC	Law Enforcement Training	Yes	No	N/A
23	FO/HQ	Management & Administration	Yes	No	N/A
24	I&A	Analysis and Operations	Yes	No	N/A
25	OHA	BioWatch	Yes	No	N/A
26	OHA	Salaries & Expenses	Yes	No	N/A
27	OIG	Audit, Inspection and Investigation	Yes	No	N/A
28	ICE	Homeland Security Investigations	Yes	No	N/A
29	ICE	Office of the Assistant Secretary	Yes	No	N/A
30	ICE	Management (MGMT)	Yes	No	N/A
31	ICE	Service wide Agreement	Yes	No	N/A
32	ICE	Travel	Yes	No	N/A
33	ICE	Purchase & Fleet Card	Yes	No	N/A
34	ICE	Payroll	Yes	No	N/A
35	NPPD	Federal Protective Service (FPS)	Yes	No	N/A
36	NPPD	NPPD Legacy Office of the Under Secretary (OUS), Cybersecurity and Communications (CS&C), Infrastructure Protection (IP), and Office of Cyber and Infrastructure Analysis (OCIA)	Yes	No	N/A
37	NPPD	Office of Biometric Identity Management (OBIM)	Yes	No	N/A
38	NPPD	Payroll (NPPD Wide)	Yes	No	N/A
39	S&T	Management & Administration	Yes	No	N/A
40	S&T	Research & Development	Yes	No	N/A
41	TSA	Transportation Security Support (Administrative Support)	Yes	No	N/A
42	TSA	Aviation Security Support	Yes	No	N/A
43	TSA	Federal Air Marshal Service	Yes	No	N/A
44	TSA	Surface Transportation	Yes	No	N/A
45	TSA	Threat Assessment and Credentialing	Yes	No	N/A
46	USCG	Acquisitions/Constructions and Improvements (AC&I)	Yes	No	N/A
47	USCG	Operating Expenditures (OE)	Yes	No	N/A

Item	Component	Program ID	Below Statutory Thresholds	Susceptible to Significant Improper Payments	Year Rate and Amount will be Reported
48	USCG	OE Aviation Logistics Center (ALC)	Yes	No	N/A
49	USCG	Surface Force Logistics Center (SFLC) Operating Expense (OE)	Yes	No	N/A
50	USCG	Retired Pay	Yes	No	N/A
51	USCIS	Adjudications Program Code 20	Yes	No	N/A
52	USCIS	Administration Program Code 50	Yes	No	N/A
53	USSS	Protection	Yes	No	N/A
54	USSS	Investigations	Yes	No	N/A
55	USSS	District of Columbia (D.C.) Annuity	Yes	No	N/A
56	USSS	Acquisitions	Yes	No	N/A

Note 1: Per OMB Circular A-136, only programs not already reporting an improper payment estimate are listed in this exhibit.

The following programs were deemed to be susceptible to significant improper payments:

Exhibit 5: Programs Susceptible to Significant Improper Payments Based on Prior Year Payment Sample Testing

Component	Program	FY 2015 Disbursements ($ Million)[1]
CBP	Refund & Drawback (R&D)	$3,008.52
	Administratively Uncontrollable Overtime (AUO)	$172.98
DNDO	Systems Acquisition – Hurricane Sandy (DNDO – Sandy)	$0.06
FEMA	Assistance to Firefighters Grant Program (AFG)	$270.91
	Flood Risk Map – Flood Hazard Mapping & Risk Analysis Program (FRM&RA)	$111.25
	Homeland Security Grant Program (HSGP)	$658.63
	National Flood Insurance Program (Flood Claims) (NFIP)	$828.97
	Port Security Grant Program (PSGP)	$117.38
	Public Assistance Program (PA)	$4,198.30
	Transit Security Grant Program (TSGP)	$218.48
	Vendor Pay (VP)	$581.51
ICE	Enforcement & Removal Operations (ERO)	$1,616.01
OIG	Hurricane Sandy Payroll & Travel (OIG – Sandy)	$0.17
S&T	Research & Development – Hurricane Sandy (S&T Sandy)	$2.08
USCG	Acquisition, Construction, & Improvements - Hurricane Sandy (USCG – Sandy)	$70.00
Total Disbursements		**$11,855.25**

Note 1: All amounts are rounded to the nearest whole dollar

II. Sampling and Estimation

We used a statistically valid, stratified sampling design to select and test FY 2015 disbursements. The sampling design and execution was performed by a statistician. Our procedures provided an overall estimate of the percentage of improper payment dollars within ±2.5 percent precision at the 90 percent confidence level, as specified by OMB M-03-13 guidance.

Using a stratified random sampling approach, payments were grouped into mutually exclusive "strata," or groups based on total dollars. A stratified random sample typically required a smaller sample size than a simple random sample to meet the specified precision goal at any confidence level. Once the overall sample size was determined, the individual sample size per stratum was determined using the Neyman Allocation method.

The following procedure describes the sample selection process:

- Grouped payments into mutually exclusive strata;
- Assigned each payment a random number generated using a seed;
- Sorted the population by stratum and random number within stratum; and
- Selected the number of payments within each stratum (by ordered random numbers) following the sample size design. For the certainty strata, all payments are selected.

To estimate improper payment dollars for the population from the sample data, the stratum-specific ratio of improper dollars (gross, underpayments, and overpayments, separately) to total payment dollars was calculated. FEMA Homeland Security Grant Program and Public Assistance Program used an OMB approved alternative sampling methodology for multi-year targeted sampling plan due to population size.

While the Department generally uses a statistical sampling methodology, there were two programs in which the payment population contained a low number of transactions. It was determined that statistical sampling may not be applicable or an efficient approach. Accordingly, the Department has performed a complete review (100 percent of transactions and payments) for the following Component programs/activities.

- DNDO – Hurricane Sandy payments
- S&T – Hurricane Sandy payments

III. Improper Payment Reporting

The table below summarizes Improper Payment (IP) amounts for DHS high-risk programs. It provides a breakdown of estimated IP and an outlook for IP reductions for each DHS program or activity reporting under OMB Circular A-123, Appendix C, Part I.A.9.Step 2 or Part I.A.14 or for programs that OMB automatically deemed susceptible to significant IPs. IP percent (IP%) and IP dollar (IP$) results are provided from last year's testing of FY 2014 payments and this year's testing of FY 2015 payments. Data for projected future−year improvements is based on the timing and significance of completing corrective actions.

IPERIA Table 1: Improper Payment Reduction Outlook

($ in millions)

Program	PY Outlays[4]	PY IP%[3]	PY IP$[3]	CY Outlays	CY IP%	CY IP$	CY Over payment $	CY Under payment $	CY +1 Est. Outlays	CY +1 Est. IP%	CY +1 Est. IP$	CY + 2 Est. Outlays	CY + 2 Est. IP%	CY + 2 Est. IP$	CY + 3 Est. Outlays	CY + 3 Est. IP%	CY + 3 Est. IP$
	2015 Testing (Based on FY 2014 Actual Data)			2016 Testing (Based on FY 2015 Actual Data)						2017 Testing (Will be based on FY 2016 Actual and Estimated Data)			2018 Testing (Will be based on 2017 Estimated Data)			2019 Testing (Will be based on 2018 Estimated Data)		
CBP – R&D	$1,590.56	0.24%	$3.88	$3,008.52	0.35%	$10.52	$10.51	$0.01	$2,024.33	0.24%	$4.86	$2,024.33	0.24%	$4.86	$2,024.33	0.24%	$4.86
CBP – AUO[10]	$337.96	0.25%	$0.84	$172.98	0.01%	$0.01	$0.01	$0.00	$10	0.20%	$0.02	$10	0.20%	$0.02	$10	0.20%	$0.02
CBP – Sandy[5]	$0.465	0.14%	$0.0007	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
DNDO – Sandy[1]	$0.047	0.00%	$0.00	$0.06	0.00%	$0.00	$0.00	$0.00	$0.00	0.00%	$0.00	$0.00	0.00%	$0.00	$0.00	0.00%	$0.00
FEMA – AFG[8]	$224.90	0.64%	$1.44	$270.91	0.85%	$2.29	$2.29	$0.00	$270.91	0.85%	$2.29	$270.91	0.85%	$2.29	$270.91	0.85%	$2.29
FEMA – FRM&RA	$131.00	8.33%	$10.92	$111.25	5.49%	$6.11	$6.11	$0.003	$136.00	5.00%	$6.80	$136.00	5.00%	$6.80	$136.00	5.00%	$6.80
FEMA – HM – Sandy[5]	$34.03	0.00%	$0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FEMA – HSGP[2,8]	$1,496.52	1.20%	$17.96	$658.63	0.42%	$2.77	$2.28	$0.49	$658.63	0.42%	$2.77	$658.63	0.42%	$2.77	$658.63	0.42%	$2.77
FEMA – IHP[5]	$23.97	7.01%	$1.68	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FEMA – NFIP[8]	$894.36	0.16%	$1.47	$828.97	0.17%	$1.38	$0.003	$1.38	$829.00	0.17%	$1.41	$829.00	0.17%	$1.41	$829.00	0.17%	$1.41
FEMA – PA[2]	$3,902.65	1.45%	$56.58	$4,198.30	1.36%	$57.10	$57.10	$0.00	$4,198.00	1.30%	$54.57	$4,198.00	1.30%	$54.57	$4,198.00	1.30%	$54.57
FEMA – PSGP[8]	$300.89	0.67%	$2.02	$117.38	0.97%	$1.14	$1.14	$0.00	$121.57	0.94%	$1.14	$121.57	0.94%	$1.14	$121.57	0.94%	$1.14
FEMA – TSGP[8]	$353.26	0.88%	$3.12	$218.48	0.68%	$1.49	$1.49	$0.00	$211.06	0.70%	$1.49	$211.06	0.70%	$1.49	$211.06	0.70%	$1.49
FEMA – VP	$733.62	7.50%	$54.99	$581.51	5.40%	$31.43	$31.39	$0.04	$689.85	5.00%	$34.49	$689.85	5.00%	$34.49	$689.85	5.00%	$34.49
ICE – ERO[7]	$1,525.28	4.06%	$61.94	$1,616.01	0.36%	$5.75	$5.75	$0.0003	$1,640.65	1.25%	$20.51	$1,663.58	1.25%	$20.79	$1,698.85	1.25%	$21.24
NPPD – Sandy[5]	$1.02	0.00%	$0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
OIG – Sandy[9]	$2.00	0.00%	$0.00	$0.17	1.76%	$0.003	$0.003	$0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
S&T – Sandy[1]	$0.28	0.00%	$0.00	$2.08	0.00%	$0.00	$0.00	$0.00	$0.70	0.00%	$0.00	$0.00	0.00%	$0.00	$0.00	0.00%	$0.00
USCG – Sandy	$39.54	1.44%	$0.57	$70.00	0.66%	$0.46	$0.46	$0.00	$30.00	0.50%	$0.15	$10.00	0.50%	$0.05	$3.00	0.50%	$0.02
All Programs[6]	**$11,592.35**	**1.88%**	**$217.41**	**$11,855.25**	**1.02%**	**$120.45**	**$118.54**	**$1.92**	**$10,820.70**	**1.21%**	**$130.50**	**$10,822.93**	**1.21%**	**$130.68**	**$10,851.20**	**1.21%**	**$131.10**

Note 1: All FY 2015 Hurricane Sandy Disbursements were tested in FY 2016.

Note 2: FEMA has two State-Administered Programs, HSGP and PA, that are tested on a three-year cycle. To calculate the national error rate for FY 2015 actual data, error rate from the States tested in FY 2013, FY 2014, and FY 2015 were applied to the FY 2015 State payment populations to derive a national average. Estimated outlays for FEMA programs were calculated by averaging the total disbursements for the past three fiscal years, due to the volatile nature of the programs tested. This alternative sampling and estimation method was previously approved by OMB.

Note 3: The PY improper payment estimates reported in the table above reflect the improper payment estimates for FY 2014 as reported in the FY 2015 AFR.

Note 4: The source of FY 2014 outlays for all programs is as presented in the FY 2015 AFR.

