Homeland Security

U.S. Department of Homeland Security

FY 2020 Agency Financial Report

With honor and integrity, we will safeguard the American people, our homeland, and our values.

Certificate of Excellence in Accountability Reporting

In May 2020, DHS received its seventh consecutive Certificate of Excellence in Accountability Reporting (CEAR) from the Association of Government Accountants (AGA) for its Fiscal Year (FY) 2019 Agency Financial Report. The CEAR Program was established by the AGA, in conjunction with the Chief Financial Officers Council and the Office of Management and Budget, to further performance and accountability reporting.

About this Report

The Department of Homeland Security (DHS) Agency Financial Report for FY 2020 presents the Department's detailed financial information relative to our mission and the stewardship of those resources entrusted to us. It also highlights the Department's priorities, strengths, and challenges in implementing programs to enhance the safety and security of our Nation. For FY 2020, the Department's Performance and Accountability Reports consist of the following three reports:

- DHS Agency Financial Report | Publication date: November 16, 2020.
- DHS Annual Performance Report | Publication date: February 1, 2021 The DHS Annual Performance Report is submitted with the Department's Congressional Budget Justification.
- DHS Report to our Citizens (Summary of Performance and Financial Information) | Publication date: February 15, 2021.

When published, all three reports will be located on our website at: http://www.dhs.gov/performance-accountability.

Message from the Secretary

November 13, 2020

I am pleased to present the Department of Homeland Security's (DHS) Agency Financial Report for Fiscal Year (FY) 2020. This report provides an assessment of the Department's detailed financial status and demonstrates how the resources entrusted to us were used to support our homeland security mission.

COVID-19 has proven to be one of the most significant threats our Nation has faced in years. Since the beginning of the pandemic, the resiliency of our public health system, national security, and economy have been tested on a daily basis. Still, even with these challenges, the men and women of DHS have risen to the occasion time and again. The selflessness and dedication to deliver on our mission—even during a pandemic—are a testament to the values we hold dear at DHS.

Today, more than ever, the Department is focused on its mission to ensure we safeguard the American people, that we are watchful in identifying threats, and that we respect and honor our partners as we work together to ensure the safety and security of our people.

As we confront all these challenges, we continue to assure the public that the resources entrusted to the Department are used to support our mission and to respond to our Nations' needs. In Fiscal Year 2020, DHS received and executed significant funding to support the COVID-19 relief effort. These funds provided American communities with critical support—including personal protective equipment, temporary medical facilities, and lost wages assistance. At the same time, DHS continued to deliver all our other essential missions—including disaster relief, border security and enforcement, transportation security, and cyber security. The performance and financial data in this report provides a more detailed summary of our results.

On March 27, 2020, the CARES Act was signed into law to provide fast and direct economic assistance for American workers, families, and small businesses, and to preserve jobs for our American industries. DHS has been at the center of this unprecedented response by working with other federal agencies, state, local, tribal, and territorial governments to execute a whole-of-America response to the pandemic. This recovery and economic support constitute the largest relief assistance program in American history. As DHS continues providing relief and assistance to the American people, we want to ensure the resources entrusted to the Department are safeguarded and subjected to the highest standards.

DHS remains committed to improving performance measurement and accountability, and based on our internal control evaluations, I am able to provide reasonable assurance that the performance and financial information reported for the Department in our performance and accountability reports are complete and reliable, except those noted in our Annual Performance Report. DHS's performance and accountability reports for this and previous years are available on our public website: http://www.dhs.gov/performance-accountability.

Message from the Secretary

As the complex threat environment continues to evolve, the Department will embody the relentless resilience of the American people to ensure a safe, secure, and prosperous Homeland. However, none of these efforts are possible without the efforts and sacrifice of our men and women. Whether it's those on the front-line or those supporting our missions, the Department's workforce continues to excel at safeguarding our assets, Nation, and values.

I look forward to the Department's accomplishments in the years to come.

Sincerely,

Chad Wolf
Acting Secretary of Homeland Security

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Management's Discussion and Analysis

The ***Management's Discussion and Analysis*** is required supplementary information to the financial statements and provides a high-level overview of DHS.

The ***Our Organization*** section displays the Department's organization with links to the Department's Components.

The ***Performance Overview*** section provides a summary of each homeland security mission, selected accomplishments, key performance measures, and future initiatives to strengthen the Department's efforts in achieving a safer and more secure Nation.

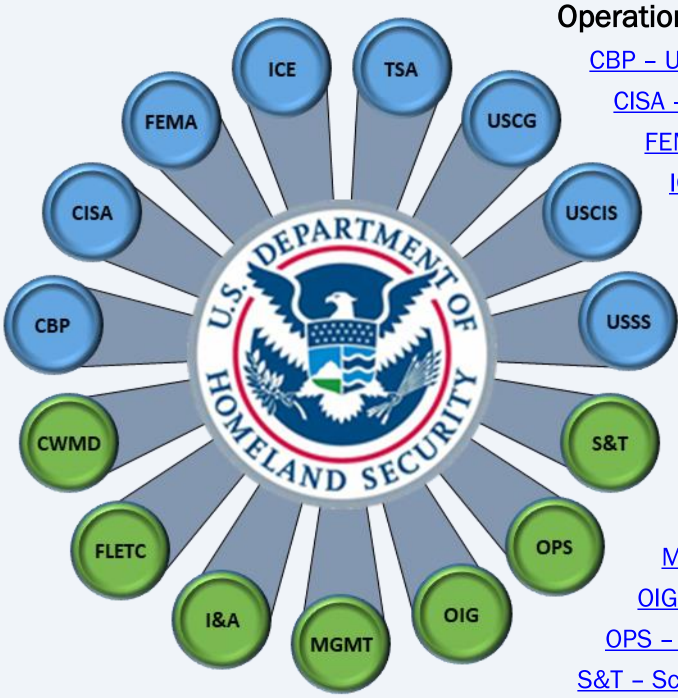
The ***Financial Overview*** section provides a summary of DHS's financial data explaining the major sources and uses of funds and provides a quick look at our Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources, and Statements of Custodial Activities.

The ***Secretary's Assurance Statement*** section provides the Secretary's Assurance Statement related to the Federal Managers' Financial Integrity Act, the Federal Financial Management Improvement Act, and the Department of Homeland Security Financial Accountability Act. This section also describes the Department's efforts to address our financial management systems to ensure systems comply with applicable accounting principles, standards, requirements, and with internal control standards.

Our Organization

DHS has a fundamental duty to secure the Nation from the many threats we face. This requires the dedication of more than 240,000 employees in jobs that range from aviation and border security to emergency response, from cybersecurity analyst to chemical facility inspector. Our duties are wide-ranging and as one team, with one mission, we are one DHS—keeping America safe.

DHS’s Operational Components (shaded in blue) lead the Department’s operational activities to protect our Nation. The DHS Support Components (shaded in green) provide mission support and business support activities to ensure the operational organizations have what they need to accomplish the DHS mission. For the most up to date information on the Department’s structure and leadership, visit our website at http://www.dhs.gov/organization.



Operational Components

- CBP – U.S. Customs and Border Protection
- CISA – Cybersecurity and Infrastructure Security Agency
- FEMA – Federal Emergency Management Agency
- ICE – U.S. Immigration and Customs Enforcement
- TSA – Transportation Security Administration
- USCG – U.S. Coast Guard
- USCIS – U.S. Citizenship and Immigration Services
- USSS – U.S. Secret Service

Support Components

- CWMD – Countering Weapons of Mass Destruction Office
- FLETC – Federal Law Enforcement Training Centers
- I&A – Office of Intelligence and Analysis
- MGMT - Management Directorate
- OIG – Office of Inspector General
- OPS – Office of Operations Coordination
- S&T – Science and Technology Directorate

Figure 1: DHS Operational and Support Components

Performance Overview

The Performance Overview provides an overview of our performance framework, a summary of key performance measures, selected accomplishments, and forward-looking initiatives to strengthen the Department’s efforts in achieving a safer and more secure nation. A complete list of all performance measures and results will be published in the DHS FY 2020-2022 Annual Performance Report with the FY 2022 Congressional Budget Justification and will be available at: http://www.dhs.gov/performance-accountability. All previous reports can be found at this link as well.

DHS Performance Framework

The Department has a robust performance framework that drives performance management and enables the implementation of performance initiatives. This framework consists of core concepts and initiatives to assess program implementation progress, measure results, and drive the delivery of value to external stakeholders. The graphic shows these initiatives that come from both the *Government Performance and Results Act* (GPRA) of 1993, and its companion legislation, the *GPRA Modernization Act of 2010* (GPRAMA).

Figure 2: DHS Performance Management Framework

<u>Performance Community</u>

The DHS performance community is led by the Chief Operating Officer, the Performance Improvement Officer (PIO) who is also the Director of Program Analysis and Evaluation (PA&E), and the Deputy PIO (DPIO) who is also the Assistant Director for Performance Management in PA&E. These leaders are supported by Performance Analysts in PA&E located under the DHS Chief Financial Officer (CFO) in the Management Directorate of DHS. The PIO, DPIO, and PA&E Performance Analysts are the liaison to our DHS Component performance management leaders and collaborators, along with various external stakeholders interested in performance management (shown in the graphic below).

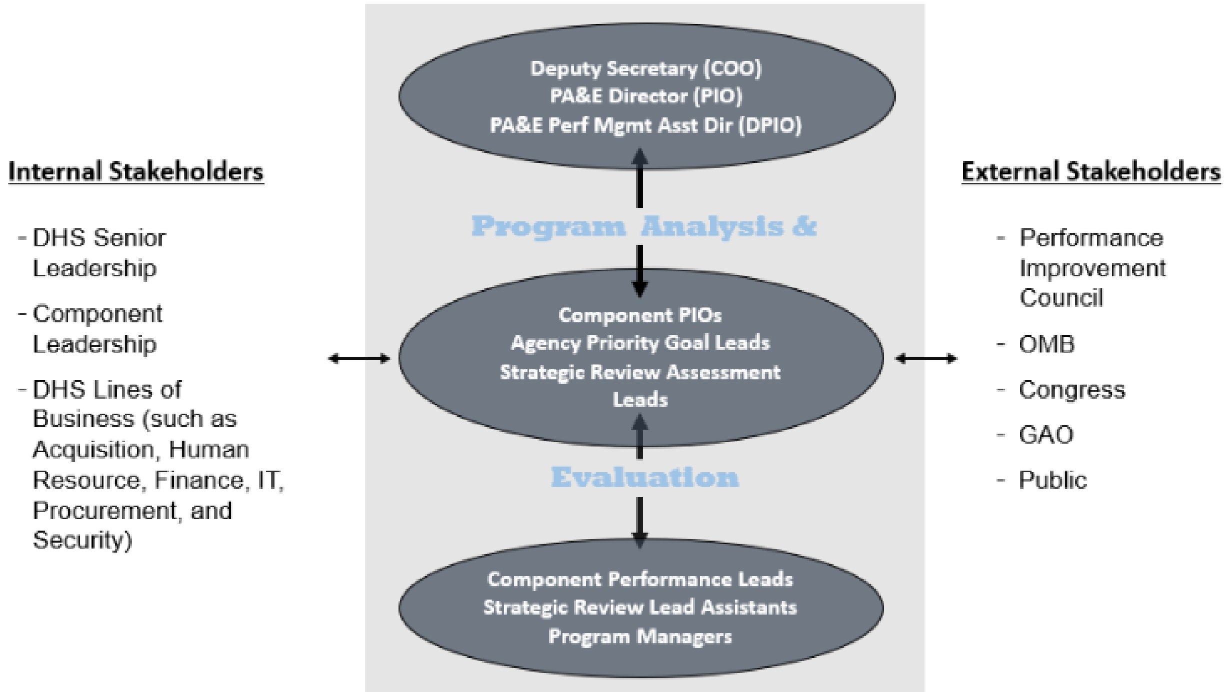


Figure 3: DHS Organizational Performance Community

DHS Component PIOs, Agency Priority Goal (APG) Leads, and Strategic Review Assessment Leads are the senior leaders driving performance management efforts in their respective Components. Component Performance Leads are the critical liaison between DHS PA&E and Component leadership and program managers for all performance management initiatives. They communicate guidance and initiatives, provide advice on measure development concepts, collect and review measure results, and coordinate with Component leadership on performance management initiatives. Strategic Review Lead Assistants play a key role in planning and managing Assessment Team efforts annually and refining and delivering key findings from the review process. Program managers across DHS Components are contributors to the Strategic Review assessment, along with generating ideas for performance measures, producing measures data, and using the information to manage and improve operations.

Improving our Measures

With the support of leadership and our Components, PA&E initiates the annual measure improvement process to enhance our set of publicly reported measures to more effectively convey the results delivered to stakeholders. Improvement ideas are derived from several sources:

- Feedback provided by senior leadership to mature our ability to describe the value delivered by DHS;
- Component leadership and program managers' desire to implement measures that are meaningful to current operations and goals;
- Suggestions from PA&E Performance Analysts working to fill gaps and improve quality;
- Suggestions from the Office of Management and Budget (OMB) to achieve greater visibility into program performance and connections to program resources; and
- Recommendations from other external stakeholders such as the Government Accountability Office (GAO) and Congress.

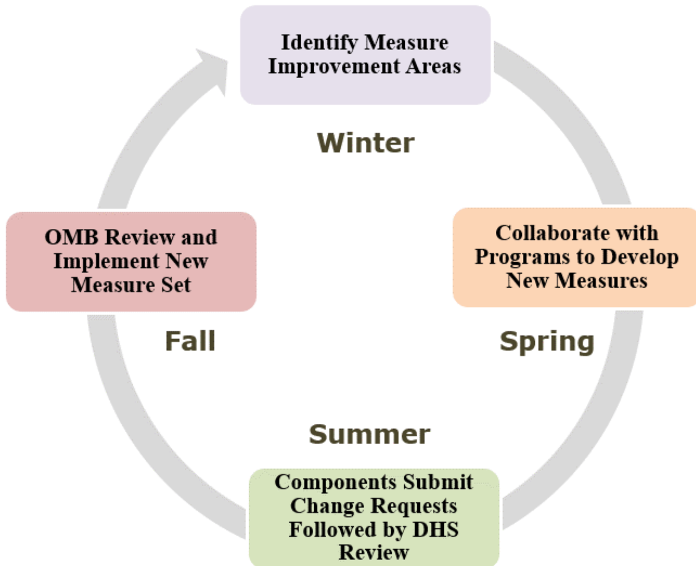


Figure 4: DHS Annual Measure Improvement Process

While measure improvement is iterative, we use the annual process to mature the breadth and scope of our publicly reported set of measures, as shown in the figure above. The process begins in the winter after implementing the new measures in the agency performance plan, to identify gaps that were not filled along with areas where improved measures are desired. Improvement efforts continue into the spring since it can take six to nine months to develop new measure concepts depending on the complexity and scope of data collection. Summer is the Department's review of Component proposals and discussions with OMB continue into the fall.

Internal Controls for Verification and Validation

The Department recognizes the importance of collecting complete, accurate, and reliable performance data that is shared with leadership and external stakeholders. Performance data are considered reliable if transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management. OMB Circular A-136, *Financial Reporting Requirements*, OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, and the *Reports Consolidation Act of 2000* (Public Law (P.L.) No. 106-531) further delineate this responsibility by requiring agencies to ensure completeness and reliability of the performance data they report by putting management assurance procedures in place[1].

DHS has implemented a multi-pronged approach to effectively mitigate risks and reinforce processes that enhance the Department's ability to report complete and reliable data for performance measure reporting. This approach consists of: 1) an annual measure improvement

[1] Note: Circular A-11, PART 6, THE FEDERAL PERFORMANCE FRAMEWORK FOR IMPROVING PROGRAM AND SERVICE DELIVERY, Section 240.26 Definitions. Data limitations. In order to assess the progress towards achievement of performance goals, the performance data must be appropriately valid and reliable for intended use. Significant or known data limitations should be identified to include a description of the limitations, the impact they have on goal achievement, and the actions that will be taken to correct the limitations. Performance data need not be perfect to be valid and reliable to inform management decision-making. Agencies can calibrate the accuracy of the data to the intended use of the data and the cost of improving data quality. At the same time, significant data limitations can lead to bad decisions resulting in lower performance or inaccurate performance assessments. Examples of data limitations include imprecise measurement and recordings, incomplete data, inconsistencies in data collection procedures and data that are too old and/or too infrequently collected to allow quick adjustments of agency action in a timely and cost-effective way.

and change control process described in the previous section using the Performance Measure Definition Form; 2) a central information technology repository for performance measure information; 3) a Performance Measure Checklist for Completeness and Reliability; and 4) annual assessments of the completeness and reliability of a sample of our performance measures by an independent review team.

Quarterly Performance Reporting

Quarterly reporting of the Department's strategic and management measures is provided by Component program managers, reviewed by Component managers and performance staff, entered into the Performance Management System, and then reviewed by PA&E performance staff. Components use the information to keep their leadership abreast of measure results and progress. PA&E also prepares a Quarterly Performance Report that has visualizations of select measure results over time, along with a trend report for all measures in the strategic and management sets. These reports are shared quarterly with PIO and DPIO, posted on the DHS intranet site, and are available to all DHS senior leaders and program managers to support on-going program management activities. Many Components have their own internal processes and products they use to review performance data for management and decision making.

Performance Public Reporting

The Department follows the OMB Circular A-11 and A-136 requirements to produce the following reports to communicate key financial and performance information to stakeholders:

- DHS Agency Financial Report (this report);
- DHS Annual Performance Report; and
- DHS Summary of Performance and Financial Information (Citizen's Report).

Combined, these reports comprise our annual performance and accountability reporting requirements. When published, all three reports are located on our public website at Performance & Financial Reports.

Agency Priority Goals

Agency Priority Goals (APGs) are one of the tenets of GPRAMA and provide a tool for senior leadership to drive the delivery of results on key initiatives over a two-year period. Quarterly reports of progress are provided to interested parties through the OMB website Performance.gov and information on the DHS APGs are presented in our Annual Performance Report.

Performance Reviews

DHS implemented Performance Reviews as a means for senior leadership to engage in the management of efforts to deliver performance results relevant to stakeholders. Meetings are held with APG Goal Leads, senior leaders, subject matter experts, and performance leadership and staff to discuss current results, progress, and challenges being faced by these complex issues.

Strategic Review

The Strategic Review (SR) is a DHS-wide assessment, using evidence, to assess program progress in delivering on our mission. In FY 2020 DHS conducted its seventh annual SR. Twenty-three mission programs were included in the assessment and represent our large operational programs delivering results to external stakeholders. The SR serves as a tool to integrate activities associated with other key legislation such as the *Foundations for Evidence-Based Policymaking Act of 2018,* GPRA, and GPRAMA.

The SR serves multiple purposes for Components, DHS, and OMB to: 1) assess progress of our mission program implementation efforts as a means for improvement; 2) facilitate best practices of a learning organization by reflecting annually on where we have been and where we are going; 3) advance the use of risk, program management, and evaluation practices; 4) make key findings available to Component and DHS senior leaders to inform management efforts; 5) provide feedback from execution to planning, programming, and budgeting activities; and 6) drive a focused conversation with OMB on significant issues to inform their management and budget activities.

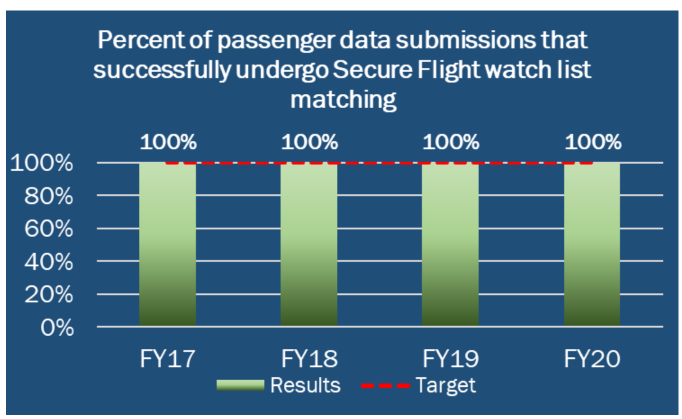
DHS Summary of Key Performance Measures

Strategic plan goals are implemented by our mission programs which are groups of activities acting together to accomplish a specific high-level outcome external to DHS and include operational processes, skills, technology, human capital, and other resources. Mission programs have performance goals, performance measures, and performance targets. Below are a select set of measures that describe how our mission programs drive to deliver on the DHS mission.

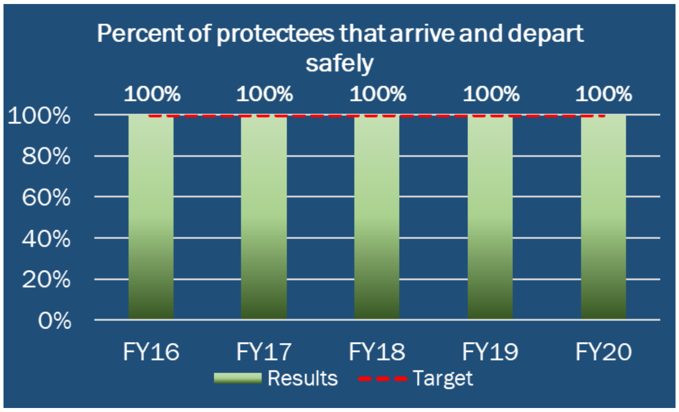
Goal 1: Counter Terrorism and Homeland Security Threats

One of the Department's top priorities is to protect Americans from terrorism and other homeland security threats by preventing nation-states and their proxies who engage in terrorist or criminal acts from threatening the homeland. Terrorists and criminals are constantly adopting new techniques and sophisticated tactics to circumvent homeland security and threaten the safety, security, and prosperity of the American public and our allies. The rapidly evolving threat environment demands strategies and tactics to ensure a proactive response by DHS and its partners to identify, detect, and prevent attacks against the United States. Focused activity associated with this goal includes information sharing, aviation security, and protection of national leaders and events.

The following measures highlight some of our efforts to counter terrorism and homeland security threats. Up to five years of data is presented if available.

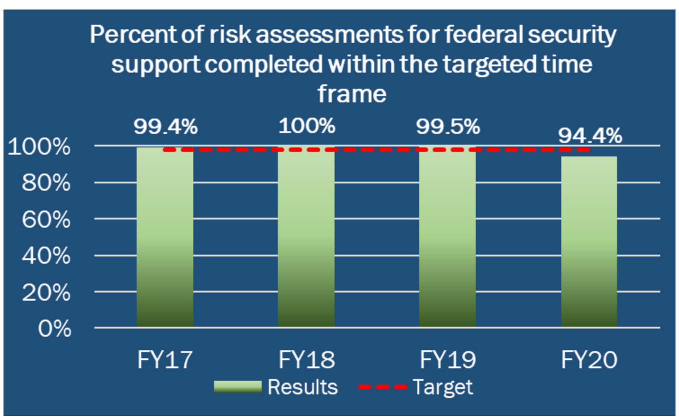


Percent of passenger data submissions that successfully undergo Secure Flight watch list matching (TSA): Vetting individuals against high-risk watch lists strengthens the security of the transportation system and this measure ensures the traveling public that all domestic air passengers have undergone checking against these watch lists. This measure reports the percent of qualified message submissions received from the airlines that are successfully matched by the Secure Flight automated vetting system against the existing high-risk watch lists. A qualified message submission from the airlines contains passenger data sufficient to allow successful processing in the Secure Flight automated vetting system. In FY 2020, this measure achieved 100 percent, meeting the target, and has maintained this level of performance for the past four years. DHS will continue to report this measure as it conveys an underlying critical layered process to ensure security in the aviation environment.

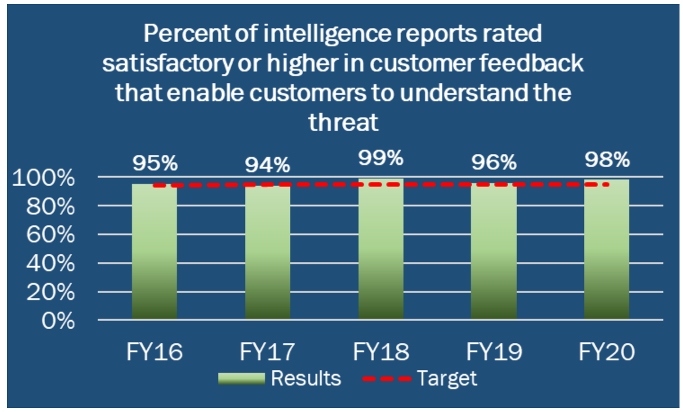


Percent of protectees that arrive and depart safely (USSS): This measure reflects the effectiveness of efforts to ensure safe travel (arrive and depart safely) for the President and Vice President of the United States and their immediate families, former presidents, their spouses, and their minor children under the age of 16, major presidential and vice-presidential candidates and their spouses, and foreign heads of state. This measure gauges the percent of travel stops where the USSS protectees arrive and depart safely. The performance target is always 100 percent and the USSS has maintained a 100 percent performance record for the past five years. To achieve these results takes a coordinated effort across several specialized resources within USSS. Using advanced countermeasures, the USSS executes security operations that deter, minimize, and decisively respond to identified threats and vulnerabilities to keep protectees safe.

The Office of Protective Operations (OPO) implemented Events Management, an IT system where OPO can efficiently develop and assess the strategic operational posture of its assets and personnel globally. This system enables fast and informed decision-making in emergent situations, resulting in improved coordination for USSS' protective operations. As of July 2020, this tool has led to a significant return on investment with a time savings equivalent of 4 full-time employees per year.



Percent of risk assessments for federal security support of large public/community special events completed within the targeted time frame (OPS): This measure indicates the timeliness of risk assessments that are used by federal agencies as criteria to determine their level of support to state and local events and is the primary federal awareness mechanism for special events occurring across the Nation. This measure indicates the percent of Special Event Assessment Ratings completed within the targeted timeframe as voluntarily requested from state and local authorities for events taking place within their jurisdictions. OPS provided on-time risk assessment ratings 94.4 percent of the time, seeing a decline in overall performance based on historical trends. During the first quarter of FY 2020, technical issues and a significant increase in National Special Events Data Call events from the previous year resulted in assessments not being completed within the targeted time frame. This, coupled with an unexpected second quarter surge, impacted service delivery. The technology used for inputs has been updated to improve performance in FY 2021 as well as addressing issues related to surge activity.



Percent of intelligence reports rated satisfactory or higher in customer feedback that enable customers to understand the threat (I&A): This measure gauges the extent to which the DHS Intelligence Enterprise is satisfying customer needs related to anticipating emerging threats. This measure encompasses reports, produced by all DHS Component intelligence programs, which are provided to federal, state, and local customers. In FY 2020, DHS evaluations were rated as satisfactory or higher resulting in a 98 percent satisfaction rate, meeting the target. Trends over time show a high stakeholder satisfaction with reports.

Looking Forward

A few near-term efforts to advance the Department's capability and capacity in these areas are provided below.

- **Unmanned Aerial Systems (UAS):** Terrorists are using unmanned aerial systems (i.e., drones) to conduct surveillance and potentially launch terrorist attacks; drug smugglers are using them to monitor border patrol officers and to deliver drugs in remote areas; and criminals and nation states are using them to spy on sensitive facilities. The threat is real, and they can be used for a wide array of dangerous purposes. To address this, the Department has taken a proactive approach across several of our Components to include:
    - S&T is investing in research and development activities to better understand how UAS advances can be applied to protect the American people, increase operational efficiencies, and improve command and control decision-making, especially when combined with counter-UAS (CUAS) technologies.
    - CBP, CISA, USCG, and others are working to implement CUAS technologies to: enhance situational awareness of the land and sea borders, at and between Ports-of-Entry; enhance the ability to share, query, and analyze law enforcement information/data to enable law enforcement investigations; deploy improved tools to advance the safety and effectiveness of DHS personnel; improve the detection and tracking of low-altitude airborne threats; enhance capabilities to integrate border security sensor and intelligence sources, perform data analytics, and share the resulting actionable intelligence with partners across the homeland security enterprise.

Did you know?

TSA training goes way beyond the airport checkpoints. The agency also instructs Federal Air Marshals and canine teams, and it offers programs in leadership and other advanced skills to all its personnel. On average, TSA employees complete millions of courses per fiscal year, with almost 20 thousand students attending in-residence classes.

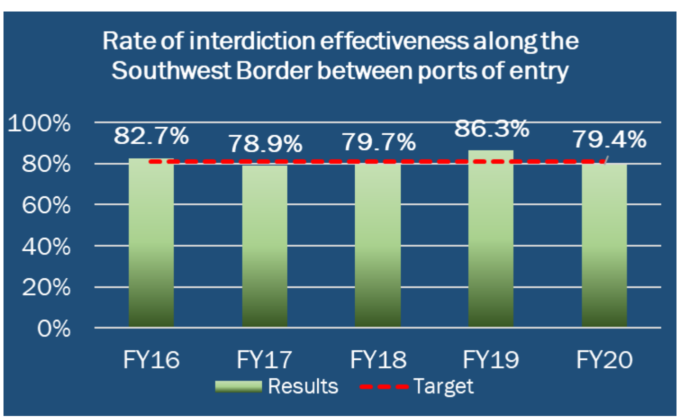
- **Aviation Security:** TSA continues to seek and deploy improvements to airport scanning and detection, with new technology to enhance explosives detection and other threat-detection capabilities at airport checkpoints. TSA has begun installing computed tomography scanners that apply sophisticated algorithms for the detection of explosives and creating three-dimensional images that TSA officers can manipulate to enable thorough image analysis. As part of the Administrator's Intent 2.0, TSA seeks to leverage innovations in artificial intelligence, identity management, machine learning and screening automation across the TSA enterprise to advance TSA's security mission across both the TSA enterprise and the Transportation Systems Sector. See [TSA's Administrator's Intent] for more information.

- **Countering Weapons of Mass Destruction**: The Department of Homeland Security works every day to prevent terrorists and other threat actors from using weapons of mass destruction to harm Americans. The Countering Weapons of Mass Destruction Office (CWMD) leads Department efforts and coordinates with domestic and international partners to safeguard the United States against chemical, biological, radiological and nuclear (CBRN) and health security threats. CWMD's Capability and Operational Support program coordinates with partners in all levels of government to help communities build capabilities and prepare for CBRN and public health events. The CWMD Federal Assistance program further aligns and reinforces operational programs and activities across the Weapons of Mass Destruction threat space through consistent and persistent engagement. The CWMD Research and Development program manages efforts to identify, explore, develop, and demonstrate science and technologies that address gaps in the detection architecture. Finally, the CWMD Procurement, Construction and Improvements program provides resources necessary for the planning, operational development, procurement, deployment, operational test and evaluation, and improvement of assets that help the Department combat weapons of mass destruction.

Goal 2: Secure U.S. Borders and Approaches

Secure borders are essential to our national sovereignty. DHS continues to implement a border security approach to secure and maintain control of our land and maritime borders. Concentration is also focused on Transnational Criminal Organizations and preventing the impact of these organizations operating both domestically and internationally. Efforts also continue to pursue, and appropriately prosecute, those illegally in the interior of the country and ensure that we properly administer immigration benefits and employ only those who are authorized to work.

The following measures highlight some of our efforts to secure U.S. borders and approaches. Up to five years of data is presented if available.



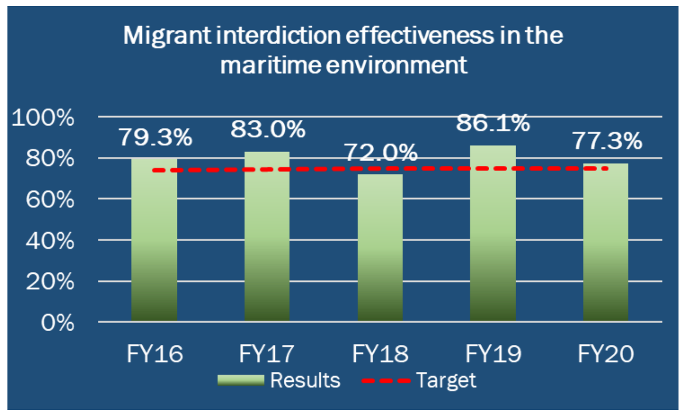
Rate of interdiction effectiveness along the Southwest Border between ports of entry (CBP): The [Border Patrol] uses this measure as an important indicator of the effectiveness of law enforcement and response efforts to apprehend detected illegal border crossers and as a key indicator of the status of Operational Control (OPCON) over the U.S. border. Results for this measure have varied significantly the past three years. In FY 2019, the results for this measure were greater than historical results due largely to the unprecedented mass illegal migration and the nontypical encounter where most of these people voluntarily surrendered to Border Patrol Agents. Known illegal entries decreased to 405,036 in FY 2020 from 859,501 in FY 2019. Improved detection and tracking tools resulted in better awareness of illegal crossing activity, but agents faced challenges to interdict evading groups often guided by criminal organizations. In late March 2020, Border

Patrol began implementing the federal regulation entitled *Suspending Introduction of Persons from a Country Where a Communicable Disease Exists* (85 Fed Reg 17060), which provides for persons subject to the order to be expelled from the U.S. as expeditiously as possible under Title 42 of the U.S. Code, instead of being subject to processing under Title 8. Title 42 actions accounted for about 30.2% of FY 2020 response efforts from March through the end of the fiscal year. Going forward, the Border Patrol will continue to shift resources to locations that commanders determine to be the best use of personnel and surveillance technology to meet estimated targets.

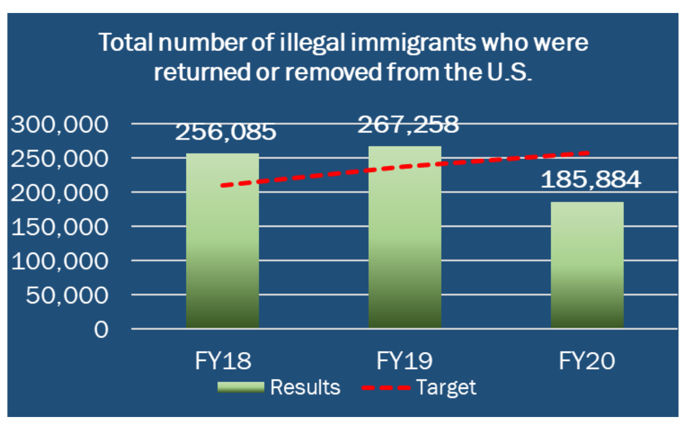
Did you know?

The Director of the Centers for Disease Control and Prevention (CDC), under the authority of the *Public Health Service Act*, directed CBP to prohibit the entry of persons originating from or who traveled through countries in which COVID-19 cases exist beyond a certain threshold.

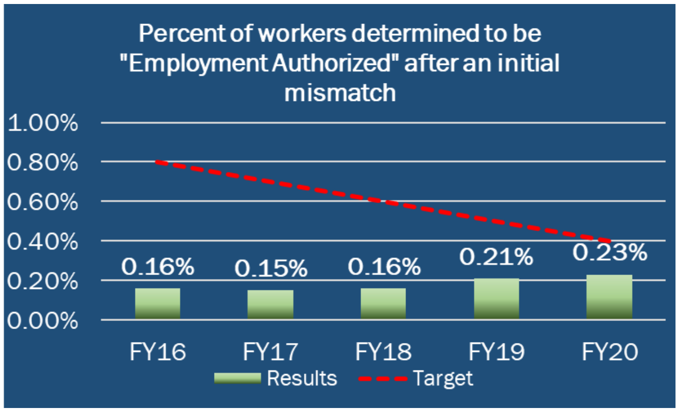
Migrant interdiction effectiveness in the maritime environment (USCG): This measure communicates the effectiveness of the maritime law enforcement program to interdict migrants of all nationalities attempting to enter the United States through maritime borders not protected by the Border Patrol. This measure reports the percent of detected migrants who were interdicted by the USCG and partner nations via maritime routes. The USCG conducts patrols and coordinates with other federal agencies and foreign countries to interdict migrants at sea, denying them entry via maritime routes to the United States, its territories, and possessions. Over the past two years, an increase in partner nation reporting efforts has allowed for better data collection and analysis. Partner nation interdictions make up approximately 50 percent of the migrants interdicted in the maritime domain. Most partner nation interdictions involve Haitian nationals who typically travel on larger conveyances with more migrants onboard. While the migrant interdiction rate has fluctuated over the past five years, the FY 2020 results are consistent with the overall average.



Total number of illegal immigrants who were returned or removed from the United States (ICE): This measure describes the total number of illegal immigrants returned and/or removed from the United States by ICE Enforcement and Removal Operations (ERO). The measure includes both immigrants who have entered the country illegally, but do not already have prior criminal conviction, along with those who have had a prior criminal conviction. This measure provides a complete picture of all the returns and removals accomplished by the program to ensure illegal immigrants do not remain in the United States. The decrease in removal actions is, in part, driven by less overall migration due to the pandemic, as well as other policy-related factors such as the effects of



Migrant Protection Protocols and humanitarian efforts impacting arrests. COVID-19 in conjunction with CDC guidance not to exceed 70% detention capacity also impacted removals.



Percent of workers determined to be "Employment Authorized" after an initial mismatch (USCIS): This measure provides a feedback mechanism to indicate the accuracy of E-Verify system reporting the number of cases in which adjudicating officials in the program find an alien "employment authorized" after an initial automated mis-match decision. Ensuring the accuracy of E-Verify processing reflects the program's intent to minimize negative impacts imposed upon those entitled to employment in the U.S. while ensuring the integrity of immigration benefits by effectively detecting and preventing unauthorized employment. This measure assesses the accuracy of the E-Verify process by assessing the percent of employment verification requests that are not positively resolved during the initial review. This measure, which aims to be below the target (i.e., a less than measure) achieved 0.23 percent, meeting its target but slightly up compared to last year's result. E-Verify confirms employment eligibility of new hires by electronically matching information provided by employees on the I-9 Form, Employment Eligibility Verification, against records available to the Social Security Administration and DHS. USCIS continues to increase the records available for electronic matching, which strengthens the program against identity fraud.

Looking Forward

A few near-term efforts to advance the Department's capability and capacity in these areas are provided below.

- ***Implement the OPCON framework*** which is the first goal in the ***2020 U.S. Border Patrol Strategy.*** The OPCON Agency Priority Goal describes through quarterly public reporting on performance.gov progress in implementing this framework to enhance border security through three elements: Situational Awareness — collecting and assessing information and integrating that intelligence into our operations; Impedance and Denial — stopping illegal crossings or slowing them down to allow additional response time; and Response and Resolution — rapidly responding to threats determined in the areas of highest risk. This APG builds on foundational work previously done to develop the elements of OPCON and deploy the framework to all Southern Border Sectors and Stations. Efforts now are underway to develop Southwest Border sector strategies and data collection and build out the performance measures for the OPCON framework that will be used for the Northern Border. The FY 2020-2021 OPCON Agency Priority Goal is a tool to advance and report on the progress of the use of OPCON to ensure border security.
- ***Remove those who have entered the country illegally***: ERO and the Office of the Principal Legal Advisor (OPLA) work to remove those who have entered the country illegally. While workload, technology, staffing, and interagency collaboration are challenges, these two programs are actively working to implement correction actions to maximize their effectiveness. To manage this workload, OPLA, ERO, and the Department of Justice (DOJ) are working together to improve processing while simultaneously addressing OPLA staffing models to align with court docket demands, DOJ Executive Office for Immigration

Review staffing, and the expansion of court facilities to address case backlog. ERO and OPLA will continue to work with communities to better support 287(g) type programs to get deportable immigrants into the process of being given a final order for removal.

- **Immigration Benefits and Fraud:** Immigration Benefit Fraud is the willful misrepresentation of a material fact on a petition or application to gain an immigration benefit, often involving sophisticated schemes and multiple co-conspirators. USCIS has taken recent steps to address this to include: continuous immigration vetting for applicants filing Form N-400 (Application for Naturalization) until delivery of a benefit, including social media checks to identify publicly available social media information to identify potential fraud, public safety, or national security concerns linked to persons requesting immigration benefit requests from USCIS to include primary applicants and their dependent family members. USCIS launched a new online tip form to help the public report suspected immigration benefit fraud and abuse. The online form is now available on the USCIS public website and has streamlined reporting by replacing three email boxes previously used to collect tips. It facilitates more efficient handling and provides the agency with the information needed to investigate and address benefit fraud and abuse.

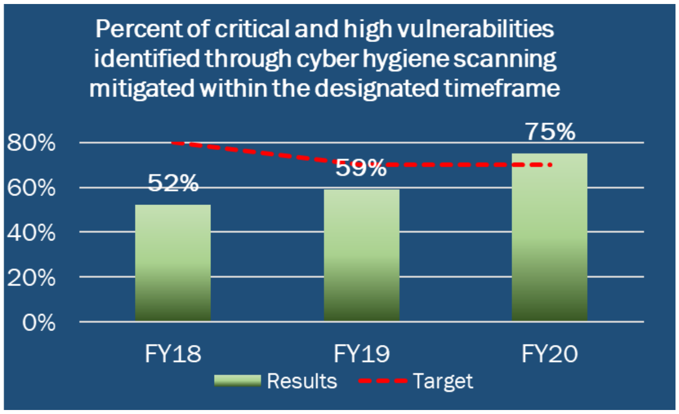
Fraud Detection and National Security
VIGILANCE. INTEGRITY. PARTNERSHIP.

The USCIS Fraud Detection and National Security Directorate (FDNS) has vastly increased coordination with the Current and Emerging Threats Center by providing rapid responses to unclassified and classified requests for information. Topics have included at least 24 Immigration Systems Research Reports (ISRR) related to COVID-19 fraud, unauthorized test kits, and threats with an immigration nexus. Additional topics of intensive ISRR reporting have included Romanian Transnational Organized Crime and threats and criminal activity coming from Venezuela.

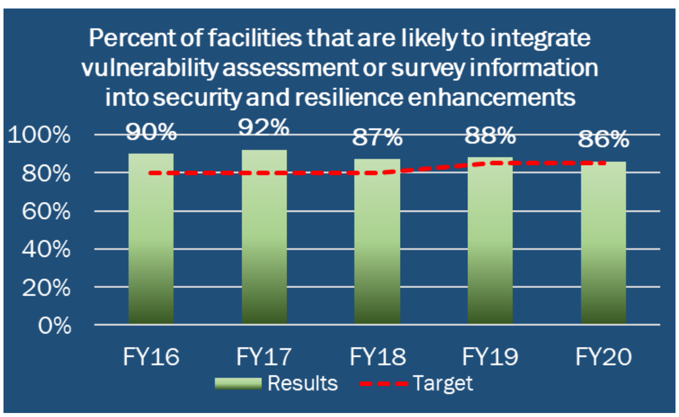
Goal 3: Secure Cyberspace and Critical Infrastructure

Increased connectivity of people and devices to the Internet and to each other has created an ever-expanding attack surface that transcends borders and penetrates almost every American home. In addition, the Federal Government depends on reliable and verifiable information technology systems and computer networks for essential operations. As a result, malicious cyber attackers target government systems to steal information, disrupt and deny access to information, degrade or destroy critical information systems, or operate a persistent presence capable of tracking information or conducting a future attack. Serving as the designated federal lead for cybersecurity across the U.S. Government, DHS promotes the adoption of common policies and best practices that are risk-based and responsive to the ever-changing cyber threat environment. Additionally, DHS collaborates with federal interagency counterparts to deploy capabilities for intrusion detection, unauthorized access prevention, and near real-time cybersecurity risk reports. In deploying these capabilities, DHS prioritizes assessments, security measures, and remediation for systems that could significantly compromise national security, foreign relations, the economy, public confidence, or public health and safety.

The following measures highlight some of our efforts to secure federal cyberspace and critical infrastructure. Up to five years of data is presented if available.



Percent of critical and high vulnerabilities identified through cyber hygiene scanning mitigated within the designated timeframe (CISA): DHS provides cyber hygiene scanning to federal agencies to aid in identifying and prioritizing vulnerabilities based on their severity for agencies to make risk-based decisions regarding their network security. For critical vulnerabilities, mitigation is required within 15 days from point of initial detection, and for high vulnerabilities mitigation is required within 30 days. Cyber hygiene scanning prioritizes vulnerabilities based on their severity as a means for agencies to make risk-based decisions regarding their network security. Identifying and mitigating vulnerabilities on a network in a timely manner is a critical component of an effective cybersecurity program, as it is critical to maintaining operational availability and the integrity of systems. With Binding Operational Directive 19-02 in effect since April 2019, federal agencies are demonstrating progress in addressing vulnerabilities within required timelines. This is evidenced by the increase in FY 2020 to 75.0 percent, significantly up from 2019. See the Agency Priority Goals section for more information on cybersecurity.



Percent of facilities that are likely to integrate vulnerability assessment or survey information into security and resilience enhancements (CISA): This measure demonstrates the percent of facilities that are likely to enhance their security and resilience by integrating Infrastructure Protection vulnerability assessment or survey information. Security and resilience enhancements can include changes to physical security, security force, security management, information sharing, and protective measures. Providing facility owners and operators with vulnerability information allows them to understand and reduce risk to the Nation's critical infrastructure. The program maintained a strong positive response on integrating assessment and survey information despite limitations in delivering assessments and follow-ups due to social distancing requirements during the pandemic. Current year's results are consistent with the five-year trend.

Looking Forward

A few near-term efforts to advance the Department's capability and capacity in these areas are provided below.

- ***Improve cybersecurity posture of federal civilian network***: CISA will gain appropriate visibility into the federal enterprise to assist in the safeguarding of systems and assets against a spectrum of risks. CISA continues to advance federal cybersecurity through its FY 2020-2021 Agency Priority Goal to mitigate, within 30 days, 75 percent of critical and high, configuration-based vulnerabilities identified through high value asset assessments, by September 30, 2021. Looking forward, CISA looks to enhance additional authorities to gain visibility into the federal enterprise and take action to safeguard systems, instill a singleness of purpose to managing cybersecurity risks and protecting federal networks between DHS and agency network defense operators, to increase and improve tools and services to make federal networks more defensible and secure; and then to synthesize risk posture data and assessments to reduce exposure to threats.

- ***National Risk Management Center (NRMC)***: Critical infrastructure are those assets, systems, and networks that provide functions necessary for our way of life. From generating electricity to supplying clean water, there are 16 critical infrastructure sectors that form a complex, interconnected ecosystem including communications, energy, transportation, emergency services, and water. Since the nation's critical infrastructure is largely owned and operated by the private sector, managing risk is a priority shared by industry and government. As the Department's planning, analysis, and collaboration center, the NRMC is working to bring the private sector, government agencies, and other key stakeholders together to identify, analyze, prioritize, and manage the most significant risks to our critical infrastructure. Moving forward, the NRMC will continue to develop and improve their capability roadmap that will baseline current capabilities; identify critical infrastructure capability gaps and outline a 5-year strategy to address those gaps; address the needed authorities to allow for increased coordination and collaboration with the risk community; and develop training programs to serve as a career roadmap for analysts and build a full spectrum of leadership training opportunities.

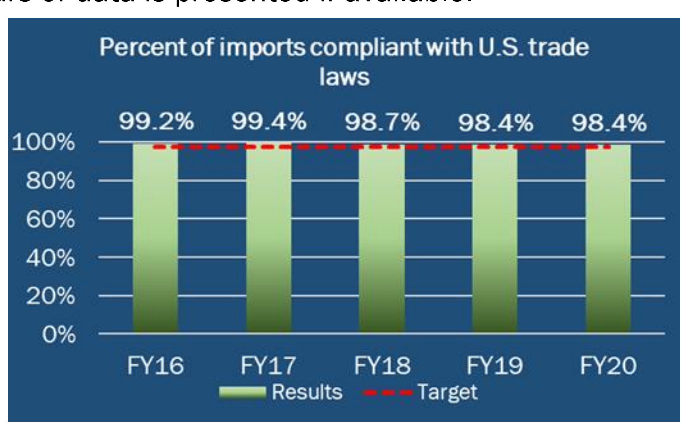
The Cybersecurity Program has worked closely with state and local election authorities to aid in their security improvements ahead of the 2020 election. CISA conducted numerous vulnerability assessments across the election stakeholder community, then briefed and distributed a unique report (highlighting key trends, vulnerabilities, and weaknesses) to several hundred election stakeholders. CISA has also worked closely with over 40 states on training exercises that simulate threat scenarios, including foreign disinformation campaigns and cyber-attacks on election infrastructure to bolster state and local incident-response plans.

Goal 4: Preserve and Uphold the Nation's Prosperity and Economic Security

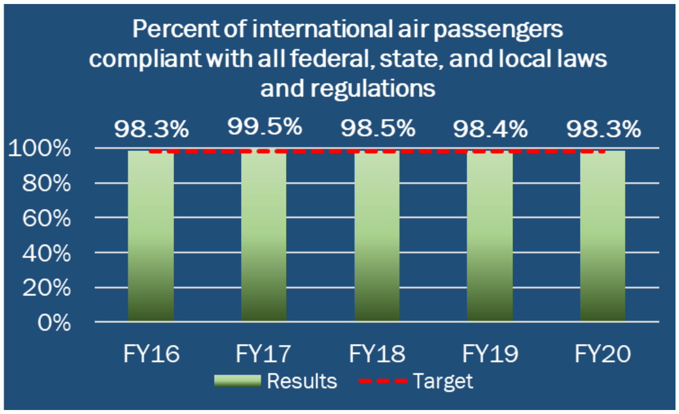
America's prosperity and economic security are integral to homeland security and are achieved through our international trade operations, maritime natural resources, ice breaking for commercial cargo, aids to navigation for boats/ships, and protection of the nation's financial systems.

The following measures highlight some of our efforts to preserve and uphold the nation's prosperity and economic security. Up to five years of data is presented if available.

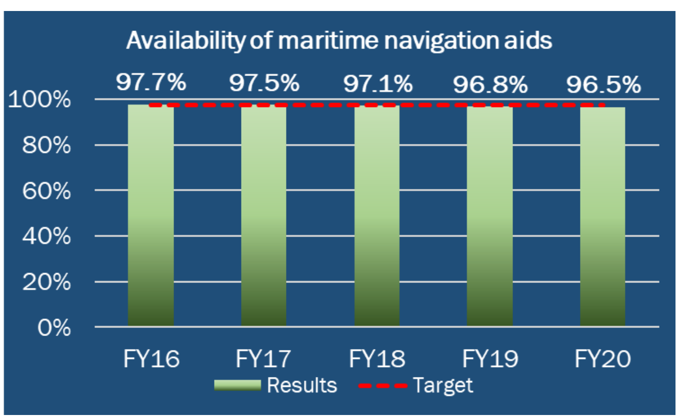
Percent of imports compliant with U.S. trade laws (CBP): This measure reports the percent of imports that are compliant with U.S. trade laws including customs revenue laws. Ensuring all imports are legally compliant and that their entry records contain no major discrepancies facilitates lawful trade. CBP, the importing community, and our federal partners have a shared responsibility to maximize compliance with laws and regulations. In carrying out this task, CBP encourages importers to become familiar with applicable



laws and regulations and work together with the CBP Office of Trade to protect American consumers from harmful and counterfeit imports by ensuring the goods that enter the U.S. marketplace are genuine, safe, and lawfully sourced. This long-standing measure shows a consistently high compliance rate with FY 2020 results in-line with recent trends. While the expansion of e-commerce has led to greater trade facilitation, its overall growth has facilitated online trafficking in counterfeit and pirated goods that are typically shipped through international mail and express courier services and account for approximately 90 percent of counterfeit seizures.

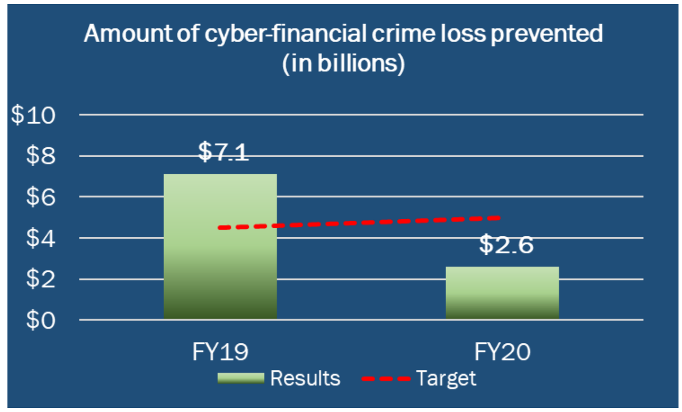


Percent of international air passengers compliant with all federal, state, and local laws and regulations (CBP): This measure shows CBP's success at maintaining a high level of security in the international air environment by measuring the degree of compliance with all federal, state, and municipal laws and regulations that CBP is charged with enforcing at the ports of entry (international airports). During typical non-pandemic times, CBP officers welcome almost a million international travelers daily. In screening both foreign visitors and returning U.S. citizens, CBP uses a variety of techniques to assure that global tourism remains safe and strong. In FY 2020, the Travel program continued its outstanding performance in safeguarding international travel. While COVID-19 impacted the volume of travel into the United States this past year, compliance remained strong. The Travel program is constantly looking at new technologies to receive traveler data in advance of arrival at a port of entry, which enhances security and allows for better facilitation of the entry process into the United States. The program also has a strong outreach program through their public-facing websites: Know Before You Visit, Trusted Traveler Programs, For U.S. Citizens/Lawful Permanent Residents, Electronic System for Travel Authorization, Electronic Visa Update System, and Visa Waiver Program.



Availability of maritime navigation aids (USCG): This measure indicates the hours that short-range federal Aids to Navigation (ATON) are available as defined by the International Association of Marine Aids to Navigation and Lighthouse Authorities in December 2004. As the Road Signs of the Sea, maritime navigational aids ensure safety of maritime traffic and the safe passage of trillions of dollars of economic activity. In FY 2020, this measure achieved 96.5 percent which is consistent with recent results but slightly down compared to previous years. While ATON damage from hurricanes over the past several years has, for the most part, been addressed, resource availability continues to impact program success. The USCG is exploring solutions to mitigate this risk.

Amount of cyber-financial crime loss prevented (in billions) (USSS): This measure is an estimate of the direct dollar loss to the public prevented due to cyber-financial investigations by the USSS. The dollar loss prevented is based on the estimated amount of financial loss that would have occurred had the offender not been identified nor the criminal enterprise interrupted. The measure reflects USSS' efforts, in conjunction with partners, to reduce financial losses to the public attributable to cyber-financial crimes. In FY 2020, this measure achieved $2.60 billion in loss prevention. The disparity from FY 2019 is the result of a very large case closure in FY 2019 (more than $4 billion) and the impact of COVID-19 in FY 2020. The USSS relies on partnerships with a variety of other law enforcement agencies to investigate highly complex cyber-financial criminal investigations; however, due to COVID-19, investigations have been impacted and the U.S. court system has slowed. In addition, as a result of the pandemic, the USSS has continually adapted to safeguard the integrity of the financial system and has swiftly reacted to fraudulent activity associated with the pandemic and the *Coronavirus Aid, Relief, and Economic Security* (CARES) Act (P.L. 116-136) . In FY 2020, the pace of USSS investigations did not decrease, and these investigations resulted in 1,620 arrests.



Looking Forward

A few near-term efforts to advance the Department's capability and capacity in these areas are provided below.

- ***International trade and travel***: Rapidly growing and diversifying flows of trade and travel present ongoing challenges to balance security with delivering service expected by trade partners and the traveling public. Looking forward, CBP is investing in advanced analytics to provide predictive and prescriptive analyses to better target those trying to circumvent the systems. In addition, CBP continues to enhance the Automated Commercial Environment (ACE)—the single system used by all government agencies to process cargo imports and exports, and collect duties, taxes, and fees. Other areas of focus include refinements to the Automated Targeting System, fed by ACE inputs, to advance homeland security while facilitating trade. Lastly, CBP and TSA are looking to expand partnerships and leverage parallel operational processes (e.g., facial recognition; baggage screening) to reduce duplication, delays and redundant processing for travelers, leveraging technology development and acquisition to the benefit of both organizations.

CBP launched the U.S.–Mexico–Canada Agreement (USMCA) Center July 1, 2020, to coordinate implementation of the USMCA, which replaced the North American Free Trade Agreement (NAFTA). Staffed with CBP experts from operational, legal, and audit disciplines, and in collaboration with Canadian and Mexican customs authorities, the USMCA Center is a cornerstone of CBP's USMCA implementation plan. It will serve as a central communication hub for CBP and the private sector, ensuring a smooth and efficient transition from NAFTA to USMCA.

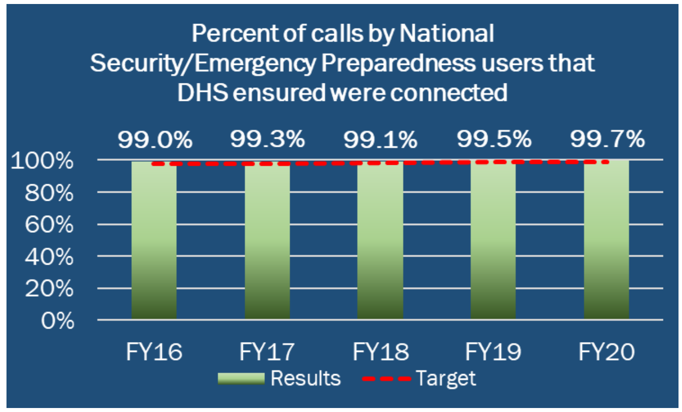
The USSS led the investigation against Aleksey Burkov, who was sentenced to 9 years in June 2020. Burkov is notorious to international law enforcement as the owner of Cardplanet, a database of payment card numbers stolen through network intrusion. Burkov also ran a site for cybercriminals to advertise stolen goods, like the personal information of potential fraud victims. With their training and expertise, USSS agents prevented $75M in potential loss with this successful investigation.

- ***Combating cybercrime and safeguarding the nation's financial system***: Cybercrime is the fastest-growing mode for crime occurring across the country and touching a large share of the U.S. population. As such, several DHS Components have efforts underway with plans to address cybercrime or plans to address organizations using cybercrime to support other illegal activities.
  - USSS recently began to implement a policy establishing a Cyber Technical Agent career progression, developing the Electronic Crimes Task Force modernization plan to strengthen and expand the existing network of task forces to address growing cybercriminal threats and expand the Global Investigative Operations Center. To support the expansion of knowledge in cybercrime, there are ongoing efforts to train fellow law enforcement stakeholders on detecting and combatting cybercrimes.
  - ICE continues developing new tools (e.g., enhanced facial recognition, web scraping, field-deployable DNA testing) used to counter transnational criminal organizations' illicit activities related to financial crimes.
  - CBP is addressing online trafficking in counterfeit and pirated goods, exploring expanded use of verifiable digital trademarks.
  - USCG plans include the enhancement of the security of the service's cyber networks, bolstering new efforts on offensive cyber capabilities, to help safeguard the maritime domain and related infrastructure.

Goal 5: Strengthen Preparedness and Resilience

Preparedness is a shared responsibility across federal, state, local, tribal, and territorial governments; the private sector; non-governmental organizations; and the American people. Some incidents will overwhelm the capabilities of communities, so the Federal Government must remain capable of helping them to respond to natural and man-made disasters. Following disasters, the Federal Government must ensure an ability to direct resources needed to support local communities' immediate response and long-term recovery assistance. The United States can effectively manage emergencies and mitigate the harm to American communities by thoroughly preparing local communities, rapidly responding during crises, and supporting recovery.

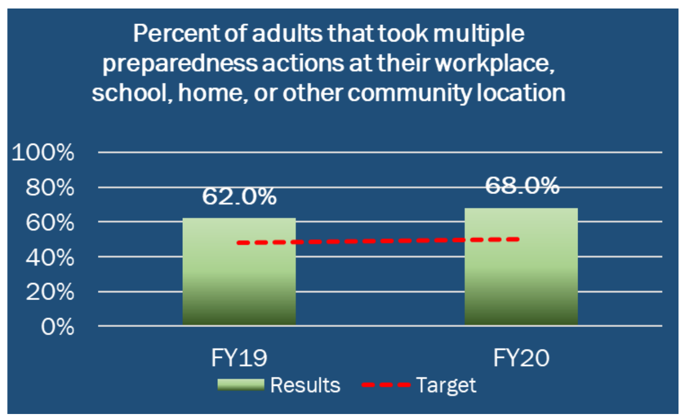
The following measures highlight some of our efforts to strengthen preparedness and resilience. Up to five years of data is presented if available.



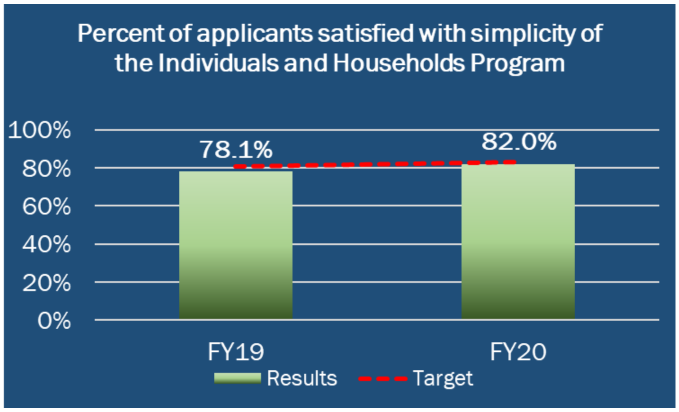
Percent of calls by National Security/ Emergency Preparedness users that DHS ensured were connected (CISA): By ensuring the connection of calls for first responders and government officials during a disaster, DHS contributes to a national effective emergency response effort. This measure gauges the reliability and effectiveness of the Government Emergency Telecommunications Service (GETS) to ensure accessibility by authorized users at any time, most commonly to ensure call completion during times of network congestion caused by all-hazard scenarios, including terrorist attacks or natural disasters (e.g., hurricane or earthquake). In FY 2020, this measure achieved 99.7 percent call completion which is above target and in-line with results over the past five years. Due to COVID-19, there was an approximately 25 percent increase in call volume using GETS. By ensuring effective emergency communications, DHS contributes to a national effective emergency response effort which helps strengthen national preparedness and resilience.

Did you **know?**

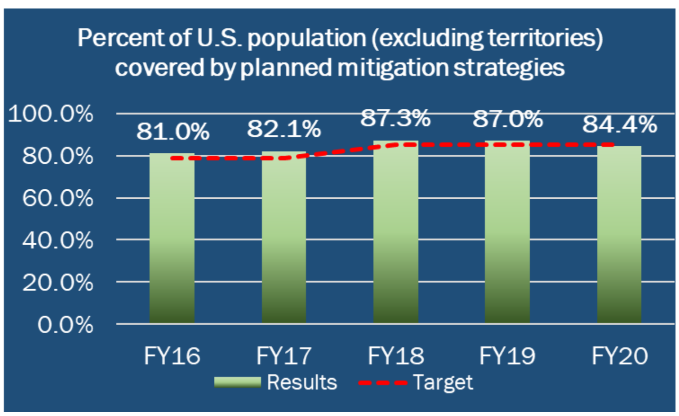
The Emergency Communications program supported Statewide Interoperability Coordinators that were indispensable in managing and mitigating COVID-19 telecommunications impacts to support a full telework environment during the unprecedented stress on communications networks nationwide.



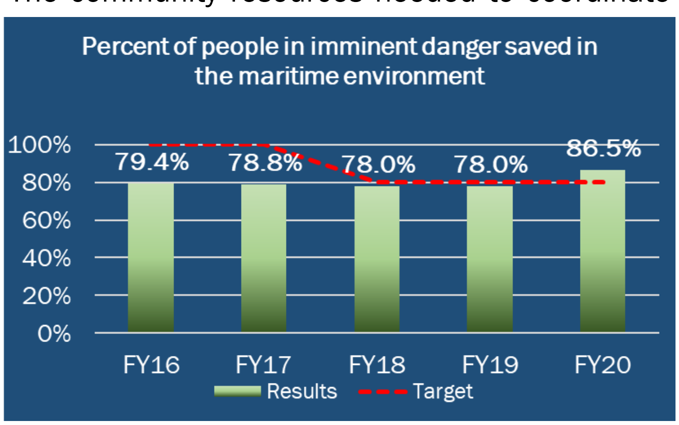
Percent of adults that took multiple preparedness actions at their workplace, school, home, or other community location in the past year (FEMA): This is the second year for this measure reporting results. This measure indicates how many Americans have taken action to prepare for an emergency and provides feedback regarding the effectiveness of efforts to encourage this activity. This measure reports the share of all respondents to FEMA's annual National Household Survey who answered affirmatively to questions assessing whether they had taken more than one preparedness action in the past year, whether taking these actions at their workplace, school, home, or other community location. Many Americans will experience a disaster or emergency at some point and FEMA emphasizes the importance of a national approach to preparedness and will use results from this measure to assess the agency's effectiveness. In FY 2020, this measure achieved 68 percent which is above target. These efforts help motivate communities and individuals to act and to serve as a contributing factor to the increase in preparedness actions.



Percent of applicants satisfied with simplicity of the Individuals and Households Program (FEMA): This is the second year for this measure reporting results. This measure provides information on disaster survivors' impressions about the simplicity of the procedures required to receive disaster relief from the Individuals and Households Program (IHP). The program collects survivors' impressions of their interactions with IHP using standard surveys, administered by telephone, at three touchpoints of their experience with FEMA. Managers use insights derived from survey results to help identify procedural improvements. Feedback from disaster survivors will ensure that the program provides clear information and high-quality service in critical, public-facing agency activities. In FY 2020, this measure achieved 82 percent, narrowly missing the target. After a detailed analysis of the survey results, it was determined that the primary issue was the ease of use of disaster assistance information. FEMA's Individual Assistance (IA) program developed an internal Strategic Plan to improve survivor-centric operations. IA is also deploying a new survey in fiscal year 2021 which is intended to help identify specific causes of applicant dissatisfaction. This will help IA target specific areas for staff training to improve the customer experience.



Percent of U.S. population (excluding territories) covered by planned mitigation strategies (FEMA): This measure reports the percent of U.S. population (excluding territories) covered by approved or approvable local Hazard Mitigation Plans. The population of each community with approved or approvable local Hazard Mitigation Plans is used to calculate the percent of the national population. In FY 2020, this measure achieved 84.4 percent which is below target. The COVID-19 pandemic has hindered the plan development and approval process. Regional planners are encountering delays in plan submission as the staff of states and local communities have reallocated their time and resources to provide an adequate response to manage the emergency. The community resources needed to coordinate and execute plan development activities will continue to be diverted in support of the COVID-19 response, causing plan coverage to lapse for some jurisdictions.



Percent of people in imminent danger saved in the maritime environment (USCG): This is a measure of the percent of people who were in imminent danger on the oceans and other waterways and whose lives were saved by the USCG. The number of lives lost before and after the USCG is notified and the number of persons missing at the end of search operations are factored into this result. In FY 2020, the USCG achieved 86.5 percent which is above target and is the highest result in the last five years. In FY 2020, the measure was adjusted to only include cases with lives at risk after the USCG was notified. In addition, COVID-19 may have contributed to the increase as some Districts reported case increases due to a drop in aid from other government agencies, commercial providers, and good Samaritans requiring the USCG to prioritize their own response efforts.

Looking Forward

A few near-term efforts to advance the Department's capability and capacity in these areas are provided below.

The Response and Recovery program published the COVID-19 Pandemic Operational Guidance (CPOG) to help emergency managers and public health officials best prepare for response and recovery operations. The program hosted seven webinars on CPOG, reaching 2,500 participants. About 85% of participants considered adjusting existing plans to account for the COVID-19 constraints in preparation for the upcoming hurricane season. Several regions mentioned that the CPOG prepared them to meet survivor needs by reinventing their processes.

- *COVID-19 Implications*: FEMA has provided front-line support for the U.S. response to the pandemic. FEMA released the COVID-19 Pandemic Operational Guidance for the 2020 Hurricane Season, which outlines how FEMA plans to adapt to response and recovery operations in a COVID-19 environment. At the same time, FEMA guidance also has implications moving forward, such as the mix of personnel required for COVID-19 response beyond the current hurricane season. This guidance also helps to shape a shared understanding with regard to roles and expectations among local and regional emergency managers and FEMA. The pandemic also impacts current and future requirements for response and recovery logistics and products, such as determining eligible work and costs for non-congregate sheltering in response to a Presidentially declared emergency or major disaster, processing a Fire Management Assistance Grant, how to manage communications, training, and the use of virtual tools to assess damage. COVID-19 response will continue for some time, and will have to become increasingly integrated with current operational concepts such as the Community Lifelines program and developments in the future structure of the Incident Management Workforce.
- *USCG Search and Rescue*: Search and Rescue (SAR) is one of the USCG's oldest missions. Minimizing the loss of life, injury, or property damage or loss by rendering aid in the maritime environment to persons in distress and property has always been a USCG priority. USCG SAR response involves multi-mission stations, cutters, aircraft, and boats linked by communications networks. Managing the SAR program has become increasingly challenging due to a decreasing number of designated SAR professionals at key billets throughout the USCG. As such, the USCG continues to direct time and energy to advocate for improvements in the National SAR System, Marine Environmental Response, and Emergency Management programs, to strengthen the USCG's ability to lead in crisis. The SAR mission maintains a high degree of focus on the progression of search and rescue tools for locating people in distress, and the potential SAR response challenges in the polar regions as maritime and aeronautical traffic increases.

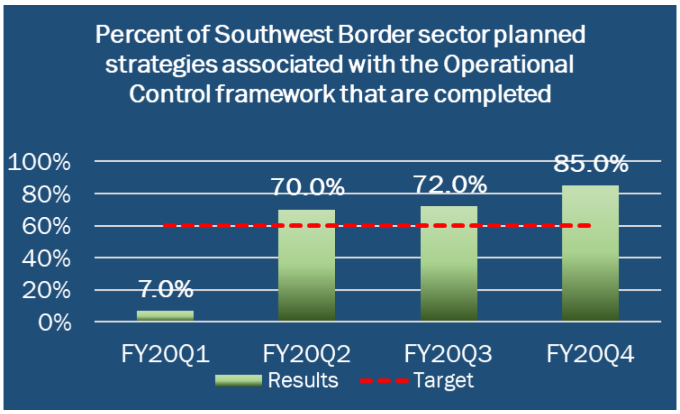
Agency Priority Goals

APGs are one of the tenets of GPRAMA and provide a tool for senior leadership to drive the delivery of results on key initiatives over a two-year period. Quarterly reports of progress are provided to interested parties through the OMB website, performance.gov.

APG: Enhance Southern Border Security

Goal Statement: Improve security along the U.S. borders between ports of entry with emphasis on the Southwest Border. By September 30, 2021, 90% of Southwest Border sector strategies associated with the Operational Control framework will have been completed.

DHS's FY 2020-2021 APG, *Enhance Southern Border Security*, is a follow-on APG to continue to improve security along the Southwest Border between ports of entry. The goal is focused on improving on previous work to enhance the OPCON framework between ports of entry in Border Patrol Sectors along the Southwest Border. This framework relies on the interconnectedness of the three pillars of OPCON: Situational Awareness; Impedance and Denial; and Law Enforcement Resolution. Implementation of the OPCON framework aligns strategies, tools, and tactics across the Southern Border to enhance border security.

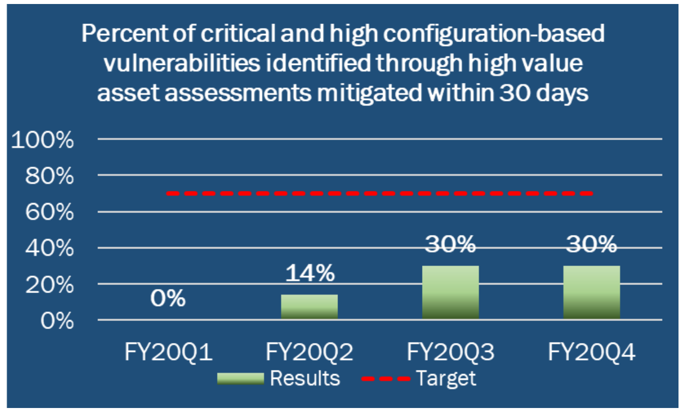


Key Measure: Percent of Southwest Border sector planned strategies associated with the Operational Control framework that are completed: This measure gauges the percent of planned strategies that were executed by the nine Southwest Border sectors of the Border Patrol, as part of the sector Concept of Operations (CONOPs) Plans associated with the Operational Control (OPCON) framework. A planned strategy is defined in the OPCON Planning Guidance as the ways and means by which each sector plans to mitigate or address their highest priority capability gaps using operations, technology deployments, and partnerships. Sectors submit their CONOPs at the start of the fiscal year to describe how each will work to improve elements of operational control through specific strategies. Quarterly reports provide progress updates regarding execution of sector strategies, along with initial sector data on measures associated with the OPCON framework. This measure is valuable in demonstrating sectors' early efforts to operationally use the OPCON framework to improve security along the Southwest Border. The results for this measure exceeded the annual target with the bulk of the implementation in the 2nd quarter.

APG: Strengthen Federal Cybersecurity

Goal Statement: Protect federal networks by defending against threats and assisting agencies in managing risk. By September 30, 2021, 75% of critical and high configuration-based vulnerabilities identified through high value asset assessments will be mitigated within 30 days.

DHS's Cybersecurity FY 2020-2021 APG focuses on strengthening the defense of the federal civilian network. Cybersecurity threats to federal networks continue to grow and evolve. Continuous scanning, intrusion prevention, and vulnerability assessments have allowed DHS to augment existing agencies' capabilities with additional tools and information to assist them in taking timely and appropriate risk-based actions to defend their networks. Through the increased dissemination of cyber threat and vulnerability information in near real time to federal agencies, the goal is to mitigate 70% of significant (critical and high) vulnerabilities identified through DHS scanning.



Key Measure: Percent of critical and high configuration-based vulnerabilities identified through high value asset assessments mitigated within 30 days: This measure reports the percent of critical and high configuration-based vulnerabilities identified in High Value Assets (HVA) assessments that have been mitigated within 30 days. HVA assessments are performed across the Federal Government to identify vulnerabilities associated with the most sensitive Information Technology (IT) systems and data. Configuration-based vulnerabilities are those that can be more quickly mitigated by agencies and departments through such actions as changing security settings, software or configuration changes, patching software vulnerabilities, and adjusting user account privileges. Agencies and departments report monthly to the program on the status of mitigating these configuration-based vulnerabilities. DHS will also continue to engage with senior agency leadership and appropriate information technology and security experts to apply cybersecurity programs and agency cybersecurity practices to ensure the successful implementation of activities to enhance the security of the federal network.

Financial Overview

The Department's principal financial statements—Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources, Statements of Custodial Activity, and notes to the principal financial statements —report the financial position and results of operations of the Department, including long-term commitments and obligations. The statements have been prepared pursuant to the requirements of Title 31, United States Code, Section 3515(b), in accordance with U.S. generally accepted accounting principles and the formats prescribed by OMB. These statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the Federal Government, a sovereign entity.

This section is presented as an analysis of the principal financial statements. Included in this analysis is a year-over-year summary of key financial balances, nature of significant changes, and highlights of key financial events to assist readers in establishing the relevance of the financial statements to the operations of DHS. The majority of noteworthy changes in financial balances are primarily due to COVID-19 related program activity described below.