Note 5: This program did not record Hurricane Sandy related outlays in FY 2015.

Note 6: The total of the estimates for the department does not represent a true statistical estimate for the department.

Note 7: ICE implemented successful remediation actions from FY 2013 through FY 2015. The impact and focus on remediation is evidenced by the decreased improper payment rate of 0.36% for FY 2015 disbursements. Although the improper payment rate was 0.36% for FY 2015 disbursements, the ERO Program activity is over $100 million and will continue to be considered susceptible to improper payments for future years. Based on several years of historical improper payment rates around 4%, with the goal of reducing improper payments, ICE projects the improper payment to be 1.5%. ICE believes that the 0.36% could be an anomaly due to heighted focus on corrective actions and it may not represent a true baseline.

Note 8: FEMA met the OMB Circular A-123 Appendix C statutory threshold of below 1.5% and $10M. FEMA exceeded the goal by being below 1% for AFG, HSGP, NFIP, PSGP, and TSGP as well as having an extrapolated error amount below $3M for these programs. The FY 2017 – FY 2019 estimated error rates remained consistent with the FY 2016 reported error rate. These error rates reflect the residual risk of improper payments based on the implementation of internal controls that are designed to provide reasonable assurance against improper payments. The cost to implementing additional internal controls to try to further reduce the improper payment rate would far outweigh the benefit.

Note 9: This program does not have any remaining Hurricane Sandy funds therefore this program will not be tested in future years.

Note 10: Because AUO ended for CBP Border Patrol in May 2015, DHS projects to report significantly decreased outlays in FY 2017 for CBP AUO. Only Air and Marine Officers eligible for AUO moving forward.

IV. Improper Payment Root Cause Categories

We found that the underlying root cause of improper payments for the programs tested in FY 2016 were due to failure to verify financial data, administrative or process error made by Federal Agency, and insufficient documentation to determine. The root causes were identified through improper payment testing and categorized using categories of error as defined in the October 2014 update to OMB Circular A-123, Appendix C (OMB Memorandum M-15-02). The table below provides overpayment and underpayment breakouts for the Department's high-risk programs. The table shows that over 98 percent of the Department's estimated improper payments are due to overpayments.

IPERIA Table 2: Improper Payment Root Cause Category Matrix

($ in millions)

Program Name	Payment Type	Program Design or Structural Issue	Inability to Authenticate Eligibility	Failure to Verify: Death Data	Failure to Verify: Financial Data	Failure to Verify: Excluded Party Data	Failure to Verify: Prisoner Data	Failure to Verify: Other Eligibility Data (explain)	Administrative or Process Errors Made by: Federal Agency	Administrative or Process Errors Made by: State or Local Agency	Administrative or Process Errors Made by: Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)	Medical Necessity	Insufficient Documentation to Determine	Other Reason 1 (add footnote)	**TOTAL**
CBP - Refund and Drawback	Overpayments												$10.51		**$10.51**
	Underpayments								$0.01						**$0.01**
CBP - AUO	Overpayments												$0.01		**$0.01**
	Underpayments														**$0.00**
DNDO - System Acquisition	Overpayments														**$0.00**
	Underpayments														**$0.00**
FEMA – AFG[1, 2]	Overpayments				$2.13			$0.07						$0.09	**$2.29**
	Underpayments														**$0.00**

Program Name	Payment Type	Program Design or Structural Issue	Inability to Authenticate Eligibility	Failure to Verify: Death Data	Failure to Verify: Financial Data	Failure to Verify: Excluded Party Data	Failure to Verify: Prisoner Data	Failure to Verify: Other Eligibility Data (explain)	Administrative or Process Errors Made by: Federal Agency	Administrative or Process Errors Made by: State or Local Agency	Administrative or Process Errors Made by: Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)	Medical Necessity	Insufficient Documentation to Determine	Other Reason 1 (add footnote)	**TOTAL**
FEMA – FRM&RA	Overpayments								$6.01				$0.10		**$6.11**
	Underpayments								$0.00						**$0.00**
FEMA - HSGP	Overpayments				$1.87								$0.41		**$2.28**
	Underpayments								$0.49						**$0.49**
FEMA - NFIP	Overpayments										$0.00				**$0.00**
	Underpayments										$1.38				**$1.38**
FEMA - PA	Overpayments				$48.29					$1.97			$6.84		**$57.10**
	Underpayments														**$0.00**
FEMA - PSGP	Overpayments				$1.14										**$1.14**
	Underpayments														**$0.00**
FEMA - TSGP	Overpayments				$1.41								$0.08		**$1.49**
	Underpayments														**$0.00**
FEMA - VP	Overpayments								$0.93				$30.46		**$31.39**
	Underpayments								$0.04						**$0.04**

Program Name	Payment Type	Program Design or Structural Issue	Inability to Authenticate Eligibility	Failure to Verify: Death Data	Failure to Verify: Financial Data	Failure to Verify: Excluded Party Data	Failure to Verify: Prisoner Data	Failure to Verify: Other Eligibility Data (explain)	Administrative or Process Errors Made by: Federal Agency	Administrative or Process Errors Made by: State or Local Agency	Administrative or Process Errors Made by: Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)	Medical Necessity	Insufficient Documentation to Determine	Other Reason 1 (add footnote)	**TOTAL**
ICE - ERO	Overpayments								$3.58				$2.17		**$5.75**
	Underpayments								$0.00						**$0.00**
OIG - Hurricane Sandy	Overpayments								$0.003						**$0.003**
	Underpayments														**$0.00**
S&T - Vendor Payment	Overpayments														**$0.00**
	Underpayments														**$0.00**
USCG - Hurricane Sandy	Overpayments								$0.46						**$0.46**
	Underpayments														**$0.00**
													DHS TOTAL		**$120.46**

Note 1: FEMA AFG "Other Reason" Overpayment of $0.09 is due to Grantee never purchasing items related to grant. Funds are being held in non-interest bearing account until closeout.

Note 2: FEMA AFG "Failure to Verify: Other Eligibility data" Overpayment of $0.07 is due to invoice not in the period of performance.

V. Improper Payment Corrective Actions

The following table list corrective actions for the FEMA Vendor Pay (VP) program, which exceeds the statutory threshold of a 1.5 percent improper rate and $10 million in improper payments, prescribed by OMB. These corrective actions are targeted at addressing the root causes of insufficient documentation and administrative or process errors. FEMA will implement, or has implemented, the following corrective actions to ensure greater compliance. With the implementation of these actions, FEMA expects to reduce improper payments by 0.40 percentage points in 2017. The Financial Assurance and Audit Liaison Division Chief of FEMA serves as the liaison between the CFO and the Office of the Chief Procurement Officer (OCPO) to implement the remaining corrective actions.

Exhibit 6: Planned Vendor Payment Program Corrective Actions

Error Cause	Corrective Actions	Completion Date
Improve Quality of Contracts		
Insufficient Documentation to Determine	FEMA OCPO to issue policy guidance regarding required CLIN structure to be included in contracts.	Completed - November 2015
	Draft and incorporate standardized billing instructions to be included in all contracts, defining the standard form and content of billings for different contract types. Incorporate standard billing instructions in contract writing system.	Completed - August 2015
	Revise contract template to include standard section for authorized invoice approver, designated payment office, and authorized official for receiving and acceptance.	Completed - August 2015
	FEMA OCPO to issue policy guidance requiring attachments or quotes incorporated by referenced to be included as part of the official contract document and maintained in the electronic contract file.	3/31/2017
Improve Quality of Program Review of invoices		
Administrative or Process Error Made by Federal Agency	Conduct mandatory training for all CORs and CO's on proper invoice review and approval.	Completed training module 7/2013. Training ongoing/quarterly.
	Develop invoice review checklist addressing payments of different types, and what needs to be validated based on payment type.	3/31/2017
	Conduct training for Vendor Payment Accounting technicians on proper review of invoices for adequacy.	Completed - May 2016
Improve Receiving and Acceptance		
Administrative or Process Error Made by Federal Agency	Develop a standard Inspection, Acceptance and Receiving Report for FEMA COTR's for support of invoices.	Completed - January 2016
	Conduct mandatory training for all CORs and CO's on proper documentation of receiving, inspection, and acceptance.	3/31/2017

VI. Internal Control over Payments

DHS has a well-established internal control environment that focuses on improper payment prevention, detection, and recovery. These controls are an integral part of the Department's internal control framework; therefore, we are directly leveraging our existing internal control environment and assurance processes (OMB Circular A-123 Appendix A assessment) to provide reasonable assurance that our internal controls over improper payments are in place and operating effectively.

As required by FMFIA, the Department periodically assesses the payment controls for design and operating effectiveness to enable timely and reliable financial management information and accountability. As part of the detailed risk assessment process, the Components performed an internal control assessment for the identified high risk programs which focused on payment controls over FY 2015 disbursements. An internal interview questionnaire containing 29 attributes that address the five COSO components (*Control Environment*, *Risk Assessment*, *Control Activities*, *Information & Communication*, and *Monitoring)* was completed in 1st Quarter of FY 2016, for FY 2015 payments. The Office of Risk Management and Assurance reviewed the assessment results and compared FY 2015 to FY 2014 payments to identify areas of potential risk or internal control weaknesses.

The self-assessment results on the status of internal controls, over payments, for the FEMA VP program is discussed below. FEMA regularly processes information from many data sources, and as such, there is a continuous need to obtain additional data and verify that the sources of data are accurate and reliable. Even though FEMA has various systems and quality control measures in place, the A-123 ITGC Assessments identified several gaps that may pose a risk to the completeness, accuracy, and validity of the financial data. The Department has taken corrective actions to ensure compliance with IPERA remains paramount and continues to serve as the gold-standard for other Federal agencies. These actions include developing corrective action plans that have been vetted and approved by key stakeholders.

IPERIA Table 3: Status of Internal Controls over the FEMA VP Program

Internal Control Standards	FEMA Vendor Pay
Control Environment	2
Risk Assessment	3
Control Activities	2
Information and Communication	3
Monitoring	2

Legend:

4 = Sufficient controls are in place to prevent improper payments.
3 = Controls are in place to prevent improper payments but there is room for improvement.
2 = Minimal controls are in place to prevent improper payments.
1 = Controls are not in place to prevent improper payments.

VII. Accountability

The goals and requirements of IPERIA were communicated to all levels of staff throughout the Office of the Chief Financial Officer and to relevant program office and procurement staff. The Department has taken extensive measures to ensure that managers, accountable officers (including Component CFOs), programs, and states and localities are held accountable for reducing and recapturing improper payments. The Department's CFO and senior staff have incorporated improper payment reduction targets in their annual performance plans.

Managers are responsible for completing internal control work on payment processing as part of the Department's OMB Circular A-123 effort. They are further responsible for establishing and maintaining sufficient internal controls, including a control environment that prevents improper payments from being made, effectively manage improper payment risk, and promptly detect and recover any improper payment that may occur. Management's improper payments efforts are subject to an annual compliance review by the DHS's Office of Inspector General.

VIII. Agency Information Systems and Other Infrastructure

The Department's information systems efforts are discussed under the *Management Assurances* section. The Department's internal control and human capital efforts to reduce improper payments are discussed under the *Improper Payments Information Action - Risk Assessment* section.

IX. Barriers

After discussions with DHS Components on the ability to recoup or reduce improper payment, there are no statutory or regulatory barriers that will impact the ability of Components to successfully complete corrective actions to reduce improper payments.

X. Recapture of Improper Payments

During FY 2016, the Department did not have any recovery audit activities for FY 2015 disbursements. The Department and its Components conducted multiple cost analysis reviews over the past several years and determined that payment recapture audit programs are not cost-effective.

In FY 2012, FLETC and USSS conducted an analysis of payment recapture audit programs, determining that a general recovery audit would not be cost effective for either Component. DHS provided the results of the analysis to OMB in 2012 and OMB concurred with the Department's conclusion. Because there have been no major changes to payment operations or risks at FLETC or USSS, since the Components performed the initial cost analysis, the Department did not require that recovery audit work be performed by the USSS or FLETC in FY 2016.

In FY 2015, CBP, ICE, and USCG attempted to obtain contract support to perform recovery audits over FY 2014 disbursements. In all three cases, the contractor declined to accept the contracts, citing that minimal recovery amounts were expected and it would be too costly for the vendor to perform the recovery audit for the Components. Based on the inability to secure contract support and historically low amounts identified for recovery, CBP and ICE concluded that it was not cost-effective to perform payment recapture audits. ICE's determination also applied to the Components it cross-services: MGMT, NPPD, OHA, S&T, and USCIS. OMB was notified in July 2015 and concurred with DHS's analysis that payment recapture audit programs would not be cost-effective for CBP or ICE and its serviced Components.

After it was unable to obtain contract support, USCG decided to conduct internal recovery audit activities over its FY2014 disbursements and those of TSA and DNDO, the Components USCG cross-services. USCG analyzed the results of the internal recovery audit and noted that it cost significantly more to perform the recovery audit than was identified in payments for recapture. As a result, the Department determined that it was not cost-effective to continue to perform payment recapture audits at USCG, TSA, or DNDO. DHS provided the results of the analysis to OMB in September 2016, and OMB concurred with the Department's conclusion.

Historically recovery audit efforts at FEMA have focused primarily on contracts, as grant system limitations make it cost prohibitive to generate the files needed to perform recovery audit work. FEMA has not been required to perform payment recapture audit work in previous years due to the work proven to be cost-effective. During FY 2016, the Office of Inspector General conducted a full review of NFIP payments at FEMA in response to fraud claims for payments related to Hurricane Sandy. FEMA requested that this full review of NFIP payments be used for recovery audit work in FY 2016, which was approved by RM&A staff. The review identified primarily underpayments, not overpayments. Therefore, FEMA was not required to recapture payment activity identified as part of the FY 2016 OIG audit.

Based on the waivers in place from previous years or recent approvals by OMB and the OIG's audit over NFIP payments primarily identifying overpayments, overpayments recaptured through Payment Recapture audits data is not applicable in the following three tables. Table 7 reports overpayments identified outside of recapture audit programs through high dollar overpayment reviews, the contract closeout processes, or self-reported by vendors. Subsequent to any significant payment operation changes or risks, DHS will review the determination that it is not cost-effective to perform payment recapture audit activities across the Department.

IPERIA Table 4: Overpayment Payment Recaptured with and without Recapture Audit Programs

($ in millions)

	Overpayments Recaptured through Payment Recapture Audits[1]																						Overpayments Recaptured outside of Payment Recapture Audits[4]	
	Contracts					Grants					Benefits					Loans					Total			
Component	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	Amount Identified	Amount Recaptured
CBP[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0.13	$0.13
DNDO[1,2]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$1.06	$1.06
FEMA[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0	$0
FLETC[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0	$0
ICE[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0	$0
MGMT[1,3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0.54	$0.54
NPPD[1,3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0.32	$0.20
OHA[1,3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0	$0
S&T[1,3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0	$0
TSA[1,2]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0.88	$0.88
USCG[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0.97	$0.75
USCIS[1,3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0	$0
USSS[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0.03	$0.03
DHS Totals	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**$3.93**	**$3.59**

Note 1: During FY 2016, no recapture audits were performed due to the inability of components to obtain appropriate contract support to perform the audits. Normally, these contracts payments are based on a percentage of funds recaptured. Due to minimal amounts identified during previous years, proposed vendors declined to accept new contracts to perform recapture audits in FY 2015.

Note 2: DNDO and TSA are cross-serviced by the USCG.

Note 3: MGMT, NPPD, OHA, S&T, and USCIS are cross-serviced by ICE.

Note 4: Overpayments were identified through high dollar overpayment reviews, contract closeout processes or self-reported by vendors.

IPERIA Table 5: Disposition of Funds Recaptured Through Payment Recapture Audit Programs

($ in millions)

Component	Amount Recaptured	Type of Payment (contract, grant, benefit, loan, or other)	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury
DHS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
DHS Totals	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

IPERIA Table 6: Aging of Outstanding Overpayments Identified in the Payment Recapture Audits

($ in millions)

Component	Type of Payment (contract, grant, benefit, loan, or other)	Amount Outstanding (0 6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount determined to not be collectible
DHS	N/A	N/A	N/A	N/A	N/A
DHS Totals	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

XI. Additional Comments

No additional comments.

XII. Agency Reduction of Improper Payments with the Do Not Pay Initiative

IPERIA Table 7: Results of the Do Not Pay Initiative to Preventing Improper Payments

($ in millions)

Types of Databases	Number (#) of payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments	Number (#) of payments stopped[2]	Dollars ($) of payments stopped[2]	Number (#) of potential improper payments reviewed and determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the Do Not Pay databases[1,3]	3,380,000	$25,244.74	0	$0.00	0.0002	$3.33
Reviews with databases not listed in IPERIA as Do Not Pay databases	0	$0.00	0	$0.00	0	$0.00

Note 1: Data currently based on October 1, 2015 through August 31, 2016. Currently, Treasury's Do Not Pay Reports are generated 2 months post-payment. The latest information available from Treasury presented above.

Note 2: Payments stopped is currently not applicable since the Do Not Pay matching and adjudication process is based on post payment results.

Note 3: IPERIA databases used for payment screening include the Death Master File (DMF) and the System for Award Management.

The Do Not Pay (DNP) Initiative is a government-wide initiative mandated by OMB Memorandum M-12-11 dated April 12, 2012, Reducing Improper Payments through the "Do Not Pay List," and IPERIA to match payments against DNP databases, prior to any payment of a grant or contract award. The Treasury Department performs post-payment matches on DHS disbursements using the General Service Administration's System for Awards Management and Social Security Administration's Death Master File (DMF) to identify improper payments. Treasury also performs post-payment matches using System for Award Management (SAM), Debt Check, Credit Alert Interactive Voice Response System, List of Excluded Individuals/Entities, and the Prisoner Update Processing System.

The Department continues its efforts to prevent and detect improper payments via the DNP Business Center portal by implementing the screening of payments through the Treasury Do Not Pay Portal and, as appropriate, screen payments via the DNP databases directly. Specifically, OCPO ensures that its contracting staff complies with Federal Acquisition Regulation (FAR), applicable areas of the DHS Homeland Security Acquisition Regulation (HSAR) and Homeland Security Acquisition Manual (HSAM) through its internal control processes and procedures. OCPO supplements the DHS HSAR and HSAM through the issuance of internal operating procedures for the review and approval of specific pre-award, award, and post-award documentation to ensure that acquisition staff checks data in SAM and FAPIIS. DHS and its finance centers' program managers work with Treasury to leverage the Portal's capabilities including analyzing current end-to-end payment processes and controls, and engaging with Treasury to ensure additional DNP databases are utilized effectively. Accordingly, DHS complies with the DNP initiative through its internal control and oversight practices and review procedures. In FY 2016, DHS conducted reviews on over 3.38 million payments, totaling over $25 billion dollars in disbursements under DNP. There were 135 payment matches with the DMF and 338 matches with the System for Award Management. Conclusive matches listed from the DMF were promptly made inactive in the Procurement and Accounting system, where applicable. In other situations it was still proper to pay the vendor even though they were flagged. For example, if a vendor registration was listed as inactive in SAM, they were contacted to update their registration prior to issuing payment. Routine monitoring enabled the Department to take immediate corrective action regarding DNP matches.

Freeze the Footprint (Reduce the Footprint)

On May 11, 2012, OMB issued Memorandum M-12-12, *Promoting Efficient Spending to Support Agency Operations* and introduced a "Freeze the Footprint" (FtF) policy in Section 3 of M-12-12. FtF required all civilian Executive Branch agencies to maintain a static balance in their directly leased, owned, General Services Administration (GSA) assigned building's inventory of office and warehouse space as compared to a specific baseline. The FtF mandate established the FY 2012 office and warehouse real property inventory as the baseline. The Department, in collaboration with GSA, agreed upon an FY 2012 office and warehouse FtF baseline of 48.4 million square feet (SF). Additional guidance was provided in OMB's Management Procedures Memorandum No. 2013-02, *Implementation of OMB Memorandum M-12-12 Section 3: Freeze the Footprint,* dated March 14, 2013. The memorandum directed agencies to "not increase the size of domestic real estate inventory, measured in square footage, for space predominately used for offices and warehouses."

On March 25, 2015, OMB issued Management Procedures Memorandum No. 2015-01, *Implementation of OMB Memorandum M-12-12 Section 3: Reduce the Footprint*, which superseded OMB Management Procedures Memorandum No. 2013-02, *Implementation of OMB Memorandum M-12-12 Section 3: Freeze the Footprint,* and noted that agencies must move aggressively to dispose of excess property and shall not increase the size of civilian real estate property, without offset, through consolidation, co-location, or disposal of space.

The policy also required agencies to submit a five-year Real Property Efficiency Plan annually to GSA and OMB. Consequently, the Department published the final FtF report in the FY 2015 AFR. Memorandum No. 2015-01 designated FY 2015 as the base year for the new "Reduce the Footprint" (RtF) measurement.

During the first quarter of FY 2016, the Department collaborated with GSA to review and reclassify many of the Department's mission assets that were classified as office and warehouse under the FtF policy. Due to the removal of a large number of assets, such as land ports of entry and border patrol stations, from the RtF baseline, the FY 2015 RtF baseline is 31.1 million square feet SF compared with the initial FY 2012 FtF baseline of 48.4 million SF.

The following chart illustrates the Department's total RtF baseline and the Department's planned reduction targets for FY 2017 to FY 2021.

Table 4: Reduce the Footprint Baseline Comparison (in square feet)

	FY 2015 RtF Baseline	FY 2017[1]	FY 2018	FY 2019	FY 2020	FY 2021	Net Reduction
Total	31,135,962	(36,149)	(596,602)	(369,944)	(717,397)	(199,721)	(1,919,813)

[1] Fiscal years covered, FY 2017 – FY 2021, determined by OMB Management Procedures Memorandum No. 2015-01, Implementation of OMB Memorandum M-12-12 Section 3: Reduce the Footprint

Table 5: Reporting of Operations and Maintenance Costs – Owned and Direct Lease Buildings

($ in millions)

	FY 2015 Actual Costs	FY 2016 Projected Costs	Projected Change in Costs
Operations and Maintenance Costs	$85	$84	-1

Between the end of FY 2015 and the end of FY 2016, the Department projects total cost to decrease as we work toward our target square footage reductions under RtF.

Civil Monetary Penalty Adjustment for Inflation

The *Federal Civil Penalties Inflation Adjustment Act of 1990*, as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect.

The following represents the Department's civil monetary penalties, all of which were last updated via regulation in 2016. Additional information about these penalties and the latest adjustment is available in the Federal Register, Volume 81, No. 127.