COVID-19 Activity

In response to the national public health and economic threats, serious and widespread health issues and economic disruptions caused by COVID-19, DHS's efforts in preparedness and readiness have facilitated a rapid, whole-of-government response in confronting COVID-19, keeping Americans safe, and helping detect and slow the spread of the virus. Functioning critical infrastructure is particularly important during the COVID-19 response for both public health and safety as well as community well-being. Certain critical infrastructure industries have a special responsibility to continue operations during these unprecedented times. To confront these challenges, DHS received and executed significant funding from the CARES Act to support our essential missions and to respond to our nations' needs, including personal protective equipment, temporary medical facilities, and lost wages assistance. FEMA continues to work with the state and territorial governments (including the District of Columbia) that have chosen to participate in the Lost Wages Assistance Program to provide up to six weeks of assistance to eligible individual claimants that were unemployed or partially underemployed due to COVID-19 disruptions.

FEMA activated the National Response Coordination Center (NRCC) in the wake of the Coronavirus outbreak in the United States. The NRCC is a multi-agency center that coordinates the overall federal support for major incidents and emergencies. NRCC also provides a clearinghouse of resources and policies for local and state governments in impacted regions. CISA has been monitoring the evolving virus closely, taking part in interagency and industry coordination calls, and working with critical infrastructure partners to prepare for possible disruptions to critical infrastructure. The Department also took action in furtherance of the public health interests advanced by enforcing the presidential proclamations at and between air, land, and seaports of entry, alerting the Centers for Disease Control and Prevention (CDC) partners to any individuals who require enhanced health screening. DHS CWMD's early involvement in the COVID-19 screening process helped ease the burden on CDC medical professionals who would be tasked with medical screening. Working within CWMD, the Department's Chief Medical Officer has deployed public health and medical experts to the Nation's hot spots and is coordinating DHS vaccine planning.

Additionally, the DHS workforce protection command center works to ensure that protective procedures are in place for the front-line workforce, who may regularly encounter potential disease carriers, and is in close coordination with federal health partners and component health and safety officials.

Financial Position

The Department prepares its Balance Sheets, Statements of Net Cost, and Statements of Changes in Net Position on an accrual basis, in accordance with U.S. generally accepted accounting principles; meaning that economic events are recorded as they occur, regardless of when cash is received or disbursed.

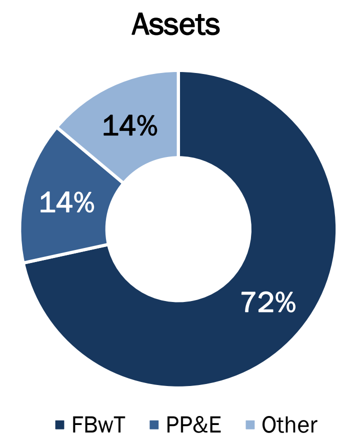
The Balance Sheet presents the resources owned or managed by the Department that have future economic benefits (assets) and the amounts owed by DHS that will require future payments (liabilities). The difference between the Department's assets and liabilities is the residual amount retained by DHS (net position) that is available for future programs and capital investments.

Financial Position ($ in millions)	FY 2020	FY 2019	$ Change	% Change
Fund Balance with Treasury	$ 131,013	$ 108,971	$ 22,042	20%
Property, Plant, and Equipment	26,561	24,673	1,888	8%
Other Assets	25,435	24,455	980	4%
Total Assets	**183,009**	**158,099**	**24,910**	16%
Federal Employee and Veterans' Benefits	69,814	65,107	4,707	7%
Debt	20,596	20,596	-	0%
Accounts Payable	5,274	4,464	810	18%
Deferred Revenue and Advances	3,163	3,001	162	5%
Insurance Liabilities	2,830	3,389	(559)	-16%
Accrued Payroll	3,404	2,889	515	18%
Other Liabilities	28,350	13,463	14,887	>100%
Total Liabilities	**133,431**	**112,909**	**20,522**	18%
Total Net Position	49,578	45,190	4,388	10%
Total Liabilities and Net Position	**$ 183,009**	**$ 158,099**	**$ 24,910**	16%

Results of Operations ($ in millions)	FY 2020	FY 2019	$ Change	% Change
Gross Cost	$ 127,215	$ 80,818	$ 46,397	57%
Less: Revenue Earned	(14,874)	(15,655)	781	-5%
Net Cost Before Gains and Losses on Assumption Changes	**112,341**	**65,163**	**47,151**	72%
(Gains) and Losses on Assumption Changes	3,061	924	2,137	>100%
Total Net Cost	**$ 115,402**	**$ 66,087**	**$ 49,315**	75%

Assets – What We Own and Manage

Assets represent amounts owned or managed by the Department that can be used to accomplish its mission.



The Department's largest asset is *Fund Balance with Treasury (FBwT),* which consists primarily of appropriated, revolving, trust, deposit, receipt, and special funds remaining at the end of the fiscal year.

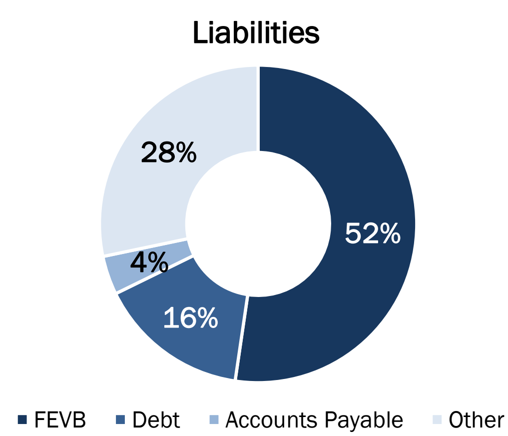
Property, Plant, and Equipment (PP&E) is the second largest asset, and include buildings and facilities, vessels, aircraft, construction in progress, and other equipment. In acquiring these assets, the Department either spent resources or incurred a liability to make payment at a future date; however, because these assets should provide future benefits to help accomplish the DHS mission, the Department reports these items as assets rather than expenses.

Other Assets includes items such as investments, accounts receivable, cash and other monetary assets, taxes, duties and trade receivables, direct loans, and inventory and related property.

As of September 30, 2020, the Department had $183 billion in assets, representing a $24.9 billion increase from FY 2019. The majority of this change is due to an increase in Fund Balance with Treasury resulting from additional supplemental appropriations received under the CARES Act (see Note 31 in the Financial Information section).

Liabilities – What We Owe

Liabilities are the amounts owed to the public or other federal agencies for goods and services provided but not yet paid for; to DHS employees for wages and future benefits; and for other liabilities.



The Department's largest liability is for *Federal Employee and Veterans' Benefits (FEVB).* The Department owes these amounts to current and past civilian and military personnel for pension and other post-employment benefits. The liability also includes medical costs for approved workers' compensation cases. For more information, see Note 16 in the Financial Information section. This liability is not covered by current budgetary resources, and the Department will use future appropriations to cover these liabilities (see Note 14 in the Financial Information section).

Debt is the second largest liability, and results from Treasury loans to fund FEMA's National Flood Insurance Program (NFIP) and Disaster Assistance Direct Loan Program. Given the current premium rate structure, FEMA will not be able to generate sufficient resources from premiums to fully pay its debt. This is discussed further in Note 15 in the Financial Information section.

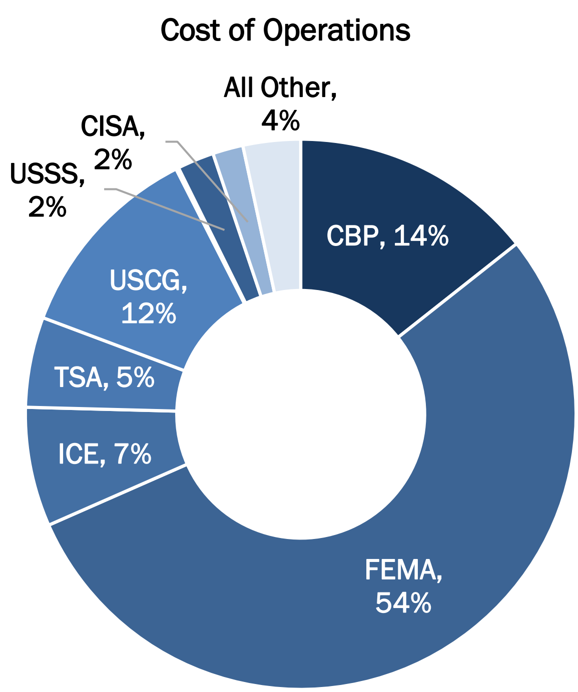
Accounts Payable consists primarily of amounts owed for goods, services, or capitalized assets received, progress on contract performance by others, and other expenses due to other entities.

Other Liabilities include amounts owed to other federal agencies and the public for goods and services received by the Department, amounts received by the Department for goods or services that have not been fully rendered, unpaid wages and benefits for current DHS employees, and amounts due to the Treasury's general fund, environmental liabilities, refunds and drawbacks, and other. This includes grants provided by FEMA to participating states, territories, and the District of Columbia for lost wage assistance.

As of September 30, 2020, the Department reported approximately $133.4 billion in total liabilities. Total liabilities increased by $20.5 billion in FY 2020 mostly due to FEMA's Lost Wages Assistance Program in addition to FEMA's grants payable activity related to disasters including fires, hurricanes and COVID 19 (see Note 18 in the Financial Information section).

Net Position

Net position represents the accumulation of revenue, expenses, budgetary, and other financing sources since inception, as represented by an agency's balances in unexpended appropriations and cumulative results of operations on the Statement of Changes in Net Position. Financing sources increase net position and include, but are not limited to, appropriations, user fees, and excise taxes. The net costs discussed in the section below as well as transfers to other agencies decrease net position. The Department's total net position is $49.6 billion. Total net position increased $4,.4 billion from FY 2019, in large part because of the additional supplemental appropriation received by FEMA for COVID-19.



Results of Operations

The Department presents net costs by operational Components which carry out DHS's major mission activities, with the remaining support Components representing "All Other."

Net cost of operations, before gains and losses, represents the difference between the costs incurred and revenue earned by DHS programs. The Department's net cost of operations, before gains and losses, was $112.3 billion in FY 2020. DHS recognized increased costs of $47.1 billion in FY 2020 due to costs associated with disaster responses to COVID-19, hurricanes, and wildfires.

During FY 2020, the Department earned approximately $14.9 billion in exchange revenue. Exchange revenue arises from transactions in which the Department and the other party receive value and that are directly related to departmental operations. The Department also collects non-exchange duties, taxes, and fee revenue on behalf of the Federal Government. This non-exchange revenue is presented in the Statements of Custodial Activity or Statements of Changes in Net Position, rather than the Statements of Net Cost.

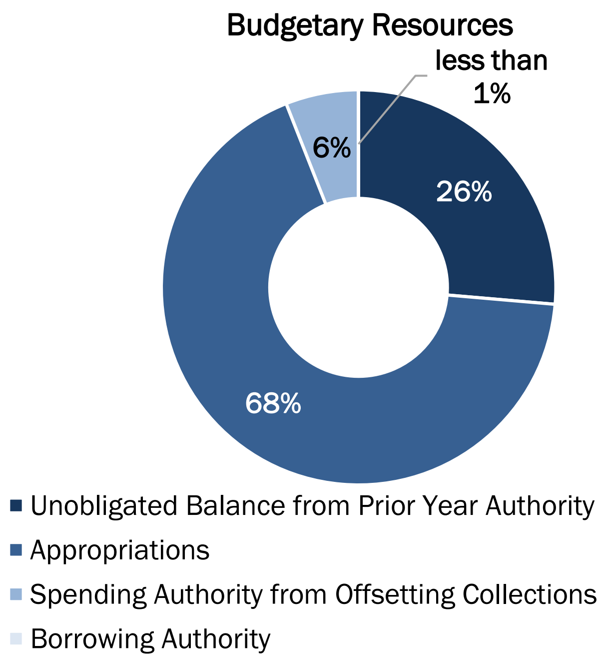
Budgetary Resources

Budgetary accounting principles require recognition of the obligation of funds according to legal requirements, which in many cases happens prior to the transaction under accrual basis. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds. The budget represents our plan for efficiently and effectively achieving the strategic objectives to carry out our mission and to ensure that the Department manages its operations within the appropriated amounts using budgetary controls.

Sources of Funds ($ in millions)	FY 2020	FY 2019	$ Change	% Change
Unobligated Balance from Prior Year Authority	$ 51,848	$ 50,768	$ 1,080	2%
Appropriations	133,025	76,512	56,513	74%
Spending Authority from Offsetting Collections	11,732	12,738	(1,006)	-8%
Borrowing Authority	33	67	(34)	-51%
Total Budgetary Authority	**$ 196,638**	**$ 140,085**	**$ 56,553**	40%

The Department's budgetary resources were $196.6 billion for FY 2020. The authority was derived from $51.8 billion in authority carried forward from FY 2019, appropriations of $133 billion, approximately $11.7 billion in collections, and $33 million in borrowing authority. Budgetary resources increased approximately $56.6 billion from FY 2019. This is mainly due to additional supplemental appropriation for COVID-19.

Of the total budget authority available, the Department incurred a total of $160.5 billion in obligations from salaries and benefits, purchase orders placed, contracts awarded, or similar transactions.



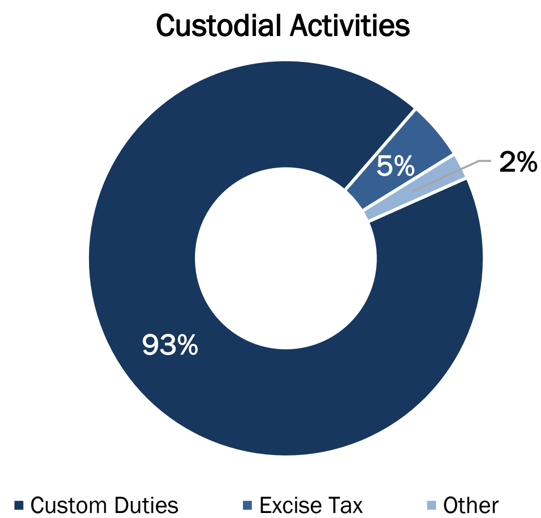
Custodial Activities

The Statement of Custodial Activity is prepared using the modified cash basis. With this method, revenue from cash collections is reported separately from receivable accruals, and cash disbursements are reported separately from payable accruals.

Cash Collections ($ in millions)	FY 2020	FY 2019	$ Change	% Change
Cash Collections from Duties	$ 74,401	$ 71,902	$ 2,499	3%
Excise Tax	3,967	3,889	78	2%
Other	1,706	2,058	(352)	-17%
Total Cash Collections	**$ 80,074**	**$ 77,849**	**$ 2,225**	3%

Custodial activity includes the revenue collected by the Department on behalf of others, and the disposition of that revenue to the recipient entities. Non-exchange revenue is either retained by the Department to further its mission or transferred to Treasury's general fund and other federal agencies. The Department's total cash collections is $80 billion. Total cash collections increased $2.2 billion from FY 2019. This increase is mainly due to tariffs placed on products from certain countries.

Custom duties collected by CBP account for 93% of total cash collections. The remaining 7% is comprised of excise taxes, user fees, and various other fees.



Supplementary Stewardship Information

Stewardship investments are substantial investments made by the Federal Government for the benefit of the Nation. When incurred, stewardship investments are treated as expenses in calculating net cost, but due to materiality, they are separately reported to highlight the extent of investments that are made for long-term benefit. The Department's expenditures (including carryover funds expended in FY 2020) in human capital, research and development, and non-federal physical property are shown below.

Investments in Research and Development

Investments in research and development represent expenses incurred to support the search for new or refined knowledge and ideas. The intent of the investment is to apply or use such knowledge to improve and develop new products and processes with the expectation of maintaining or increasing national productive capacity or yielding other future benefits. S&T, CWMD, and USCG have made significant investments in research and development this fiscal year (in millions):

Components	FY 2020
S&T	$ 827
CWMD	51
USCG	7
Total Research & Development	$ 885

Investments in Human Capital

Investments in human capital include expenses incurred for programs to educate and train first responders. These programs are intended to increase or maintain national productive capacity as evidenced by the number of responders trained over the course of the programs. FEMA and S&T have made significant investments in human capital (in millions):

Components	FY 2020
FEMA	$ 86
S&T	3
Total Human Capital	$ 89

Investments in Non-Federal Physical Property

Investments in non-federal physical property are expenses included in the calculation of net cost incurred by the reporting entity for the purchase, construction, or major renovation of physical property owned by state and local governments. TSA has made significant investments in non-federal physical property (in millions):

Components	FY 2020
TSA	$ 191
Total Non-Federal Physical Property	$ 191

Other Key Regulatory Requirements

For a discussion on DHS's compliance with the Prompt Payment Act and Debt Collection Improvement Act of 1996, see the Other Information section.

Secretary's Assurance Statement

November 13, 2020

The Department of Homeland Security management team is responsible for meeting the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) to establish and maintain effective internal control inclusive of financial management systems that protect the integrity of federal programs. These objectives are satisfied by managing risks and maintaining effective internal control over three internal control objectives: effectiveness and efficiency of operations; reliability of reporting; and compliance with applicable laws and regulations. The Department conducted its assessment of risk and internal control in accordance with the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Department can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2020, except for the disclosures noted in the subsequent sections.

Pursuant to the *DHS Financial Accountability Act* (FAA), the Department is required to obtain an opinion on its internal control over financial reporting. The Department conducted its assessment of the effectiveness of internal control over financial reporting in accordance with OMB Circular A-123 and Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*. Based on the results of this assessment, the Department can provide reasonable assurance that its internal control over financial reporting was designed and operating effectively, except for Financial Reporting and Information Technology Controls and Information Systems, where areas of material weaknesses have been identified and remediation is in process.

Due to financial management system limitations at select Components, the Department does not fully comply with government-wide requirements, including federal accounting standards and application of the United States Standard General Ledger at the transaction level. In addition, the area of material weakness related to Information Technology Controls and Information Systems stated above affects the Department's ability to substantially comply with the *federal Financial Management Improvement Act of 1996* (FFMIA) financial management system requirements. Therefore, the Department is reporting a noncompliance with FFMIA and Section 4 of FMFIA.

As a result of the assessments conducted, the Department continues to enhance its internal controls and financial management program. For noted areas of weakness, the Department is planning for remediation and additional improvements going forward, as highlighted in the *Management Assurances* section of the Agency Financial Report.

Sincerely,

Acting Secretary of Homeland Security

Management's Report on Internal Controls Over Financial Reporting

November 13, 2020

Mr. Joseph V. Cuffari
Inspector General
Department of Homeland Security
Washington, DC

Dear Inspector General Cuffari:

The United States Department of Homeland Security (DHS) internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Management of DHS is responsible for designing, implementing, and maintaining effective internal control over financial reporting. Management assessed the effectiveness of the DHS's internal control over financial reporting as of September 30, 2020, based on criteria established in the *Standards for Internal Control in the Federal Government* (GAO-14-704G) issued by the Comptroller General of the United States. Based on that assessment, management concluded that, as of September 30, 2020, the DHS's internal control over financial reporting is effective except for areas of material weaknesses in Financial Reporting and Information Technology Controls and Information Systems. Specifically:

1. *Financial Reporting:* Ineffective controls over the journal entry process, ineffective service provider monitoring, and other conditions.
2. *Information Technology Controls and Information Systems:* Ineffective controls in financial management systems, including those performed by service organizations, and insufficient design of controls over information derived from systems.

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

DHS has made progress in improving its internal controls and financial management program. Management commits to implementing corrective actions to resolve the remaining areas of material weakness.

Best Regards,

Chad F. Wolf
Acting Secretary

Troy D. Edgar
Chief Financial Officer

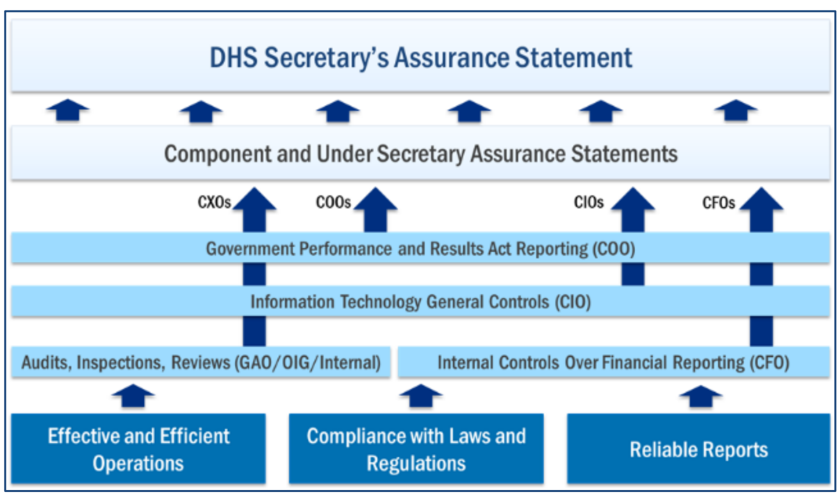
Management Assurances

DHS management is responsible for establishing, maintaining, and assessing internal controls to provide reasonable assurance that the objectives of the *Federal Managers' Financial Integrity Act of 1982* (31 United States Code 3512, Sections 2 and 4) and the *Federal Financial Management Improvement Act of 1996* (P.L. 104-208) were achieved. In addition, the DHS Financial Accountability Act (P.L. 108-330) requires a separate management assertion and an audit opinion on the Department's internal control over financial reporting.

The FMFIA requires the GAO to prescribe standards for internal control in the Federal Government, more commonly known as the Green Book. These standards provide the internal control framework and criteria federal managers must use in designing, implementing, and operating an effective system of internal control. The Green Book defines internal control as a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity are achieved. These objectives and related risks can be broadly classified into one or more of the following categories:

- Effectiveness and efficiency of operations,
- Compliance with applicable laws and regulations, and
- Reliability of reporting for internal and external use.

FMFIA also requires OMB, in consultation with GAO, to establish guidelines for agencies to evaluate their systems of internal control to determine FMFIA compliance. OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, provides implementation guidance to federal managers on improving the accountability and effectiveness of federal programs and operations by identifying and managing risks and establishing requirements to assess, correct, and report on the effectiveness of internal controls. FMFIA also requires the Statement of Assurance to include assurance on whether the agency's financial management systems substantially comply with government-wide requirements. The financial management systems requirements are directed by Section 803(a) of the FFMIA and Appendix D to OMB Circular A-123, *Compliance with the Federal Financial Management Improvement Act of 1996*.



In accordance with OMB Circular A-123, the Department performs assessments over the effectiveness of its internal controls. The results of these assessments provide management with an understanding of the effectiveness and efficiency of programmatic operations, reliability of reporting, and compliance with laws and regulations. Per OMB Circular A-123, management gathered information from various sources including management-initiated internal control assessments, program reviews, and evaluations. Management also considered results of reviews, audits, inspections, and investigations performed by the Department's Office of Inspector General (OIG) and GAO. Using available information, each Component performs an analysis on the pervasiveness and materiality over any identified deficiencies to determine their impact and uses the result as the basis for the respective Component assurance statement signed by the Component Head. The Secretary provides assurances over the Department's internal controls in the annual assurance statement considering the state of internal controls at each Component.

DHS is building on the enterprise risk management framework per OMB Circular A-123 and has established a Department-wide Enterprise Risk Management (ERM) working group to facilitate and promote Component development and maturation of ERM capability. DHS Components are at different stages of ERM maturity and some Components have begun embedding the ERM framework into their statement of assurance process. The Department will continue to mature in ERM capability and integrate its internal controls, as appropriate, and will update the Department's risk profile annually beginning in FY 2021.

Department of Homeland Security Financial Accountability Act (DHS FAA)

Pursuant to the DHS FAA, the Department must obtain an opinion over internal control over financial reporting. Annually, the Deputy Secretary issues a memorandum to Component Heads on audit results and approach, asking senior leaders across the organization to fix long-standing issues and properly resource both remediation and testing efforts. Senior leaders across the organization emulate this top-down approach by committing to annual remediation goals and improving the internal control environment, validated through testing, and finally ensuring that proper resources are available to realize these plans. Senior leaders also track, monitor, and discuss progress against commitments throughout the year to ensure accomplishment of the overall objectives.

Using the GAO Green Book and OMB Circular A-123 as criteria, the Department's internal control over financial reporting methodology is a risk-based, continuous feedback approach centered around four phases: find, fix, test, and assert. Effectiveness of controls and status of each Component's implementation of the internal control strategy are communicated and reported to senior leaders using the Internal Control Maturity Model (ICMM). The ICMM is a five-tiered model that uses test of design and effectiveness, quality of assessments, and timeliness and efficacy of remediation as primary drivers in demonstrating maturation of the control environment. The goal is to have most Components placed on the Standardized (third) tier, which informs leaders that quality internal control assessments are performed to validate that neither material weakness conditions exist, nor will there be audit surprises. This assessment and reporting strategy support sustainment of the financial statement opinion and eventual achievement of an opinion over internal control over financial reporting.

Areas of Material Weaknesses Resolution Status

In FY 2019, management reported two areas of material weaknesses: 1) financial reporting and 2) IT controls and system functionality. In FY 2020, DHS made significant improvements in remediating areas of material weaknesses and worked to resolve financial reporting deficiencies through targeted remediation. Refer to the tables below for areas contributing to the financial reporting and IT controls and information systems areas of material weakness along with appropriate corrective actions planned in FY 2021.

Table 1: Internal Control over Financial Reporting Deficiency Details and Corrective Actions – Financial Reporting

<table>
<tr><th rowspan="2">Area of Material Weakness</th><th>DHS Component(s)</th><th>Year Identified</th><th>Target Correction Date</th></tr>
<tr><td>All</td><td>FY 2003</td><td>FY 2021</td></tr>
<tr><td>Financial Reporting</td><td colspan="3">
Multiple deficiency areas exist that are attributed to the financial reporting area of material weakness, which include the following:

Journal Entry / On-Top Adjustments and Beginning Balances (Contributing Component(s): CBP, FEMA, MGMT, & USCG)
<u>Deficiency Details</u>

USCG determined that controls over the journal entry / on-top adjustment process and beginning balances were not operating effectively in FY 2020 and could not provide reasonable assurance that risks had been sufficiently mitigated. In addition, ineffective IT system controls have contributed to this area, due to system risk around the integrity of data and automated controls. Refer to the IT Controls and Information Systems area of material weakness and corrective actions for more detail.
Process deficiencies related to reviews, validations, and USSGL accounts used regarding manual journal entries were noted at CBP, FEMA, and MGMT.

<u>Planned Corrective Actions</u>

USCG will test the journal entry / on-top adjustment process as part of its annual assessment. In addition, USCG will continue to improve its procedures and supporting documentation to better explain and support the respective entries.
Process improvements for manual journal entries will be developed, implemented, and assessed in accordance with Component remediation plans.

Other (Contributing Component(s): All)
<u>Deficiency Details</u>
Several deficiencies aggregated to substantiate inclusion into this area of material weakness. These include 1) lack of monitoring of service providers, 2) ineffective controls over system generated data and reports, commonly referred to as information produced by the entity (IPE), and 3) inability to record trading partner activity at the initiation of the transaction event due to system limitations.
<u>Planned Corrective Actions</u>
For service provider monitoring controls, DHS continues to build improvements utilizing a risk-based management program to provide monitoring and oversight of service providers.
DHS will utilize a similar risk-based strategy for identifying and assessing IPE going forward with anticipation that this will be a multi-phased effort.
DHS is in the process of implementing G-Invoicing which will help reduce the risk of system limitations.

</td></tr>
</table>

Table 2: Internal Control over Financial Reporting Deficiency Details and Corrective Actions – IT Controls and Information Systems

<table>
<tr><th rowspan="2">Area of Material Weakness</th><th>DHS Component(s)</th><th>Year Identified</th><th>Target Correction Date</th></tr>
<tr><td>All</td><td>FY 2003</td><td>FY 2023</td></tr>
<tr><td>IT Controls and Information Systems</td><td colspan="3">Multiple deficiency areas exist that are attributed to the IT controls and system functionality area of material weakness, which include the following:
• Financial System Requirements (Contributing Component(s): All)
<u>Deficiency Details</u>
o The Federal Information Security Management Act (FISMA) mandates that federal agencies maintain IT security programs in accordance with OMB and National Institute of Standards and Technology guidance. The Department internal control assessment identified IT controls as a material weakness due to deficiencies surrounding general security and application controls. As a result of the noted deficiencies, the Department's financial systems are unable to fully comply with the FFMIA.
<u>Planned Corrective Actions</u>
o Components will continue to implement the find, fix, test strategy in FY 2021. The IT Commitment Letters, signed by both the respective CFO and the Chief Information Officer (CIO) leadership, require each Component to commit to testing as well as provide commitment to passing results for each system and control in scope.
o The DHS CFO, CIO, and Component leadership will support the Components in the design and implementation of internal controls in accordance with DHS policy requirements defined for CFO Designated Financial Systems.
• System Functionality / Information Derived from Systems (Contributing Component(s): All)
<u>Deficiency Details</u>
o Ineffective IT security control and inadequate application / functionality controls impact the ability for management to fully rely on system generated data and reports without putting the processes utilizing this information at risk. Currently, these deficiencies are directly associated with financial system requirement deficiencies.
<u>Planned Corrective Actions</u>
o Components will continue to improve and enhance IT security, as noted above for Financial System Requirements. As IT security enhances reliability, DHS will also work to incorporate the find, fix, test strategy to gain coverage over application / functionality controls.
o In FY 2021, in addition to fixing long-standing IT control weaknesses, DHS will implement a risk-based strategy for identifying and testing IPE and/or information derived from systems. DHS will also establish an approach to assess the key functionality of systems that have sufficient IT security controls established.
• Service Provider Monitoring (Contributing Component(s): All)
<u>Deficiency Details</u>
o The Department did not maintain effective internal control related to service organizations, including evaluating and documenting roles of service organizations, performing effective reviews of service organization control (SOC) reports, and addressing service provider risk in absence of SOC reports.
<u>Planned Corrective Actions</u>
o For service provider monitoring controls, DHS continues to build improvements utilizing a risk-based management program to provide monitoring and oversight of service providers.</td></tr>
</table>

Federal Financial Management Improvement Act (FFMIA)

FFMIA requires federal agencies to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger at the transaction level. A financial management system includes an agency's overall financial operation, reflecting the people, processes, and technology to capture, classify, summarize, and report data in a meaningful manner to support business decisions.

DHS assesses financial management systems annually for compliance with the requirements of Appendix D to OMB Circular A-123 and other federal financial system requirements. In addition, available information from audit reports and other relevant and appropriate sources, such as FISMA compliance activities, is reviewed to determine whether DHS financial management systems substantially comply with FFMIA. Improvements and ongoing efforts to strengthen financial management systems are considered as well as the impact of instances of non-compliance on overall financial management system performance.

Based on the results of the overall assessment, the IT Controls and Information Systems area of material weaknesses continues to affect the Department's ability to fully comply with financial management system requirements. Therefore, the Department is also reporting a non-compliance with FFMIA. The Department is actively engaged to correct the area of material weakness through significant compensating controls while undergoing system improvement and modernization efforts. The outcome of these efforts will efficiently enable the Department to comply with government-wide requirements and thus reduce the need for manual compensating controls.

Table 3: FFMIA Non-compliance Details and Corrective Actions

<table>
<tr><th rowspan="2">Area of Non-compliance</th><th>DHS Component(s)</th><th>Year Identified</th><th>Target Correction Date</th></tr>
<tr><td>All</td><td>FY 2003</td><td>FY 2023</td></tr>
<tr><td>FFMIA</td><td colspan="3">Multiple deficiency areas exist that are attributed to the FFMIA area of non-compliance, which include the following:
• Financial System Requirements (Contributing Component(s): All)
<u>Non-compliance Details</u>
○ DHS does not substantially comply with FFMIA primarily due to lack of compliance with financial system requirements as disclosed in the IT Controls and System Functionality area of material weakness.
<u>Planned Corrective Actions</u>
○ Refer to the corrective actions planned for the IT Controls and System Functionality area of material weakness.
• Federal Accounting and U.S. Standard General Ledger (USSGL) Requirements (Contributing Component(s): USCG, CBP, and ICE)
<u>Non-compliance Details</u>
○ USCG, CBP, and ICE noted that certain key systems are unable to produce transaction level activity that reconciles at the USSGL-level. USCG also reported a lack of compliance as its financial and mixed systems do not allow for financial statements and budgets to be prepared, executed, and reported fully in accordance with the requirements prescribed by the OMB, Treasury, and the Federal Accounting Standards Advisory Board.
<u>Planned Corrective Actions</u>
○ DHS CFO and Components will continue to design, document, and implement compensating controls to reduce the severity of legacy system application / functionality limitations.</td></tr>
</table>

Digital Accountability and Transparency Act of 2014

Pursuant to OMB Circular A-123, Appendix A, *Management of Reporting and Data Integrity Risk*, the Department issued its *Digital Accountability and Transparency Act of 2014* (DATA Act) Data Quality Plan on March 15, 2019. The plan describes the organizational structure, operating environment, internal controls processes, and systems used to generate and evaluate the data published to USAspending.gov. The plan includes DHS's processes for compiling, reviewing, and monitoring the quality of data provided to USAspending.gov. In addition, the plan describes the processes to assess the level of data quality, methods for increasing the data quality, and the data risk management strategy. The outcomes of this plan align with the Administration's goal for greater transparency, ultimately benefiting citizens and holding government accountable for its stewardship over its assets.

In prior years, Components assessed the design and operating effectiveness of their respective DATA Act reporting processes and controls over consolidation and variance resolution of data submitted to DHS Headquarters. In FY 2020, DHS utilized a risk assessment process to identify high risk data elements and tested the accuracy, completeness, and timeliness of the recorded transactions against source documents. Deficiencies were identified during testing and aggregated to a level of control deficiency, where management can provide reasonable assurance over the submitted data. This two-pronged approach ensures that the Department can provide reasonable assurance that reports over DATA Act are reliable both at reporting and transaction levels further supporting the fidelity of reported transactions to Treasury. In addition, to continue making improvements and enhancements to the Department's DATA Act reporting processes and controls, an enhanced Component corrective action plan process was implemented that: 1) addresses researching and correcting matching award identification numbers with non-matching obligation amounts; 2) identifies the root causes of timing issue misalignments; and 3) continuously tracks misalignments until corrective actions are completed.

Financial Management Systems

Pursuant to the Chief Financial Officers Act of 1990, the DHS CFO is responsible for developing and maintaining agency accounting and financial management systems to ensure systems comply with applicable accounting principles, standards, and requirements with internal control standards. As such, the DHS CFO oversees and coordinates all the Financial Systems Modernization (FSM) efforts for the Department's core accounting systems.

Foundational tenets for the FSM programs are:

- Increase business process standardization across Components through efforts to define a common set of financial management business processes and then ensure that the Component business process re-engineering and modernization efforts reflect the DHS process standard.
- Implement standard financial data element structures, such as the DHS Accounting Classification Structure and Common Appropriation Structure, across Components to standardize reporting and reduce manual reporting processes and inconsistent data.
- Continue to plan and execute financial system modernization projects by migrating components to modernized platforms with integrated asset and procurement management systems that meet Department and government-wide requirements, reduce the need for manual processes, and strengthen internal controls. FSM projects should leverage existing infrastructure, shared services, and technologies such as cloud-based solutions to the extent possible, following guidance and lessons learned from previous attempts to integrate DHS Components' financial management systems.

- Lastly, after standardization and modernization has occurred, work to consolidate financial operations and transaction processing service centers, where cost effective.

DHS has established the FSM Joint Program Management Office (JPMO) to lead and manage all aspects of the FSM programs, in partnership with DHS Components. In March 2017, it was determined that DHS would transition the CWMD, TSA, and USCG FSM initiatives (known as the Trio) out of their current shared service provider environment and into a DHS-managed solution. This solution, known as the Financial Management Systems Solution, delivers a standardized baseline for the Trio. In October of 2018, TSA and USCG resumed implementation efforts and the Department completed upgrading CWMD to the latest version of the solution in October 2019. In October of 2020, TSA went live on the FSMS platform and USCG remains on schedule to go-live in October of 2021.

DHS is leveraging lessons learned from the former shared services implementation, reducing risk in future migrations through deliberative approaches to program management, resource management, business process standardization, risk management, change management, schedule rigor, and oversight. Lessons learned from the Trio implementations will be further leveraged as the JPMO plans for Discovery efforts in FY 2021 for FEMA as well as ICE and its customer Components[2].

In addition to the DHS FSM efforts, the DHS CIO and Component CIOs met federal mandates to develop IT strategic plans, analyze legacy IT infrastructure requirements, and identify modernization needs. To ensure strategic planning activities are conducted across the Department, DHS issued a directive[3] in 2018 to require Component-level CIOs to develop, implement, and maintain IT strategic plans annually. The DHS CIO published the FYs 2019–2023 IT Strategic Plan in March 2019. The DHS IT Strategic Plan identifies an IT vision to "deliver world class IT to enhance and support the DHS mission." With a focus on rebuilding foundations and driving innovation, the DHS IT Strategic Plan outlines four goals aiming to advance the DHS organizational culture, improve network connectivity & resilience, mature the DHS cybersecurity posture, and transform technology to meet DHS customer needs.

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[2] ICE serviced Components include: S&T, Management Directorate, CISA, and USCIS

[3] DHS Directive 142-02 Rev. 01, Information Technology Integration and Management, April 12, 2018

Figure 5: DHS IT Strategic Plan – Goals

Specifically related to modernization, the 2019-2023 DHS IT Strategic Plan outlined initiatives to adopt cloud-based computing[4] and to consolidate and optimize data centers. To assist in these efforts, DHS established the Cloud Steering Group in May 2018 to oversee the implementation of a federated, enterprise-wide strategy for accelerating the modernization and migration of DHS IT applications and infrastructure to the cloud; and optimization of the remaining data centers by aligning their capabilities and economics, to the extent possible, with the cloud.