Table 6: Civil Monetary Penalties

Penalty	Authority	Year Enacted	Adjusted New Penalty
CBP			
Non-compliance with arrival and departure manifest requirements for passengers, crew members, or occupants transported on commercial vessels or aircraft arriving to or departing from the United States	8 USC 1221(g); USC Section 231(g); 8 CFR 280.53(c)(1)	2002	$1,312
Non-compliance with landing requirements at designated ports of entry for aircraft transporting aliens	8 USC 1224; USC Section 234; 8 CFR 280.53(c)(2)	1990	$3,563
Failure to depart voluntarily	8 USC 1229c(d); USC Section 240B(d); 8 CFR 280.53(c)(3)	1996	Minimum $1,502 Maximum $7,512
Violations of removal orders relating to aliens transported on vessels or aircraft under section 241(d) of the INA, or for costs associated with removal under section 241(e) of the INA	8 USC 1253(c)(1)(A); USC Section 243(c)(1)(A); 8 CFR 280.53(c)(4)	1996	$3,005
Failure to remove alien stowaways under section 241(d)(2) of the INA	8 USC 1253(c)(1)(B); USC Section 243(c)(1)(B); 8 CFR 280.53(c)(4)	1996	$7,512
Failure to report an illegal landing or desertion of alien crewmen, and for each alien not reported on arrival or departure manifest or lists required in accordance with section 251 of the USC (for each alien)	8 USC 1281(d); USC Section 251(d); 8 CFR 280.53(c)(5)	1990	$356
Use of alien crewmen for longshore work in violation of section 251(d) of the INA	8 USC 1281(d); USC Section 251(d); 8 CFR 280.53(c)(5)	1990	$8,908
Failure to control, detain, or remove alien crewmen.	8 USC 1284(a); USC Section 254(a); 8 CFR 280.53(c)(6)	1990	Minimum $891 Maximum $5,345
Employment on passenger vessels of aliens afflicted with certain disabilities	8 USC 1285; USC Section 255; 8 CFR 280.53(c)(7)	1990	$1,782
Discharge of alien crewmen	8 USC 1286; USC Section 256; 8 CFR 280.53(c)(8)	1990	Minimum $2,672 Maximum $5,345

Penalty	Authority	Year Enacted	Adjusted New Penalty
Bringing into the United States alien crewmen with intent to evade immigration laws	8 USC 1287; USC Section 257; 8 CFR 280.53(c)(9)	1990	$17,816
Failure to prevent the unauthorized landing of aliens	8 USC § 1321(a); USC Section 271(a); 8 CFR 280.53(c)(10)	1990	$5,345
Bringing to the United States aliens subject to denial of admission on a health-related ground	8 USC § 1322(a); USC Section 272(a); 8 CFR 280.53(c)(11)	1990	$5,345
Bringing to the United States aliens without required documentation	8 USC § 1323(b); USC Section 273(b); 8 CFR 280.53(c)(12)	1990	$5,345
Failure to depart	8 USC 1324(d); USC Section 274D; 8 CFR 280.53(c)(13)	1996	$751
Improper entry	8 USC § 1325(b)	1996	Minimum $75
	USC Section 275(b); 8 CFR 280.53(c)(14)		Maximum $376
ICE			
Violation of Immigration and Naturalization Act (INA) sections 274C(a)(1)–(a)(4)	8 CFR 270.3(b)(1)(ii)(A)	1990	Minimum $445
(First offense)			Maximum $3,563
Violation of Immigration and Naturalization Act (INA) sections 274C(a)(5)–(a)(6)	8 CFR 270.3(b)(1)(ii)(B)	1996	Minimum $376
(First offense)			Maximum $3,005
Violation of Immigration and Naturalization Act (INA) sections 274C(a)(1)–(a)(4)	8 CFR 270.3(b)(1)(ii)(C)	1990	Minimum $3,563
(Subsequent offenses)			Maximum $8,908
Violation of Immigration and Naturalization Act (INA) sections 274C(a)(5)–(a)(6)	8 CFR 270.3(b)(1)(ii)(D)	1996	Minimum $3,005
(Subsequent offenses)			Maximum $7,512
Violation/prohibition of indemnity bonds	8 CFR 274a.8(b)	1986	$2,156
Knowingly hiring, recruiting, referral, or retention of unauthorized aliens (per unauthorized alien)	8 CFR 274a.10(b)(1)(ii)(A)	1986	Minimum $539
(First offense)			Maximum $4,313
Knowingly hiring, recruiting, referral, or retention of unauthorized aliens (per unauthorized alien)	8 CFR 274a.10(b)(1)(ii)(B)	1986	Minimum $4,313
(Second offense)			Maximum $10,781
Knowingly hiring, recruiting, referral, or retention of unauthorized aliens (per unauthorized alien)	8 CFR 274a.10(b)(1)(ii)(C)	1986	Minimum $6,469
(Subsequent offenses)			Maximum $21,563

Penalty	Authority	Year Enacted	Adjusted New Penalty
I–9 paperwork violations	8 CFR 274a.10(b)(2)	1986	Minimum $216 Maximum $2,156
NPPD			
Non-compliance with CFATS regulations	6 USC 624(b)(1); 6 CFR 27.300(b)(3)	2002	$32,796
TSA			
Certain aviation related violations by an individual or small business concern (49 CFR Ch. XII § 1503.401(c)(1))	49 USC 46301(a)(1), (4)	2003	$12,856 (up to a total of $64,281 per civil penalty action)
Certain aviation related violations by any other person not operating an aircraft for the transportation of passengers or property for compensation (49 CFR Ch. XII § 1503.401(c)(2))	49 USC 46301(a)(1), (4)	2003	$12,856 (up to a total of $514,244 per civil penalty action)
Certain aviation related violations by a person operating an aircraft for the transportation of passengers or property for compensation (49 CFR Ch. XII § 1503.401(c)(3))	49 USC 46301(a)(1), (4)	2003	$32,140 (up to a total of $514,244 per civil penalty action)
Violation of any other provision of title 49 USC or of 46 USC ch. 701, or a regulation prescribed, or order issued under thereunder (49 CFR Ch. XII § 1503.401(b))	49 USC 114(v)(2)	2009	$11,002 (up to a total of $55,010 for individuals and small businesses, $440,080 for other persons)
USCG			
Saving Life and Property	14 USC 88(c)	2014	$10,017
Saving Life and Property (Intentional Interference with Broadcast)	14 USC 88(e)	2012	$1,028
Confidentiality of Medical Quality Assurance Records (first offense)	14 USC 645(i)	1992	$5,032
Confidentiality of Medical Quality Assurance Records (subsequent offenses)	14 USC 645(i)	1992	$33,546
Aquatic Nuisance Species in Waters of the United States	16 USC 4711(g)(1)	1996	$37,561
Obstruction of Revenue Officers by Masters of Vessels	19 USC 70	1935	$7,500
Obstruction of Revenue Officers by Masters of Vessels—Minimum Penalty	19 USC 70	1935	$1,750
Failure to Stop Vessel When Directed; Master, Owner, Operator or Person in Charge	19 USC 1581(d)	1930	$5,000
Failure to Stop Vessel When Directed; Master, Owner, Operator or Person in Charge - Minimum Penalty	19 USC 1581(d)	1930	$1,000
Anchorage Ground/Harbor Regulations General	33 USC 471	2010	$10,875
Anchorage Ground/Harbor Regulations St. Mary's River	33 USC 474	1946	$750

Penalty	Authority	Year Enacted	Adjusted New Penalty
Bridges/Failure to Comply with Regulations	33 USC 495(b)	2008	$27,455
Bridges/Drawbridges	33 USC 499(c)	2008	$27,455
Bridges/Failure to Alter Bridge Obstructing Navigation	33 USC 502(c)	2008	$27,455
Bridges/Maintenance and Operation	33 USC 533(b)	2008	$27,455
Bridge to Bridge Communication; Master, Person in Charge or Pilot	33 USC 1208(a)	1971	$2,000
Bridge to Bridge Communication; Vessel	33 USC 1208(b)	1971	$2,000
PWSA Regulations	33 USC 1232(a)	1978	$88,613
Vessel Navigation: Regattas or Marine Parades; Unlicensed Person in Charge	33 USC 1236(b)	1990	$8,908
Vessel Navigation: Regattas or Marine Parades; Owner Onboard Vessel	33 USC 1236(c)	1990	$8,908
Vessel Navigation: Regattas or Marine Parades; Other Persons	33 USC 1236(d)	1990	$4,454
Oil/Hazardous Substances: Discharges (Class I per violation)	33 USC 1321(b)(6)(B)(i)	1990	$17,816
Oil/Hazardous Substances: Discharges (Class I total under paragraph)	33 USC 1321(b)(6)(B)(i)	1990	$44,539
Oil/Hazardous Substances: Discharges (Class II per day of violation)	33 USC 1321(b)(6)(B)(ii)	1990	$17,816
Oil/Hazardous Substances: Discharges (Class II total under paragraph)	33 USC 1321(b)(6)(B)(ii)	1990	$222,695
Oil/Hazardous Substances: Discharges (per day of violation) Judicial Assessment	33 USC 1321(b)(7)(A)	1990	$44,539
Oil/Hazardous Substances: Discharges (per barrel of oil or unit discharged) Judicial Assessment	33 USC 1321(b)(7)(A)	1990	$1,782
Oil/Hazardous Substances: Failure to Carry Out Removal/Comply With Order (Judicial Assessment)	33 USC 1321(b)(7)(B)	1990	$44,539
Oil/Hazardous Substances: Failure to Comply with Regulation Issued Under 1321(j) (Judicial Assessment)	33 USC 1321(b)(7)(C)	1990	$44,539
Oil/Hazardous Substances: Discharges, Gross Negligence (per barrel of oil or unit discharged) Judicial Assessment	33 USC 1321(b)(7)(D)	1990	$5,345
Oil/Hazardous Substances: Discharges, Gross Negligence—Minimum Penalty (Judicial Assessment)	33 USC 1321(b)(7)(D)	1990	$178,156
Marine Sanitation Devices; Operating	33 USC 1322(j)	1972	$7,500
Marine Sanitation Devices; Sale or Manufacture	33 USC 1322(j)	1972	$20,000
International Navigation Rules; Operator	33 USC 1608(a)	1980	$14,023
International Navigation Rules; Vessel	33 USC 1608(b)	1980	$14,023
Pollution from Ships; General	33 USC 1908(b)(1)	1980	$70,117
Pollution from Ships; False Statement	33 USC 1908(b)(1)	1980	$14,023
Inland Navigation Rules; Operator	33 USC 2072(a)	1980	$14,023
Inland Navigation Rules; Vessel	33 USC 2072(b)	1980	$14,023
Shore Protection; General	33 USC 2609(a)	1988	$49,467
Shore Protection; Operating Without Permit	33 USC 2609(b)	1988	$19,787
Oil Pollution Liability and Compensation	33 USC 2716a(a)	1990	$44,539
Clean Hulls; Civil Enforcement	33 USC 3852(a)(1)(A)	2010	$40,779

Penalty	Authority	Year Enacted	Adjusted New Penalty
Clean Hulls; False statements	33 USC 3852(a)(1)(A)	2010	$54,373
Clean Hulls; Recreational Vessel	33 USC3852(c)	2010	$5,437
Hazardous Substances, Releases Liability, Compensation (Class I)	42 USC 9609(a)	1986	$53,907
Hazardous Substances, Releases Liability, Compensation (Class II)	42 USC 9609(b)	1986	$53,907
Hazardous Substances, Releases Liability, Compensation (Class II subsequent offense)	42 USC 9609(b)	1986	$161,721
Hazardous Substances, Releases, Liability, Compensation (Judicial Assessment)	42 USC 9609(c)	1986	$53,907
Hazardous Substances, Releases, Liability, Compensation (Judicial Assessment subsequent offense)	42 USC 9609(c)	1986	$161,721
Safe Containers for International Cargo	46 USC 80509(a)	2006	$5,893
Suspension of Passenger Service	46 USC 70305(c)	2006	$58,929
Vessel Inspection or Examination Fees	46 USC 2110(e)	1990	$8,908
Alcohol and Dangerous Drug Testing	46 USC 2115	1998	$7,251
Negligent Operations: Recreational Vessels	46 USC 2302(a)	2002	$6,559
Negligent Operations: Other Vessels	46 USC 2302(a)	2002	$32,796
Operating a Vessel While Under the Influence of Alcohol or a Dangerous Drug	46 USC 2302(c)(1)	1998	$7,251
Vessel Reporting Requirements: Owner, Charterer, Managing Operator, or Agent	46 USC 2306(a)(4)	1984	$11,293
Vessel Reporting Requirements: Master	46 USC 2306(b)(2)	1984	$2,259
Immersion Suits	46 USC 3102(c)(1)	1984	$11,293
Inspection Permit	46 USC 3302(i)(5)	1983	$2,355
Vessel Inspection; General	46 USC 3318(a)	1984	$11,293
Vessel Inspection; Nautical School Vessel	46 USC 3318(g)	1984	$11,293
Vessel Inspection; Failure to Give Notice IAW 3304(b)	46 USC 3318(h)	1984	$2,259
Vessel Inspection; Failure to Give Notice IAW 3309 (c)	46 USC 3318(i)	1984	$2,259
Vessel Inspection; Vessel ≥ 1600 Gross Tons	46 USC 3318(j)(1)	1984	$22,587
Vessel Inspection; Vessel <1600 Gross Tons	46 USC 3318(j)(1)	1984	$4,517
Vessel Inspection; Failure to Comply with 3311(b)	46 USC 3318(k)	1984	$22,587
Vessel Inspection; Violation of 3318(b)-3318(f)	46 USC 3318(l)	1984	$11,293
List/count of Passengers	46 USC 3502(e)	1983	$235
Notification to Passengers	46 USC 3504(c)	1983	$23,548
Notification to Passengers; Sale of Tickets	46 USC 3504(c)	1983	$1,177
Copies of Laws on Passenger Vessels; Master	46 USC 3506	1983	$471
Liquid Bulk/Dangerous Cargo	46 USC 3718(a)(1)	1983	$58,871
Uninspected Vessels	46 USC 4106	1988	$9,893
Recreational Vessels (maximum for related series of violations)	46 USC 4311(b)(1)	2004	$311,470
Recreational Vessels; Violation of 4307(a)	46 USC 4311(b)(1)	2004	$6,229
Recreational Vessels	46 USC 4311(c)	1983	$2,355
Uninspected Commercial Fishing Industry Vessels	46 USC 4507	1988	$9,893
Abandonment of Barges	46 USC 4703	1992	$1,677
Load Lines	46 USC 5116(a)	1986	$10,781

Penalty	Authority	Year Enacted	Adjusted New Penalty
Load Lines; Violation of 5112(a)	46 USC 5116(b)	1986	$21,563
Load Lines; Violation of 5112(b)	46 USC 5116(c)	1986	$10,781
Reporting Marine Casualties	46 USC 6103(a)	1996	$37,561
Reporting Marine Casualties; Violation of 6104	46 USC 6103(b)	1988	$9,893
Manning of Inspected Vessels; Failure to Report Deficiency in Vessel Complement	46 USC 8101(e)	1990	$1,782
Manning of Inspected Vessels	46 USC 8101(f)	1990	$17,816
Manning of Inspected Vessels; Employing or Serving in Capacity not Licensed by USCG	46 USC 8101(g)	1990	$17,816
Manning of Inspected Vessels; Freight Vessel <100 GT, Small Passenger Vessel, or Sailing School Vessel	46 USC 8101(h)	1983	$2,355
Watchmen on Passenger Vessels	46 USC 8102(a)	1983	$2,355
Citizenship Requirements	46 USC 8103(f)	1983	$1,177
Watches on Vessels; Violation of 8104(a) or (b)	46 USC 8104(i)	1990	$17,816
Watches on Vessels; Violation of 8104(c), (d), (e), or (h)	46 USC 8104(j)	1990	$17,816
Staff Department on Vessels	46 USC 8302(e)	1983	$235
Officer's Competency Certificates	46 USC 8304(d)	1983	$235
Coastwise Pilotage; Owner, Charterer, Managing Operator, Agent, Master or Individual in Charge	46 USC 8502(e)	1990	$17,816
Coastwise Pilotage; Individual	46 USC 8502(f)	1990	$17,816
Federal Pilots	46 USC 8503	1984	$56,467
Merchant Mariners Documents	46 USC 8701(d)	1983	$1,177
Crew Requirements	46 USC 8702(e)	1990	$17,816
Small Vessel Manning	46 USC 8906	1996	$37,561
Pilotage: Great Lakes; Owner, Charterer, Managing Operator, Agent, Master or Individual in Charge	46 USC 9308(a)	1990	$17,816
Pilotage: Great Lakes; Individual	46 USC 9308(b)	1990	$17,816
Pilotage: Great Lakes; Violation of 9303	46 USC 9308(c)	1990	$17,816
Failure to Report Sexual Offense	46 USC 10104(b)	1989	$9,468
Pay Advances to Seamen	46 USC 10314(a)(2)	1983	$1,177
Pay Advances to Seamen; Remuneration for Employment	46 USC 10314(b)	1983	$1,177
Allotment to Seamen	46 USC 10315(c)	1983	$1,177
Seamen Protection; General	46 USC 10321	1993	$8,162
Coastwise Voyages: Advances	46 USC 10505(a)(2)	1993	$8,162
Coastwise Voyages: Advances; Remuneration for Employment	46 USC 10505(b)	1993	$8,162
Coastwise Voyages: Seamen Protection; General	46 USC 10508(b)	1993	$8,162
Effects of Deceased Seamen	46 USC 10711	1983	$471
Complaints of Unfitness	46 USC 10902(a)(2)	1983	$1,177
Proceedings on Examination of Vessel	46 USC 10903(d)	1983	$235
Permission to Make Complaint	46 USC 10907(b)	1983	$1,177
Accommodations for Seamen	46 USC 11101(f)	1983	$1,177
Medicine Chests on Vessels	46 USC 11102(b)	1983	$1,177
Destitute Seamen	46 USC 11104(b)	1983	$235
Wages on Discharge	46 USC 11105(c)	1983	$1,177

Penalty	Authority	Year Enacted	Adjusted New Penalty
Log Books; Master Failing to Maintain	46 USC 11303(a)	1983	$471
Log Books; Master Failing to Make Entry	46 USC 11303(b)	1983	$471
Log Books; Late Entry	46 USC 11303(c)	1983	$353
Carrying of Sheath Knives	46 USC 11506	1983	$118
Documentation of Vessels	46 USC 12151(a)(1)	2012	$15,423
Documentation of Vessels; Activities involving mobile offshore drilling units	46 USC 12151(a)(2)	2012	$25,705
Engaging in Fishing After Falsifying Eligibility (fine per day)	46 USC 12151(c)	2006	$117,858
Numbering of Undocumented Vessel; Willful violation	46 USC 12309(a)	1983	$11,774
Numbering of Undocumented Vessels	46 USC 12309(b)	1983	$2,355
Vessel Identification System	46 USC 12507(b)	1988	$19,787
Measurement of Vessels	46 USC 14701	1986	$43,126
Measurement; False Statements	46 USC 14702	1986	$43,126
Commercial Instruments and Maritime Liens	46 USC 31309	1988	$19,787
Commercial Instruments and Maritime Liens; Mortgagor	46 USC 31330(a)(2)	1988	$19,787
Commercial Instruments and Maritime Liens; Violation of 31329	46 USC 31330(b)(2)	1988	$49,467
Port Security	46 USC 70119(a)	2002	$32,796
Port Security; Continuing Violations	46 USC 70119(b)	2006	$58,929
Maritime Drug Law Enforcement; Penalties	46 USC 70506(c)	2010	$5,437
Hazardous Materials: Related to Vessels	49 USC 5123(a)(1)	2012	$77,114
Hazardous Materials: Related to Vessels; Penalty from Fatalities, Serious Injuries/ Illness or substantial Damage to Property	49 USC 5123(a)(2)	2012	$179,933
Hazardous Materials: Related to Vessels; Training	49 USC 5123(a)(3)	2012	$463

Other Key Regulatory Requirements

Prompt Payment Act

The *Prompt Payment Act* requires federal agencies to make timely payments (within 30 days of receipt of invoice) to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts only when they are economically justified. The Department's Components submit Prompt Payment data as part of data gathered for the OMB CFO Council's Metric Tracking System (MTS). Periodic reviews are conducted by the DHS Components to identify potential problems. Interest penalties as a percentage of the dollar amount of invoices subject to the Prompt Payment Act have been measured between 0.002 percent and 0.012 percent for the period of October 2015 through September 2016, with an annual average of 0.005 percent. (Note: MTS statistics are reported with at least a six week lag).

Debt Collection Improvement Act

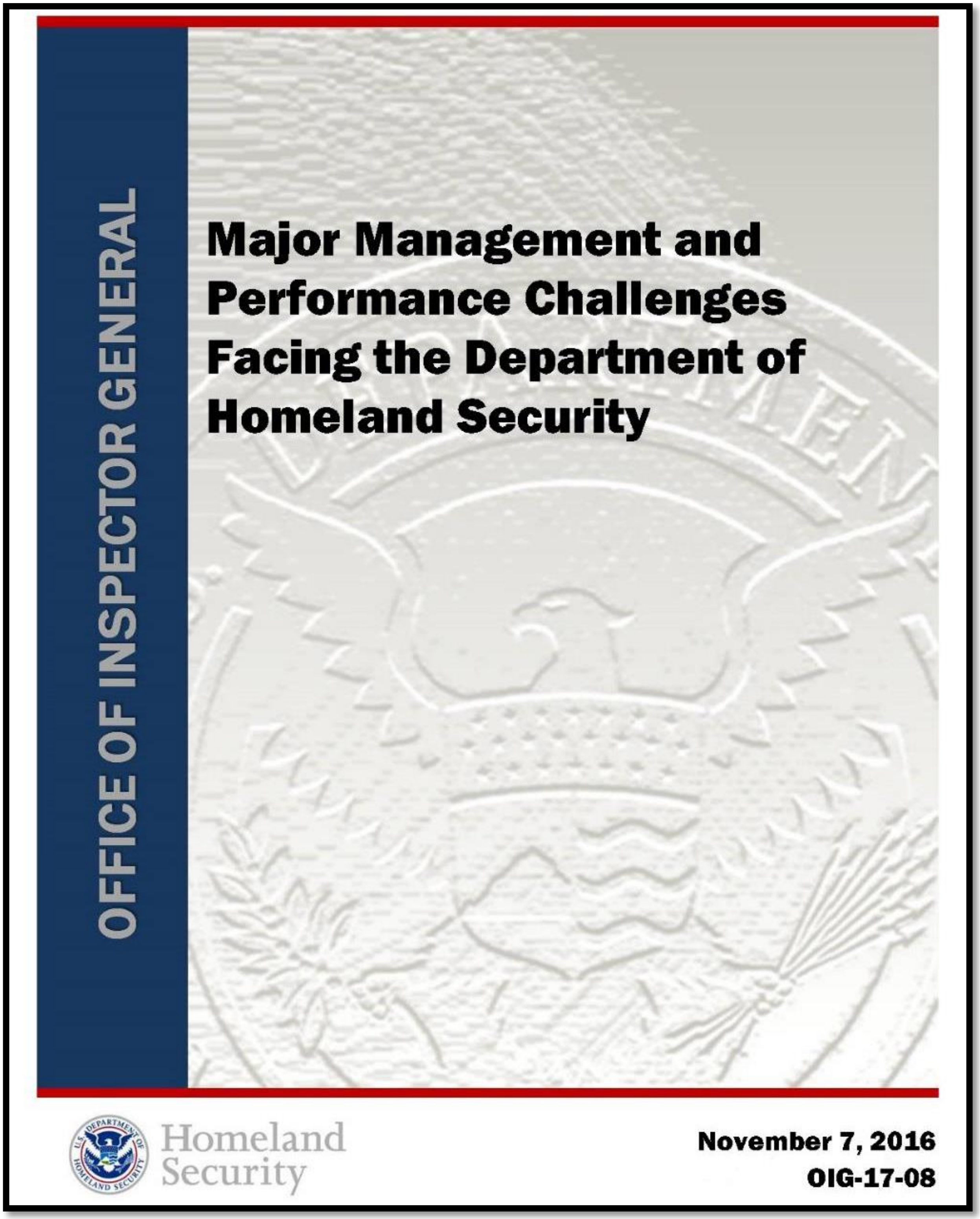
In compliance with the *Debt Collection Improvement Act of 1996* (DCIA), the Department manages its debt collection activities under the DHS DCIA regulation. The regulation is implemented under the Department's comprehensive debt collection policies that provide guidance to the Components on the administrative collection of debt; referring non-taxable debt; writing off non-taxable debt; reporting debts to consumer reporting agencies; assessing interest, penalties and administrative costs; and reporting receivables to the Treasury. The *Digital Accountability and Transparency Act of 2014* was passed in May 2014 and updated DCIA requirements for referring non-taxable debt.