DHS is in the process of optimizing its data centers with the Data Center and Cloud Optimization Support Services initiative. This initiative includes a three-pronged strategy to improve service availability, reliability, and cost-effectiveness. To execute these strategies, DHS is implementing a plan to consolidate two enterprise data centers, migrate applications to the cloud, and purchase colocation services. As of May 2020, nearly 40% of DHS systems in an alternate data center had either been consolidated or migrated to the cloud. In addition, DHS achieved 68% overall data center closures, exceeding the original initiative closure requirements.

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[4] The OMB *Federal Cloud Computing Strategy* defines cloud computing as solutions exhibiting five essential characteristics: on-demand service, broad network access, resource pooling, rapid elasticity, and measured service.

Financial Information

The **Financial Information** section demonstrates our commitment to effective stewardship over the funds DHS receives to carry out its mission, including compliance with relevant financial management requirements.

The **Financial Statements** section includes the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources and Statements of Custodial Activity—as well as the **accompanying Notes to the Financial Statements**.

The **Required Supplementary Stewardship Information** section discusses stewardship investments which are substantial investments made by the Federal Government for the benefit of the Nation.

The **Required Supplementary Information** section provides sections to present information on Deferred Maintenance and Repairs, Statement of Budgetary Resources, and Statement of Custodial Activity.

The **Independent Auditors' Report** section is provided by KPMG LLP on the Department's Financial Statements and accompanying Notes.

Message from the Chief Financial Officer

November 13, 2020

On behalf of the men and women of the Department of Homeland Security (DHS) financial management community, I am proud to present the Department's Agency Financial Report (AFR) for Fiscal Year (FY) 2020.

The AFR provides the American people with a comprehensive view of the Department's financial activities supporting our mission of securing and protecting resources for Homeland Security. As Chief Financial Officer of the Department of Homeland Security, it is my responsibility to ensure we are accountable to Congress and the American people in how we expend taxpayer resources. In FY 2020, we encountered many challenges that make this year's AFR more important than ever.

This year, our Nation faced one of the biggest threats in recent history—the COVID-19 pandemic. In a swift response, Congress provided $2 trillion in supplemental funding through the CARES Act, an economic relief package. As the executer of a significant portion of this funding, DHS was at the epicenter in the Federal Government's response to the pandemic and worked closely with other federal agencies, state, local, tribal, and territorial governments to distribute the much-needed funding.

This year, DHS encountered challenges in balancing funding for several Components that rely heavily on fee collections from the public to fund their operations. Thousands of employees faced a potential furlough as a result of the COVID-19 pandemic ending in-person services for months and causing certain components' fees accounts to reduce to almost zero. Fortunately, with fee accounts moderately rebounding as in-person services resumed and extreme fiscal discipline, we were able to avoid such a situation.

To continue to achieve and exceed the expectations of our stakeholders with regards to accurate, transparent, and timely financial information, the Department continues to exert tremendous effort, cooperation and strong partnerships across the Department to modernize our financial systems. Modern systems translate into better management of the Department's resources, more efficient financial operations, and improvements in its ability to provide timely and accurate reporting. It also provides a standard of accountability across the Department to ensure proper stewardship of taxpayer dollars to our mission. Even with all the pandemic-related challenges this year, DHS was still able to transition the Transportation Security Administration to a modern financial system.

The Department's commitment to accountability remains absolute. DHS earning its 8th consecutive unmodified (clean) audit opinion on our financial statements for FY 2020 demonstrates this commitment is not only prioritized but also achieved every year.

Looking ahead in FY 2021, I am focused on providing even more accountability and better management of our resources. We will do so by strengthening the audit and internal controls, completing our financial systems modernization, integrating our legislative and budgeting offices to reinforce our relationship with Congress, and transforming the service delivery we provide to other Components and agencies.

Thank you for allowing us to serve the American people. As responsible stewards of taxpayer dollars, it is our honor and privilege to ensure financial excellence, always, in everything we do.

Sincerely,

Troy D. Edgar
Chief Financial Officer

Introduction

The principal financial statements included in this report are prepared pursuant to the requirements of the *Government Management Reform Act of 1994* (P.L. 103-356) and the *Chief Financial Officers Act of 1990* (P.L. 101-576), as amended by the *Reports Consolidation Act of 2000* (P.L. 106-531), and the *Department of Homeland Security Financial Accountability Act of 2004* (P.L. 108-330). Other requirements include the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, as amended. The responsibility for the integrity of the financial information included in these statements rests with the management of DHS. KPMG LLP performed the audit of the Department's principal financial statements. The Independent Auditors' Report accompanies the principal financial statements.

The Department's principal financial statements consist of the following:

- The Consolidated **Balance Sheets** present those resources owned or managed by the Department that represent future economic benefits (assets), amounts owed by DHS that will require payments from those resources or future resources (liabilities), and residual amounts retained by DHS comprising the difference (net position) as of September 30, 2020 and 2019.
- The Consolidated **Statements of Net Cost** present the net cost of DHS operations for the fiscal years that ended on September 30, 2020 and 2019. DHS net cost of operations is the gross cost incurred by DHS less any exchange revenue earned from DHS activities and any gains or losses from assumption changes on pensions, other retirement benefits (ORB), and other post-employment benefits (OPEB).
- The Consolidated **Statements of Changes in Net Position** present the change in the Department's net position resulting from the net cost of DHS operations, budgetary financing sources, and other financing sources for the fiscal years that ended on September 30, 2020 and 2019.
- The Combined **Statements of Budgetary Resources** present how and in what amounts budgetary resources were made available to the Department during fiscal years 2020 and 2019, the status of these resources at September 30, 2020 and 2019, the changes in the obligated balance, and outlays of budgetary resources for the fiscal years that ended on September 30, 2020 and 2019.
- The Consolidated **Statements of Custodial Activity** present the disposition of custodial revenue collected and disbursed by the Department on behalf of other recipient entities for the fiscal years that ended on September 30, 2020 and 2019.
- The **Notes to the Financial Statements** provide detail and clarification for amounts on the face of the financial statements as of September 30, 2020 and 2019.

Financial Statements

Department of Homeland Security
Consolidated Balance Sheets
As of September 30, 2020 and 2019
(In Millions)

	2020	2019
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$ 131,013	$ 108,971
Investments, Net (Note 5)	11,087	10,352
Accounts Receivable (Note 6)	1,467	342
Other (Note 13)	862	542
Total Intragovernmental	**$ 144,429**	**$ 120,207**
Cash and Other Monetary Assets (Note 4)	77	67
Accounts Receivable, Net (Note 6)	1,743	2,121
Taxes, Duties, and Trade Receivables, Net (Note 7)	6,783	7,732
Direct Loans, Net (Note 8)	66	73
Inventory and Related Property, Net (Note 9)	2,384	2,295
General Property, Plant, and Equipment, Net (Note 11)	26,561	24,673
Other (Note 13)	966	931
TOTAL ASSETS	**$ 183,009**	**$ 158,099**
Stewardship Property, Plant, and Equipment (Note 12)		
LIABILITIES (Note 14)		
Intragovernmental		
Accounts Payable	$ 2,143	$ 2,064
Debt (Note 15)	20,596	20,596
Other (Note 18)		
Due to the General Fund	6,773	7,727
Accrued FECA Liability	414	489
Other	1,034	535
Total Intragovernmental	**$ 30,960**	**$ 31,411**
Accounts Payable	3,131	2,400
Federal Employee and Veterans' Benefits (Note 16)	69,814	65,107
Environmental and Disposal Liabilities (Note 17)	622	624
Other (Notes 18, 19, 20, and 21)		
Accrued Payroll and Benefits	3,404	2,889
Deferred Revenue and Advances from Others	3,163	3,001
Insurance Liabilities	2,830	3,389
Refunds and Drawbacks	552	328
Other	18,955	3,760
Total Liabilities	**$ 133,431**	**$ 112,909**

Commitments and Contingencies (Note 21)

(Continued)

Department of Homeland Security
Consolidated Balance Sheets
As of September 30, 2020 and 2019
(In Millions)

	2020	2019
NET POSITION		
Unexpended Appropriations		
Unexpended Appropriations-Other Funds (Combined)	$ 94,375	$ 87,723
Cumulative Results of Operations		
Cumulative Results of Operations-Funds from Dedicated Collections (Note 22) (Combined)	(2,598)	(3,789)
Cumulative Results of Operations-Other Funds (Combined)	(42,199)	(38,744)
Total Net Position	**$ 49,578**	**$ 45,190**
TOTAL LIABILITIES AND NET POSITION	**$ 183,009**	**$ 158,099**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statements of Net Cost
For the Years Ended September 30, 2020 and 2019
(In Millions)

	2020	2019
Operational Components		
U.S. Customs and Border Protection		
Gross Cost	$ 16,394	$ 15,847
Less Earned Revenue	(275)	(231)
Net Cost	**16,119**	**15,616**
Federal Emergency Management Agency		
Gross Cost	66,661	21,542
Less Earned Revenue	(5,958)	(4,485)
Net Cost	**60,703**	**17,057**
U.S. Immigration and Customs Enforcement		
Gross Cost	8,019	8,282
Less Earned Revenue	(147)	(201)
Net Cost	**7,872**	**8,081**
Transportation Security Administration		
Gross Cost	8,468	8,621
Less Earned Revenue	(2,488)	(4,614)
Net Cost	**5,980**	**4,007**
U.S. Coast Guard		
Gross Cost	13,703	13,135
Less Earned Revenue	(435)	(382)
Net Cost	**13,268**	**12,753**
U.S. Citizenship and Immigration Services		
Gross Cost	4,428	4,194
Less Earned Revenue	(4,249)	(4,463)
Net Cost	**179**	**(269)**
U.S. Secret Service		
Gross Cost	2,440	2,488
Less Earned Revenue	(18)	(11)
Net Cost	**2,422**	**2,477**
Cybersecurity and Infrastructure Agency		
Gross Cost	2,008	2,969
Less Earned Revenue	(2)	(1,205)
Net Cost	**2,006**	**1,764**

Department of Homeland Security
Consolidated Statements of Net Cost
For the Years Ended September 30, 2020 and 2019
(In Millions)

	2020	2019
Departmental Operations and Other Support Components		
Gross Cost	5,094	3,740
Less Earned Revenue	(1,302)	(63)
Net Cost	**3,792**	**3,677**
Total Department of Homeland Security		
Gross Cost	127,215	80,818
Less Earned Revenue	(14,874)	(15,655)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	112,341	65,163
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes (Note 16)	3,061	924
NET COST OF OPERATIONS	**$ 115,402**	**$ 66,087**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statements of Changes in Net Position
For the Year Ended September 30, 2020
(In Millions)

	2020			
	Combined Funds from Dedicated Collections (Note 22)	Combined All Other Funds	Eliminations	Consolidated Total
Unexpended Appropriations:				
Beginning Balances	$ -	$ 87,723	$ -	$ 87,723
Budgetary Financing Sources:				
Appropriations Received	-	115,893	-	115,893
Appropriations Transferred In/(Out)	-	267	-	267
Other Adjustments	-	(1,365)	-	(1,365)
Appropriations Used	-	(108,143)	-	(108,143)
Total Budgetary Financing Sources	-	6,652	-	6,652
Total Unexpended Appropriations	**$ -**	**$ 94,375**	**$ -**	**$ 94,375**
Cumulative Results of Operations:				
Beginning Balances	(3,789)	(38,744)	-	(42,533)
Budgetary Financing Sources:				
Other Adjustments	(3)	-	-	(3)
Appropriations Used	-	108,143	-	108,143
Non-Exchange Revenue	2,220	2	(1)	2,223
Donations and Forfeitures of Cash and Cash Equivalents	4	-	-	4
Transfers In/(Out) without Reimbursement	(3,441)	3,080	(19)	(342)
Other Financing Sources (Non-exchange):				
Donations and Forfeitures of Property	-	14	-	14
Transfers In/(Out) without Reimbursement	(128)	292	19	145
Imputed Financing	223	1,433	8	1,648
Other	2,880	(1,573)	1	1,306
Total Financing Sources	1,755	111,391	8	113,138
Net Cost of Operations	(564)	(114,846)	(8)	(115,402)
Net Change	1,191	(3,455)	-	(2,264)
Cumulative Results of Operations	**$ (2,598)**	**$ (42,199)**	**$ -**	**$ (44,797)**
NET POSITION	**$ (2,598)**	**$ 52,176**	**$ -**	**$ 49,578**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statements of Changes in Net Position
For the Year Ended September 30, 2019
(In Millions)

	2019			
	Combined Funds from Dedicated Collections (Note 22)	Combined All Other Funds	Eliminations	Consolidated Total
Unexpended Appropriations				
Beginning Balances	$ -	$ 84,662	$ -	$ 84,662
Budgetary Financing Sources:				
Appropriations Received	-	62,710	-	62,710
Appropriations Transferred In/(Out)	-	(151)	-	(151)
Other Adjustments	-	(754)	-	(754)
Appropriations Used	-	(58,744)	-	(58,744)
Total Budgetary Financing Sources	-	3,061	-	3,061
Total Unexpended Appropriations	**$ -**	**$ 87,723**	**$ -**	**$ 87,723**
Cumulative Results of Operations				
Beginning Balances	(4,451)	(37,415)	-	(41,866)
Budgetary Financing Sources:				
Other Adjustments	-	(1)	-	(1)
Appropriations Used	-	58,744	-	58,744
Non-Exchange Revenue	2,425	4	5	2,424
Donations and Forfeitures of Cash and Cash Equivalents	4	-	-	4
Transfers In/(Out) without Reimbursement	(3,885)	3,944	-	59
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures of Property	-	1	-	1
Transfers In/(Out) without Reimbursement	(174)	314	-	140
Imputed Financing	244	1,658	75	1,827
Other	3,725	(1,503)	-	2,222
Total Financing Sources	2,339	63,161	80	65,420
Net Cost of Operations	(1,677)	(64,490)	(80)	(66,087)
Net Change	662	(1,329)	-	(667)
Cumulative Results of Operations	**$ (3,789)**	**$ (38,744)**	**$ -**	**$ (42,533)**
NET POSITION	**$ (3,789)**	**$ 48,979**	**$ -**	**$ 45,190**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2020 and 2019
(In Millions)

	2020		2019	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Budget Authority, Net (Note 27)	51,835	13	50,767	1
Appropriations	133,025	-	76,512	-
Borrowing Authority (Note 23)	-	33	-	67
Spending Authority from Offsetting Collections	11,687	45	12,701	37
TOTAL BUDGETARY RESOURCES	**$ 196,547**	**$ 91**	**$ 139,980**	**$ 105**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments	$ 160,441	$ 91	$ 91,446	$ 105
Unobligated Balance, End of Year				
Apportioned, Unexpired	33,286	-	45,702	-
Exempt from Apportionment, Unexpired	5	-	4	-
Unapportioned, Unexpired	1,078	-	1,231	-
Unexpired Unobligated Balance, End of Year	34,369	-	46,937	-
Expired Unobligated Balance, End of Year	1,737	-	1,597	-
Total Unobligated Balance, End of Year	36,106	-	48,534	-
TOTAL BUDGETARY RESOURCES	**$ 196,547**	**$ 91**	**$ 139,980**	**$ 105**
OUTLAYS NET	110,355	-	71,444	-
Distributed Offsetting Receipts	(11,291)	-	(12,417)	-
AGENCY OUTLAYS, NET	**$ 99,064**	**$ -**	**$ 59,027**	**$ -**
Disbursements, Net (total) (mandatory)		**$ -**		**$ 62**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statements of Custodial Activity
For the Years Ended September 30, 2020 and 2019
(In Millions)

	2020	2019
Revenue Activity (Note 28)		
Sources of Cash Collections:		
Duties	$ 74,401	$ 71,902
User Fees	1,421	1,678
Excise Taxes	3,967	3,889
Fines and Penalties	84	130
Interest	91	44
Miscellaneous	110	206
Total Cash Collections	80,074	77,849
Accrual Adjustments, Net	(1,217)	2,952
Total Custodial Revenue	**78,857**	**80,801**
Disposition of Collections		
Transferred to Federal Entities:		
U.S. Department of Agriculture	22,537	21,779
Treasury General Fund Accounts	48,370	51,468
U.S. Army Corps of Engineers	1,310	1,556
Other Federal Agencies	49	41
Transferred to Non-Federal Entities	76	170
(Increase)/Decrease in Amounts Yet to be Transferred	(1,094)	2,956
Refunds and Drawbacks (Note 18)	7,609	2,831
Total Disposition of Collections	**78,857**	**80,801**
NET CUSTODIAL ACTIVITY	**$ -**	**$ -**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Table of Contents for Notes to the Financial Statements

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Department was established by the Homeland Security Act of 2002 (P.L. 107-296), dated November 25, 2002, as an executive department of the U.S. Federal Government. The Department leads efforts to achieve a safe, secure, and resilient homeland by countering terrorism and enhancing our security; securing and managing our borders; enforcing and administering our immigration laws; protecting our cybernetworks and critical infrastructure; and ensuring resilience from disasters. In addition, the Department contributes in many ways to elements of broader United States national and economic security while also working to mature and strengthen the Department and the homeland security enterprise. The Department includes the following financial reporting Components[5]:

- **U.S. Customs and Border Protection (CBP)**
- **Cybersecurity and Infrastructure Security Agency (CISA)**
- **Federal Emergency Management Agency (FEMA)**
- **U.S. Immigration and Customs Enforcement (ICE)**
- **Transportation Security Administration (TSA)**
- **U.S. Coast Guard (USCG)**
- **U.S. Citizenship and Immigration Services (USCIS)**
- **U.S. Secret Service (USSS)**
- **Departmental Operations and Other Support Components**, including the Management Directorate (MGMT), the Office of the Secretary, the Office of Inspector General (OIG), Countering Weapons of Mass Destruction (CWMD) Office, the Office of Intelligence and Analysis (I&A), the Office of Operations Coordination (OPS), Science and Technology Directorate (S&T), and the Federal Law Enforcement Training Centers (FLETC).

B. Basis of Presentation

These financial statements are prepared to report the consolidated financial position, net cost of operations, changes in net position, custodial activity, and combined budgetary resources of the Department pursuant to the Government Management Reform Act of 1994 and the Chief Financial Officers Act of 1990, as amended by the Reports Consolidation Act of 2000 and the DHS Financial Accountability Act of 2004.

The Department's financial statements have been prepared from the accounting records of the Department based on U.S. generally accepted accounting principles (GAAP) and OMB Circular A-136, *Financial Reporting Requirements*, as amended. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, the official accounting standards-setting body of the Federal Government.

The Department's financial statements reflect the reporting of departmental activities, including appropriations received to conduct operations and revenue generated from operations. The financial statements also reflect the reporting of certain non-entity (custodial) functions performed by the Department on behalf of the Federal Government. Accounting standards

[5] Financial reporting Components are to be distinguished from direct report Components described in the Management's Discussion and Analysis, Our Organization.

require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

Intragovernmental assets and liabilities are derived from activity with other federal entities. All other assets and liabilities result from activities with parties outside the Federal Government, such as domestic and foreign persons, organizations, or governments. Intragovernmental earned revenue includes collections or revenue accruals from other federal entities, and intragovernmental costs are payments or expense accruals to other federal entities.

Transactions and balances among the Department's Components have been eliminated in the consolidated presentation of the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and the Statements of Custodial Activity. Intradepartmental activity reported in a fund from dedicated collection is often offset with activity in other funds. Accordingly, the Department presents information for funds from dedicated collections and all other funds in the Balance Sheets and Statements of Changes in Net Position on a combined basis. The elimination of intradepartmental activity between dedicated collections and all other funds is presented in the Statements of Changes of Net Position. The Statements of Budgetary Resources are reported on a combined basis; therefore, intradepartmental balances have not been eliminated.

While these financial statements have been prepared from the books and records of the Department in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

These financial statements should be read with the realization that they are for a component of the Federal Government, a sovereign entity, whose liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts, can be abrogated by the Federal Government acting in its capacity as a sovereign entity.

C. Basis of Accounting

Transactions are recorded on an accrual and a budgetary basis of accounting. Under the accrual basis, revenue is recognized when earned, and expenses are recognized when a liability is incurred, regardless of when cash is exchanged. Budgetary accounting facilitates compliance with legal constraints and the controls over the use of federal funds. The balances and activity of budgetary accounts are used to prepare the Statements of Budgetary Resources. The Statements of Custodial Activity are reported using the modified cash basis. With this basis, revenue from cash collections is reported separately from receivable accruals, and cash disbursements are reported separately from payable accruals.

D. Use of Estimates

Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of consolidated financial statements, and the reported amounts of revenue, claims, and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include: the year-end accruals of accounts and grants payable; environmental liabilities; deferred revenue; National Flood Insurance Program (NFIP) insurance liability; actuarial liabilities related to workers' compensation; taxes, allowance for doubtful accounts, duties and trade receivables, including supplemental duty bills; and actuarial liabilities related to military and other pension, retirement, and post-retirement benefits.

E. Entity and Non-Entity Assets

Entity assets are assets the Department has the authority to use in its operations. The authority to use funds in an entity's operations means either Department management has the authority to decide how funds are used or management is legally obligated to use funds to meet entity obligations (e.g., salaries and benefits).

Non-entity assets are assets held by the Department but not available for use by the Department. An example of a non-entity asset is the portion of Fund Balance with Treasury that consists of special and deposit funds, permanent and indefinite appropriations, and miscellaneous receipts. Non-entity assets are offset by corresponding liabilities.

For additional information, see Note 2, Non-Entity Assets.

F. Fund Balance with Treasury

Fund Balance with Treasury represents the aggregate amount of the Department's accounts with the Department of the Treasury (Treasury) available to pay current liabilities and finance authorized purchases, except as restricted by law. The Department's Fund Balance with Treasury balances are primarily appropriated, revolving, trust, deposit, receipt, and special fund amounts remaining as of the end of the fiscal year.

For additional information regarding the Budgetary Status, see Note 3, Fund Balance with Treasury.

G. Cash and Other Monetary Assets

The Department's cash and other monetary assets primarily consist of undeposited collections, imprest funds, cash used in undercover operations, cash held as evidence, cash held by insurance companies, and seized cash and monetary instruments. The Department maintains cash in commercial bank accounts.

Insurance companies receive and process certain receipts and disbursements on behalf of FEMA. Insurance companies hold cash from flood insurance premiums to be remitted to Treasury, as well as insurance claim payments to be distributed to the insured.

For additional information, see Note 4, Cash and Other Monetary Assets.

H. Investments, Net

Investments consist of Federal Government nonmarketable par value and nonmarketable market-based Treasury securities and are reported at cost or amortized cost net of premiums or discounts. Premiums or discounts are amortized into interest income over the terms of the investment using the effective interest method.

No provision is made for unrealized gains or losses on these securities because it is the Department's intent to hold these investments to maturity.

For additional information, see Note 5, Investments, Net.

I. Receivables, Net

Accounts receivable represent amounts due to the Department from other federal agencies and the public. In general, intragovernmental accounts receivable arise from the provision of goods and services to other federal agencies.

Accounts receivable due from the public typically result from various immigration and user fees, premiums and policy fees from insurance companies and policyholders, breached bonds, reimbursable services, oil spill cost recoveries, security fees, loans, grant programs and contracts.

Public accounts receivable are presented net of an allowance for doubtful accounts, which is based on analyses of debtors' ability to pay, specific identification of probable losses, aging analysis of past-due receivables, or historical collection experience.

Taxes, duties, and trade receivables include supplemental duty bills, user fees, fines and penalties, refunds and drawback overpayments, and interest associated with import/export activity, which have been established as specifically identifiable, legally enforceable claims which remain uncollected as of year-end. This balance excludes amounts referred to Treasury because they are considered 100% uncollectible, as all collection efforts have been exhausted on these receivables prior to referral.

For additional information, see Note 6, Accounts Receivable, Net; Note 7, Taxes, Duties, and Trade Receivables, Net; and Note 22, Funds from Dedicated Collections.

J. Advances and Prepayments

Intragovernmental advances, presented as a component of other assets in the accompanying Balance Sheets, consist primarily of advances for support of border security, as well as disaster recovery and assistance to other federal agencies.

Advances and prepayments to the public, presented as a component of other assets in the accompanying Balance Sheets, consist primarily of disaster recovery and assistance grants to states, allowances and commission expenses to insurance companies, and other grant activity.

The allowances and commission expenses are amortized over the life of the policy. Disaster recovery and assistance grant advances are expensed as they are used by the recipients. Advances are made within the amount of the total grant obligation.

For additional information, see Note 13, Other Assets.

K. Direct Loans, Net

Direct loans are loans issued by the Department to local governments. FEMA, the only DHS Component with loan activity, operates the Community Disaster Loan Program to support local governments that have suffered a substantial loss of tax and other revenue as a result of a major disaster and demonstrate a need for federal financial assistance in order to perform their municipal operating functions. Under the program, FEMA transacts direct loans to local governments that meet statutorily set eligibility criteria. Loans are accounted for as receivables as funds are disbursed.

All of the Department's loans are post-1991 obligated direct loans, and the resulting receivables are governed by the *Federal Credit Reform Act of 1990* (FCRA) (P.L. 101-508). Under FCRA, for direct loans disbursed during a fiscal year, the corresponding receivable is adjusted for subsidy costs. Subsidy costs are estimated long-term costs to the Federal Government for its loan programs. The subsidy cost is equal to the present value of the estimated cash outflows over the life of the loans minus the present value of the estimated cash inflows, discounted at the applicable Treasury interest rate. Administrative costs such as salaries and contractual fees are not included. Subsidy costs can arise from interest rate differentials, interest subsidies, delinquencies and defaults, and other cash flows. The Department calculates the subsidy costs based on a subsidy calculator model created by OMB.

Loans receivable are recorded at the present value of the estimated net cash flows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recorded in the allowance for subsidy, which is estimated and adjusted annually, as of year-end. Loans receivable, net, or the value of assets related to direct loans, is not the same as the expected proceeds from selling the loans. Interest receivable is the total interest that has accrued on each of the outstanding loans, less any cancellations that may have been recorded due to the FEMA cancellation policy as described in 44 Code of Federal Regulations (CFR) Section 206.366.

For additional information, see Note 8, Direct Loans, Net.

L. Inventory and Related Property, Net

Operating Materials and Supplies (OM&S) held for use and repair represent the largest portion of DHS inventory and related property. OM&S consist primarily of goods, including reparable spare parts, consumed during the maintenance of assets used to perform DHS missions, including vessels, small boats, electronic systems, and aircraft.

OM&S managed by the USCG inventory control points consist of consumable and reparable items that are valued at historical cost using a moving average cost and accounted for using the consumption method. OM&S reparable items that are in a “held for repair” status are recorded at historical cost with an allowance for the cost of the repair.

OM&S held at CBP sites consist of aircraft parts, vessel parts, and border security parts to be used in CBP’s operations. Manned aircraft and border security parts and materials are recorded at average unit cost. Unmanned aircraft parts and vessel parts are recorded using the first-in/first-out valuation method. Both methods approximate actual acquisition costs. OM&S reparable items that are in a “held for repair” status are recorded using the direct method for the cost of repairs.

Inventory is tangible personal property held for sale or used in the process of production for sale. Inventory includes items such as bulk steel, fuel, and subsistence. Inventories on hand at year-end are stated at cost using standard price/specific identification, first-in/first-out, or moving average cost methods, which approximates historical cost. Revenue on inventory sales and associated cost of goods sold are recorded when merchandise is sold to the end user.

Stockpile materials are critical materials held due to statutory requirements for use in national emergencies. The Department’s stockpile materials held by FEMA include goods that would be used to respond to national disasters (e.g., water, meals, cots, blankets, tarps, and blue roof sheeting). Stockpile materials at year-end are stated at historical cost using the weighted average method.

For additional information, see Note 9, Inventory and Related Property, Net.

M. Seized and Forfeited Property

Seized property is reported in two categories: nonprohibited and prohibited.

Nonprohibited seized property includes items that are not inherently illegal to possess or own, such as monetary instruments, real property, and tangible personal property of others. Nonprohibited seized and forfeited property is reported by the Treasury Forfeiture Fund.

Prohibited seized property includes illegal drugs, contraband, and counterfeit items that cannot legally enter into the commerce of the United States. Prohibited seized property results primarily from criminal investigations and passenger/cargo processing. Prohibited seized property is not considered an asset of the Department and is not reported as such in the Department’s financial statements. However, the Department has a stewardship responsibility until the disposition of the seized items is determined (i.e., judicially or administratively forfeited or returned to the entity from which it was seized).

Forfeited property is seized property for which the title has passed to the Federal Government. Prohibited forfeited items such as counterfeit goods, narcotics, or firearms are held by the Department until disposed of or destroyed.

An analysis of changes in prohibited seized and forfeited property is presented in Note 10, Seized and Forfeited Property.

N. General Property, Plant, and Equipment, Net

The Department's Property, Plant, and Equipment (PP&E) consists of aircraft, vessels, vehicles, land, structures, facilities, leasehold improvements, software, information technology, and other equipment—including small boats, security equipment, industrial equipment, and communications gear. PP&E is generally recorded at historical cost. The Department capitalizes PP&E acquisitions when the cost equals or exceeds an established threshold and has a useful life of two years or more. Land is not depreciated.

Costs for construction projects are recorded as construction-in-progress until the asset is placed in service. Costs are valued at actual (direct) costs plus applied overhead and other indirect costs. At year-end, a portion of the construction-in-progress balance may be estimated to accrue amounts for work completed but not yet recorded. The Department owns some of the buildings in which Components operate. The majority of other buildings are provided by the General Services Administration (GSA), which charges rent equivalent to the commercial rental rates for similar properties.

Internal-use software includes purchased commercial off-the-shelf (COTS) software, contractor-developed software, and internally developed software. For COTS software, the capitalized costs are equal to the amount paid to the vendor for the software. For contractor-developed software, the capitalized costs include the amount paid to a contractor to design, program, install, and implement the software. For internally developed software, capitalized costs include the full costs (direct and indirect) incurred during the software development phase. Costs incurred during the preliminary design and post-implementation/operational phases are expensed in the period incurred.

DHS policy allows Components to continue using legacy capitalization thresholds and Component-specific policies for assets acquired prior to October 1, 2007. For assets acquired on or after October 1, 2007, Components use the DHS capitalization policy as general guidance. The schedule below shows a summary of the capitalization thresholds and estimated useful life in accordance with DHS-wide policy. Actual capitalization thresholds and service lives used by DHS Components may vary. Bulk purchases are generally subject to a $1 million capitalization threshold. Capital improvements extending the service life of assets are not included in these ranges.

Asset Description	Capitalization Threshold	Useful Life
Land	Zero	Not Applicable
Improvements to Land	$200,000	2 years to 50 years
Buildings, Other Structures and Facilities	$200,000	10 years to 50 years
Equipment	$200,000	5 years to 30 years
Capital Leases	$200,000	2 years to 20 years
Leasehold Improvements	$200,000	2 years to 50 years
Internal Use Software	$750,000	2 years to 13 years

The Department begins to recognize depreciation expense once the asset has been placed in service. Depreciation is calculated on a straight-line method for all asset classes over their estimated useful lives. Leasehold improvements are depreciated over the shorter of the term of the remaining portion of the lease or the useful life of the improvement. Buildings and equipment acquired under capital leases are amortized over the lease term. Amortization of capitalized software is calculated using the straight-line method and begins on the date of acquisition if purchased, or when the module or component has been placed in use (i.e., successfully installed and tested) if contractor or internally developed. There are no restrictions on the use or convertibility of general PP&E.

For additional information, see Note 11, General Property, Plant, and Equipment, Net, and Note 19, Leases.

O. Stewardship Property, Plant, and Equipment

Stewardship PP&E includes heritage assets that generally are not included in general PP&E presented on the Balance Sheet. Heritage assets are unique due to their historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. In general, heritage assets are expected to be preserved indefinitely.

These heritage assets consist of documents, historical artifacts, immigration and naturalization files, artwork, buildings, and structures. The cost of improving, reconstructing, or renovating heritage assets is recognized as an expense in the period incurred. Similarly, the cost to acquire or construct a heritage asset is recognized as an expense in the period incurred.

Heritage assets can serve two purposes: a heritage function and a general government operational function. If a heritage asset serves both purposes, but is predominantly used for general government operations, the heritage asset is considered a multi-use heritage asset, which is depreciated and included in general PP&E on the Balance Sheet. Due to their nature, heritage assets not used for general government operational functions are not depreciated because matching costs with specific periods would not be meaningful. The Department depreciates its multi-use heritage assets over their useful life. The Department's multi-use heritage assets consist of buildings and structures, memorials, and recreation areas.

For additional information, see Note 12, Stewardship Property, Plant, and Equipment.

P. Liabilities

Liabilities represent the probable and measurable future outflow or other use of resources as a result of past transactions or events. Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or for which funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available congressionally appropriated funds or other amounts, where there is no certainty that the appropriations will be enacted. Liabilities not requiring budgetary resources are liabilities that have not in the past required and will not in the future require the use of budgetary resources. The Federal Government, acting in its sovereign capacity, can annul liabilities of the Department arising from any transaction or event other than contracts or other instances where its sovereign immunity has been waived (e.g., refund statutes).

Q. Contingent Liabilities

The Department accrues contingent liabilities where a loss is determined to be probable and the amount can be reasonably estimated. The Department discloses contingent liabilities where the conditions for liability recognition have not been met and the likelihood of unfavorable outcome is more than remote. Contingent liabilities considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

For additional information, see Note 21, Commitments and Contingent Liabilities.

Environmental Cleanup Costs. Environmental liabilities consist of environmental remediation, cleanup, and decommissioning. The Department is responsible for remediating its sites with environmental contamination and is party to various administrative proceedings, legal actions, and tort claims that may result in settlements or decisions adverse to the Federal Government. The liability for environmental remediation is an estimate of costs necessary to bring a known contaminated asset into compliance with applicable environmental standards. Accruals for environmental cleanup costs are the costs of removing, containing, and/or disposing of hazardous wastes or materials that, because of quantity, concentration, or physical or chemical characteristics, may pose a substantial present or potential hazard to human health or the environment.

For all PP&E in service after September 30, 1997, the Department recognizes the estimated total cleanup costs associated with the PP&E when the cleanup costs are probable and reasonably estimable. The estimate may be subsequently adjusted for material changes due to inflation/deflation or changes in regulations, cleanup plans, or technology. The applicable costs of decommissioning the Department's existing and future vessels are considered cleanup costs.

For additional information, see Note 17, Environmental and Disposal Liabilities.

R. Liabilities for Grants and Cooperative Agreements

The Department awards grants and cooperative agreements to state and local governments, universities, nonprofit organizations, and private-sector companies to build their capacity to respond to disasters and emergencies; conduct research into preparedness; enhance and ensure the security of passenger and cargo transportation by air, land, or sea; and support other Department-related activities. The Department estimates the year-end grant and cooperative agreement accrual for unreported and unpaid recipient expenditures using historical disbursement data in compliance with Federal Financial Accounting Technical Release 12, *Accrual Estimates for Grant Programs*. Grants and cooperative agreement liabilities are recorded as grants payable to the public and reported as Other Liabilities in the accompanying Balance Sheets. As grantee expenditure in a given year may vary greatly depending on occurrence of disasters and the expiration dates of awards for the numerous non-disaster grant programs, the estimate may significantly vary year-over-year.

S. Insurance Liabilities

Insurance liabilities are primarily the result of the Department's sale or continuation-in-force of flood insurance policies within the NFIP, which is managed by FEMA. NFIP is an exchange transaction insurance, and DHS discloses Insurance Liabilities in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 51, *Insurance Programs*.

The NFIP insurance liability represents an estimate based on the loss and loss adjustment expense factors inherent to the NFIP Insurance Underwriting Operations, including trends in claim severity and frequency. These estimates are routinely reviewed, and adjustments are made as deemed necessary. The estimate is driven primarily by flooding activity in the U.S. and can significantly vary year over year depending on timing and severity of flooding activity.

The Biggert-*Waters Flood Insurance Reform Act of 2012* (P.L. 112-141), the *Homeowner Flood Insurance Affordability Act of 2014* (P.L. 113-89), and the *Further Consolidated Appropriations Act, 2020* (P.L. 116-94) amended the *National Flood Insurance Act of 1968* to extend the NFIP, the financing for it, and established a National Flood Insurance Reserve Fund to meet the expected future obligations of the NFIP. The acts authorized FEMA to secure reinsurance coverage from private reinsurance and capital markets to maintain the financial ability of the program to pay claims from major flooding events. The reinsurance agreement places the NFIP in a better position to manage losses incurred that result from major flooding events.

Subsidized rates are charged on a countrywide basis for certain classifications of the insured. These subsidized rates produce a premium less than the loss and loss adjustment expenses expected to be incurred in a historical average loss year. Subsidized rates are used to provide affordable insurance on construction or substantial improvements started on or before December 31, 1974, or before the effective date of the initial Flood Insurance Rate Map (i.e., an official map of a community on which NFIP has delineated both the special hazard areas and the nonsubsidized premium zones applicable to the community). NFIP premium revenue is recognized ratably over the life of the policies. Deferred revenue relates to other NFIP unearned revenue including the federal policy fee, reserve fund assessment, and Homeowner Floor Insurance Affordability Act (HFIAA) surcharge.

For additional NFIP information, see Note 15, Debt; Note 18, Other Liabilities; Note 20, Insurance Liabilities; Note 22, Funds from Dedicated Collections; and Note 23, Available Borrowing Authority.