Biennial User Charges Review

The *Chief Financial Officers Act of 1990* and OMB Circular A-25 Revised, *User Charges*, requires each agency CFO to review, on a biennial basis, the fees, royalties, rents, and other charges imposed by the agency for services and items of value provided to specific recipients, beyond those received by the general public. The purpose of this review is to periodically adjust existing charges to 1) reflect unanticipated changes in costs or market values, and 2) to review all other agency programs to determine whether fees should be assessed for Government services or the use of Government goods or services. Based on our review, we identified adjustments for fees to achieve full-cost recovery.

In FY 2016, the Department took steps to strengthen oversight of our user fees programs through the establishment of the DHS Fee Governance Council. The Council was created to establish a governance and a centralized oversight structure for fees programs across the Department, including establishing a policy framework for how fees are established, updated, or changed at DHS, the schedule and output requirements of regular fee reviews conducted at DHS, how fees are reported in the budget, and other related oversight policies.

Office of Inspector General's Report on Major Management and Performance Challenges Facing the Department of Homeland Security


OFFICE OF INSPECTOR GENERAL

Major Management and Performance Challenges Facing the Department of Homeland Security

Homeland Security

November 7, 2016
OIG-17-08

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

November 7, 2016

MEMORANDUM FOR: The Honorable Jeh C. Johnson
Secretary

FROM: John Roth
Inspector General

SUBJECT: *Major Management and Performance Challenges Facing the Department of Homeland Security*

Attached for your information is our annual report, *Major Management and Performance Challenges Facing the Department of Homeland Security*. We analyzed and incorporated the Department's technical comments as appropriate.

Although significant progress has been made over the last 3 years, the Department continues to face long-standing, persistent challenges overseeing and managing its homeland security mission. These challenges affect every aspect of the mission, from preventing terrorism and protecting our borders and transportation systems to enforcing our immigration laws, ensuring disaster resiliency, and securing cyberspace. The Department is continually tested to work as one entity to achieve its complex mission.

To better inform and assist the Department, this year we are presenting a broader picture of management challenges by highlighting those we have repeatedly identified over several years. We remain concerned about the systemic nature of these challenges, some of which span multiple Administrations and changes in Department leadership. Overcoming these challenges demands unified action; a motivated and engaged workforce; rigorous, sustained management of acquisitions and grants; and secure information technology (IT) systems that protect sensitive information, all of which must be based on the management fundamentals of data collection, cost-benefit analysis, and performance measurement.

Unity of Effort

As in the past, DHS' primary challenge moving forward is transitioning from an organization of 22 semi-independent components, each conducting its affairs without regard to, and often without knowledge of, other DHS components' programs and operations, to a more cohesive entity focused on the central

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

mission of protecting the homeland. A lack of coordination and unity occurs in all aspects of DHS' programs — planning, programing, budgeting, and execution — and leads to waste and inefficiency.

Our previous audit and inspection reports are replete with examples of the consequences of failing to act as a single entity. Whether it is decisions on maintaining similar helicopters used by different components, harmonizing aviation maintenance management software, managing a vast vehicle fleet, coordinating protection of the maritime border, aligning immigration policies and data collection, sharing information, communicating on a common radio channel, or combatting tunnels on the Southwest border, DHS' challenges in this area are well documented. We are not alone in pointing out that the promise of a unified Department — the purpose of its creation — has not yet been realized. Congress, the Government Accountability Office, and interested third-party observers have all noted the challenge.

Progress has been made both in tone and substance. In the last 3 years, DHS leadership has taken steps to forge multiple components into a single organization. New policies and directives have been created to ensure cohesive budgeting planning and execution, including ensuring a joint requirements process. The Department also has a process to identify and analyze its mission responsibilities and capabilities, with an eye toward understanding how components fit together and how each adds value to the enterprise. A new method for coordinating operations, the Southern Border and Approaches Campaign, was created to try to reduce the silos and redundancy.

This progress has been the result of the force of will of a small team within the Department's leadership. Future leaders may not have the focus, capability, or desire to engage in the often coercive task of culture change. Unity of effort needs to be more than a slogan and an initiative. Ensuring continued progress requires the constant attention of senior leaders. Absent structural changes to ensure streamlined oversight, communication, responsibility, and accountability — changes that must be enshrined in law — the risk of DHS backsliding on the progress made to date is very real.

Employee Morale and Engagement

DHS is the third-largest Federal agency and its employees serve a variety of missions vital to the security of our nation. To achieve these missions, DHS must employ and retain people who are well prepared for their work and appropriately supported by their managers. Since its inception, however, DHS has suffered poor employee morale and a dysfunctional work environment.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

These issues are likely connected to challenges we repeatedly identify — the Department's failure to develop, implement, and widely disseminate clear and consistent guidance; a lack of communication between staff and management; and insufficient training. DHS has also had problems determining how to assign staff appropriately and hiring and retaining enough people to handle a reasonable workload while maintaining a work-life balance. At times, DHS employees' jobs are made more difficult by the lack of needed support, such as useful IT systems and up-to-date technology.

The Department spends about $30 billion a year (40 percent of its budget) on employee salaries and benefits. Therefore, it is imperative that DHS leadership take all steps necessary to strengthen esprit de corps. The Partnership for Public Service has made recommendations to improve employee morale and engagement:

- Holding executives accountable for improving employee morale
- Partnering with employee groups to improve working relationships
- Designing and executing short-term activities to act on employee feedback and contribute to a potential long-term culture change
- Developing and committing to shared organizational values and aligning agency activities and employee interactions to those values
- Increasing transparency and connecting employees to the mission, the Department, and their co-workers
- Investing in and developing employees through leadership and technical training and by providing mentoring

The Secretary has made improving employee morale one of his top priorities and some progress has been made. The results of the 2016 Federal Employee Viewpoint Survey showed that, after 6 years of decline, employee engagement went up 3 percentage points — from 53 percent in 2015 to 56 percent this year. However, the Department continues to rank last among large agencies, which means leadership must sustain its focus on addressing this challenge.

Acquisition Management

Acquisition management, which is critical to fulfilling all DHS missions, is inherently complex, high risk, and challenging. Since its inception in 2003, the Department has spent tens of billions of dollars annually on a broad range of assets and services — from ships, aircraft, surveillance towers, and nuclear detection equipment to IT systems for financial management and human resources. DHS' yearly spending on contractual services and supplies, along with acquisition of assets, exceeds $25 billion. There continue to be DHS major acquisition programs that cost more than expected, take longer to deploy than

www.oig.dhs.gov 3 OIG-17-08

planned, or deliver less capability than promised. Although DHS has made much progress, it has not yet coalesced into one entity working toward a common goal. The Department still lacks uniform policies and procedures, a dedicated core of acquisition professionals, as well as component commitment to adhere to departmental acquisition guidance, adequately define requirements, develop performance measures, and dedicate sufficient resources to contract oversight.

For example, U.S. Citizenship and Immigration Services (USCIS) faces continuing challenges in its efforts to automate immigration benefits. After 11 years, USCIS has made little progress in transforming from paper-based processes to automated immigration benefits processing. Past automation attempts have been hampered by ineffective planning, multiple changes in direction, and inconsistent stakeholder involvement. USCIS deployed the Electronic Immigration System in May 2012, but to date customers can apply online for only 2 of about 90 types of immigration benefits and services. USCIS now estimates that it will take 3 more years—more than 4 years longer than estimated—and an additional $1 billion to automate all benefit types as expected.

DHS has instituted major reforms to the acquisition process and has exerted significant leadership to gain control of an unruly and wasteful process. However, we worry that these reforms, if not continuously supported and enforced, could be undone. As DHS continues to build its acquisition management capabilities, it will need stronger departmental oversight and authority, increased commitment by the Department and components, as well as skilled personnel to effect real and lasting change.

Grants Management

The Federal Emergency Management Agency (FEMA) manages the Federal response to, and recovery from, major domestic disasters and emergencies of all types. In doing so, FEMA coordinates programs to improve the effectiveness of the whole community and leverages its resources to prevent, protect against, mitigate, respond to, and recover from major disasters, terrorist attacks, and other emergencies. In this role, FEMA awards an average of about $10 billion each year in disaster assistance grants and preparedness grants.

Based on the results of OIG Emergency Management Oversight teams deployed to disaster sites in nearly a dozen states, we determined that FEMA generally responded effectively to disasters. Overall, FEMA responded proactively and overcame a variety of challenges while coordinating activities with other Federal agencies and state and local governments.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

However, our body of work over the past few years suggests that FEMA has not managed recovery from disasters well. Although FEMA provides grant management funding to grantees, FEMA has not held them accountable for managing subgrantees, and states and other grantees have not done well in guiding and managing subgrantees. This means the entire layer of oversight intended to monitor the billions of dollars awarded by FEMA in disaster assistance grants is ineffective, inefficient, and vulnerable to fraud, waste, and abuse. Of the $1.55 billion in disaster grant funds we audited last year, we found $457 million in questioned costs, such as duplicate payments, unsupported costs, improper procurement practices, and unauthorized expenditures. This equates to a 29 percent questioned-cost rate, which far exceeds industry norms, and it illustrates FEMA's continued failure to adequately manage grants.

We also saw examples of inadequate grant management in preparedness grants. In an overarching audit of OIG recommendations related to preparedness grants, we reported that FEMA had not adequately analyzed recurring recommendations to implement changes to improve its oversight of these grants. This occurred because FEMA did not clearly communicate internal roles and responsibilities and did not have policies and procedures to conduct substantive trend analyses of audit recommendations.

Although FEMA has been responsive to our recommendations for administrative actions and for putting unspent funds to better use, FEMA has not sufficiently held grant recipients financially accountable for improperly spending disaster relief funds. As of September 27, 2016, FEMA had taken sufficient action to close 130 of our 154 FY 2015 disaster grant audit report recommendations. However, the 24 recommendations that remained open contained 90 percent ($413 million) of the $457 million we recommended FEMA disallow that grant recipients spent improperly or could not support. Further, in FYs 2009 through 2014, FEMA allowed grant recipients to keep 91 percent of the contract costs we recommended for disallowance for noncompliance with Federal procurement regulations, such as those that require opportunities for disadvantaged firms (e.g., small, minority, and women) to bid on federally funded work.

Based on our recurring audit findings, it is critically important that FEMA officials examine regulations, policies, and procedures and assess the need for more robust changes throughout all grant programs. FEMA should refocus its efforts to identify systemic issues and develop solutions to address the cause and not just the symptoms. FEMA needs to improve its oversight of state grantees and proactively engage with states to improve management and guidance of subgrantees. Nurturing positive relationships that emphasize

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

accountability for results and resource stewardship will set a clear tone for all stakeholders of FEMA grants.

Cybersecurity

Cybersecurity is a serious challenge, given the increasing number and sophistication of attacks against our Nation's critical infrastructures and information systems. In FY 2017, the Department requested $1.6 billion to safeguard its complex mix of interconnected networks, legacy systems, web-based applications, and contractor-owned or operated systems that process, store, and share unclassified and classified information. Failure to secure these assets increases the risk of unauthorized access, manipulation, and misuse of the data they contain. External threats such as hackers, cyber-terrorist groups, and denial of service attacks are of particular concern.

Our annual *Federal Information Security Modernization Act of 2014* (FISMA) reviews show incremental DHS progress in establishing an enterprise-wide information security program. However, the Department is challenged to provide central oversight to make sure all components secure their networks. Over time, we have documented significant vulnerabilities, including

- Ensuring personal identity verification card implementation data, pursuant to Homeland Security Presidential Directive 12, is implemented and reported;
- Performing required weakness remediation reviews;
- Ensuring each system has a documented authority to operate;
- Taking adequate action to address security deficiencies;
- Implementing all DHS baseline configuration settings;
- Continuously maintaining information security programs;
- Continuously monitoring Secret and Top Secret systems; and
- Discontinuing use of unsupported operating systems (e.g., Windows XP and Windows Server 2003).