T. Debt and Borrowing Authority

Debt is reported within Intragovernmental Liabilities and results from Treasury loans and related interest payable to fund NFIP and Disaster Assistance Direct Loan Program (DADLP) operations of FEMA. Most of this debt is not covered by current budgetary resources. Premiums collected by FEMA for the NFIP based on subsidized rates are not sufficient to cover the debt repayments (see Note 1.S., Insurance Liabilities). Given the current premium rate structure, FEMA will not be able to generate sufficient resources from premiums to pay its debt in full.

Borrowing authority, to the extent of existing obligations, is in budgetary status for use by FEMA for insurance claims and community disaster loans (CDLs). Borrowing authority is converted to cash and transferred to the Fund Balance with Treasury when needed for these purposes. Insurance claims and CDLs have indefinite borrowing authority. Indefinite borrowing authority represents the balance of borrowing authority which is the amount equal to those unpaid obligations covered by borrowing authority at the close of the fiscal year.

For more information, see Note 15, Debt, and Note 23, Available Borrowing Authority.

U. Accrued Payroll and Benefits

Accrued Payroll. Accrued payroll consists of salaries, wages, and other compensation earned by employees but not disbursed as of September 30. The liability is estimated for reporting purposes based on historical pay information.

Leave Program. Earned annual and other vested compensatory leave is accrued as it is earned and reported on the Balance Sheet. The liability is reduced as leave is taken. Each year, the balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances. Sick leave and other types of nonvested leave are not earned benefits. Accordingly, nonvested leave is expensed when used.

Federal Employees Compensation Act. The *Federal Employees Compensation Act* (FECA) (P.L. 103-3) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on claims paid by DOL but not yet reimbursed by the Department. The Department reimburses DOL for claims as funds are appropriated for this purpose. In general, there is a two year period between payment by DOL and reimbursement to DOL by the Department. As a result, the Department recognizes an intragovernmental liability for the claims paid by DOL and to be reimbursed by the Department.

The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a component of federal employee and veterans' benefits. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL determines the actuarial FECA liability annually, as of September 30, using an actuarial method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value using the OMB economic assumptions for ten-year Treasury notes and bonds. The actuarial FECA liability is not covered by budgetary resources and will require future funding.

For additional information regarding accrued FECA liability, payroll, and leave, see Note 18, Other Liabilities. For more information on the actuarial FECA liability, see Notes 1.V and Note 16, Federal Employee and Veterans' Benefits.

V. Federal Employee and Veterans' Benefits

The Department's federal employee and veterans' benefits consist of the USCG's Military Retirement System (MRS), USCG Military Health System (MHS), USSS's Uniformed Division and Special Agent Pension, other civilian employees' pension programs, other retirement benefits (ORB), other post-employment benefits (OPEB), and the actuarial FECA liability.

The Department recognizes liabilities and expenses for MRS, MHS, and Uniformed Division and Special Agent Pension. Gains and losses from changes in long-term assumptions used to measure these liabilities are reported as a separate line item on the Statement of Net Cost, consistent with SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates.* Civilian employees' pension programs, ORB, and OPEB are administered by the Office of Personnel Management (OPM) and do not represent a liability for the Department.

Military Retirement System. The MRS is a defined benefit plan that includes pension benefits, disability benefits, and survivor benefits and covers all retired active duty and reserve military members of the USCG. The plan is a pay-as-you-go system funded through annual appropriations. The actuarial accrued liability is the portion of the present value of the future benefits expected to be paid that is attributed to past service (service by participants rendered prior to the date of determination). The remaining portion of that present value is attributed to future service (service by participants rendered on or after the date of determination) and is the present value of the future employer normal costs. The normal cost (current period expense) and the attribution of the present value of the future benefits between past service and future service are determined using the individual entry age normal actuarial cost method.

Under the *National Defense Authorization Act for FY 2016* (P.L. 114-92), members entering service after December 31, 2017 will be enrolled in the new modernized retirement system, also referred to as the Blended Retirement System (BRS). BRS changes the pension formula by reducing the percentage per year of service, and entitles members to Thrift Savings Plan contributions, as well as additional compensation in exchange for a commitment for additional years of service (after serving for 12 years). A service point is awarded for every day of active service rendered, including monthly drill activities, as well as other categories (e.g. 15 points are awarded annually for Reserve participation). Members who joined USCG after January 1, 2006, and reservists with fewer than 4,320 points as of December 31, 2017, could choose either BRS or the legacy retirement system; any election to opt-in to BRS was required to be made during calendar year 2018 and is irrevocable. Reservists who joined on or after January 1, 2018 are automatically enrolled in the BRS.

Military Health System. There are two categories of military healthcare benefits, but only one generates a liability for the USCG retirees and beneficiaries. The first category of military healthcare liability is for the Medicare-eligible USCG military retirees and beneficiaries. The Department of Defense (DOD) is the administrative entity for the Medicare-Eligible Retiree Health Care Fund (MERHCF) and, in accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, is required to recognize the liability on the MERHCF's financial statements. The USCG makes annual payments to fund benefits for the current active duty members and their spouses who will receive benefits when they reach Medicare-eligibility. The USCG receives per-member amounts (reserve and active duty member amounts separately) to be contributed to the MERHCF from the DOD Board of Actuaries office and pays its share, depending on its demography. Because the DOD reports the entire liability for MERHCF, USCG is only responsible for the annual per-member amounts.

The second category of military healthcare liability is for non-Medicare-eligible retirees and beneficiaries. The MHS is a post-retirement medical benefit plan that covers all active component and reserve component members of the USCG. The USCG is the administrative entity for MHS, and in accordance with SFFAS No. 5, recognizes the liability on its financial statements. As with the MRS, the actuarial accrued liability for MHS is the portion of the present value of the future benefits expected to be paid that is attributed to past service (service by participants rendered prior to the date of determination). Benefits are funded on a pay-as-you-go basis through annual appropriations.

Uniformed Division and Special Agent Pension. The District of Columbia (DC) Police Officers' and Firefighters' Retirement Plan (the DC Pension Plan) is a defined benefit plan that covers USSS Uniformed Division and Special Agents hired as civilians prior to January 1, 1984, and eligible for transfer to the DC Pension Plan. Uniformed Division and Special Agents hired after that date are covered as law enforcement agents by the Federal Employees Retirement System (FERS) basic annuity benefit, FERS revised annuity benefit, or FERS further revised annuity benefit, as appropriate. The DC Pension Plan makes benefit payments to retirees or their beneficiaries. USSS receives permanent, indefinite appropriations each year to pay the excess of benefit payments over salary deductions. The DC Pension Plan is a pay-as-you-go system funded through annual appropriations. USSS calculates pension liability using a discount rate assumption for present value of future benefits in accordance with SFFAS No. 5 and SFFAS No. 33. The unfunded accrued liability is actuarially determined by subtracting the present value of future employer/employee contributions, as well as any plan assets, from the present value of future cost of benefits. SFFAS No. 5 permits the use of actuarial cost methods other than the aggregate entry age normal actuarial cost method if the difference is not material.

For more information on MRS, MHS, Uniformed Division and Special Agent Pension, and the actuarial assumptions used to compute the accrued pension and healthcare liabilities, see Note 16, Federal Employee and Veterans' Benefits.

The discount rates used to measure the MRS and MHS actuarial liabilities for USCG and the USSS actuarial liability are based on the ten-year average historical rates of return on marketable Treasury securities as of June 30 of the fiscal year. The rates used in this average are the rates for securities that will mature on the dates on which future benefit payments are expected to be made.

Civilian Pension, Other Retirement Benefits, and Other Post-Employment Benefits. The Department recognizes the full annual cost of its civilian employees' pension benefits; however, the assets of the plan and liability associated with pension costs are recognized by OPM rather than the Department. Accordingly, the Department does not display gains and losses from changes in long-term assumptions used to measure these liabilities on the Statement of Net Cost.

Most DHS employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which the Department contributes 7% of base pay for regular CSRS employees and 7.5% of base pay for law enforcement agents. FERS and Social Security cover the majority of employees hired after December 31, 1983. Employees hired between January 1, 1984 and December 31, 2012 are covered by the FERS basic annuity benefit. For the FERS basic annuity benefit, the Department contributes 16% of base pay for regular FERS employees and 33.4% for law enforcement agents. Employees hired between January 1, 2013 and December 31, 2013 are covered by the FERS revised annuity benefit; employees hired after December 31, 2013 are covered by the FERS further revised annuity benefit. For the FERS revised annuity benefit, the Department contributes 14.2% of base pay for regular FERS employees and 31.6% for law enforcement agents. For the FERS further revised annuity benefit, the Department contributes 14.2% of base pay for regular FERS employees and 31.6% for law enforcement agents. A primary feature of FERS is that it also offers a defined contribution plan (Federal Thrift Savings Plan) to which the Department automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. The Department also contributes the employer's Social Security matching share for FERS participants.

Similar to CSRS and FERS, OPM reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program and Federal Employees Group Life Insurance Program. The Department reports both the full annual cost of providing these ORB for its retired employees and reporting contributions made for active employees. In addition, the Department recognizes the cost for OPEB, including all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

The difference between the full annual cost of CSRS and FERS retirement, ORB, and OPEB and the amount paid by the Department is recorded as an imputed cost and offsetting imputed financing source in the accompanying financial statements.

W. Funds from Dedicated Collections

Funds from dedicated collections are financed by specifically identified revenue, provided to the government by non-federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenue and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the Federal Government's general revenue.

Non-exchange revenue and other financing sources from funds from dedicated collections, including net cost of operations, are shown separately on the Statements of Changes in Net Position. The portion of cumulative results of operations attributable to funds from dedicated collections is shown separately on both the Statements of Changes in Net Position and the Balance Sheets.

For additional information, see Note 22, Funds from Dedicated Collections.

X. Revenue and Financing Sources

Appropriations. The Department receives the majority of funding to support its programs through congressional appropriations. The Department receives annual, multi-year, and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional funding is obtained through exchange revenue, non-exchange revenue (including donations from the public), and transfers-in from other federal entities.

The Department also has permanent indefinite appropriations that result from permanent public laws, which authorize the Department to retain certain receipts. The amount appropriated depends upon the amount of the receipts rather than on a specific amount. The Department also has a permanent indefinite appropriation but does not retain the receipts. Specifically, amounts received and not issued as refunds to importers are returned to Treasury at the end of the fiscal year.

Appropriations are recognized as financing sources when related expenses are incurred, or assets are purchased. Revenue from reimbursable agreements is recognized when the goods or services are provided by the Department. Reimbursable work between federal agencies is generally subject to the Economy Act (31 United States Code (USC) 1535).

Appropriations Received on the Statement of Changes in Net Position differs from that reported on the Combined Statement of Budgetary Resources because Appropriations Received on the Statement of Changes in Net Position do not include receipts from dedicated collections. Receipts from dedicated collections are accounted for as either exchange or non-exchange revenue.

Exchange and Non-Exchange Revenue. Exchange revenue is recognized when earned and is derived from transactions where both the government and the other party receive value (i.e., goods have been delivered or services have been rendered). Exchange revenue prices are recognized using full cost or market pricing guidance in OMB Circular No. A-25, *User Charges,* except when prices are set by law or executive order. Higher prices based on full cost or market price might reduce the quantity of goods or services demanded and, therefore, the difference between revenue received and such higher prices does not necessarily provide an indication of revenue foregone. DHS exchange revenue includes, but is not limited to: immigration fees; NFIP insurance premiums; Student Exchange Visa Program fees; and aviation security fees. Reimbursable exchange revenue includes but is not limited to: services provided to the government of Puerto Rico for the collection of duties, taxes, and fees; services for personnel; medical, housing, and various types of maritime support; the Federal Protective Service Guard personnel; and oil spill cleanup costs.

The majority of DHS non-exchange revenue is derived from custom duties, custodial collections of user fees, taxes, fines and penalties, and interest on the fines and penalties net of refunds and drawbacks related to these collections. Non-exchange revenue from user fees results from the government's sovereign power to demand revenue and is recognized as earned. Examples of non-exchange revenue from user fees include the collection of fees by CBP on incoming private vessels, private aircraft, and commercial vehicles. Non-exchange revenue also arises from transfers-in with and without financing sources and donations from the public. Other financing sources, such as donations and transfers of assets without reimbursements, are recognized on the Statements of Changes in Net Position during the period in which the donations and transfers occurred.

Deferred revenue is recorded when the Department receives payment for goods or services which have not been fully rendered. Deferred revenue is reported as a liability on the Balance Sheet until earned. USCIS fees are related to adjudication of applications for immigration and naturalization services that are used to provide special benefits to recipients and pay the regulatory costs from the adjudication process. USCIS requires advance payments of the fees for adjudication of applications or petitions for immigration and naturalization benefits. FEMA's deferred revenue relates to other NFIP unearned revenue including the federal policy fee, reserve fund assessment, and HFIAA surcharges.

Inter-Entity Cost. Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed are recognized as imputed cost and are offset by imputed revenue. Prices for goods and services sold to the public are based on recovery of full cost or are set at a market price. Prices for goods and services sold to other Federal Government agencies are generally limited to the recovery of direct cost. Such imputed costs and revenues relate to business-type activities (if applicable), employee benefits, and claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

Imputed Financing Sources. In certain instances, operating costs of the Department are paid out of funds appropriated to other federal agencies. For example, OPM, by law, pays certain costs of retirement programs, and certain legal judgments against DHS are paid from a judgment fund maintained by the Treasury. When costs that are identifiable to DHS and directly attributable to DHS operations are paid by other agencies, the Department recognizes these amounts as operating expenses. The Department also recognizes an imputed financing source on the Statements of Changes in Net Position to indicate the funding of DHS operations by other federal agencies.

Custodial Activity. Non-exchange and non-entity revenue, disbursements, and refunds are reported on the Statement of Custodial Activity using a modified cash basis. Non-entity revenue reported on the Department's Statement of Custodial Activity include duties, excise taxes, and various non-exchange fees collected by CBP that are subsequently remitted to the Treasury general fund or to other federal agencies. Duties, user fees, fines, and penalties are assessed pursuant to the provisions of 19 USC; nonimmigrant petition fees and interest under 8 USC; and excise taxes are assessed under 26 USC.

CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. The custodial revenue is recorded at the time of collection. These revenue collections primarily result from current fiscal year activities. CBP records an equal and offsetting liability due to the Treasury general fund for amounts recognized as non-entity tax and trade receivables. Non-entity tax and trade accounts receivables consist of duties, excise taxes, user fees, fines and penalties, refunds and drawbacks overpayments, and interest associated with import/export activity, that have been established as specifically identifiable, legally enforceable claims that remain uncollected as of year-end. CBP accrues an estimate of duties, taxes, and fees related to entry summaries completed prior to year-end where receipt of payment is anticipated subsequent to year-end. The portions of the fees that are subsequently remitted to other federal agencies are recorded as custodial revenue at the time of collection.

Non-entity receivables are presented net of amounts deemed uncollectible. CBP tracks and enforces payment of estimated duties, taxes, and fees receivable by establishing a liquidated damage case that generally results in fines and penalties receivable. A fine or penalty, including interest on past-due balances, is established when a violation of import/export law is discovered. An allowance for doubtful collections is established for substantially all accrued fines and penalties and related interest. The amount is based on a statistical sample to assess historical collectability of these receivables. Statutes and regulations allow importers to dispute the assessment of duties, taxes, and fees. Receivables related to disputed assessments are not recorded until the protest period expires or a protest decision is rendered in CBP's favor.

Refunds and drawback of duties, taxes, and fees are recognized when payment is made. Generally, a permanent, indefinite appropriation is used to fund the disbursement of refunds and drawbacks. Disbursements are recorded as a decrease in the amount transferred to federal entities as reported on the Statements of Custodial Activity. The liability for refunds and drawbacks consists of amounts owed for refunds of duty and other trade related activity and drawback claims. CBP accrues a monthly liability for refunds and drawback claims approved at month-end but paid subsequent to month-end.

An accrual adjustment is recorded on the Statements of Custodial Activity to adjust cash collections and refund disbursements with the net increase or decrease of accrued non-entity accounts receivables, net of uncollectible amounts, and refunds payable at year-end. For additional information, see Note 7, Taxes, Duties, and Trade Receivables, Net, and Note 28, Custodial Revenue.

Y. Taxes

The Department, as a federal agency, is not subject to federal, state, or local income taxes. Therefore, no provision for income taxes has been recorded in the accompanying financial statements.

Z. Reclassifications

In FY 2020, the Statement of Budgetary Resources and Note 29, Reconciliation of Net Cost to Net Outlays were reclassified in accordance with OMB Circular A-136. Specifically, the Disbursements, net line was added and amounts in the Outlays, net line were adjusted on the FY 2019 Statement of Budgetary Resources. In addition, multiple lines were adjusted on the FY 2019 Note 29, Reconciliation of Net Cost to Net Outlays.

2. Non-Entity Assets

Non-Entity Assets at September 30 consisted of the following (in millions):

	2020	2019
Intragovernmental:		
Fund Balance with Treasury	$ 3,131	$ 2,665
Accounts Receivable	1	1
Total Intragovernmental	3,132	2,666
Public:		
Cash and Other Monetary Assets	20	9
Accounts Receivable, Net	21	16
Taxes, Duties, and Trade Receivables, Net	6,783	7,732
Total Public	6,824	7,757
Total Non-Entity Assets	9,956	10,423
Total Entity Assets	173,053	147,676
Total Assets	**$ 183,009**	**$ 158,099**

Non-entity Fund Balance with Treasury consists of certain special and deposit funds, permanent and indefinite appropriations, and miscellaneous receipts. Non-entity assets (also discussed in Notes 4, 6, and 7) are offset by corresponding liabilities at September 30, 2020 and 2019. Taxes, duties, and trade receivables from the public represent amounts due from importers for goods and merchandise imported to the United States.

3. Fund Balance with Treasury

Status of Fund Balance with Treasury

The Status of Fund Balance with Treasury at September 30 consisted of the following (in millions):

	2020	2019
Budgetary Status		
Unobligated Balances:		
Available	$ 33,291	$ 45,706
Unavailable	2,815	2,828
Obligated Balance Not Yet Disbursed	92,893	58,429
Total Budgetary Status	128,999	106,963
Reconciling Adjustments:		
Receipt, Clearing, and Deposit Funds	3,449	3,321
Borrowing Authority (Note 23)	(20)	(6)
Investments	(10,967)	(10,252)
Receivable Transfers and Imprest Funds	(299)	(311)
Authority Unavailable for Obligation	7,851	7,222
Offsetting Collections Previously or Temporarily Precluded from Obligation	34	34
Sport Fish Restoration and Boating Trust Fund; Oil Spill Liability Trust Fund	1,553	1,547
Temporary Reduction of Budget Authority	418	459
Temporary Reduction of Specific Invested Treasury Account Symbols	(5)	(6)
Total Fund Balance with Treasury	**$ 131,013**	**$ 108,971**

The Disaster Relief Fund (DRF) is an appropriation against which FEMA can direct, coordinate, manage, and fund eligible response and recovery efforts associated with domestic major disasters and emergencies that overwhelm State resources pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act. The DRF represents approximately 47% of the unobligated balances available and 55% of the total fund balance with Treasury at September 30, 2020, and 65% of the unobligated balances available and 49% of the total fund balance with Treasury at September 30, 2019.

The Unobligated Balance available in the Subsequent Periods include amounts apportioned for future fiscal years that are available for obligation in the following subsequent periods:

FY 2021	$ 1,525,098,880
FY 2022	141,282,204
FY 2023	34,429,524
FY 2024	12,165,186

Portions of the Unobligated Balances Available, Unavailable, and Obligated Balance Not Yet Disbursed contain CBP's user fees restricted by law in its use to offset costs incurred by CBP. The Unobligated Balances Available also includes transfers in from the Spectrum Relocation Fund (47 USC 928) that will be available for obligation at a future date.

Portions of the Unobligated Balance Unavailable include amounts appropriated in prior fiscal years that are not available to fund new obligations, including expired funds. However, the amounts can be used for upward and downward adjustments for existing obligations in future years. The Obligated Balance Not Yet Disbursed represents amounts designated for payment of goods and services ordered but not received or goods and services received but for which payment has not yet been made. The large variance on the Obligated Balance Not Yet Disbursed line between 2020 and 2019 is related to the FEMA Disaster Relief Program. It is due to increases in Obligation activity related to COVID-19 (including lost wages), Hurricanes Laura and Sally, and wildfires.

Since the following line items do not post to Fund Balance with Treasury and budgetary status accounts simultaneously, certain adjustments are required to reconcile the budgetary status to non-budgetary Fund Balance with Treasury as reported in the accompanying Balance Sheets:

- Receipt, clearing, and deposit funds represent amounts on deposit with Treasury that have no budget status at September 30, 2020 and 2019.
- Borrowing authority, to the extent of existing obligations, is in budgetary status for use by FEMA for NFIP purposes and CDLs, and transfers have been made to the Fund Balance with Treasury account for these purposes. For additional information, see Note 23, Available Borrowing Authority.
- Budgetary resources have investments included; however, the money has been moved from the Fund Balance with Treasury asset account to Investments.
- Receivable transfers of currently invested balances increase the budget authority at the time the transfer is realized; however, obligations may be incurred before the actual transfer of funds.
- Imprest funds represent funds moved from Fund Balance with Treasury to Cash and Other Monetary Assets with no change in the budgetary status.
- For authority unavailable for obligations, authorizing statute may specify that obligations are not available until a specified time in the future or until specific legal requirements are met.
- Offsetting collections previously or temporarily precluded from obligation are offsetting collections that become unavailable for obligation until specific legal requirements are met.
- Sport Fish Restoration and Boating Trust Fund (SFRBTF) and Oil Spill Liability Trust Fund (OSLTF) are Treasury-managed funds. These funds receive revenue transferred from custodial activities of the Treasury, which are deposited in a Treasury account. For more information, see Note 22, Funds from Dedicated Collections.
- Temporary reduction of budget authority includes new budget authority or prior-year balance that have been temporarily reduced by statute in special and nonrevolving trust funds associated with receipt accounts designated by the Treasury as available.
- Temporary reduction of specific invested Treasury account symbols includes reductions of amounts appropriated from specific invested Treasury account symbols in the current year due to OMB sequestered amounts.

4. Cash and Other Monetary Assets

Cash and Other Monetary Assets at September 30 consisted of the following (in millions):

	2020	2019
Total Cash and Other Monetary Assets	**$ 77**	**$ 67**

DHS cash includes cash held by others, imprest funds, undeposited collections, and the net balances maintained by insurance companies for flood insurance activity. Restricted non-entity cash and other monetary assets were $20 million and $9 million at September 30, 2020 and 2019, respectively (see Note 2, Non-Entity Assets). Restricted non-entity cash consists of undeposited collections that can be distributed to Treasury General Fund, other federal agencies, or other governments.

5. Investments, Net

Investments, Net at September 30, 2020, consisted of the following (in millions):

Type of Investment:	**Amortization Method**	**Cost**	**Amortized (Premium) Discount**	**Interest Receivable**	**Investments, Net**	**Market Value Disclosure**
Intragovernmental Securities:						
OSLTF	Effective interest method	$ 7,315	$ 16	$ 15	$ 7,346	N/A
SFRBTF	Effective interest method	2,083	10	11	2,104	N/A
General Gift Fund	Effective interest method	2	-	-	2	N/A
Total Nonmarketable, Par Value		9,400	26	26	9,452	N/A
National Flood Insurance Reserve Fund	Effective interest method	1,645	(12)	2	1,635	1,668
Total Nonmarketable, Market-Based		1,645	(12)	2	1,635	1,668
Total Investments, Net		**$ 11,045**	**$ 14**	**$ 28**	**$ 11,087**	

Investments at September 30, 2019, consisted of the following (in millions):

Type of Investment:	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental Securities:						
OSLTF	Effective interest method	$ 6,855	$ (34)	$ 15	$ 6,836	N/A
SFRBTF	Effective interest method	1,997	3	11	2,011	N/A
General Gift Fund	Effective interest method	1	-	-	1	N/A
Total Nonmarketable, Par Value		8,853	(31)	26	8,848	N/A
National Flood Insurance Reserve Fund	Effective interest method	1,526	(23)	1	1,504	1,515
Total Nonmarketable, Market-Based		1,526	(23)	1	1,504	1,515
Total Investments, Net		**$ 10,379**	**$ (54)**	**$ 27**	**$ 10,352**	

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections: OSLTF, SFRBTF and General Gift Fund at USCG, and National Flood Insurance Reserve Fund and Gifts and Donations Fund at FEMA. The cash receipts collected from the public for a fund from dedicated collections are deposited in the Treasury, which uses the cash for general Federal Government purposes. Treasury securities are issued to the USCG and FEMA as evidence of its receipts. Treasury securities associated with funds from dedicated collections are an asset to the USCG and FEMA, respectively, and a liability to the Treasury. Treasury securities are eliminated in consolidation for the U.S. Government-Wide financial statements.

Treasury securities provide the USCG and FEMA with authority to draw upon the Treasury to make future benefit payments or other expenditures. When the FDC redeems its Treasury securities to make expenditures, the U.S. Treasury will finance those expenditures in the same manner that it finances all other expenditures. For additional information, see Note 22, Funds from Dedicated Collections.

6. Accounts Receivable, Net

Accounts Receivable, Net, at September 30 consisted of the following (in millions):

	2020	2019
Intragovernmental	$ 1,467	$ 342
With the Public:		
Accounts Receivable	1,931	2,240
Allowance for Doubtful Accounts	(188)	(119)
Total with the Public	1,743	2,121
Accounts Receivable, Net	**$ 3,210**	**$ 2,463**

As of September 30, 2020, and 2019, total restricted non-entity accounts receivable were $22 million and $17 million, respectively (see Note 2, Non-Entity Assets). Interest is accrued on uncollectible accounts receivable until the interest payment requirement is officially waived by the entity or the related debt is written off.

The increase in intragovernmental receivables in FY 2020 is due to FEMA's reimbursable agreements with the Department of Health and Human Services and Small Business Administration for personal protective equipment in response to COVID-19.

Accounts receivable, net include amounts related to criminal restitution owed to the government. In FY 2020, included in accounts receivable is $24 million of gross receivables related to criminal restitution orders, of which $1 million is determined to be collectible. CBP also has criminal restitution orders most of which are related to, and reported as part of, taxes and duties receivable due to their custodial nature (See Note 7, Taxes, Duties, and Trade Receivable, Net). Gross receivables and net collectible amounts related to CBP's criminal restitution orders are $194 million and $16 million, respectively.

In FY 2019, this balance included $24 million of gross receivables related to criminal restitution orders, of which $1 million was determined to be collectible. Gross receivables and net collectible amounts related to CBP's criminal restitution orders were $193 million and $16 million, respectively.

7. Taxes, Duties, and Trade Receivables, Net

Taxes, Duties, and Trade Receivables, Net consisted of the following (in millions):

As of September 30, 2020:	Gross Receivables	Allowance	Total Net Receivables
Duties	$ 6,269	$ (226)	$ 6,043
Excise Taxes	224	(12)	212
User Fees	96	(3)	93
Fines/Penalties	1,330	(1,084)	246
Antidumping and Countervailing Duties	3,212	(3,045)	167
Interest Receivable	1,753	(1,731)	22
Total Taxes, Duties, and Trade Receivables, Net	**$ 12,884**	**$ (6,101)**	**$ 6,783**

As of September 30, 2019:	Gross Receivables	Allowance	Total Net Receivables
Duties	$ 7,124	$ (178)	$ 6,946
Excise Taxes	255	(10)	245
User Fees	95	(2)	93
Fines/Penalties	674	(526)	148
Antidumping and Countervailing Duties	3,071	(2,774)	297
Interest Receivable	1,538	(1,535)	3
Total Taxes, Duties, and Trade Receivables, Net	**$ 12,757**	**$ (5,025)**	**$ 7,732**

CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. Antidumping duties are assessed when it is determined that a class or kind of foreign merchandise is being released into the U.S. economy at less than its fair value to the detriment of a U.S. industry. Countervailing duties are collected when it is determined that a foreign government is providing a subsidy to its local industries to manufacture, produce, or export a class or kind of merchandise for import into the U.S. commerce to the detriment of a U.S. industry.

When a violation of import/export law is discovered, a fine or penalty may be imposed. CBP assesses a liquidated damage or penalty for these cases to the maximum extent of the law. After receiving the notice of assessment, the importer, surety, or other party has 60 days to either file a petition requesting a review of the assessment or pay the assessed amount. Once a petition is received, CBP investigates the circumstances as required by its mitigation guidelines and directives. Until this process has been completed, the Department records an allowance, net of interest, on fines and penalties, based on historical experience of fines and penalties mitigation and collection. The allowance was approximately 82% and 78% at September 30, 2020 and 2019. Duties and taxes receivables are non-entity assets for which there is an offsetting liability due to the general fund (see Note 18, Other Liabilities).

CBP assesses interest when taxes, duties, and trade receivables remain unpaid after the original due date. The interest is calculated using the rate published on the CBP website and in the Federal Register quarterly. Interest accruals are calculated using the same methodology as the underlying receivable accrual and include an allowance for amounts deemed potentially uncollectible.

8. Direct Loans, Net

The Department's loan program consists of CDLs administered by FEMA. CDLs may be authorized to local governments that have suffered a substantial loss of tax and other revenue as a result of a major disaster and have demonstrated a need for federal financial assistance in order to perform their municipal operating functions.

On an annual basis, using the Treasury five-year curve rate, a subsidy estimate is calculated to determine the subsidy rate to be used in order to cover the subsidized portion of future disbursements. The subsidy estimate calculation is based on the re-payment period extended through an initial five-year term plus the five-year extension, the historical average cancellation rate, and the Moody's default rating for municipalities.

The subsidy estimate is revised on an annual basis, also known as a re-estimate, which updates for actual performance and/or estimated changes in future cash flows of the cohort. Legislation also plays a significant role in the subsidy cost of a cohort. New legislation that alters the baseline cash flow estimate for a loan or group of loans always results in a modification. A modification means a government action that may change the cost by altering the terms of the existing contract and changes the estimated cost of an outstanding direct loan.

The CDLs are established at the current Treasury rate for a term of five years. A CDL has a maximum amount of $5 million. The CDL amount cannot exceed 25% of the annual operating budget of the local government for the fiscal year in which the major disaster occurred, unless the loss of tax and other revenue for the local government is at least 75% of the annual operating budget. In this case, the CDL amount cannot exceed 50% of the annual operating budget. These CDLs can be cancelled by FEMA upon request from local government, if the local government meets the eligibility requirements in 44 CFR section 206.366, *Emergency and Management Assistance, Loan Cancellation*.

The exception is the special CDL for Hurricanes Katrina and Rita, where the interest rate on the loan is less than the Treasury rate, and the amount of the loan cannot exceed 50% of the annual operating budget of the local government for the fiscal year in which the major disaster occurred. In addition, special CDLs may exceed $5 million and may be cancelled in accordance with the following Stafford Act amendments: the *Community Disaster Loan Act of 2005* (P.L. 109-88), the *U.S. Troop Readiness, Veteran's Care, Katrina Recovery, and Iraq Accountability Appropriations Act* (P.L. 110-28), the E*mergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006* (P.L. 109-234), and 44 CFR, *Emergency and Management Assistance*.

The *Consolidated and Furthering Appropriations Act, 2013* (P.L. 113-6) loosened the restrictions used in calculating the operating deficit for special CDLs to determine if a local government qualifies for additional cancellations. In addition, the law allows FEMA to reimburse those local governments who have repaid all, or a portion of, their loans, and who have received additional cancellations. Analysis and execution of cancellations and refunds were complete as of April 30, 2015. All remaining loans not cancelled shall be repaid no later than September 30, 2035 as stated in P.L. 113-6.

In FY 2018, Congress passed the Additional Supplemental Appropriations for *Disaster Relief Requirements Act, 2017* (P.L. 115-72) which provided $4.9 billion to DADLP for local governments affected by Hurricanes Harvey, Irma, and Maria. Of the $4.9 billion, 1.5% may be used for Section 417 administrative expenses, $150 million for Section 319 Advance of Non-Federal Share subsidy, $1 million for Section 319 administrative expenses, and the remainder for Section 417 subsidy. P.L. 115-72 specifies that a territory or possession, and instrumentalities and local governments thereof, of the United States shall be deemed a local government. Loan sizing may be based on projected loss of tax and other revenues and on projected cash outlays not previously budgeted for a period not to exceed 180 days from date of disaster, may exceed $5 million cap, and local governments may receive more than one loan. Language also specifies that loans may be cancelled in whole or in part at the discretion of Secretary of Homeland Security and Secretary of the Treasury.

Additionally, Congress passed the *Bipartisan Budget Act of 2018* (P.L. 115-123) which provided another $150 million to the DADLP for Section 319 Advance of Non-Federal Share subsidy, of which $1 million may be used Section 319 administrative expenses. P.L. 115-123 also amended the 180 days provision in P.L. 115-72 and inserted 365 days.

A. Summary of Direct Loans to Non-Federal Borrowers at September 30 (in millions):

	2020	2019
	Loans Receivable, Net	Loans Receivable, Net
Community Disaster Loans	$ 66	$ 73

An analysis of loans receivable and the nature and amounts of the subsidy and administrative costs associated with the direct loans is provided in the following sections.

B. Direct Loans Obligated (in millions):

Community Disaster Loans	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
2020	$ 655	$ 20	$ (609)	$ 66
2019	$ 562	$ 13	$ (502)	$ 73

C. Total Amount of Direct Loans Disbursed (in millions):

	2020	2019
Community Disaster Loans	$ 101	$ 161

D. Subsidy Expense for Direct Loans by Program and Component (in millions):

Subsidy Expense for New Direct Loans Disbursed as of September 30:

Community Disaster Loans	Interest Differential	Other	Total
2020	$ 3	$ 93	$ 96
2019	$ 6	$ 153	$ 159

The Other amount represents increased disbursement activity associated with P.L.115-72 which provided FEMA authority to lend to those areas affected by Hurricanes Harvey, Irma, and Maria as discussed above.

Direct Loan Modifications and Re-estimates:

Community Disaster Loans	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
2020	$ -	$ -	$ 5	$ 5
2019	$ -	$ -	$ (2)	$ (2)

Total Direct Loan Subsidy Expense

	2020	2019
Community Disaster Loans	$ 101	$ 157

E. Direct Loan Subsidy Rates at September 30 (in millions):

The direct loan subsidy rates, by program, are as follows:

	2020 Community Disaster Loans	2019 Community Disaster Loans
Interest Subsidy Cost	8.66%	2.96%
Default Costs	0.63%	0.13%
Other	65.32%	87.63%
Total	74.61%	90.72%

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

Default costs include the projected default amounts based on Moody's default curve for years six to ten.

The Other line represents the subsidy rates for direct loans that are partially cancelled or cancelled in full if specified conditions are met. Historically, a high percentage of the borrowers have met the conditions for cancellation, thus resulting in a high direct loan subsidy rate.

F. Schedule for Reconciling Subsidy Cost Allowance Balances at September 30 (in millions):

	2020	2019
Beginning balance of the subsidy cost allowance	$ 502	$ 347
Add subsidy expense for direct loans disbursed during the reporting years by Component:		
Interest rate differential costs	3	6
Other subsidy costs	93	153
Adjustments:		
Loans written off	(8)	(13)
Subsidy allowance amortization	14	11
Ending balance of the subsidy cost allowance before re-estimates	604	504
Add subsidy re-estimate by Component		
Technical/default re-estimate	5	(2)
Ending balance of the subsidy cost allowance	**$ 609**	**$ 502**

G. Administrative Expenses at September 30 (in millions):

	2020	2019
Community Disaster Loans	**$ 4**	**$ 2**

9. Inventory and Related Property, Net

Inventory and Related Property, Net at September 30 consisted of the following (in millions):

	2020	2019
OM&S		
Items Held for Use	$ 1,522	$ 1,468
Items Held for Future Use	74	59
Items Held for Repair	1,099	1,021
Less: Allowance for Losses	(395)	(404)
Total OM&S, Net	2,300	2,144
Inventory		
Inventory Purchased for Resale	34	37
Less: Allowance for Losses	(7)	(8)
Total Inventory, Net	27	29
Stockpile Materials Held in Reserve	57	122
Total Inventory and Related Property, Net	**$ 2,384**	**$ 2,295**

10. Seized and Forfeited Property

Prohibited seized property item counts as of September 30 and seizure and forfeiture activity for FY 2020 and 2019 are as follows:

For the Fiscal Year Ended September 30, 2020:

Seized Property:	Beginning Balance	New Seizures	Remissions and Adjustments	New Forfeitures	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	-	317,576	(47)	(317,529)	-
Cocaine	-	91,388	13	(91,401)	-
Heroin	-	3,133	4	(3,137)	-
Methamphetamine	-	53,135	(148)	(52,987)	-
Khat	-	51,775	-	(51,775)	-
Synthetic Marijuana	-	222	22	(244)	-
Fentanyl	-	2,390	77	(2,467)	-
Other Drugs	1,921	139,631	(31,152)	(108,437)	1,963
Firearms and Explosives (in number of case line items)	2,289	3,798	(1,954)	(1,856)	2,277
Counterfeit Currency (US/Foreign, in number of items)	3,368,343	7,124,731	(7,643,593)	-	2,849,481
Counterfeit Goods (in number of case line items)	40,120	78,562	(9,896)	(67,969)	40,817

Forfeited Property:	Beginning Balance	New Forfeitures	Transfers and Adjustments	Destroyed	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	90,623	317,529	(146,615)	(172,724)	88,813
Cocaine	57,874	91,401	(67,548)	(47,974)	33,753
Heroin	5,452	3,137	(764)	(2,973)	4,852
Methamphetamine	49,592	52,987	(4,450)	(42,816)	55,313
Khat	1,763	51,775	369	(48,011)	5,896
Synthetic Marijuana	1,463	244	(132)	(604)	971
Fentanyl	2,570	2,467	(21)	(1,580)	3,436
Other Drugs	35,751	108,437	(60,639)	(34,977)	48,572
Firearms and Explosives (in number of case line items)	1,227	1,856	(1,503)	(144)	1,436
Counterfeit Goods (in number of case line items)	20,725	67,969	370	(65,579)	23,485

For the Fiscal Year Ended September 30, 2019:

Seized Property:	Beginning Balance	New Seizures	Remissions and Adjustments	New Forfeitures	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	-	272,024	50	(272,074)	-
Cocaine	-	121,590	(77)	(121,513)	-
Heroin	-	3,656	3	(3,659)	-
Methamphetamine	-	39,027	12	(39,039)	-
Khat	-	16,919	-	(16,919)	-
Synthetic Marijuana	-	526	(1)	(525)	-
Fentanyl	-	1,555	44	(1,599)	-
Other Drugs	1,918	55,300	2,495	(57,792)	1,921
Firearms and Explosives (in number of case line items)	1,549	5,078	(3,045)	(1,293)	2,289
Counterfeit Currency (US/Foreign, in number of items)	4,612,397	7,402,533	(8,646,587)	-	3,368,343
Counterfeit Goods (in number of case line items)	37,102	69,549	(8,882)	(57,649)	40,120

Forfeited Property:	Beginning Balance	New Forfeitures	Transfers and Adjustments	Destroyed	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	97,746	272,074	(123,725)	(155,472)	90,623
Cocaine	40,098	121,513	(71,501)	(32,236)	57,874
Heroin	4,842	3,659	(818)	(2,231)	5,452
Methamphetamine	37,239	39,039	(1,943)	(24,743)	49,592
Khat	824	16,919	(2,622)	(13,358)	1,763
Synthetic Marijuana	5,441	525	(3,199)	(1,304)	1,463
Fentanyl	1,876	1,599	(45)	(860)	2,570
Other Drugs	13,735	57,792	(17,977)	(17,799)	35,751
Firearms and Explosives (in number of case line items)	1,327	1,293	(1,392)	(1)	1,227
Counterfeit Goods (in number of case line items)	21,112	57,649	229	(58,265)	20,725

This schedule is presented for prohibited (non-valued) seized and forfeited property. These items are retained and ultimately destroyed by CBP and USSS and are not transferred to the Treasury's forfeiture fund or other federal agencies.