Under FISMA, DHS is also responsible for administering implementation of Office of Management and Budget information security policies and practices Federal government-wide. In line with this responsibility, DHS implemented EINSTEIN 1 and 2 to provide an automated process for collecting security information and detecting the presence of malicious activity on Federal networks. DHS has yet to deploy EINSTEIN 3 Accelerated across all Federal Government networks to expand intrusion prevention capabilities to counteract emerging threats. As the Government Accountability Office reported in January 2016, only 5 of 23 agencies were receiving intrusion prevention services, but DHS was working to overcome policy and implementation challenges. Further,

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

agencies had not taken all the technical steps needed to implement the system, such as ensuring that all network traffic is routed through EINSTEIN sensors. Within DHS, the National Protection and Programs Directorate has the overwhelming task of fulfilling the Department's national, non-law enforcement cyber security missions, as well as providing crisis management, incident response, and defense against cyber-attacks for Federal.gov networks.

We have identified inadequate protection of DHS components' sensitive systems and the data they contain. For example, due to inadequate controls, Secret Service employees were able to gain unauthorized access to the component's Master Central Index system containing Representative Chaffetz's personally identifiable information. DHS could better address insider threats by protecting against unauthorized removal of sensitive information via portable media devices and email, establishing processes for routine wireless vulnerability and security scans, and strengthening physical security controls to protect IT assets from possible theft, destruction, or malicious actions. More broadly, DHS components we audited could better ensure privacy of essential records, sensitive personally identifiable information, and intelligence information. Moreover, the Department could develop a strategic implementation plan, a training program, and an automated information sharing tool to enhance coordination among its components with cyber-related responsibilities.

Management Fundamentals

Although neither exciting nor publicly lauded, the basics of management are the lifeblood of informed decision making and successful mission performance. Management fundamentals include having accurate, complete information on operations and their cost; meaningful performance metrics on programs and goals; and appropriate internal controls. The Department has made strides in establishing its management fundamentals, including obtaining an unmodified opinion on its financial statements for the last 3 years. However, DHS still cannot obtain such an opinion on its internal controls over financial reporting. In plain terms, this means the Department can assemble reasonably accurate financial statements at the end of the fiscal year, but it has no assurance that its financial information is accurate and up-to-date throughout the year. DHS has also instituted many positive steps such as over-arching acquisition policies and other meaningful acquisition reforms, but the value of these steps is undermined by the lack of discipline in management fundamentals.

We have summarized the ongoing challenges the Department faces into three main categories, but caution that these challenges are both interrelated and cumulative:

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Collecting the Right Data

The Department does not prioritize collection of data in its program planning, does not always gather enough data, and does not validate the data it receives to ensure it is accurate and complete. The lack of reliable and complete data permeates through the entire Department and its components and is often accompanied by too little management oversight and weak internal controls. DHS leadership does not always assert its authority over the components to ensure it gets the data it needs when it needs it. As a result, DHS and the components often struggle making good decisions on acquisitions (what is needed and how much is needed) and correctly deploying resources (people, as well as acquired goods and services). Further, DHS does not have the data required to measure performance and use the feedback to adjust and improve programs and operations. We have identified numerous examples of this issue, including DHS' lack of accurate and complete inventory data for equipment, which hindered the provision of needed interoperable radio equipment, and incomplete inventory data on warehouse space, which led to wasted resources. In another example, neither the Department nor its components were collecting accurate data on the use of government vehicles and as a result could not accurately determine how many vehicles the components needed. Simply put, without the foundation of solid data, DHS cannot be certain it will achieve its mission and spend taxpayer dollars wisely and efficiently.

Collecting and Analyzing Cost Data

The Department, like most Federal Government agencies, does not put sufficient emphasis on collecting cost data for operations and programs. Successful businesses unfailingly track cost data because the cost of their operations or products directly impacts their bottom line revenue. Government does not have that bottom line drive for cost information; yet, all government programs rely on informed decision making to optimize performance. Without cost information, DHS is not prepared for reliable cost-benefit analysis of proposed program or policy changes or new initiatives. Because it does not fully understand the costs of its program choices, the Department is not equipped to analyze its risk decisions. The lack of information on program costs also limits basic investment decisions among competing programs. Our FY 2015 audit of U.S. Customs and Border Protection's (CBP) unmanned aircraft system program highlighted CBP's failure to capture complete cost data for the program. CBP did not include all the actual operating costs because some costs were paid from a different budget line item or program. We

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

determined that CBP was dramatically underestimating the cost of the program, at the same time it was considering expanding the program. Program decisions based on inaccurate or incomplete cost analysis can lead to program failure, poor performance, or significant delays. Since we issued our audit report, DHS has made substantial progress towards developing a common flying hour program.

Performance Measurement

A famous business axiom states, "what's measured, improves," but DHS does not routinely establish meaningful performance measures for many of its ongoing initiatives and programs. Multiple audit and inspection reports identify deficiencies in or the absence of DHS performance measures. Our audits have identified costly programs that DHS has not measured for effectiveness. Therefore, we do not know whether the investment of taxpayer resources is a good one. For example:

- The Transportation Security Administration (TSA) has continued to invest in its Screening of Passengers by Observation Techniques program without valid performance metrics to evaluate whether the investment is yielding appropriate results. In fact, 3 years after our initial audit, we found that TSA still is unable to determine its effectiveness.
- CBP's Streamline, an initiative to criminally prosecute individuals who illegally enter the United States, had flawed measures of effectiveness and did not capture an accurate picture of the alien's crossing history, re-entry, or re-apprehension over multiple years. As a result, CBP did not have good information to make management decisions about widening, maintaining, or constricting Streamline's parameters.

Reliable and relevant feedback on program performance is critical to ensuring the Department does not invest its resources on unproductive, inefficient, or ineffective programs and initiatives.

These critical business fundamentals, unglamorous as they may be, are part of any mature and functioning government enterprise. The key to a more effective and efficient DHS is to focus on these basic government business practices. DHS achieved its unmodified opinion on the financial statements through concentrated hard work and attention to detail at every level of the Department. Similar emphasis must be placed on mastering the fundamentals of business management before the Department can fully mature as a world class organization.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix A
DHS Comments to the Draft Report

U.S. Department of Homeland Security
Washington, DC 20528
Homeland
Security

November 1, 2016

MEMORANDUM FOR: John Roth
Inspector General
Office of Inspector General

FROM: Jim H. Crumpacker, CIA, CFE
Director
Departmental GAO-OIG Liaison Office

SUBJECT: Draft OIG Report, "Major Management and Performance Challenges Facing the Department of Homeland Security" (Project No. 17-014-IQO-MGMT)

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security (DHS) appreciates having the Office of Inspector General (OIG) perspective on the most serious management and performance challenges facing the Department.

DHS is extremely proud of the open and transparent relationship it has with the OIG. As Secretary Jeh Johnson has said, "The IG serves an important role in helping the Department prevent and detect fraud, waste, mismanagement, and abuse." Within the Department, we believe that audits truly do help make us better, and thus we are committed to collaboratively working with the dedicated professionals that comprise the OIG.

For example, earlier this year the Senate Appropriations Committee praised DHS cooperation with OIG during the FY 2017 budget mark-up. Specifically, when commenting on "Inspector General Access" the Committee stated: "The Committee appreciates the leadership demonstrated by the Secretary and the Department's management team in ensuring full cooperation with OIG. Across the executive branch, the cooperation level is not as robust as it should be, as is required by law, nor as robust as it is at DHS."

By continuing to work collaboratively in an appropriate manner which respects the unique, independent status that OIG occupies within the Department, we will continue to make DHS better with each passing day. As our new mission statement reads, "With honor and integrity, we will safeguard the American people, our homeland, and our values."

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Challenge #1: Unity of Effort

As the draft report notes, "progress has been made both in tone and substance" in this area. One of Secretary's Johnson's top recommendations for the new DHS leadership team is to continue the management reform that began under his leadership, referred to as the "Unity of Effort Initiative." This initiative, established in April 2014, is intended to break silos and centralize senior decision-making at DHS. New forums of transparency include DHS-wide joint activities, such as the Senior Leaders Council, Deputy's Management Action Group, the Joint Requirements Council, and Joint Task Forces. These activities enhance pre-existing business management processes, linking strategic guidance to operational results as an enterprise, rather than as a set of Components, while also increasing Departmental effectiveness and efficiency. The Department continues to focus Unity of Effort to sustain and improve actions along the following lines of effort: (1) strengthening business management across the Department; (2) enhancing coordinated Departmental operations; (3) growing external partnerships; and (4) building a collaborative, joint DHS culture.

Challenge #2: Employee Preparedness and Morale

As the draft report notes, "The Secretary has made improving employee morale one of his top priorities and some progress has been made." Improving DHS' morale has been one of the Secretary's top priorities, as evidenced by the aggressive campaign that he and Deputy Secretary Alejandro Mayorkas conducted across our 22 Component, 232,000 person workforce. The Secretary and Deputy Secretary have led by example, in part, by traveling across the country to speak to employees and thank them for their service. The Deputy Secretary established an Employee Engagement Steering Committee, chaired by the Under Secretary for Management and made up of senior executives from across DHS who collaborate on enterprise-wide solutions and share best practices and ideas for more local solutions. DHS also empowered its Components to be innovative and proactive with their engagement initiatives thru the development of component-specific action plans, and have created a "loop of accountability" with them so that we know where they are making progress as well as where they might need support in more challenging areas. This enables Components to focus on local engagement issues targeting solutions at the lowest level appropriate in order to have the best outcomes possible.

DHS also enhanced its two-way communications so that employees have a better sense of being connected to the DHS Mission, their respective Component's mission, and to one another's work. As a result, DHS saw improvements in overall 2016 Federal Employee Viewpoint Survey (FEVS) scores and the Engagement Index in particular. After six straight years of decline, DHS FEVS scores went up three full percentage points, from 53% in 2015 to 56% this year. This is no anomaly and is regarded by the Office of Personnel Management as statistically significant. The results also compare favorably to the 1% increase across the entire Federal Government. In addition, the increased morale

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

at DHS was the largest increase of any Cabinet Department our size. Components will be integrating the new FEVS results into updated action plans that will be submitted in early 2017. A new DHS-wide action plan is in development as well. The action plan is based on employee feedback from the leadership town halls, the FEVS overall, and an agency-specific question on the FEVS.

Challenge #3: Acquisition Management

As the draft report notes, DHS "has instituted major reforms to the acquisition process and has exerted significant leadership to gain control of an unruly and wasteful process." For example, major programs (Level 1 and 2) can no longer move to the next phase of the acquisition process without approved acquisition documentation. Given the significant improvements made in the areas of acquisition oversight and policy compliance and the ability to understand the cost, schedule, and performance parameters for these programs, DHS is now also applying lessons learned to non-major (Level 3) programs.

In 2015, DHS launched the Acquisition Innovations in Motion, a series of initiatives to improve communications with industry, ensure the continual improvement of business processes, and identify innovative approaches to conducting DHS procurements. In addition, DHS also institutionalized a staffing model that is now used by Component Acquisition Executives to develop staffing plans. The staffing plans identify staffing gaps and mitigation strategies to close identified gaps, which leadership monitors quarterly. Acquisition Review Boards (ARBs) review program staffing as well, to ensure this progress is sustained. When shortfalls are identified, "deep dive" reviews are conducted and recommendations made for structuring the program and mitigating critical gaps. The Acquisition Program Health Assessment was also implemented to provide early identification of critical issues within major acquisition programs. This tool is used to support monthly major acquisition program review meetings with all ARB members.

Challenge #4: Grants Management

As the draft report notes, "FEMA generally responded effectively to disasters," … but, "has not managed recovery from disasters well." It is important to also note that in FY 2016, FEMA completed a multiyear initiative to redesign the process by which it provides Public Assistance (PA) and is now implementing a new PA delivery model. The model will improve the assessment of the damage to public infrastructure, streamline and ensure the consistent application of program policy and grant requirements, and help communities recover faster following a disaster. Throughout FY 2016, FEMA's Grants Program Directorate has focused on its efforts to enhance grant oversight through the implementation of risk-based monitoring, verification of corrective actions for audit findings, draw down monitoring, and verifying compliance with grant requirements. Coupled with FEMA's ongoing multiyear Grants Management Modernization program to coordinate business approaches for more than 40 different grants and develop a single

3

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Information Technology platform to integrate active grant programs and unify grants management life cycles and processes, these efforts are part of the Agency's long term, comprehensive solution to address root cause problems revealed through recurring OIG recommendations. This unified capability will address deficiencies FEMA has identified in its internal controls for existing grants management and administration processes and methods.

Challenge #5: Cybersecurity

As the draft report notes, OIG has found "incremental DHS progress in establishing an enterprise-wide information security program." DHS continues to work towards ensuring the security of federal information systems, critical infrastructure, and protecting the privacy of personally identifiable information. In addition, DHS is leading the Federal Government's efforts to improve civilian cybersecurity. This effort requires a whole-of-government approach and robust collaboration with the private sector. At the same time, DHS is improving is capability to develop and share situational awareness of cyber threats and vulnerabilities while providing a baseline of security for federal civilian agencies. In addition, DHS Senior Leadership proactively conducts quarterly meetings with Component Senior Leadership to discuss the Component's status in achieving FISMA compliance targets.

During the next year, DHS expects to make important progress reinforcing DHS's role in protecting the Federal Government's information systems and the Nation's critical infrastructure. Today, 80% of our federal civilian networks have adopted EINSTEIN 3 Accelerated and we are working to get all large federal departments and agencies on board by December 30, 2016. In addition, we will continue to work with civilian Federal Government agencies to procure and deploy Continuous Diagnostics and Mitigation Phase 2 capabilities, as well as expand participation in the Enhanced Cybersecurity Services Program. Finally, DHS will continue to expand the use of Cyber Security Advisors to assist private sector and state, local, tribal, and territorial government organizations in making improvements to their cybersecurity while providing them with access to other DHS cybersecurity resources.

Challenge #6: Management Fundamentals

As noted in the draft report, "The Department has made strides in establishing its management fundamentals, including obtaining an unmodified opinion on its financial statements for the last 3 years." DHS is taking a Unity of Effort approach to sustaining its management fundamentals and improving those categories identified by OIG.

Collecting the Right Data. One of the pillars of the Unity of Effort initiative is to strengthen DHS budget and acquisition processes. To this end, DHS developed the Common Appropriations Structure (CAS), a budget framework that enables strategic and

4

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

managerial decision making and comparability, and that clearly aligns expenses to the programs supported. As of October 1, 2016, DHS transitioned to the CAS. This new budgeting approach provides a simplified, consistent structure that allows the Department to compare like missions and activities. For example, DHS went from over 70 different appropriation types down to four common appropriations for all components. DHS has also begun to develop the "Planning, Programming, Budgeting, and Execution (PPBE) One-Number System." When fully operational in FY 2019-2020, and in conjunction with Component financial system upgrades, the One-Number system will enhance DHS and component capability for complete, on-demand resource data for annual PPBE decisions. DHS has also begun its efforts to standardize data with the DHS Accounting Classification Structure, which is a key driver for business intelligence reporting. In addition, DHS has developed maturity models to assess the effectiveness of component internal controls (financial reporting controls and information systems controls). These models use a standard set of objectives to assess risks and controls across each component; the outcomes help management prioritize remediation requirements and assign resources.

Collecting and Analyzing Cost Data. DHS recognizes the importance of accurate, timely cost data as a key component for resource allocation, and is taking steps to establish a process for routinely collecting and analyzing cost data to inform decisions regarding our major acquisitions. For example, efforts to modernize DHS financial systems provide an opportunity to put mechanisms in place to track financial execution data by major acquisition program. Moreover, as DHS matures in acquisition and financial management, we are improving our ability to integrate the purpose and use of the life cycle cost estimate (LCCE) as a program management tool. In the past year, DHS also established the training cost working group, which has developed a methodology whereby Components will be able to track and record all costs associated with training. This data will be aggregated at the Department level to provide a true picture of the resources devoted to training DHS personnel.

Performance Measurement. DHS has a robust framework and guidance for establishing performance measures to communicate the results delivered to stakeholders associated with our DHS Strategic Plan. OIG's specific references to TSA's Screening of Passengers by Observation Techniques and CBP's Streamline initiatives do not reflect the set of measures gauging our effectiveness to prevent terrorist attacks through a variety of passenger and baggage screening and vetting processes, nor the collection of measures to inform status of controlling the border.

The Department strives to continually improve gauging its effectiveness in a mission space difficult to quantify due to the nature of prevention and deterrence activities. We have a documented annual process to enhance the breadth and scope of our publically reported measure set, which is fully vetted and approved by the Office of Management and Budget. Furthermore, the Government Accountability Office, in the fall of 2015,

5

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

cited DHS as a best practice for our methods to ensure complete and reliable information is reported to the public on our set of over 80 measures known as our strategic or Government Performance and Results Act Modernization Act measures.

Again, thank you for the opportunity to review and comment on this draft report. Technical comments were previously provided under separate cover. Please feel free to contact me if you have any questions. We look forward to working with you in the future.

6

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Appendix B
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Acronym List

Acronyms

AFG – Assistance to Firefighters Grants
AFR – Agency Financial Report
AGA – Association of Government Accountants
APG – Agency Priority Goal
ARRA – American Recovery and Reinvestment Act
ATL – Atlanta International Airport
AUO – Administratively Uncontrollable Overtime
ASL – Automated Screening Lanes
BFS – Bureau of the Fiscal Service
CAD – Cost Analysis Division
CAP – Cross-Agency Priority
CBP – U.S. Customs and Border Protection
CBRN – Chemical, Biological, Radiological, and Nuclear
CDL – Community Disaster Loans
CDM – Continuous Diagnostics and Mitigation
CDP – Center for Domestic Preparedness
CEAR – Certificate of Excellence in Accountability Reporting
CFATS – Chemical Facility Anti-Terrorism Standards
CFO – Chief Financial Officer
CFR – Code of Federal Regulations
CGA – Capability Gap Analysis
CIO – Chief Information Officer
CLIN – Contract Line Item Number
COBRA – Consolidated Omnibus Budget Reconciliation Act of 1985
COR – Contracting Officer Representative
COTS – Commercial Off-the-Shelf
CSD – Cyber Security Division
CSRS – Civil Service Retirement System
CY – Current Year
DADLP – Disaster Assistance Direct Loan Program
DC – District of Columbia
DCIA – Debt Collection Improvement Act of 1996
DHS – Department of Homeland Security
DIEMS – Date of Initial Entry into Military Service
DMF – Death Master File
DMO – Departmental Management and Operations
DNC – Democratic National Convention
DNDO – Domestic Nuclear Detection Office
DNP – Do Not Pay
DOD – U.S. Department of Defense
DOI IBC – Department of the Interior's Interior Business Center
DOL – U.S. Department of Labor
DRAA – Disaster Relief Appropriations Act
DRF – Disaster Relief Fund
EDS – Explosive Detection System
EFSP – Emergency Food and Shelter Program
EMI – Emergency Management Institute
ERO – Enforcement and Removal Operations
FAR – Federal Acquisition Regulation
FBwT – Fund Balance with Treasury
FCRA – Federal Credit Reform Act of 1990
FECA – Federal Employees Compensation Act of 1990
FEMA – Federal Emergency Management Agency
FERS – Federal Employees Retirement System
FFMIA – Federal Financial Management Improvement Act of 1996
FISMA – Federal Information Security Management Act
FLETC – Federal Law Enforcement Training Centers
FMFIA – Federal Managers' Financial Integrity Act
FOSC – Federal On-scene Coordinators
FOUO – For Official Use Only
FPS – Federal Protective Service
FSM – Financial Systems Modernization
FtF – Freeze the Footprint
FY – Fiscal Year
GAAP – Generally Accepted Accounting Principles
GAO – U.S. Government Accountability Office
GCCF – Gulf Coast Claims Facility

GSA – General Services Administration
HSAM – Homeland Security Acquisition Manual
HSAR – Homeland Security Acquisition Regulation
HSGP – Homeland Security Grant Program
HS-STEM – Homeland Security Science, Technology, Engineering, and Mathematics
I&A – Office of Intelligence and Analysis
IAFC - International Association of Fire Chiefs
IAO – ICE Air Operations
ICE – U.S. Immigration and Customs Enforcement
IE – Intelligence Enterprise
IEFA – Immigration Examination Fee Account
IHP – Individuals and Household Programs
INA – Immigration Nationality Act
IP – Improper Payment
IP – Infrastructure Protection
IPERA – Improper Payments Elimination and Recovery Act of 2010
IPERIA – Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA – Improper Payments Information Act of 2002
IT – Information Technology
ITF – Innovation Task Force
JRC – Joint Requirements Council
JTF – Joint Task Force
LOI – Letter of Intent
MERHCF – Medicare-Eligible Retiree Health Care Fund
MGMT – Management Directorate
MHS – Military Health System
MRO – Mass Rescue Operations
MRS – Military Retirement System
MTS – Metric Tracking System
MTSA – Maritime Transportation Security Act of 2002
NCPS – National Cybersecurity Protection System
NFIP – National Flood Insurance Program
NIMS – National Incident Management System
NPFC – National Pollution Funds Center
NPPD – National Protection and Programs Directorate
NSD – Network Security Deployment
NSSE – National Special Security Events
OCIO – Office of the Chief Information Officer
OCPO – Office of the Chief Procurement Officer
OCRSO – Office of the Chief Readiness Support Office
OE – Operating Expenditures
OHA – Office of Health Affairs
OIG – Office of Inspector General
OMB – Office of Management and Budget
OM&S – Operating Materials and Supplies
OPA – Oil Pollution Act of 1990
OPEB – Other Post Retirement Benefits
OPM – Office of Personnel Management
OPS – Office of Operations Coordination
ORB – Other Retirement Benefits
OSLTF – Oil Spill Liability Trust Fund
OTA – Other Transaction Agreements
OTIA – Office of Technology Innovation and Acquisition
PARM – Program Accountability and Risk Management
PEP – Priority Enforcement Program
PP&E – Property, Plant, and Equipment
PSGP – Port Security Grant Program
Pub. L. – Public Law
PY – Prior Year
R&D – Research and Development
RM&A – Risk Management and Assurance
RMD – Removal Management Division
RNC – Republican National Convention
RtF – Reduce the Footprint
SAM – System for Award Management
SAR – Search and Rescue
SAT – Senior Assessment Team
SBR – Statement of Budgetary Resources
SF – Square Feet
SFFAS – Statement of Federal Financial Accounting Standards
SFRBTF – Sport Fish Restoration Boating Trust Fund
SHRC – Special High Risk Charter
SMC – Senior Management Council

SOS – Schedule of Spending
S&T – Science and Technology Directorate
TAFS – Treasury Account Fund Symbol
TCM – Trade Compliance Measurement
THIRA – Threat and Hazard Identification and Risk Assessment
TSA – Transportation Security Administration
TSGP – Transit Security Grants Program
TSO – Transportation Security Officer
U.S. – United States
USC – United States Code
USCG – U.S. Coast Guard
USCIS – U. S. Citizenship and Immigration Services
US&R – Urban Search & Rescue
USSS – U.S. Secret Service
VA – U.S. Department of Veterans Affairs
VP – Vendor Pay
WYO – Write Your Own

Acknowledgements

This Agency Financial Report (AFR) was produced with the tireless energies and talents of Department of Homeland Security Headquarters and Component employees and contract partners.

- Within the Office of the Chief Financial Officer, the division of Financial Management is responsible for financial management policy, preparing annual financial statements and related notes and schedules, and coordinating the external audit of the Department's financial statements.
- The division of Risk Management and Assurance provides direction in the areas of internal control to support the Secretary's assurance statement, risk management, and improper payments.
- The division of Program Analysis and Evaluation conducts analysis for the Department on resource allocation issues and the measurement, reporting, and improvement of DHS performance, and coordinates the Performance Overview section of the AFR.
- The division of GAO-OIG Audit Liaison facilitates Department relationships with audit organizations and coordinates with OIG on the Management Challenges report.

We offer our sincerest thanks to all Component financial management offices for their hard work and contributions.

Homeland Security

As of September 14, 2016 (unaudited)

Homeland Security

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