Illegal drugs consist of tested and verified controlled substances as defined per the Controlled Substances Act. Illegal drugs are presented in kilograms, and a portion of the weight includes packaging, which often cannot be reasonably separated from the weight of the drugs since the packaging must be maintained for evidentiary purposes. Schedule I and II drugs are presented as summarily forfeited[6]. Other drugs include insignificant amounts of controlled substances that do not warrant being isolated to an individual category.

The ending balance for firearms includes only those seized items that can actually be used as firearms. Firearms are presented in number of case line items, which represent different types of firearms seized as part of a case. Counterfeit goods include clothing, footwear, jewelry, electronic equipment, movies, media, identification documents, and other items. Counterfeit goods are presented in number of case line items. USCG and ICE also seize and take temporary possession of small boats, equipment, general property, firearms, contraband, and illegal drugs. CBP maintains the seized property on behalf of USCG and ICE, and transfers nonprohibited seized property to the Treasury forfeiture fund.

Remissions occur when CBP returns property back to the violator. Adjustments are caused by changes during the year to the beginning balances due to changes in legal status or property types. For example, a case considered forfeited could be re-opened and changed to seized status or a drug property type may change on a case. Transfers occur when CBP conveys property to other federal, state, and local law enforcement agencies for prosecution, destruction, or donation.

USSS counterfeit currency includes notes received from external sources or seized during investigations. Counterfeit currency is presented in number of notes, and represents notes maintained in USSS, including items that are pending destruction. All items are maintained in a secured location until the items reach their eligible destruction date. Counterfeit currency ending balances decrease when notes are destroyed, or when a counterfeit note is reclassified as an educational note.

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[6] Summarily forfeited refers to when a drug is seized and processed, it is immediately forfeited to the government not requiring further administrative or judicial action.

11. General Property, Plant, and Equipment, Net

General PP&E, Net consisted of the following (in millions):

As of September 30, 2020:	Useful Life	Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	$ 308	N/A	$ 308
Improvements to Land	2-50 yrs	2,607	1,138	1,469
Construction in Progress	N/A	5,835	N/A	5,835
Buildings, Other Structures and Facilities	10-50 yrs	8,924	4,868	4,056
Equipment:				
Information Technology Equipment	5 yrs	835	620	215
Aircraft	20 yrs	6,608	3,483	3,125
Vessels	5-30 yrs	11,004	4,608	6,396
Vehicles	5-15 yrs	1,071	848	223
Other Equipment	5-15 yrs	7,759	5,442	2,317
Assets Under Capital Lease	2-20 yrs	69	60	9
Leasehold Improvements	2-50 yrs	2,820	1,889	931
Internal Use Software	2-13 yrs	5,165	3,934	1,231
Internal Use Software - in Development	N/A	446	N/A	446
Total General Property, Plant, and Equipment, Net		**$ 53,451**	**$ 26,890**	**$ 26,561**

Total PP&E and Accumulated Depreciation Reconciliation:

	FY 2020 Net PP&E
Beginning Balance of Year	**$ 24,673**
Capitalized Acquisitions	4,407
Dispositions	(465)
Revaluations	57
Less: Depreciation Expense	(2,111)
Balance at End of Year	**$ 26,561**

As of September 30, 2019:	Useful Life	Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	$ 305	N/A	$ 305
Improvements to Land	2-50 yrs	2,379	1,123	1,256
Construction in Progress	N/A	4,512	N/A	4,512
Buildings, Other Structures and Facilities	10-50 yrs	8,797	4,652	4,145
Equipment:				
Information Technology Equipment	5 yrs	1,063	816	247
Aircraft	20 yrs	6,451	3,301	3,150
Vessels	5-30 yrs	10,894	4,464	6,430
Vehicles	5-15 yrs	1,105	872	233
Other Equipment	5-15 yrs	7,193	5,002	2,191
Assets Under Capital Lease	2-20 yrs	69	57	12
Leasehold Improvements	2-50 yrs	2,579	1,714	865
Internal Use Software	2-13 yrs	4,702	3,719	983
Internal Use Software - in Development	N/A	344	N/A	344
Total General Property, Plant, and Equipment, Net		**$ 50,393**	**$ 25,720**	**$ 24,673**

12. Stewardship Property, Plant, and Equipment

DHS's Stewardship PP&E is comprised of items held by DHS. These heritage assets are in the United States and the Commonwealth of Puerto Rico. Collection-type heritage assets are presented in either number of collections or number of individual items, while non-collection-type and multi-use heritage assets are presented in number of individual units. Heritage assets as of September 30 consisted of the following:

2020	Beginning Balance	Additions	Withdrawals	Total
Collection-type Assets				
USCG	9	-	-	9
CBP	2	-	-	2
USCIS	5	-	-	5
TSA	10	-	-	10
MGMT	1	-	-	1
S&T	1	-	-	1
USSS	2	-	-	2
Non-Collection-type Assets				
USCG	69	-	-	69
S&T	1	-	-	1
FLETC	1	-	-	1
Multi-use Heritage Assets				
USCG	96	-	-	96
CBP	4	-	-	4
FEMA	1	-	-	1
ICE	1	-	-	1
Total Stewardship PP&E	**203**	**-**	**-**	**203**

2019	Beginning Balance	Additions	Withdrawals	Total
Collection-type Assets				
USCG	9	-	-	9
CBP	2	-	-	2
USCIS	5	-	-	5
TSA	11	-	(1)	10
MGMT	-	1	-	1
S&T	1	-	-	1
USSS	2	-	-	2
Non-Collection-type Assets				
USCG	71	-	(2)	69
S&T	1	-	-	1
FLETC	1	-	-	1
Multi-use Heritage Assets				
USCG	101	-	(5)	96
CBP	4	-	-	4
FEMA	1	-	-	1
ICE	1	-	-	1
Total Stewardship PP&E	**210**	**1**	**(8)**	**203**

The Department's Stewardship PP&E consists of documents, historical artifacts, immigration and naturalization files, artwork, buildings, and structures, which are unique due to historical, cultural, artistic, or architectural significance, and are used to preserve and provide an education on the Department's history and tradition. Generally, these heritage assets are not included in general PP&E presented on the Balance Sheet. Components define collection-type assets as either individual items, or an aggregate of items grouped by location or category, depending on mission, types of assets, materiality considerations, and how the Component manages the assets. Additions are derived from many sources, including gifts from current or former personnel or the general public, bequests, and transfers from other federal agencies. As assessments are made of heritage assets, individual items are withdrawn from a collection when they have deteriorated through damage due to moving and transportation, storage or display, or environmental degradation. Individual items are also withdrawn when curatorial staff determines that an artifact does not meet the needs of the collection, or the characteristics of a heritage asset.

Collection-type Heritage Assets. The Department classifies items maintained for exhibition or display as collection-type heritage assets. As the lead agency ensuring a safe, secure, and resilient homeland, the Department uses this property for the purpose of educating individuals about its history, mission, values, and culture.

USCG collection-type heritage assets are defined by groups of items categorized as artifacts, artwork, and display models, located at USCG Headquarters, the USCG Academy, and all other locations, such as field units. Each collection of the three types of assets located at the three aforementioned locations is considered one collection-type asset. Artifacts include ships' equipment (sextants, bells, binnacles, etc.), decommissioned aids-to-navigation and communication equipment (buoy bells, lighthouse lenses, lanterns, etc.), personal-use items (uniforms and related accessories), and ordnance (cannons, rifles, and Lyle guns). Artwork consists of the USCG's collection of World War II combat art, as well as modern art depicting both historical and modern USCG activities. Display models are mostly of USCG vessels and aircraft. These are often builders' models acquired by the USCG as part of the contracts with the ship or aircraft builders.

CBP collection-type heritage assets are categorized and grouped into two collections: documents and artifacts. Documents consist of dated port records, CBP regulations, and ledgers of Collectors of Customs. Artifacts include antique scales, dated pictures of Customs inspectors, aged tools used to sample imported commodities such as wood bales and bulk grain, and dated Customs uniforms, badges, and stamps.

USCIS collection-type heritage assets consist of an archive of five collections of different types of immigration and naturalization files that can be used to trace family lineages. USCIS has established the USCIS Genealogy Program to allow the public access to the records on a fee-for-service basis. Archived records available through the USCIS Genealogy Program include naturalization certificate files, alien registration forms, visa files, registry files, as well as alien files numbered below eight million and documents dated prior to May 1951.

MGMT has one collection-type heritage asset, the World Trade Center Façade, which was received from TSA. It is kept at the DHS Headquarters Gallery at St. Elizabeths to educate visitors why TSA was established.

TSA collection-type heritage assets include five architectural or building artifacts, and five aviation security technology items. The architectural or building artifacts include a collection of concrete pieces that belonged to the western wall of the Pentagon, a collection of subway rails from the Port Authority Trans-Hudson subway station located below the World Trade Center, and three individual artifacts related to both the steel structure and facade of the World Trade Center Towers that were destroyed by the terrorist attacks of September 11, 2001. The five aviation security technology items include two walk-through metal detectors, two X-ray machines, and an explosives trace detection portal machine. These items are preserved as aviation security technology equipment that was used to screen the individuals who carried out the September 11, 2001 terrorist attacks. As the lead agency protecting the Nation's transportation systems to ensure freedom of movement for people and commerce, TSA uses this property for the purpose of educating individuals about its history, mission, values, and culture.

S&T maintains one collection-type heritage asset—the fourth-order Fresnel lens from the historic Plum Island lighthouse. The lens was an integral part of the Plum Island lighthouse, which is listed in the National Register of Historic Places. The lens is on loan for display at the East End Seaport Museum in Greenport, New York.

USSS collection-type heritage assets are categorized into a collection of historical artifacts—including records, photographs, documents, and other items pertaining to the history of the USSS—and a collection of historical vehicles pertaining to the history of presidential transportation. Historical artifacts are maintained, stored, or displayed in the USSS archives and in the Secret Service Exhibit Hall. The vehicles are displayed at the James J. Rowley Training Center in Laurel, Maryland, or on loan to Presidential libraries. These items are used to educate employees and their guests about the USSS's dual missions of investigations and protection.

Non-Collection-type Heritage Assets. The Department also maintains non-collection-type heritage assets that are unique for historical or natural significance, as well cultural, educational, or artistic importance.

USCG non-collection-type heritage assets include buildings, structures, sunken vessels, and aircraft. Buildings and structures such as lighthouses and monuments are classified as non-collection-type heritage assets in accordance with SFFAS No. 29, *Heritage Assets and Stewardship Land*. Sunken vessels and aircraft are classified as non-collection-type heritage assets, as stipulated in the property clause of the U.S. Constitution, Articles 95 and 96 of the International Law of the Sea Convention, Sunken Military Craft Act, and the sovereign immunity provisions of admiralty law. Despite the passage of time or the physical condition of these assets, they remain government-owned until the Congress of the United States formally declares them abandoned. The USCG desires to retain custody of these assets to safeguard the remains of crew members lost at sea, to prevent the unauthorized handling of explosives or ordnance that may be aboard, and to preserve culturally valuable artifacts of the USCG.

S&T non-collection-type heritage assets consist of the Plum Island Lighthouse, located in the Plum Island Animal Disease Center, Orient Point, New York. The Plum Island Lighthouse is listed on the National Register of Historic Places.

FLETC non-collection-type heritage assets consist of a memorial associated with the World Trade Center located in Glynco, Georgia. The memorial integrates a piece of steel from the World Trade Center's steel structure into the overall design. The memorial is the primary site for student graduations from the FLETC, and also a venue for various special events, linking the FLETC mission and training efforts to this past tragedy.

Multi-Use Heritage Assets. When heritage assets are functioning in operational status, the Department classifies these as multi-use heritage assets in accordance with SFFAS No. 6, *Accounting for Property, Plant and Equipment*. All multi-use heritage assets are reflected on the Balance Sheet as general PP&E and are depreciated over their useful life. Some examples are historic lighthouses and buildings still in use. Deferred maintenance and condition information for heritage assets and general PP&E are presented in the required supplementary information. When multi-use heritage assets are no longer needed for operational purposes, they are reclassified as heritage assets, where most are transferred to other government agencies or public entities.

The USCG possesses a wide range of multi-use heritage assets, such as buildings, structures, and lighthouses that have historical and cultural significance.

CBP has four multi-use heritage assets located in Puerto Rico, which consist of customs houses that facilitate the collection of revenue for the Department.

FEMA has one multi-use heritage asset, the National Emergency Training Center, which is used by the Emergency Management Institute and the U.S. Fire Administration’s National Fire Academy for training in Emmitsburg, Maryland.

ICE has one multi-use heritage asset, a property consisting of 3.2 acres located along the southern coastline of the island of Oahu, in Honolulu, Hawaii. The ICE Honolulu Facility is a historic site included in the National Register of Historic Places.

13. Other Assets

Other Assets at September 30 consisted of the following (in millions):

	2020	2019
Intragovernmental:		
Advances and Prepayments	$ 862	$ 542
Total Intragovernmental	862	542
Public:		
Advances and Prepayments	964	929
Other Assets	2	2
Total Public	966	931
Total Other Assets	**$ 1,828**	**$ 1,473**

14. Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources at September 30 consisted of the following (in millions):

	2020	2019
Intragovernmental:		
Debt (Note 15)	$ 20,525	$ 20,525
Accrued FECA Liability (Note 18)	414	489
Other	144	83
Total Intragovernmental	21,083	21,097
Public:		
Federal Employee and Veterans' Benefits:		
Actuarial FECA Liability (Note 16)	2,495	3,095
Military Service and Other Retirement Benefits (Note 16)	67,319	62,012
Environmental and Disposal Liabilities (Note 17)	620	622
Other:		
Accrued Payroll and Benefits (Note 18)	1,958	1,616
Contingent Legal Liabilities (Note 21)	381	423
Capital Lease Liability (Note 19)	13	18
Other	89	129
Total Public	72,875	67,915
Total Liabilities Not Covered by Budgetary Resources	93,958	89,012
Total Liabilities Not Requiring Budgetary Resources	7,233	7,929
Liabilities Covered by Budgetary Resources	32,240	15,968
Total Liabilities	**$ 133,431**	**$ 112,909**

The Department anticipates that the portion of the Liabilities Not Covered by Budgetary Resources listed above will be funded from future budgetary resources when required. Total Liabilities Not Requiring Budgetary Resources represents liabilities for clearing accounts, non-fiduciary deposit funds, and custodial collections, including amounts due to the general fund. The remaining liabilities are substantially covered by current budgetary resources.

15. Debt

Debt at September 30 and activity for fiscal years ended FY 2020 and 2019 consisted of the following (in millions):

Debt to the Treasury General Fund:	2020	2019
NFIP:		
Beginning Balance	$ 20,525	$ 20,525
New Borrowing	-	-
Interest Payable	-	-
Canceled Debt	-	-
Ending Balance	**20,525**	**20,525**
DADLP (Credit Reform):		
Beginning Balance	71	16
New Borrowing	19	67
Interest Payable	-	-
Repayments	(19)	(12)
Ending Balance	**71**	**71**
Total Debt	**$ 20,596**	**$ 20,596**

The Department's intragovernmental debt is owed to Treasury and consists of borrowings to finance FEMA's NFIP and DADLP.

NFIP debt can have up to a ten-year term. Interest rates are obtained from Treasury and range by cohort year from 1.625% to 2.875% as of September 30, 2020, and from 1.125% to 2.875% as of September 30, 2019. Interest is paid semi-annually on March 31 and September 30. The total interest paid for the year was $438 million and $415 million as of September 30, 2020 and 2019, respectively. Interest is accrued based on the debt balances reported. Principal repayments are permitted any time during the term of the debt. At maturity, the debt may be repaid or refinanced. The debt and interest payments are financed by the flood premiums from policyholders. Given the current rate structure, FEMA will not be able to pay its debt from the premium revenue alone; therefore, FEMA does not anticipate repaying the debt in full. As a result of Hurricanes Harvey, Irma, and Maria, Congress enacted the Additional Supplemental Appropriations for Disaster Relief Requirements Act on October 26, 2017 (P.L. 115-72). The Act provides FEMA's Disaster Relief Fund with an additional $13,760 million for response and recovery activity, and $4,900 million to DADLP for debt to assist local governments in providing essential services.

In accordance with the requirements established by the Biggert-Waters Flood Insurance Reform Act of 2012, FEMA reports on the status of the debt; interest paid since 2005, and principal repayments to OMB and Congress on a quarterly basis. These requirements established a quarterly reporting requirement for the Reserve Ratio Requirement. There is a separate report for debt, interest, and principal repayments, where reports are due on a semi-annual basis.

Under Credit Reform, the unsubsidized portion of debt is borrowed from Treasury. The repayment terms of FEMA's borrowing are based on the life of each cohort of debt. Proceeds from collections of principal and interest from the borrowers are used to repay Treasury. In addition, an annual re-estimate is performed to determine any change from the original subsidy rate. If an upward re-estimate is determined to be necessary, these funds are available through permanent indefinite authority, which is to be approved by OMB. Once these funds are appropriated, the original borrowings are repaid to Treasury. The weighted average interest rates for FY 2020 and FY 2019 were 3.51% and 2.33%, respectively.

16. Federal Employee and Veterans' Benefits

Accrued liability for military service and other retirement and employment benefits at September 30 consisted of the following (in millions):

	2020	2019
USCG Military Retirement and Healthcare Benefits	$ 62,819	$ 57,445
USSS Uniformed Division and Special Agent Pension	4,500	4,567
Actuarial FECA Liability	2,495	3,095
Total Federal Employee and Veterans' Benefits	**$ 69,814**	**$ 65,107**

A. Reconciliation of Beginning and Ending Liability Balances for Pensions, and ORB

The reconciliation of beginning and ending liability balances for pensions, and ORB for the year ended September 30 consisted of the following (in millions):

For the Year Ended September 30, 2020:	**USCG Military Retirement System**	**USCG Military Health System**	**USSS Uniformed Division and Special Agent Pension**	**Total**
Beginning Liability Balance:	$ 50,870	$ 6,575	$ 4,567	$ 62,012
Expenses:				
Normal Cost	1,643	381	-	2,024
Interest on the Liability Balance	1,743	227	123	2,093
Actuarial Losses/(Gains):				
From Experience	41	50	(28)	63
From Assumption Changes	2,552	408	101	3,061
Prior Service Costs	127	-	-	127
Other	-	-	2	2
Total Expense	6,106	1,066	198	7,370
Less Amounts Paid	1,537	261	265	2,063
Ending Liability Balance	**$ 55,439**	**$ 7,380**	**$ 4,500**	**$ 67,319**

For the Year Ended September 30, 2019:	USCG Military Retirement System	USCG Military Health System	USSS Uniformed Division and Special Agent Pension	Total
Beginning Liability Balance:	$ 47,527	$ 6,471	$ 4,903	$ 58,901
Expenses:				
Normal Cost	1,410	277	-	1,687
Interest on the Liability Balance	1,750	222	119	2,091
Actuarial Losses/(Gains):				
From Experience	209	35	23	267
From Assumption Changes	1,450	(176)	(350)	924
Other	-	-	132	132
Total Expense	4,819	358	(76)	5,101
Less Amounts Paid	1,476	254	260	1,990
Ending Liability Balance	**$ 50,870**	**$ 6,575**	**$ 4,567**	**$ 62,012**

USCG Military Retirement System and Military Health System. The USCG's military service members (both current active component and reserve component) participate in the MRS. The USCG receives an annual "Retired Pay" appropriation to fund MRS benefits. The retirement system allows voluntary retirement with retired pay and benefits for active component members upon credit of at least 20 years of active service at any age. Reserve component members may retire after 20 years of creditable service with retired pay and health benefits beginning at age 60. Reserve component members may qualify for retired pay at an earlier age (but not earlier than age 50) if they perform certain active service after January 28, 2008.

The USCG's MHS is a post-retirement medical benefit plan that covers all active component and reserve component members of the USCG. The accrued MHS liability is for the healthcare of non-Medicare eligible retirees and beneficiaries. Effective October 1, 2002, the USCG transferred its liability for the healthcare of Medicare eligible retirees/beneficiaries to the DOD MERHCF, which was established to finance the healthcare benefits for the Medicare-eligible beneficiaries of all DOD and non-DOD uniformed services.

The actuarial accrued liability represents both retired pay for retirees, and healthcare benefits for non-Medicare eligible retirees/survivors. The present value of future benefits is the actuarial present value of the future payments that are expected to be paid under the retirement plan's provisions. Credited service is the years of service from active duty base date (or constructive date in the case of active duty reservists) to date of retirement measured in years and completed months. The actuarial accrued liability is the portion of the present value of the future benefits expected to be paid that is attributed to past service (service by participants rendered prior to the date of determination). USCG plan participants may retire after 20 years of active service at any age with annual benefits equal to 2.5% of retired base pay for each year of creditable active service under the legacy retirement program; the formula is 2% for those covered under BRS. The retired pay base depends upon the date of initial entry into military service (DIEMS). For

DIEMS of September 8, 1980, or later, the retired pay base would be the mean of the highest 36 months of basic pay earned (or would have earned if on active duty). For DIEMS of September 7, 1980, or earlier, the retired pay base would be the basic pay rate in effect on the first day of retirement (if a commissioned officer or an enlisted member) or the basic pay rate in effect on the last day of active duty before retirement (if a warrant officer).

If a USCG member is disabled, the member is entitled to disability benefits, provided (1) the disability is at least 30% under a Department of Veterans Affairs (VA) Schedule of Rating Disability and (2) the disability results from injuries or illnesses incurred in the line of duty. Disability retired pay is equal to the basic pay (as of the separation date) multiplied by the larger of the VA disability rating or 2.5% times the years of creditable service (2% for members covered under the BRS).

In FY 2020, several changes were made to the USCG actuarial assumptions. The major changes include (1) decrease of the current discount rate from 3.51% to 3.20% resulting in a liability increase of $2.89 billion, (2) lower assumed cost of living adjustments, decreasing the liability by $550 million and (3) higher assumed future salary increases that raised the liability by $193 million.

The significant actuarial assumptions used to compute the accrued pension and healthcare liability at September 30, 2020, are as follows:

1. For active duty members and reserves, USCG uses the MP-2016 Mortality Improvement Scale developed by the Society of Actuaries. For military retirees and annuitants, USCG uses the DOD Mortality Improvement tables. Disability, withdrawal, and retirement tables reflecting actual USCG experience were developed based on an USCG experience study dated April 28, 2020.
2. Cost of living increases for the retirement plan are 2.22%, based on a ten-year average of the Treasury Breakeven Inflation yield curve, which combines other Treasury rates to estimate the rate of inflation.
3. Healthcare cost increase assumptions are based on the annual liability report provided by DOD and vary, depending on the year and type of care.
4. The discount rate percent is determined in accordance with SFFAS No. 33 and is calculated independently for pensions and healthcare. The current discount rate is 3.20% for the retirement system and 3.12% for the health system.
5. Rates of salary increases are 2.22% annually, based on a ten-year average of military pay increases, but with a floor set equal to the assumed cost-of-living. This is in addition to assumed Merit Pay increases that reflect longevity increases, promotions, and advancements. The Merit Pay Table was modified in 2020, using actual USCG experience over the past six years.
6. Post-Retirement health benefit assumptions include a single equivalent medical cost trend rate of 3.85% and an ultimate medical trend rate of 4.05% after 25 years.
7. Last year, the FY 2019 valuation was prepared as of September 30, 2018 using economic assumptions based on a ten-year average to include the ending discount rate at September 30, 2018, and the results were projected to the end of the fiscal year to include the discount rate at September 30, 2019. This year, the FY 2020 valuation was prepared as of June 30, 2020 using economic assumptions based on a ten-year average to include the ending discount rate at June 30, 2020, including a general salary increase assumption that was modified to not fall below the assumed annual cost-of-

living assumption, and the results were projected to the end of the fiscal year to include the ending discount rate at September 30, 2020.

8. There was one MRS benefit change enacted last year. The survivor benefit was improved by phasing out a VA offset that is deducted from the Coast Guard benefit. This resulted in a one-time increase to the liability of $127 million and is recorded as a prior service cost.

Comparatively, the significant actuarial assumptions used to compute the accrued pension and healthcare liability at September 30, 2019, are as follows:

1. For active duty members and reserves, USCG uses the MP-2016 Mortality Improvement Scale developed by the Society of Actuaries. For military retirees and annuitants, USCG uses the DOD Mortality Improvement tables. Disability, withdrawal, and retirement tables reflecting actual USCG experience were developed based on an USCG experience study dated February 25, 2015.
2. Cost of living increases for the retirement plan are 2.29%, based on a ten-year average of the Treasury Breakeven Inflation yield curve, which combines other Treasury rates to estimate the rate of inflation.
3. Healthcare cost increase assumptions are based on the annual liability report provided by DOD and vary, depending on the year and type of care.
4. The discount rate percent is determined in accordance with SFFAS No. 33 and is calculated independently for pensions and healthcare. The current discount rate is 3.51% for the retirement system and 3.43% for the health system.
5. Rates of salary increases are 1.90% annually, based on a ten-year average of military pay increases. This is in addition to assumed Merit Pay increases that reflect longevity increases, promotions, and advancements. The Merit Pay Table was modified in 2019, using actual USCG experience over the past six years.
6. Post-Retirement health benefit assumptions include a single equivalent medical cost trend rate of 3.93% and an ultimate medical trend rate of 4% after 25 years.

USSS Uniformed Division and Special Agent Pension. Special agents and other USSS personnel in certain job series hired as civilians before January 1, 1984, are eligible to transfer to the District of Columbia Police Officers’ and Firefighters’ Retirement Plan (DC Pension Plan) after completion of ten years of USSS employment and ten years of protection-related experience. This plan also includes beneficiaries and dependents. All uniformed USSS officers who were hired before January 1, 1984, are automatically covered under this retirement system. Participants in the Uniformed Division and Special Agent Pension Plan make contributions of 7% of base pay with no matching contribution made by USSS. Annuitants of this plan receive benefit payments directly from the DC Pension Plan. The benefits for this plan are not currently prefunded and the USSS has no segregated plan assets. Each year’s contribution equals the benefits paid from the plan. USSS reimburses the District of Columbia for the difference between benefits provided to the annuitants and payroll contributions received from current employees. This liability is presented as a component of the liability for Federal Employee and Veterans’ Benefits in the accompanying Balance Sheet. SFFAS No. 5 requires the administrative entity (administrator) to report the actuarial liability. However, USSS records a liability because the administrator (the DC Pension Plan) is not a federal entity and as such the liability for future funding would not otherwise be recorded in the government-wide consolidated financial statements.

The primary actuarial assumptions used to determine the liability at September 30, 2020, are as follows:

1. The mortality assumption is based on the OPM non-U.S. Postal Service (USPS) mortality tables projected using the OPM projection scale. There are separate healthy and disabled annuitant tables.
2. The equalization pay is equal to the greater of
    - the average of the last 10 equalization pays for each category (General Service (GS), Uniformed Division (UD), and Senior Executive Service (SES)), and
    - Consumer Price Index assumption as determined by the Treasury Breakeven Inflation (TBI) yield curve.

    All annuitants were coded as GS or UD. There were no annuitants coded SES in the data. The average equalization pay over the last 10 years was 1.35% for the GS group and 1.44% for the UD group. The 10-year average equalization pays for the GS and UD groups are both less than the CPI assumption derived from a 10-year average (same period as the discount rate) of the TBI curve of 2.07%. The equalization pay assumption is 2.07% for all annuitants.
3. The assumption for future survivors' cost of living awards was based on the implicit ten-year average inflation assumption built into Treasury security prices plus the average number of survivor Cost of Living Allowance (COLA) awards over the last ten years. The implicit inflation from Treasury securities is derived from a ten-year average of the Treasury Breakeven Inflation (TBI) curve. Each time three percent award is granted an extra 100 basis point is added to the COLA award. Because there were 5 such awards over the last ten years, we added 50 basis points to the results. The basis point adjustment is reviewed annually based on the number of COLA awards over the past ten years. The COLA for survivors is 2.57%. As for the discount rate determination, the rounding of the COLA is to the nearest 0.01%.
4. The discount rate calculated in accordance with SFFAS No. 33 is 2.73%. The methodology in calculating this rate uses a ten-year Treasury average ending June 30 of the fiscal year. This is consistent with DOD, OPM, and the USCG. The rounding of the discount rate is to the nearest 0.01%.
5. Rates of salary increases are 0% annually because the vast majority of plan participants have already retired. All remaining active participants are assumed to retire immediately.
6. Family composition assumption used to determine survivor benefits is 85% based on the probability of marriage at commencement of benefits. Retired participants are assumed to have no eligible children.
7. The installment benefit payable upon the death of a retired participant is 40% of final pay, adjusted for cost-of-living increases if death occurs after retirement.

Comparatively, the primary actuarial assumptions used to determine the liability at September 30, 2019, are as follows:

1. The mortality assumption was changed from OPM Mortality Tables for healthy/disabled annuitants as described in the 2016 CSR report to the new OPM non-USPS mortality tables projected using the OPM projection scale.
2. Annuitants receive an annual cost of living increase in their retirement benefit based on equalization pay, which is the actual pay increase award to active members effective February 1, payable to retirees in March. To be consistent with the discount rate

method we have changed the assumption to equal the average of the last ten equalization pays for each category (General Service, Uniformed Division, Senior Executive Service). The equalization pay assumption is equal to the CPI assumption. The equalization pay assumption is 2.17% for all annuitants.
3. The assumption for future survivors' cost of living awards was changed to be based on the implicit ten-year average inflation assumption built into Treasury security prices plus the average number of survivor COLA awards over the last ten years. The implicit inflation from Treasury securities is derived from a ten-year average of the TBI curve. Each time three percent award is granted an extra 100 basis point is added to the COLA award. Because there were four such awards over the last ten years, we added 40 basis points to the results. The basis point adjustment is reviewed annually based on the number of COLA awards over the past ten years. The COLA for survivors is 2.57%. As for the discount rate determination, the rounding of the COLA was changed from the nearest 0.25% to the nearest 0.01%.
4. The discount rate calculated in accordance with SFFAS No. 33 is 3.02%. The methodology in calculating this rate changed from using a five-year of the average of the Treasury spot rates published on October 1 to a ten-year Treasury average ending March 31, 2019. This is consistent with DOD, OPM, and the USCG. The rounding of the discount rate is to the nearest 0.01%.
5. Rates of salary increases are 0% annually because the vast majority of plan participants have already retired. All remaining active participants are assumed to retire immediately.
6. Family composition assumption used to determine survivor benefits is 85% based on the probability of marriage at commencement of benefits. Retired participants are assumed to have no eligible children.
7. The installment benefit payable upon the death of a retired participant is 40% of final pay, adjusted for cost-of-living increases if death occurs after retirement.

B. Actuarial FECA Liability

The actuarial FECA liability represents the estimated liability for future workers' compensation and includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. Future workers' compensation estimates for the future cost of approved compensation cases, which are generated from an application of actuarial procedures developed by DOL, were approximately $2,495 million and $3,095 million at September 30, 2020 and 2019, respectively.

17. Environmental and Disposal Liabilities

Environmental and Disposal Liabilities at September 30, 2020 and 2019 are $622 million and $624 million, respectively. The Department is responsible for remediating its sites with environmental contamination and is party to various administrative proceedings, legal actions, and tort claims that may result in settlements or decisions adverse to the Federal Government. The source of remediation requirements to determine the environmental liability is based on compliance with federal, state, or local environmental laws and regulations. The major federal laws covering environmental response, cleanup, and monitoring are the *Comprehensive Environmental Response, Compensation and Liability Act of 1980* (P.L. 96-510) and the *Resource Conservation and Recovery Act* (P.L. 94-580).

The Department's environmental liabilities are due to light stations, lighthouses, long-range navigation, fuel storage tanks, underground storage tanks, buildings containing asbestos and/or lead-based paint, firing ranges, fuels, solvents, industrial chemicals, and other environmental cleanup associated with normal operations. Asbestos-related liabilities are those for the abatement of both friable and nonfriable asbestos.

Cost estimates for environmental and disposal liabilities are subject to revision as a result of changes in inflation, technology, environmental laws and regulations, and plans for disposal.

18. Other Liabilities

Other Liabilities consisted of the following (in millions):

As of September 30, 2020:	**Current**	**Non-Current**	**Total**
Intragovernmental:			
Due to the General Fund (Note 14)	$ 6,773	$ -	$ 6,773
Accrued FECA Liability (Note 14)	156	258	414
Advances from Others	105	-	105
Employer Benefits Contributions and Payroll Taxes	364	-	364
Other Intragovernmental Liabilities	506	59	565
Total Intragovernmental Other Liabilities	**$ 7,904**	**$ 317**	**$ 8,221**
Public:			
Accrued Liability for Lost Wages Assistance Program (See B. below)	$ 15,132	$ -	$ 15,132
Accrued Payroll and Benefits (See B. below)	3,404	-	3,404
Deferred Revenue and Advances from Others (See B. below)	2,716	447	3,163
Insurance Liabilities (Note 20)	2,707	123	2,830
Refunds and Drawbacks	552	-	552
Contingent Legal Liabilities (Note 21)	356	127	483
Capital Lease Liability (Note 19)	6	7	13
Other	1,544	1,783	3,327
Total Other Liabilities with the Public	**$ 26,417**	**$ 2,487**	**$ 28,904**
Total Other Liabilities	**$ 34,321**	**$ 2,804**	**$ 37,125**

As of September 30, 2019:	Current	Non-Current	Total
Intragovernmental:			
Due to the General Fund (Note 14)	$ 7,727	$ -	$ 7,727
Accrued FECA Liability (Note 14)	215	274	489
Advances from Others	111	-	111
Employer Benefits Contributions and Payroll Taxes	276	-	276
Other Intragovernmental Liabilities	145	3	148
Total Intragovernmental Other Liabilities	**$ 8,474**	**$ 277**	**$ 8,751**
Public:			
Accrued Payroll and Benefits (See B. below)	$ 2,889	$ -	$ 2,889
Deferred Revenue and Advances from Others (See B. below)	2,591	410	3,001
Insurance Liabilities (Note 20)	3,154	235	3,389
Refunds and Drawbacks	328	-	328
Contingent Legal Liabilities (Note 21)	191	290	481
Capital Lease Liability (Note 19)	5	13	18
Other	1,475	1,786	3,261
Total Other Liabilities with the Public	**$ 10,633**	**$ 2,734**	**$ 13,367**
Total Other Liabilities	**$ 19,107**	**$ 3,011**	**$ 22,118**

A. Intragovernmental Other Liabilities

Due to the General Fund. Amounts due to the Treasury general fund primarily represent duty, tax, and fees collected by CBP to be remitted to various general fund accounts maintained by Treasury.

Workers' Compensation. Claims incurred for the benefit of Department employees under FECA are administered by DOL and are ultimately paid by the Department. The accrued FECA liability represents money owed for current claims. Reimbursement to DOL for payments made occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intragovernmental liability are made available to the Department as part of its annual appropriation from Congress in the year in which the reimbursement takes place. Workers' compensation expense was $209 million and $221 million, respectively, for the fiscal years ended September 30, 2020 and 2019.

B. Other Liabilities with the Public

Accrued liabilities for Lost Wages Assistance Program. This liability represents unpaid obligations related to FEMA's Lost Wages Assistance Program in accordance with the Presidential Memorandum. For additional information, see Note 31, COVID-19 Activity.

Accrued Payroll and Benefits. Accrued Payroll and Benefits at September 30 consisted of the following (in millions):

	2020	2019
Accrued Funded Payroll and Benefits	$ 1,299	$ 1,169
Accrued Unfunded Leave	1,957	1,615
Unfunded Employment Related Liabilities	1	1
Other	147	104
Total Accrued Payroll and Benefits	**$ 3,404**	**$ 2,889**

Deferred Revenue and Advances from Others. Deferred Revenue and Advances from Others for the years ended September 30 consisted of the following (in millions):

	2020	2019
USCIS Application Fees	$ 2,363	$ 2,213
FEMA Unearned NFIP Fees	631	624
Advances from Others	169	164
Total Deferred Revenue	**$ 3,163**	**$ 3,001**

USCIS' deferred revenue relates to fees received at the time of filing for applications or petitions for immigration and naturalization benefits that are recognized as revenue when the application or petition is adjudicated.

FEMA's deferred revenue relates to other NFIP unearned revenue including the federal policy fee, reserve fund assessment, and HFIAA surcharge.

Other Liabilities. Other public liabilities consist primarily of immigration bonds, deposit and suspense fund liability.

19. Leases

A. Operating Leases

The Department leases various facilities and equipment accounted for as operating leases. Leased items consist of offices, warehouses, vehicles, and other equipment. The majority of office space occupied by the Department is either owned by the Federal Government or is leased by GSA from commercial sources. The estimated future lease payments for non-cancellable operating leases are based on lease contract terms, considering payments made during the year ended September 30, 2020.

As of September 30, 2020, estimated future minimum lease commitments for non-cancellable operating leases were as follows (in millions):

	Land and Buildings		
	Federal	Non-Federal	Total
FY 2021	$ 507	$ 34	$ 541
FY 2022	468	14	482
FY 2023	425	11	436
FY 2024	397	9	406
FY 2025	369	4	373
After FY 2025	2,879	9	2,888
Total Future Minimum Lease Payments	**$ 5,045**	**$ 81**	**$ 5,126**

The Department also enters into cancellable lease agreements with GSA for which lease terms frequently exceed one year. The Department is not committed to continue paying rent to GSA beyond the period occupied, providing that proper advance notice to GSA is made, unless the space occupied is designated as unique to Department operations. However, the Department normally continues to occupy the leased space from GSA for an extended period of time with little variation from year to year. Lease charges are adjusted annually to reflect operating costs incurred by GSA.

B. Capital Leases

The Department maintains capital leases for buildings and commercial software license agreements. The liabilities associated with capital leases and software license agreements are presented as other liabilities in the accompanying financial statements based upon the present value of the future minimum lease payments.

Certain license agreements are cancellable depending on future funding. Substantially all of the net present value of capital lease obligations and software license agreements will be funded from future sources. All of the Department’s capital leases are non-federal.

As of September 30, the summary of assets under capital lease was as follows (in millions):

	2020	2019
Land and Buildings	$ 68	$ 68
Software	-	-
Vehicles and Equipment	1	1
Accumulated Amortization	(60)	(57)
Assets under Capital Lease, Net	**$ 9**	**$ 12**

The estimated future lease payments for capital leases are based on lease contract terms. As of September 30, 2020, estimated future minimum lease payments under capital leases, were as follows (in millions):

	Land and Buildings		
	Federal	Non-Federal	Total
FY 2021	$ -	$ 6	$ 6
FY 2022	-	6	6
FY 2023	-	3	3
FY 2024	-	-	-
FY 2025	-	-	-
After FY 2025	-	-	-
Total Future Minimum Lease Payments	-	15	15
Less: Imputed Interest and Executory Costs	-	(2)	(2)
Total Capital Lease Liability	**$ -**	**$ 13**	**$ 13**

20. Insurance Liabilities

The insurance liability for unpaid losses and related loss adjustment expenses and amounts paid for the years ended September 30 consisted of the following (in millions):

	2020	2019
Beginning Balance	$ 1,360	$ 1,658
Incurred Claim Losses	687	1,674
Incurred Claim Loss Adjustment Expenses	76	144
Less Payments to Settle Claims		
Claim Losses	(1,284)	(1,959)
Loss Adjustment Expenses	(127)	(160)
Recoveries and Other Adjustments		
Claim Losses	1	3
Ending Balance	**713**	**1,360**
Liability for Unearned Insurance Premiums	**2,117**	**2,029**
Total Insurance Liability	**$ 2,830**	**$ 3,389**

Insurance liabilities consist of NFIP claim activity. This claim activity represents an estimate of NFIP loss and loss adjustment expense factors inherent in the NFIP insurance underwriting operations experience and expectations. Estimation factors used by the insurance underwriting operations reflect current case basis estimates and give effect to estimates of trends in claim severity and frequency. These estimates are periodically reviewed, and adjustments, reflected in current operations, are made as necessary.

Insurance liabilities are covered by a permanent and indefinite appropriation, which is available to pay all valid claims after adjudication. Accordingly, these insurance liabilities are covered by budgetary resources.

The total premiums collected as of September 30, 2020 is $3,471 million. The total amount of coverage provided through insurance in-force[7] as of September 30, 2020 is $1,338,857 million. However, it is unlikely that there would be flooding events across the United States requiring the entire insurance in force amount to be filed at one time.

The liability for losses on remaining coverage as of September 30, 2020 is $0. The Department evaluated the unearned premium reserve, net of operating expenses, to determine if it is sufficient to meet the typical future claims that these policies will incur before they expire. Since less than 20% of NFIP policies are subsidized (that is, less than full risk) premiums, the unearned premium reserve, by itself, has a projected deficiency. However, the NFIP has two other sources of funds that can also be used to pay future claims that more than offset that deficiency. Those additional funds are the unearned reserved fund assessment and the unearned HFIAA of 2014 surcharge. This positive outcome is because the deficiency in the unearned premium due to discounted premium—which has been declining due to the increases in subsidized premiums mandated by Biggert-Waters Flood Insurance Modernization Act of 2012—is now more than offset by the unearned Reserve Fund Assessment and the unearned HFIAA surcharge. Actual flood losses are highly variable from year to year. For the majority of years, the unearned premium reserve is adequate to pay the losses and expenses associated with the unearned premium.

21. Commitments and Contingent Liabilities

A. Contingent Legal Liabilities

The Department is a party in various administrative proceedings, legal actions, and tort claims that may ultimately result in settlements or decisions adverse to the Federal Government. These contingent liabilities arise in the normal course of operations, and their ultimate disposition is unknown.

In the opinion of the Department's management and legal counsel, based on information currently available, the expected outcome of legal actions, individually or in the aggregate, are summarized in the categories below (in millions):

	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
As of September 30, 2020:			
Legal Contingencies			
Probable	$ 445	$ 445	$ 459
Reasonably Possible	-	$ 538	$ 1,001
Environmental Contingencies			
Probable	38	38	38
Reasonably Possible	-	28	354

[7] "In-force" refers to arrangements that are unexpired as of a given date.

	Accrued Liabilities	Estimated Range of Loss Lower End	Upper End
As of September 30, 2019:			
Legal Contingencies			
Probable	$ 472	$ 472	$ 509
Reasonably Possible	-	$ 325	$ 948
Environmental Contingencies			
Probable	9	9	32
Reasonably Possible	-	29	360

The claims above generally relate to the *Federal Tort Claims Act* (P.L. 79-601), OSLTF, personnel grievances, and various customs laws and regulations. The total estimated contingent liability recorded in the accompanying financial statements as of September 30, 2020, and 2019, was $483 million and $481 million, respectively, of which $102 million and $58 million, respectively, was funded.

As of September 30, 2020, and 2019, legal claims exist for which the potential range of loss could not be determined; however, the total amount claimed is not material to the financial statements. In addition, other claims exist for which the amount claimed, and the potential range of loss could not be determined.

Once a claim is either settled or a court judgment is assessed against DHS, and the Judgment Fund, which is maintained by Treasury, is determined to be the appropriate source for the payment of the claim, the liability would be removed from the DHS financial statements and an "other financing source" amount (which represents the amount to be paid by the Judgment Fund) would be recognized. If the Judgment Fund is responsible for only a portion of the claim or settlement, the other financing source amount would reflect only that amount to be paid by the Judgment Fund on behalf of DHS.

B. Duty and Trade Refunds

There are various trade-related matters that fall under the jurisdiction of other federal agencies, such as the Department of Commerce, which may result in refunds of duties, taxes, and fees from CBP refunds and drawbacks. Until a decision is reached by the other federal agencies, CBP does not have sufficient information to estimate a contingent liability amount. All known duty and trade refunds as of September 30, 2020 and 2019 have been recorded.

C. Loaned Aircraft and Equipment

The Department is generally liable to DOD for damage or loss to aircraft on loan to CBP and vessels on loan to the USCG. As of September 30, 2020, CBP had 16 aircraft on loan from DOD with a total replacement value of up to $23 million per aircraft. As of September 30, 2020, the USCG had four vessels on loan from DOD with a total replacement value of $48 million.

D. Other Contractual Arrangements

In addition to future lease commitments disclosed in Note 19, the Department is committed under contractual agreements for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all Department activities are disclosed in Note 26. In accordance with the National Defense Authorization Act for Fiscal Year 1991 (P.L. 101-510), the Department is required to automatically cancel obligated and unobligated balances of appropriated funds five years after a fund expires. Obligations that have not been paid at the time an appropriation is cancelled may be paid from an unexpired appropriation that is available for the same general purpose. As of September 30, 2020, and 2019, the Department estimates total payments related to cancelled appropriations to be $257 million and $217 million, respectively, of which $224 million and $178 million, respectively, may require future funding.

TSA maintains one letter of intent (LOI) for modifications to airport facilities in which TSA uses cost-sharing agreements with the airports to modify the facilities for checked baggage screening projects. An LOI, though not a binding commitment of federal funding, represents TSA's intent to provide the agreed-upon funds in future years if the agency receives sufficient appropriations to cover the agreement. TSA employs other transaction agreements (OTAs) to fund the installation of integrated and non-integrated Explosive Detection Systems (EDS) and explosive trace detection equipment as well as improvements to be made to the existing systems in the baggage handling areas. These OTAs establish the respective cost-sharing obligations and other responsibilities of TSA and the specific entity (board, port, or authority) conducting the installations or improvements. P.L. 108-176 established the Aviation Security Capital Fund. In FY 19, P.L. 110-53 authorized TSA to set aside $250 million annually to fund LOIs ($200 million annually) and OTAs ($50 million annually). In FY 20, P.L. 116-93 (for FY 20), did not contain the language that provided specific authorized funding amounts for LOIs and OTAs. It stated that any funds in the Aviation Security Capital Fund may be used for procurement and installation of explosive detection systems or for the issuance of OTAs for the purposes of funding projects per section 44923(as) of title 49 of the USC. Therefore, TSA was not required to fund LOIs, did not fund any new LOIs, and did not increase any funding for the existing LOIs in FY20. As of September 30, 2020, and 2019, TSA received invoices or documentation for costs incurred totaling $0 and $11 million, respectively, for unpaid invoices.

Under section 1604(b)(2) of the 9/11 Act, TSA is required to give funding consideration to airports that incurred eligible costs for in-line baggage screening systems but were not recipients of funding agreements. TSA began reviewing claims from at least 16 airports for reimbursement of costs incurred for in-line baggage systems installed prior to FY 2008. In FY 2018, TSA compiled this review and identified up to $217.9 million of potential costs eligible for reimbursement. In FY 2020 and 2019, Congress appropriated $40 million to begin reimbursing airports for these costs, leaving a future funded liability of $87.9 and $127.9 million, respectively, for reimbursing airports for eligible costs.

22. Funds from Dedicated Collections

SFFAS No. 27, *Identifying and Reporting Earmarked Funds*, as amended by SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27,* defines the following three criteria for determining a fund from dedicated collections: 1) a statute committing the Federal Government to use specifically identified revenue and/or other financing sources that are originally provided to the Federal Government by a non-federal source only for designated activities, benefits, or purposes; 2) explicit authority for the fund to retain revenue and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and 3) a requirement to account for and report on the receipt, use, and retention of the revenue and/or other financing sources that distinguished the fund from the Federal Government's general revenue.

A fund from dedicated collection may contain non-federal sources of revenue and other financing sources that are material to the reporting entity provided it meets the criteria reported above.

Intradepartmental activity reported in a fund from dedicated collection is often offset with activity in other funds. Accordingly, the Department presents information for funds from dedicated collections and all other funds in the Balance Sheets and Statements of Changes in Net Position on a combined basis. The elimination of intradepartmental activity between dedicated collections and all other funds is presented in the Statements of Changes of Net Position.

Funds from dedicated collections consisted of the following (in millions):

Funds from Dedicated Collections (in millions)

	Customs User Fees	Sport Fish Restoration and Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Combined Funds from Dedicated Collections
Balance Sheet as of September 30, 2020								
ASSETS								
Intragovernmental:								
Fund Balance with Treasury	$ 511	$ 44	$ 2,203	$ 6,401	$ 20	$ 1,131	$ 1,432	$ 11,742
Investments, Net	-	2,104	-	1,635	7,346	-	2	11,087
Accounts Receivable	-	112	8	-	183	-	4	307
Other	-	-	16	-	2	-	24	42
Total Intragovernmental Assets	511	2,260	2,227	8,036	7,551	1,131	1,462	23,178
Cash and other monetary assets	-	-	36	19	-	-	6	61
Accounts Receivable, Net	360	-	-	3	940	-	177	1,480
General Property, Plant, and Equipment, Net	-	-	898	6	-	6	19	929
Other	-	-	34	598	-	-	6	638
Total Assets	**$ 871**	**$ 2,260**	**$ 3,195**	**$ 8,662**	**$ 8,491**	**$ 1,137**	**$ 1,670**	**$ 26,286**
LIABILITIES								
Intragovernmental:								
Accounts Payable	$ -	$ 1,369	$ 50	$ -	$ 184	$ -	$ 5	$ 1,608
Debt	-	-	-	20,525	-	-	-	20,525
Other Liabilities	12	-	33	1	-	-	181	227
Total Intragovernmental Liabilities	$ 12	$ 1,369	$ 83	$ 20,526	$ 184	$ -	$ 186	$ 22,360
Accounts Payable	-	-	103	82	-	89	17	291
Federal Employee and Veteran Benefits	-	-	53	-	-	-	-	53
Other	-	-	2,663	3,423	-	76	18	6,180
Total Liabilities	**$ 12**	**$ 1,369**	**$ 2,902**	**$ 24,031**	**$ 184**	**$ 165**	**$ 221**	**$ 28,884**
NET POSITION								
Cumulative Results of Operations	$ 859	$ 891	$ 293	$ (15,369)	$ 8,307	$ 972	$ 1,449	$ (2,598)
Total Liabilities and Net Position	**$ 871**	**$ 2,260**	**$ 3,195**	**$ 8,662**	**$ 8,491**	**$ 1,137**	**$ 1,670**	**$ 26,286**

	Customs User Fees	Sport Fish Restoration and Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Combined Funds from Dedicated Collections
Statement of Net Cost for the Year Ended September 30, 2020								
Gross Program Costs	$ 747	$ 112	$ 4,332	$ 3,025	$ 141	$ 162	$ 1,396	$ 9,915
Less: Earned Revenue	-	-	(3,730)	(4,536)	(159)	(250)	(676)	(9,351)
Net Cost of Operations	**$ 747**	**$ 112**	**$ 602**	**$ (1,511)**	**$ (18)**	**$ (88)**	**$ 720**	**$ 564**
Statement of Changes in Net Position for the Year Ended September 30, 2020								
Net Position Beginning of Period	$ 1,015	$ 800	$ 682	$ (16,903)	$ 7,876	$ 996	$ 1,745	$ (3,789)
Net Cost of Operations	(747)	(112)	(602)	1,511	18	88	(720)	(564)
Non-exchange Revenue	665	744	-	19	520	-	272	2,220
Other	(74)	(541)	213	4	(107)	(112)	152	(465)
Change in Net Position	(156)	91	(389)	1,534	431	(24)	(296)	1,191
Net Position, End of Period	**$ 859**	**$ 891**	**$ 293**	**$ (15,369)**	**$ 8,307**	**$ 972**	**$ 1,449**	**$ (2,598)**

Customs User Fees

In 1986, *Consolidated Omnibus Budget Reconciliation Act (COBRA)* (P.L. 99-272) required CBP to collect user fees for certain services. The law initially established processing fees for air and sea passengers, commercial trucks, rail cars, private vessels and aircraft, commercial vessels, dutiable mail packages, and CBP broker permits. An additional fee category was added later that year for processing barges and bulk carriers for Canada and Mexico. These fees are deposited into Customs User Fees accounts (Treasury Appropriation Fund Symbol (TAFS) 705695.30 and 70X5695).

In addition to the collection of user fees, other changes in CBP procedures were enacted due to the COBRA statute. Most importantly, provisions were included for providing non-reimbursable inspectional overtime services and paying for excess pre-clearance costs from COBRA user fee collections.

The *Customs and Trade Act of 1990* amended COBRA to provide for the hiring of inspection personnel, the purchasing of equipment, and the covering of related expenses with any surplus monies available after overtime and excess pre-clearance costs are satisfied. Expenditures from the surplus can only be used to enhance the service provided to those functions for which fees are collected. The fees for certain customs services are provided by 19 USC 58c.

In 2004, the *American Jobs Creation Act of 2004* (P.L. 108–357) was signed into law. Section 892 of the American Jobs Creation Act amended 19 U.S.C. 58c to renew the fees provided under COBRA, which would have otherwise expired March 1, 2005, and to allow the Secretary of the Treasury to increase such fees by an amount not to exceed ten percent in the period beginning fiscal year 2006. The ten percent increase took effect in 2007. See 72 Fed. Reg. 3730 (Jan. 26, 2007).

In 2011, section 601 of the *United States-Colombia Trade Promotion Agreement Implementation Act of 2011* (P.L. 112-42) lifted the exemption that excluded air and sea passengers from Canada, Mexico, the Caribbean, and adjacent islands, from having to pay the COBRA air, sea, and cruise vessel passenger fees. COBRA Free Trade Agreement fees are deposited in the Customs User Fee accounts and are available only to the extent provided in annual appropriations acts.

In 2015, the *Fixing America's Surface Transportation Act* (FAST Act, P.L. 114-94) was signed into law. Section 32201 of the FAST Act amends section 13031 of the COBRA of 1985 (19 U.S.C. 58c) by requiring certain customs COBRA user fees and corresponding limitations to be adjusted by the Secretary of the Treasury to reflect certain increases in inflation. The customs COBRA user fees and limitations were first eligible to be adjusted in 2016, and at the beginning of each fiscal year to reflect the percent increase (if any) in the average of the CPI for the preceding 12-month period compared to the CPI for fiscal year 2014. The statute permits the Secretary to ignore any CPI increase of less than one percent from the time of the previous adjustment. The increases first took effect in FY 2018 and continued in subsequent years.

Sport Fish Restoration and Boating Trust Fund

The SFRBTF, previously known as the Aquatic Resources Trust Fund, was created by Section 1016 of the *Deficit Reduction Act of 1984* (P.L. 98-369). Two funds were created under this Act, the Boating Safety Account and the Sport Fish Restoration Account. The *Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users* (P.L. 109-59) later amended the Deficit Reduction Act of 1984 by combining the Boating Safety and the Sport Fish Restoration accounts into the SFRBTF. The SFRBTF has been the source of budget authority for the boat safety program for many years through the transfer of appropriated funds. The SFRBTF is a Treasury-managed fund and provides funding to states and other entities to promote boating safety and conservation of U.S. recreational waters.

This fund receives revenue transferred from custodial activities of the Treasury, which is deposited in a Treasury account. The revenue is derived from a number of sources, including motorboat fuel tax, excise taxes on sport fishing equipment, and import duties on fishing tackle and yachts. Three agencies share in the available portion of the revenue: Fish and Wildlife Service in the Department of Interior (TAFS 14X8151); the U.S. Army Corps of Engineers (TAFS 96X8333); and the USCG (TAFS 70X8149 and TAFS 70X8147).

The most recent reauthorizations of SFRBTF and expenditure of Boating Safety funds for the National Recreational Boating Safety Program were enacted in 2015 in *the Fixing America's Surface Transportation Act* (P.L. 114-94), in 2012 in the *Moving Ahead for Progress in the 21st Century Act* (P.L. 112-141), in 2005 in the *Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users* (P.L. 109-59) and the *Sportfishing and Recreational Boating Safety Amendments Act of 2005* (P.L. 109-74).

<u>Immigration Examination Fees</u>

In 1988, Congress established the Immigration Examination Fee Account (IEFA), and the fees deposited into the IEFA have been the primary source of funding for providing immigration and naturalization benefits and other benefits as directed by Congress. The *Immigration and Nationality Act* (INA) (P.L. 82-414, Section 286(m)) provides for the collection of fees at a level that will ensure recovery of the costs of providing adjudication and naturalization services, including the costs of providing similar services without charge to asylum applicants and other immigrants. The INA also states that the fees may recover administrative costs. This revenue remains available to provide immigration and naturalization benefits and allows the collection, safeguarding, and accounting for fees.

The primary sources of revenue are the application and petition fees that are collected during the course of the fiscal year and deposited into the IEFA (TAFS 70X5088). In addition, USCIS provides specific services to other federal agencies, such as the provision of immigration status information under the Systematic Alien Verification for Entitlements program for use in adjudicating aliens' eligibility for public benefits that results in the collection of revenue arising from intragovernmental activities.

<u>National Flood Insurance Program</u>

The NFIP was established by the *National Flood Insurance Act of 1968* (P.L. 90-448). The purpose of NFIP is to better indemnify individuals for flood losses through insurance, reduce future flood damages through state and community floodplain management regulations, and reduce federal expenditures for disaster assistance and flood control.

The *Flood Disaster Protection Act of 1973* (P.L. 93-234) expanded the authority of FEMA and its use of the NFIP to grant premium subsidies as an additional incentive to encourage widespread state, community, and property owner acceptance of the program requirements.

The *National Flood Insurance Reform Act of 1994* (P.L. 103-325) reinforced the objective of using insurance as the preferred mechanism for disaster assistance by expanding mandatory flood insurance purchase requirements and by prohibiting further flood disaster assistance for any property where flood insurance, after having been mandated as a condition for receiving disaster assistance, is not in force.

The *Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004* (P.L. 108-264) provides additional tools for addressing the impact of repetitive loss properties on the National Flood Insurance Fund.

The *Biggert-Waters Flood Insurance Reform Act of 2012* (P.L. 112-141) and the *Homeowner Flood Insurance Affordability Act of 2014* (P.L. 113-89) amended the National Flood Insurance Act of 1968 to extend the NFIP, the financing for it, and established a National Flood Insurance Reserve Fund to meet the expected future obligations of the NFIP. The acts authorized FEMA to secure reinsurance coverage from private reinsurance and capital markets to maintain the financial ability of the program to pay claims from major flooding events. The reinsurance agreement places the NFIP in a better position to manage losses incurred that result from major flooding events.

Under the NFIP, the Department pays claims to policyholders who experience flood damage due to flooding. The write your own (WYO) companies that participate in the program have authority to use departmental funds (revenue and other financing sources) to respond to the obligations to the policyholders. Congress has mandated that the premium collections be used to pay claims and commissions and taxes of agents, insurance operations, interest on the debt, and for flood mitigation assistance actions.

The NFIP requires all partners (WYO companies) in the program to submit financial statements and statistical data to the third-party service providers on a monthly basis. This information is reconciled, and the WYO companies are required to correct any variances.

The NFIP's primary source of revenue comes from premiums collected to insure policyholders' property. These resources are inflows to the Government and are not the result of intragovernmental flows. When claims exceed revenue, FEMA has borrowing authority that can be accessed to satisfy outstanding claims. The following TAFS are part of the NFIP: 70X4236 and 70X5701.

<u>**Oil Spill Liability Trust Fund**</u>

The OSLTF was originally established under section 9509 of the *Internal Revenue Code of 1986. The Oil Pollution Act of 1990* (OPA) (P.L. 101-380*)* authorized the use of the money and the collection of revenue necessary for its maintenance.

OPA defined fund uses include removal costs incurred by the USCG and the Environmental Protection Agency; state access for removal activities; payments to federal, state, and Indian tribe trustees to conduct natural resource damage assessments and restorations; payment of claims for uncompensated removal costs and damages; costs and expenses reasonably necessary for the implementation of OPA (subject to congressional appropriations); and other specific appropriations by the Congress.

The OSLTF includes two major funds managed by the USCG: The Principal Fund (TAFS 70X8185) and the Payment of Claims (TAFS 70X8312). All revenue is deposited directly into the Principal Fund. The recurring and nonrecurring revenue is derived from a number of sources, including barrel tax, interest from U.S. Treasury investments, cost recoveries, and fines and penalties. Additionally, two of the six expenditure accounts are managed by the USCG. These include Oil Spill Recovery (TAFS 70X8349) and Trust Fund Share of Expenses (TAFS 70_8314). Oil Spill Recovery funds the activities overseen by federal on-scene coordinators in response to covered discharges and the activities of federal trustees to initiate natural resource damage assessments. This account annually receives a $50 million appropriation that remains available until expended. Trust Fund Share of Expenses receives annual appropriations from the OSLTF that are then distributed to the USCG Operations and Support; Procurement, Construction and Improvement; and Research and Development appropriations. By statute, the maximum amount that can be expended from the OSLTF with respect to any single incident shall not exceed $1,000 million, of which no more than $500 million may be spent on natural resource damage. The maximum amount expended with respect to a single incident is net of amounts expended and amounts recovered.

On April 20, 2010, the offshore drilling platform, Deepwater Horizon, exploded and sank 52 miles southeast of Venice, Louisiana. An estimated 4.9 million barrels of oil leaked from the sunken platform's undersea ruptured pipe. The states of Louisiana, Mississippi, Alabama, Florida, and Texas were affected by the spill. On April 4, 2016, the U.S. District Court approved a settlement plan between the Department of Justice and BP. The consent decree requires BP to pay a penalty to the U.S. Government under a 15-year payment plan that requires annual payments beginning on April 4, 2017. Of the total amount owed to the U.S. Government, the OSLTF will receive a total of $935 million plus interest. The final installment payment will be the accrued interest of $60 million. In addition, BP was assessed $374 million for unpaid costs and damages paid from the OSLTF through July 2, 2015, to be paid in annual installments over eight years beginning in 2016. No interest will be accrued on this amount. Although the Consent Decree has been approved, USCG has the authority to bill BP for response costs incurred since July 2, 2015 (the cutoff date for the Consent Decree).

Contingent Liabilities. The OSLTF, which is administered by the USCG National Pollution Funds Center (NPFC), may be available to pay claims for OPA specified costs and damages, not paid by BP, or another responsible party. Under OPA, claimants are required to present their claims first to the responsible parties (or the Gulf Coast Claims Facility for Deepwater Horizon costs); if the responsible party is not identified or denies the claims, the claimant may then file an action in court or file a claim against the OSLTF through the NPFC. For additional information, see Note 21, Commitments and Contingencies.

Aviation Security Capital Fund

Vision 100--Century of Aviation Reauthorization Act (P.L. 108-176) established the Aviation Security Capital Fund (TAFS 70X5385 and 70C5385). The fund's revenue is derived from security service fees in accordance with 49 USC 44940. Annually, the first $250 million derived from Aviation Security fees are deposited into this fund. TSA provides funding to airport sponsors for projects to (1) replace baggage conveyor systems related to aviation security, (2) reconfigure terminal baggage areas as needed to install EDS, (3) deploy EDS behind the ticket counter, in the baggage sorting area, or in line with the baggage handling system, and (4) make other airport security capital improvements.

All Other Funds from Dedicated Collections

The balances and activity reported for all other funds from dedicated collections result from the funds listed below. Information related to these funds can be located in the Department's appropriations legislation or the statutes referenced.

- 70_0715: Radiological Emergency Preparedness Program, Federal Emergency Management Agency, Department of Homeland Security; 117 Stat. 516
- 70X0715: Radiological Emergency Preparedness Program, Federal Emergency Management Agency, Department of Homeland Security; 117 Stat. 516
- 70X5089: U.S. Customs and Border Protection, Land Border Inspection Fees, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135

- 70_5087: U.S. Customs and Border Protection, Immigration User Fees, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5087: U.S. Customs and Border Protection, Immigration User Fees, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5126: Breach Bond/Detention Fund, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5378: Student and Exchange Visitor Program, Border and Transportation Security, Department of Homeland Security; 110 Stat. 3009-706, Sec. (e)(4)(B)
- 70X5382: Immigration User Fee Account, BICE, Department of Homeland Security; 116 Stat. 2135
- 70_5389: H-1B and L Fraud Prevention and Detection Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 118 Stat. 3357, Sec. 426(b)(1)
- 70X5389: H-1B and L Fraud Prevention and Detection Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 118 Stat. 3357, Sec. 426(b)(1)
- 70X5390: Unclaimed Checkpoint Money, Transportation Security Administration, Department of Homeland Security; 118 Stat. 1317-1318, Sec.515(a)
- 70X5451: Immigration Enforcement Account, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5542: Detention and Removal Operations, U.S. Immigration and Customs Enforcement, Department of Homeland Security; 8 USC 1356(m)-(n); P.L. 107-296, Sec. 476c
- 70X5545: Airport Checkpoint Screening Fund, Transportation Security Administration, Department of Homeland Security; P.L. 110-161
- 70X5595: Electronic System for Travel Authorization (ESTA) Fees, U.S. Customs and Border Protection, Department of Homeland Security; P.L. 110-53, 121 Stat. 344; P.L. 111-145, 124 Stat. 56
- 70_5694: User Fees, Small Airports, U.S. Customs Service, Department of Homeland Security; 116 Stat. 2135
- 70X5694: User Fees, Small Airports, U.S. Customs Service, Department of Homeland Security; 116 Stat. 2135
- 70X8244: Gifts and Donations, Department Management, Department of Homeland Security; 116 Stat. 2135
- 70X8533: General Gift Fund, U.S. Coast Guard, Department of Homeland Security; 116 Stat. 2135
- 70X8870: Harbor Maintenance Fee Collection, U.S. Customs Service, Department of Homeland Security; 116 Stat. 2135
- 70_5106: H-1 B Nonimmigrant Petitioner Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 116 Stat. 2135
- 70X5106: H-1 B Nonimmigrant Petitioner Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 116 Stat. 2135

- 70X8360: Gifts and Bequests, Federal Law Enforcement Training Centers, Department of Homeland Security; 116 Stat. 2135
- 70X5543: International Registered Traveler Program Fund, U.S. Customs and Border Protection, Department of Homeland Security; 121 Stat. 2091-2092
- 70_5710: Coast Guard Housing Fund, U.S. Coast Guard, Department of Homeland Security, 14 USC 687(c)
- 70X5710: Coast Guard Housing Fund, U.S. Coast Guard, Department of Homeland Security, 14 USC 687(c)
- 70X5569: Asia-Pacific Economic Cooperation Business Travel Cards, U.S. Customs and Border Protection, Department of Homeland Security, 125 Stat. 551
- 70X4363: Enhanced Inspectional Services, U.S. Customs and Border Protection, Department of Homeland Security, 127 Stat. 378
- 70X5702: 9-11 Response and Biometric Exit Account, U.S. Customs and Border Protection, Department of Homeland Security, P.L. 114-113, Sec. 402(g)
- 70_5677: Abandoned Seafarers Fund, U.S. Coast Guard, Department of Homeland Security, 128 Stat. 3051
- 70X5677: Abandoned Seafarers Fund, U.S. Coast Guard, Department of Homeland Security, 128 Stat. 3051
- 70X1910: Citizenship Gift and Bequest Account, U.S. Citizenship and Immigration Services, Department of Homeland Security, 131 Stat. 422

23. Available Borrowing Authority

For the Years Ended September 30 (in millions):	**2020**	**2019**
Beginning Borrowing Authority	$ 6	$ 6
Current Year Borrowing Authority Realized	9,970	9,983
Decrease in Current Year Borrowing Authority Realized	(9,937)	(9,916)
Net Current Year Borrowing Authority Realized	33	67
Less: Borrowing Authority Converted to Cash	(19)	(67)
Ending Borrowing Authority	**$ 20**	**$ 6**

FEMA has borrowing authority to pay insurance claims as part of the NFIP and to finance CDLs under DADLP. Borrowing authority is budget authority enacted by law to permit an agency to borrow money and then obligate and disburse against amounts borrowed for a specified purpose. As of September 30, 2020, and 2019, net current year borrowing authority realized presented in the Statement of Budgetary Resources (SBR) totaled $33 million and $67 million, respectively.

FEMA is authorized to borrow from Treasury up to $30,425 million to fund the payment of flood insurance claims and claims-related expenses of the NFIP. Amounts borrowed at any time are not predetermined, and authority is used only as needed to pay existing obligations for claims and expenses. Insurance premiums collected are used to pay insurance claims and to repay borrowings. As of September 30, 2020, and 2019, FEMA had drawn from Treasury $20,525 million, leaving $9,900 million available to be borrowed.

FEMA also requests borrowing authority annually to cover the unsubsidized portion of loans made, finance downward re-estimates, modifications, modification adjustment transfers, and annual interest payment to Treasury at year-end. In FY 2020, FEMA requested borrowing totaling $70 million. As of September 30, 2020, the ending available borrowing authority of $20 million was to cover current obligations for CDLs still disbursing.

24. Legal Arrangements Affecting the Use of Unobligated Balances

Unobligated balances whose period of availability has expired are not available to fund new obligations. Expired unobligated balances are available to pay for current period adjustments to obligations incurred prior to expiration. For a fixed appropriation account, the balance can be carried forward for five fiscal years after the period of availability ends. At the end of the fifth fiscal year, the account is closed, and any remaining balance is canceled and returned to Treasury. For a no-year account, the unobligated balance is carried forward indefinitely until specifically rescinded by law or the head of the agency concerned, or the President determines that the purposes for which the appropriation was made have been carried out and disbursements have not been made against the appropriation for two consecutive years.

Included in the cumulative results of operations and Fund Balance with Treasury are special funds of $1,372 million and $1,769 million at September 30, 2020, and 2019, respectively, that represents the Department's authority to assess and collect user fees relating to merchandise and passenger processing; to assess and collect fees associated with services performed at certain small airports or other facilities; to retain amounts needed to offset costs associated with collecting duties; and taxes and fees for the Government of Puerto Rico. These special fund balances are restricted by law in their use to offset specific costs incurred by the Department. Part of the passenger fees in the COBRA User Fees Account are restricted by law in their use to offset specific costs incurred by the Department.

The CARES Act provided a supplemental appropriation for the FEMA's Disaster Relief Fund to remain available until expended. There was a Presidential Memorandum issued on August 8, 2020, providing benefits from the Disaster Relief Fund in partnership with DOL, to empower states to deliver continued financial relief to Americans who are suffering from unemployment due to COVID-19. Funding for the Lost Wages Assistance Program potentially continues until December 6, 2020, subject to funding and other considerations.

The entity trust fund balances result from the Department's authority to use the proceeds from general order items sold at auction to offset specific costs incurred by the Department relating to their sale, to use available funds in the Salaries and Expense Trust Fund to offset specific costs for expanding border and port enforcement activities, and to use available funds from the Harbor Maintenance Fee Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee.

25. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

The table below documents the material differences between the FY 2019 Statement of Budgetary Resources and the actual amounts reported for FY 2019 in the Budget of the U.S.

Government. Since the FY 2020 financial statements will be reported prior to the release of the Budget of the U.S Government, DHS is reporting for FY 2019 only. Typically, the Budget of the U.S Government with the FY 2020 actual data is published in February of the subsequent year. Once published, the FY 2020 actual data will be available on the OMB website.

	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
FY 2019 Actual Balances per the FY 2021 Budget of the U.S. Government (in millions)	**$ 135,209**	**$ 89,038**	**$ 12,417**	**$ 68,805**
Reconciling Items:				
Accounts that are expired that are not included in Budget of the U.S. Government	1,438	-	-	-
Distributed Offsetting Receipts not included in the Budget of the U.S. Government Net Outlays	-	-	-	(12,417)
Refunds and drawbacks not included in the Budget of the U.S. Government	2,687	2,687	-	2,677
Byrd Program (Continued Dumping and Subsidy Offset) not included in the Budget of the U.S. Government	140	23	-	23
Miscellaneous Differences	611	(197)	-	1
Per the 2019 Statement of Budgetary Resources	**$ 140,085**	**$ 91,551**	**$ 12,417**	**$ 59,089**

The Miscellaneous Differences amount includes adjustments to obligations reported on the Statement of Budgetary Resources but not included in the Budget of the U.S. Government. The SBR Net Outlays also includes the SBR line Disbursement, net amounts.

26. Undelivered Orders, End of Period

An unpaid undelivered order exists when a valid obligation has occurred, and funds have been reserved but the goods or services have not been received by the Department. A paid undelivered order exists when a valid obligation has occurred, and funds have been advanced, but the goods or services have not been received by the Department.

Undelivered Orders consisted of the following (in millions):

As of September 30, 2020:	**Federal**	**Non-Federal**	**Total**
Undelivered Orders – Unpaid	$ 12,499	$ 60,640	$ 73,139
Undelivered Orders – Paid	$ 965	$ 964	$ 1,929

As of September 30, 2019:	**Federal**	**Non-Federal**	**Total**
Undelivered Orders – Unpaid	$ 9,551	$ 43,918	$ 53,469
Undelivered Orders – Paid	$ 634	$ 928	$ 1,562

27. Net Adjustments to Unobligated Balance, Brought Forward, October 1

For the Years Ended September 30 (in millions):	2020	2019
Unobligated Balance, Prior Year	$ 48,534	$ 46,893
Other Balances Withdrawn from Treasury	(628)	(641)
Recoveries of Prior Year Obligations	3,955	4,527
Other	(13)	(11)
Unobligated Balance from Prior Year Budget Authority, Net	**$ 51,848**	**$ 50,768**

The FEMA Disaster Relief program was the primary contributor to Recoveries of prior year obligations.

28. Custodial Revenue

The Department collects revenue from a variety of duties, excise taxes, fines and penalties, and various other fees. Revenue collections primarily result from current fiscal year activity. Current Taxes, Duties, Trade Receivables, Net are collected within 90 days of the assessment. Therefore, the Department considers Tax Year to be same as the fiscal year when assessments are made. Non-entity revenue reported on the Department's Statement of Custodial Activity includes duties, excise taxes, and various non-exchange fees collected by CBP. CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. For additional information, see Note 1.X., Exchange and Non-Exchange Revenue.

In FY 2020, new illustrative tables for Custodial Revenue are presented to conform to FY 2020 presentation in accordance with OMB Circular A-136.

The significant types of non-entity accounts receivable and custodial revenue as presented in the Statement of Custodial Activity are described below.

1. **Duties:** amounts collected on imported goods collected on behalf of the Federal Government.
2. **User fees:** amounts designed to maintain U.S. harbors and to defray the cost of other miscellaneous service programs.
3. **Excise taxes:** amounts collected on imported distilled spirits, wines, tobacco products, and other miscellaneous taxes collected on the behalf of the Federal Government.
4. **Fines and penalties:** amounts collected for violations of laws and regulations.

Custodial revenue collected from the public, broken out by revenue type and by tax year, were as follows for the fiscal year ended September 30, 2020 (in millions):

Custodial Revenue

	2020	2019 and Prior Years	2020 Collections
Excise Tax	$ 3,722	$ 245	$ 3,967
Customs Duties	67,158	7,243	74,401
User Fees, Fines and Penalties, Interest, and Other Revenue	1,564	142	1,706
Total amount of federal revenues collected	**$ 72,444**	**$ 7,630**	**$ 80,074**

Refunds are amounts due to the importer/exporter as a result of overpayments of duties, taxes, fees, and interest. Refunds include drawback remittance paid when imported merchandise, for which duty was previously paid, is exported from the United States.

Tax disbursements from the refunds and drawbacks account, broken out by revenue type and by tax year, were as follows for the fiscal year ended September 30, 2020 (in millions):

Refunds/Payments	Tax Year				
	2020	2019	2018	Prior Years	2020 Refunds
Excise Tax	$ 193	$ 240	$ 45	$ 24	$ 502
Customs Duties	2,741	3,400	639	341	7,121
Fines, Penalties, Interest, and Other Revenue	(6)	(6)	(1)	(1)	(14)
Total tax refunds and drawbacks disbursed	**$ 2,928**	**$ 3,634**	**$ 683**	**$ 364**	**$ 7,609**

The disbursements include interest payments of $226 million for the fiscal year ended September 30, 2020.

The disbursement totals for refunds include antidumping and countervailing duties collected that are refunded pursuant to rulings by the Department of Commerce. These duties are refunded when the Department of Commerce issues a decision in favor of the foreign industry. See Note 18, Other Liabilities, for more information.

29. Reconciliation of the Net Cost to Net Outlays

The reconciliation of net outlays presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information.

The first section, Components of Net Cost That are Not Part of the Net Outlays, includes items such as property, plant and equipment depreciation and year-end credit reform subsidy re-estimates. These items are generally subtracted from the Net Cost of Operations.

The second section, Increase/(Decrease) in Assets, consists of items such as Accounts Receivable and Investments. These items are generally added to the Net Cost of Operations.

The third section, (Increase)/Decrease in Liabilities, consists of items such as Accounts Payable, Salaries and Benefits and Environmental and Disposal Liabilities. These items are generally subtracted from the Net Cost of Operations.

The fourth section, Other Financing Sources, consists of items such as Transfers out (in). These items are generally subtracted to the Net Cost of Operations.

The fifth section, Components of Net Outlays Not Part of Net Cost, consists of items such as Acquisition of Capital Assets, Acquisition of Inventory, Non-Exchange Revenues, and Other. These items are generally added to the Net Cost of Operations.

As of September 30, 2020 (in millions):

	Intragovernmental	With the Public	Total
Net Cost of Operations	**$ 16,018**	**$ 99,384**	**$ 115,402**
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant, and Equipment Depreciation	-	(2,111)	(2,111)
Property, Plant, and Equipment Disposal and Revaluation	-	(86)	(86)
Year-end credit reform subsidy re-estimates	6	12	18
Other	(19)	736	717
Increase/(Decrease) in Assets:			
Accounts Receivable	1,113	(372)	741
Investments	51	-	51
Other Assets	331	(88)	243
(Increase)/Decrease in Liabilities:			
Accounts Payable	(81)	(738)	(819)
Salaries and Benefits	(156)	(174)	(330)
Environmental and Disposal Liabilities	-	2	2
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	(107)	(19,715)	(19,822)
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	$ (1,648)	$ -	$ (1,648)
Transfers Out (In) Without Reimbursement	122	-	122
Total Components of Net Cost That Are Not Part of Net Outlays	**$ (388)**	**$ (22,534)**	**$ (22,922)**
Components of Net Outlays That Are Not Part of Net Operating Cost:			
Acquisition of Capital Assets	$ (1)	$ 3,038	$ 3,037
Acquisition of Inventory	70	416	486
Non-Exchange Revenues	6,786	(3,968)	2,818
Other	6	234	240
Total Components of Net Outlays That Are Not Part of Net Operating Cost	**$ 6,861**	**$ (280)**	**$ 6,581**
Other Temporary Timing Differences	**2**	**1**	**3**
Net Outlays	**$ 22,493**	**$ 76,571**	**$ 99,064**

As of September 30, 2019 (in millions):

	Intragovernmental	With the Public	Total
Net Cost of Operations	**$ 16,117**	**$ 49,970**	**$ 66,087**
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant, and Equipment Depreciation	-	(2,099)	(2,099)
Property, Plant, and Equipment Disposal and Revaluation	-	(96)	(96)
Year-end credit reform subsidy re-estimates	-	63	63
Other	(24)	262	238
Increase/(Decrease) in Assets:			
Accounts Receivable	(73)	(62)	(135)
Investments	21	-	21
Other Assets	(222)	47	(175)
(Increase)/Decrease in Liabilities:			
Accounts Payable	(20)	(1)	(21)
Salaries and Benefits	78	(170)	(92)
Environmental and Disposal Liabilities	-	(150)	(150)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	(75)	(3,388)	(3,463)
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	$ (1,827)	$ -	$ (1,827)
Transfers Out (In) Without Reimbursement	(618)	-	(618)
Total Components of Net Cost That Are Not Part of Net Outlays	**$ (2,760)**	**$ (5,594)**	**$ (8,354)**
Components of Net Outlays That Are Not Part of Net Operating Cost:			
Acquisition of Capital Assets	$ 48	$ 2,992	$ 3,040
Acquisition of Inventory	97	398	495
Non-Exchange Revenues	2,441	(5,000)	(2,559)
Other	(10)	333	323
Total Components of Net Outlays That Are Not Part of Net Operating Cost	**$ 2,576**	**$ (1,277)**	**$ 1,299**
Other Temporary Timing Differences	**(5)**	**-**	**(5)**
Net Outlays	**$ 15,928**	**$ 43,099**	**$ 59,027**

30. Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for Financial Reporting Compilation Process

To prepare the Financial Report (FR) of the U.S. Government, the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, a Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows the Department's financial statements and the Department's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2019 FR can be found at the Reports, Statements, and Publications page within the Bureau of Fiscal Service website and a copy of the 2020 FR will be posted to this site as soon as it is released.

The term "intragovernmental" is used in this note to refer to amounts that result from other components of the Federal Government.

The term "non-Federal" is used in this note to refer to Federal Government amounts that result from transactions with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments.

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet for the Year Ending September 30, 2020

FY 2020 DHS Balance Sheet		Line Items Used to Prepare FY 2020 Government-wide Balance Sheet					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminated	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and All Other	Total	Reclassified Financial Statement Line
ASSETS							**ASSETS**
Intragovernmental Assets							**Intragovernmental Assets**
Fund Balance with Treasury	**$ 131,013**	**$ 11,742**	**$ -**	**$ 119,271**	**$ -**	**$ 131,013**	**Fund Balance With Treasury (Note 3)**
Investments, Net	11,087	11,060	-	-	-	11,060	Federal Investments
		27	-	-	-	27	Interest Receivable – Investments
Total Investments, Net	*11,087*	*11,087*	-	-	-	*11,087*	*Total Reclassified Investments, Net*
Accounts Receivable	1,467	7	-	1,337	25	1,319	Accounts Receivable, Net
		296	-	35	183	148	Transfers Receivable
		4	4	-	-	-	Asset for Agency Custodial and Non-Entity Liabilities – Other than the General Fund
Total Accounts Receivable	*1,467*	*307*	*4*	*1,372*	*208*	*1,467*	*Total Reclassified A/R*
Other	862	42	-	820	-	862	Advances to Others and Prepayments
Total Intragovernmental Assets	**$ 144,429**	**$ 23,178**	**$ 4**	**$ 121,463**	**$ 208**	**$ 144,429**	**Total Intragovernmental Assets**
Cash and Other Monetary Assets	77	61	-	16	-	77	Cash and Other Monetary Assets
Accounts Receivable, Net	1,743	1,480	-	263	-	1,743	Accounts Receivable, Net
Taxes Receivable, Net	6,783	-	-	6,783	-	6,783	Accounts Receivable, Net
Direct Loans and Loan Guarantees, Net	66	-	-	66	-	66	Direct Loan and Loan Guarantees Receivable, Net
Inventory and Related Property, Net	2,384	-	-	2,384	-	2,384	Inventory and Related Property, Net
General PP&E, Net	26,561	929	-	25,632	-	26,561	PP&E, Net
Other Assets	966	638	-	328	-	966	Other Assets

FY 2020 DHS Balance Sheet		Line Items Used to Prepare FY 2020 Government-wide Balance Sheet					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminated	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and All Other	Total	Reclassified Financial Statement Line
Total Assets	**$ 183,009**	**$ 26,286**	**$ 4**	**$ 156,935**	**$ 208**	**$ 183,009**	**Total Assets**
LIABILITIES							**LIABILITIES**
Intragovernmental Liabilities							**Intragovernmental Liabilities**
Accounts Payable	$ 2,143	$ 53	$ -	$ 732	$ 12	$ 773	Accounts Payable
		1,555	185	-	-	1,370	Transfers Payable
Total Accounts Payable	2,143	1,608	185	732	12	2,143	*Total Reclassified Accounts Payable*
Debt	20,596	20,525	-	71	-	20,596	Loans Payable
Total Debt Associated with Loans	***20,596***	***20,525***	-	***71***	-	***20,596***	***Total Reclassified Debt Associated with Loans***
Due to General Fund	6,773	-	-	6,773	-	6,773	Liability to General Fund for Custodial and Other Non-Entity Assets
Accrued FECA Liability	414	6	-	408	-	414	Benefit Program Contributions Payable
Other	1,034	12	-	134	12	134	Accounts Payable
		25	-	343	-	368	Benefit Program Contributions Payable
		-	-	76	(29)	105	Advances from Other & Deferred Credits
		179	4	94	-	269	Liability to agency Other Than the General Fund of the U.S. Government for custodial and other non-entity assets
		5	-	153	-	158	Other Liabilities (w/o Reciprocals)
Total Other	*1,034*	*221*	*4*	*800*	*(17)*	*1,034*	*Total Reclassified Other*
Total Intragovernmental Liabilities	**$ 30,960**	**$ 22,360**	**$ 189**	**$ 8,784**	**$ (5)**	**$ 30,960**	**Total Intragovernmental Liabilities**
Accounts Payable	3,131	291	-	2,840	-	3,131	Accounts Payable
Federal Employee and Veteran Benefits	69,814	53	-	69,761	-	69,814	Federal Employee and Veteran Benefits Payable

FY 2020 DHS Balance Sheet		Line Items Used to Prepare FY 2020 Government-wide Balance Sheet					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminated	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and All Other	Total	Reclassified Financial Statement Line
Environmental and Disposal Liabilities	622	-	-	622	-	622	Environmental and Disposal Liabilities
Insurance Liabilities	2,830	2,830	-	-	-	2,830	Insurance and Guarantee Program Liabilities
Accrued Payroll	3,404	177	-	1,844	-	2,021	Federal Employees and Veteran Benefits
		103	-	1,280	-	1,383	Other Liabilities
Deferred Revenue and Advances from Others	3,163	2,998	-	165	-	3,163	Other Liabilities
Refunds and Drawbacks	552	-	-	552	-	552	Other Liabilities
Other	18,955	72	-	18,883	-	18,955	Other Liabilities
Total Public Liabilities	**$ 102,471**	**$ 6,524**	**$ -**	**$ 95,947**	**$ -**	**$ 102,471**	***Total Public Liabilities***
Total Liabilities	**$ 133,431**	**$ 28,884**	**$ 189**	**$ 104,731**	**$ (5)**	**$ 133,431**	**Total Liabilities**
NET POSITION							
Cumulative Results of Operations – Funds from Dedicated Collections	$ (2,598)	$ (2,598)	$ -	$ -	$ -	$ (2,598)	Cumulative Results of Operations – Funds from Dedicated Collections
Unexpended Appropriations – All Other Funds	94,375	-	-	94,375	-	94,375	Unexpended Appropriations – All Other Funds
Cumulative Results of Operations – All Other Funds	(42,199)	-	-	(42,199)	-	(42,199)	Cumulative Results of Operations – All Other Funds
Total Net Position	**$ 49,578**	**$ (2,598)**	**$ -**	**$ 52,176**	**$ -**	**$ 49,578**	**Total Net Position**
Total Liabilities & Net Position	**$ 183,009**	**$ 26,286**	**$ 189**	**$ 156,907**	**$ (5)**	**$ 183,009**	**Total Liabilities & Net Position**

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ending September 30, 2020

FY 2020 DHS SNC		Line Items Used to Prepare FY 2020 Government-wide SNC					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminated**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated and All Other**	**Total**	**Reclassified Financial Statement Line**
Gross Costs	$ 127,215						***Non-Federal Costs***
		$ 6,251	$ -	$ 101,897	$ -	$ 108,148	Non-Federal Gross Cost
		6,251	**-**	**101,897**	**-**	**108,148**	***Total Non-Federal Costs***
							Intragovernmental Costs
		501	-	5,925	-	6,426	Benefit Program Costs
		223	-	1,425	-	1,648	Imputed Costs
		2,399	-	8,304	1,624	9,079	Buy/Sell Costs
		439	-	2	-	441	Borrowing and Other Interest Expense
		102	-	1,371	-	1,473	Other Expenses (w/o Reciprocals)
		3,664	**-**	**17,027**	**1,624**	**19,067**	***Total Intragovernmental Costs***
Total Gross Costs	**127,215**	**9,915**	**-**	**118,924**	**1,624**	**127,215**	***Total Reclassified Gross Costs***
Earned Revenue	(14,874)	(9,273)	-	(2,552)	-	(11,825)	Non-Federal Earned Revenue
		(9,273)	**-**	**(2,552)**	**-**	**(11,825)**	***Intragovernmental Revenue***
		(44)	-	(3,412)	(441)	(3,015)	Buy/Sell Revenue
		(34)	-	-	-	(34)	Federal Securities Interest Revenue Including Associated Gains/Losses (Exchange)
		(78)	**-**	**(3,412)**	**(441)**	**(3,049)**	***Total Intragovernmental Earned Revenue***
Total Earned Revenue	**(14,874)**	**(9,351)**	**-**	**(5,964)**	**(441)**	**(14,874)**	***Total Reclassified Earned Revenue***
(Gain)/Loss-Pension/ORB/OPEB Assumptions	3,061	-	-	3,061	-	3,061	(Gain)/Loss on Changes in Actuarial Assumptions (Non-Federal)
Net Cost	**$ 115,402**	**$ 564**	**$ -**	**$ 116,021**	**$ 1,183**	**$ 115,402**	**Net Cost**

Reclassification of Statement of Changes in Net Position to Line Items Used for Government-wide Statement of Operations and Changes in Net Position for the Year Ending September 30, 2020

FY 2020 DHS SCNP		Line Items Used to Prepare FY 2020 Government-wide SCNP					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and All Other	Total	Reclassified Financial Statement Line
UNEXPENDED APPROPRIATIONS							
Unexpended Appropriations, Beginning Balance	$ 87,723	$ -	$ -	$ 87,723	$ -	$ 87,723	Net Position, Beginning of Period
Appropriations Received	115,893	-	-	115,893	-	115,893	Appropriations Received as Adjusted
Other Adjustments	(1,365)	-	-	(1,365)	-	(1,365)	Appropriations Received as Adjusted
Appropriations Transferred In/Out	267	-	-	291	-	291	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources (Federal)
		-	-	(24)	-	(24)	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources (Federal)
Total Appropriations Transferred In/Out	267	-	-	267	-	267	*Total Reclassified Appropriations Transferred In/Out*
Appropriations Used	(108,143)	-	-	(108,143)	-	(108,143)	Appropriations Used (Federal)
Total Unexpended Appropriations	**$ 94,375**	**$ -**	**$ -**	**$ 94,375**	**$ -**	**$ 94,375**	
CUMULATIVE RESULTS OF OPERATIONS							
Cumulative Results, Beginning Balance	(42,533)	(3,789)	-	(38,744)	-	(42,533)	Net Position, Beginning of Period
Other Adjustments	(3)	(3)	-	-	-	(3)	Revenue and Other Financing Sources – Cancellations (RC 36)
Appropriations Used	108,143	-	-	108,143	-	108,143	Appropriations Expended
Non-Exchange Revenues	2,223						***Non-Federal Non-Exchange Revenues***
		378	-	-	-	378	Excise Taxes
		57	-	-	-	57	Customs Duties
		969	-	3	-	972	Other Taxes and Receipts
		1,404	-	3	-	**1,407**	***Total Non-Federal Non-Exchange Revenues***
		147	-	-	-	147	Federal Securities Interest Revenue, including Associated Gains/Losses (Non-Exchange)
		669	-	-	-	669	Other Taxes and Receipts
		816	**-**	**-**	**-**	**816**	***Total Intragovernmental Non-Exchange Revenue***
Total Non-Exchange Revenues	**2,223**	**2,220**	**-**	**3**	**-**	**2,223**	*Total Reclassified Non-Exchange Revenues*
Donations and Forfeitures of Property	14	-	-	14	-	14	Other Taxes and Receipts (Non-Federal)

FY 2020 DHS SCNP		Line Items Used to Prepare FY 2020 Government-wide SCNP					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and All Other	Total	Reclassified Financial Statement Line
Transfers In/Out w/o Reimbursement – Budgetary	(342)	3,406	3,230	-	-	176	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-In
		(3,704)	(3,230)	-	-	(474)	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-Out
		231	107	3,051	2,518	657	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
		(3,350)	(107)	(25)	(2,518)	(750)	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
		21	-	73	45	49	Expenditure Transfers-In of Financing Sources
		(45)	-	-	(45)	-	Expenditure Transfers-Out of Financing Sources
Total Transfers-In/Out w/o Reimbursement – Budgetary	**(342)**	**(3,441)**	**-**	**3,099**	**-**	**(342)**	***Total Reclassified Transfers-In/Out w/o Reimbursement – Budgetary***
Other	1,306						***Non-Federal Other***
		3,026	-	(105)	-	2,921	Other Taxes and Receipts
		3,026	**-**	**(105)**	**-**	**2,921**	***Total Non-Federal Other***
							Intragovernmental Other
		(146)	-	-	-	(146)	Accrual of Collections Yet to be Transferred to a TAS Other than the General Fund
		-	-	(1,475)	-	(1,475)	Non-Entity Collections Transferred to The General Fund of the U.S. Government (RC 44)
		-	-	6	-	6	Accrual for Non-Entity Amounts to Be Collected and Transferred to The General Fund of the U.S. Government (RC 48)
		(146)	**-**	**(1,469)**	**-**	**(1,615)**	***Total Intragovernmental Other***
Total Other	1,306	2,880	-	(1,574)	-	1,306	*Total Reclassified Other*
Donations and Forfeitures of Cash and Cash Equivalents	4	4	-	-	-	4	Other Taxes and Receipts (Non-Federal)
Imputed Financing	1,648	223	-	1,425	-	1,648	Imputed Financing Sources (Federal)
Transfers In/Out without Reimbursement	145	3,137	3,136	292	128	165	Transfers-in w/o Reimbursement
		(3,265)	(3,136)	(19)	(128)	(20)	Transfers-out w/o Reimbursement
Total Financing Sources	**113,138**	**1,755**	**-**	**111,383**	**-**	**113,138**	
Net Cost of Operations	**(115,402)**	**(564)**	**-**	**(116,021)**	**(1,183)**	**(115,402)**	**Net Cost of Operations**
Ending Balance – Cumulative Results of Operations	**$ (44,797)**	**$ (2,598)**	**$ -**	**$ (43,382)**	**$ (1,183)**	**$ (44,797)**	**Net Position – Ending Balance**
Total Net Position	**$ 49,578**	**$ (2,598)**	**$ -**	**$ 50,993**	**$ (1,183)**	**$ 49,578**	**Total Net Position**
Statement of Custodial Activity							
Custom Duties	**$ 74,401**	**$ -**	**$ -**	**$ 74,401**	**$ -**	**$ 74,401**	Custom Duties
User Fees	**1,421**	**-**	**-**	**1,421**	**-**	**1,421**	Non-Federal Other Taxes and Receipts
Excise Taxes	**3,967**	**-**	**-**	**3,967**	**-**	**3,967**	Excise Taxes

FY 2020 DHS SCNP		Line Items Used to Prepare FY 2020 Government-wide SCNP					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and All Other	Total	Reclassified Financial Statement Line
Fines and Penalties	84	-	-	84	-	84	Non-Federal Other Taxes and Receipts
Interest	91	-	-	91	-	91	Non-Federal Other Taxes and Receipts
Miscellaneous	110	-	-	108	-	108	Non-Federal Other Taxes and Receipts
		-	-	2	-	2	Other Non-Budgetary Financing Sources (RC 29)
Accrual Adjustments	(1,217)	-	-	(32)	-	(32)	Excise Taxes
		-	-	(1,033)	-	(1,033)	Custom Duties
		-	-	(152)	-	(152)	Non-Federal Other Taxes and Receipts
Reclassified Non-Exchange Custodial Collections	78,857	-	-	78,857	-	78,857	**Reclassified Non-Exchange Custodial Collections**
Disposition of Custodial Collections							
Transferred to Federal Entities							
Department of Agriculture	22,537	-	-	22,537	-	22,537	Collections Transferred to a TAS other than the General Fund of the U.S. Government (RC 15)
Treasury General Fund Accounts	48,370	-	-	48,370	-	48,370	Non-Entity Collections Transferred to the General Fund (RC 44)
United States Army Corps of Engineers	1,310	-	-	1,310	-	1,310	Collections Transferred to a TAS Other Than the General Fund of the U.S. Government (RC 15)
Other Federal Agencies	49	-	-	49	-	49	Collections Transferred to a TAS Other Than the General Fund of the U.S. Government (RC 15)
Total Transferred to Federal Entities	72,266	-	-	72,266	-	72,266	
Transferred to Non-Federal Entities	76	-	-	76	-	76	Non-Federal Other Taxes and Receipts
(Increase)/Decrease in Amounts Yet to be Transferred	(1,094)	-	-	204	-	204	Non-Federal Other Taxes and Receipts
		-	-	1	-	1	Accrual of Collections Yet to be Transferred to a TAS Other Than the General Fund of the U.S. Government - Nonexchange
		-	-	(1,031)	-	(1,031)	Accrual for non-entity amounts to be collected and transferred to the General Fund of the U.S. Government
		-	-	(268)	-	(268)	Other Non-Federal Taxes and Receipts
Total (Increase)/Decrease in Amounts Yet to be Transferred	(1,094)	-	-	(1,094)	-	(1,094)	

FY 2020 DHS SCNP		Line Items Used to Prepare FY 2020 Government-wide SCNP					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and All Other	Total	Reclassified Financial Statement Line
Refunds and Other Payments	7,609	-	-	502	-	502	Excise Taxes
		-	-	7,121	-	7,121	Customs Duties
		-	-	(14)	-	(14)	Other Taxes and Receipts
Total Refunds and Other Payments	7,609	-	-	7,609	-	7,609	
Total Transferred to Non-Federal Entities	6,591	-	-	6,591	-	6,591	
Total Dispositions of Collections	$ 78,857	$ -	$ -	$ 78,857	$ -	$ 78,857	***Total Reclassified Disposition of Non-Exchange Custodial Collections***

31. COVID-19 Activity

Funding Received

In FY 2020, DHS Components received supplemental appropriations of $45,873 million, under the Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136). $45,000 million was for FEMA's Disaster Relief Fund appropriation and is available until expended, of which $3 million was transferred to OIG and is available until expended. The remaining $873 million of funds are available until September 30, 2021. An additional $289 million was transferred from the Department of Health and Human Services for medical care to CBP and ICE as part of the CARES Act and is available until September 30, 2024.

The appropriations from the CARES Act that were provided to DHS Components are as follows:

For the Period Ended September 30, 2020

(dollars in millions)

DHS Component	CARES Act Appropriations Received	Transfers In / (Out)	Available Appropriations net of Transfers In/(Out)
CBP	$ -	$ 182	$ 182
CISA	9	-	9
FEMA	45,445	(3)	45,442
ICE	-	107	107
MGT	178	-	178
OIG	-	3	3
TSA	100	-	100
USCG	141	-	141
Totals	**$ 45,873**	**$ 289**	**$ 46,162**

COVID-19 Programs & Activities Funded

The appropriations received from the CARES Act have been allocated to the following DHS Components, programs, and activities:

For the Period Ended September 30, 2020

Component	Program	Activities
CBP	Medical Support; COVID-19 Test Kits; Detainee Transport; Decontamination Transportation; Consumables; and Pay Requirements	Expand medical services contract, provide testing kits to frontline personnel and detainees; provide ground transportation; decontaminate vehicle assets; care and sustenance of detainees; temporary duty and overtime pay.

Component	Program	Activities
CISA	National Infrastructure Simulation and Analysis Center (NISAC) Lab Projects for Modeling Impact; Teleconference Lines for Large Critical Functions, COVID Emergency Support Function Program Analyst Support, and Critical Function Mapping and Mission Support	Supply Chain Risk Analysis and Communication; Development of Strategic Risk Assessments of the 55 National Critical Functions; Development of Analytical Assessments on Lessons Learned for Risk Management Efforts; COVID-19 Secretary's Advisory Group Analytical Support focused on expediting DHS's contribution to recovery and restoration; Supply Chain Assessment and Capability Development, including development of a Common Vulnerabilities and Exposures Numbering Authorities Tool Prototype; Supply Chain Risk Analysis and Communication; Support for the Supply Chain Stabilization Task Force; Support for the implementation of the National Response Framework; COVID-19 Business Continuity Analysis; COVID-19 ESF-14 Operations including development of a training and certification program; and COVID-19 Alternative Futures Planning.
FEMA	Mission Support; Disaster Relief; Assistance to Firefighter Grants; Emergency Management Performance Grants; and Emergency Food & Shelter Program	Provide services that sustain the day-to-day back office operations; provide federal assistance for Individual Assistance limited to the Crisis Counseling and Lost Wages Assistance Program; provide Public Assistance for emergency protective measures (Category B), including direct federal assistance, and administrative expenses; provide resources for Personal Protective Equipment, State and Local emergency operations center, Non-Congregate Sheltering, Medical Field Stations, Medical Ships, Personnel to support Medical sites, National Guard deployments, Crisis Counseling, and State administrative expenses; and AFG program provide critically needed resources that equip personnel to respond to the COVID-19 public health emergency and support community resilience.
ICE	Medical Screening; Hoteling Cost; Transportation Cost; Sanitation Costs; and Dilley Quarantine Neighborhood	Medical screening for COVID-19 medical care of quarantined individuals at detention facilities; hoteling cost for individuals at three commercial hotels in McAllen, TX, El Paso, TX, and Phoenix, AZ including escort/guard cost; transportation of COVID-19 positive ICE detainees from medical quarantine or treatment facilities; sanitation costs for sanitizing ICE detention facilities quarantine areas, intake and check-in locations, as well as transportation vehicles due to the exposure; and Dilley Quarantine Neighborhood which is a establishing a COVID-19 quarantine neighborhood at the Dilley family residential center to allow for improved isolation in one of the Dilley neighborhoods for unaccompanied children and family units.

Component	Program	Activities
MGT	Personal protective equipment and cleaning related supplies for DHS.	Personal protective equipment and cleaning related supplies for DHS to make it safe for DHS employees to work in buildings.
OIG	Oversight of CARES Act Funding	Salaries and expenses to provide oversight of activities supported by the funds of the CARES Act.
TSA	To prevent, prepare for, and respond to coronavirus, domestically or internationally, which shall be for cleaning and sanitization at checkpoints and other airport common areas; overtime and travel costs; and explosive detection materials	Enhanced sanitization of passenger checkpoint, checked baggage, and TSA facilities; overtime for Transportation Security Officers, travel for National Deployment Officers to travel to airports hard hit with COVID illness, and purchase of explosives detection swabs to enable single use capabilities to protect against COVID transmission.
USCG	Reservists' Activities and IT Improvements	Mobilize USCG Reservists to prevent, prepare for and respond to coronavirus domestically and internationally; and improve the capability and capacity of USCG information technology systems and infrastructure to prevent, prepare for, and respond to coronavirus.

COVID-19 Activity Budgetary Resources and Obligations

Most of the DHS obligations incurred in response to COVID-19 were obligations within FEMA's DRF. The DRF is an appropriation used to direct, coordinate, manage, and fund eligible response and recovery efforts associated with domestic major disasters and emergencies that overwhelm State resources pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act.

Presidential Memorandum issued on August 8, 2020, authorized the Acting Secretary of Homeland Security, acting through the FEMA Administrator, to make available other needs assistance for lost wages, in accordance with section 408(e)(2) of the Stafford Act (42 USC 5174(e)(2)) ("Lost Wages Assistance Program"), to the people of a State, including the members of any tribe. The Lost Wages Assistance Program provides a $400 payment per week per claimant in additional benefits to eligible claimants from the week of unemployment ending August 1, 2020, with $300 per week being the federal contribution and $100 per week being the state contribution.

The Lost Wages Assistance Program represents the most significant COVID-19 related obligations incurred, shown in the table below:

For the Period Ended September 30, 2020

(dollars in millions)

FEMA's DRF Programs	Obligations
Public Assistance	$ 6,058
Individual Assistance (Lost Wages Assistance Program)	41,684
Individual Assistance (Other)	459
Other Mission Support	4,319
Administrative	161
Totals	**$ 52,681**

The table below is a reconciliation of the budgetary activity in the DRF, including CARES Act funding received and COVID-19 related obligation incurred. The remaining budgetary resources will be available to fund future disaster relief responses, including COVID-19.

For the Period Ended September 30, 2020

(dollars in millions)

DRF Appropriations & Obligations Activity	Total
Carryover Funding, as of 10/1/19	$ 29,358
Enacted Appropriations	17,863
Other Transfers, Rescissions and Recoveries, Net	1,628
Coronavirus Aid, Relief, and Economic Security (CARES) Act Appropriation	45,000
Total Budget Authority	**$ 93,849**
Obligations - COVID-19	(52,681)
Obligations - Other	(25,376)
Total Obligations Incurred	$ (78,057)
DRF Available Budgetary Resources for Future Years	**$ 15,792**

In addition to DRF, FEMA incurred obligations of $397 million, with $48 million remaining budgetary resources available. All other DHS Components obligated $177 million of CARES Act funding and has remaining budgetary resources available of $543 million as of September 30, 2020.

The following notes discuss significant COVID-19 impacts: Note 3, Fund Balance with Treasury; Note 6, Accounts Receivable, Net; Note 18, Other Liabilities; and Note 24, Legal Arrangements Affecting the Use of Unobligated Balances.

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Required Supplementary Information

Unaudited, see accompanying Independent Auditors' Report

1. Deferred Maintenance and Repairs

The Department presents deferred maintenance and repairs as of the end of the fiscal year in accordance with SFFAS No. 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32.* Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Deferred maintenance and repairs are activities that were not performed when they should have been, or that were scheduled to be performed but were delayed for a future period.

Deferred maintenance and repair amounts represent the cost to restore an asset's condition so that the asset provides acceptable services and achieves its expected life. Mission performance metrics reports, scorecards, and historical records are used as objective evidence of deficiencies in deferred maintenance and repairs. Project management reviews of the inputs are conducted to identify maintainability and reliability, labor costs, design costs, technical expertise required, organizational reparability, organizational spares availability, and opportunities to use spare parts from property that may be retired.

Defining and Implementing Maintenance and Repairs Policies. The Department measures deferred maintenance and repairs for each class of asset using condition assessments performed at least once every five years. These assessments include surveys, inspections, operating evaluations, regional strategic assessments, facility quality ratings, and consolidated support function plans. Deferred maintenance and repair procedures are performed for capital and non-capital accountable personal and real property, capitalized stewardship PP&E including multi-use heritage assets—such as buildings and structures, memorials, and recreational areas—as well as inactive and excess property that is not required to fulfill the Component missions or have been withdrawn from operational service. Most of these assets have been fully depreciated. The condition of the assets included in these assessments ranges from good to poor. Components identify maintenance not performed as scheduled and establish future performance dates.

The Department allows Components the flexibility to apply industry standard methods commensurate with each asset's condition and usage, unless more thorough procedures are mandated by federal, state, or local codes. Components estimate the cost to address deferred maintenance and repair deficiencies using construction, maintenance, and repair cost data available through the Components' real property structure.

Ranking and Prioritizing Maintenance and Repair Activities. The Department ranks and prioritizes deferred maintenance and repair activities based on mission criticality to the operations of the Department and legal requirements, as well as the condition of the asset. Deferred maintenance and repair projects are prioritized among other activities as part of the Department's five-year strategic plan and annual capital budgeting processes.

Factors Considered in Setting Acceptable Condition. Acceptable condition is primarily prescribed by the facility condition assessments or other similar methodology. The condition assessment process includes factors such as asset age, operating environment, inventory levels, threat vulnerability, and current condition as determined by physical inspection, operating environment, and maintenance and repair history of the asset under assessment. The Department also considers federal requirements (including OMB's Federal Real Property Profile), accessibility, mission criticality, and needs.

Heritage Assets Excluded under Deferred Maintenance and Repairs. The Department possesses certain types of heritage assets that are not reported in deferred maintenance and repairs. These heritage assets include artifacts, artwork, display models, and sunken vessels and aircraft that have deteriorated through damage due to moving and transportation, storage or display, or environmental degradation.

Significant Changes from Prior Year. As of September 30, 2020, $1,887 million in deferred maintenance and repairs for active assets was estimated to return active real property assets to acceptable operating condition. This is an overall increase of $116 million.

Deferred maintenance and repairs for FY 2020, by asset class, consisted of (in millions):

	Ending	Beginning
Active:		
Buildings, Structures, and Facilities	$ 1,627	$ 1,626
Furniture, Fixtures, and Equipment	175	85
Other General PP&E	68	49
Heritage assets	12	6
Total Active	**$ 1,882**	**$ 1,766**
Inactive and Excess:		
Buildings, Structures, and Facilities	$ 3	$ 3
Heritage assets	2	2
Total Inactive and Excess	**$ 5**	**$ 5**
Total Deferred Maintenance	**$ 1,887**	**$ 1,771**

2. Combining Statement of Budgetary Resources

The principal Statement of Budgetary Resources combines the availability, status, and outlays of the Department's budgetary resources during FY 2020. The following table provides the Statement of Budgetary Resources disaggregated by DHS Components rather than by major budget account because the Department manages its budget at the Component level.

Combining Statement of Budgetary Resources by Sub-Organization Accounts
For the Year Ended September 30, 2020 (in millions)

	CBP	FEMA	ICE	TSA	USCG	USCIS	USSS	CISA	Dept Ops. and Others	TOTAL
BUDGETARY RESOURCES										
Unobligated Balance from Prior Year Budget Authority, October 1	$ 4,704	$ 37,753	$ 840	$ 838	$ 3,895	$ 1,345	$ 241	$ 357	$ 1,875	**$ 51,848**
Appropriations	24,044	68,402	8,398	7,297	12,284	4,025	2,641	2,021	3,913	**133,025**
Borrowing Authority	-	33	-	-	-	-	-	-	-	**33**
Spending Authority from Offsetting Collections	2,244	5,208	154	1,049	456	47	23	13	2,538	**11,732**
TOTAL BUDGETARY RESOURCES	**$ 30,992**	**$ 111,396**	**$ 9,392**	**$ 9,184**	**$ 16,635**	**$ 5,417**	**$ 2,905**	**$ 2,391**	**$ 8,326**	**$ 196,638**
STATUS OF BUDGETARY RESOURCES										
New Obligations and Upward Adjustments	$ 27,916	$ 87,734	$ 8,579	$ 8.292	$ 12,626	$ 4,236	$ 2,731	$ 2,235	$ 6,183	**$ 160,532**
Unobligated Balance, End of Year										
Apportioned, Unexpired	2,490	23,406	561	676	3,744	457	110	39	1,803	**33,286**
Exempt from Apportionment, Unexpired	1	-	-	-	4	-	-	-	-	**5**
Unapportioned, Unexpired	208	77	5	15	1	711	-	1	60	**1,078**
Unexpired Unobligated Balance, End of Year	2,699	23,483	566	691	3,749	1,168	110	40	1,863	**34,369**
Expired Unobligated Balance, End of Year	377	179	247	201	260	13	64	116	280	**1,737**
Total Unobligated Balance, End of Year	**3,076**	**23,662**	**813**	**892**	**4,009**	**1,181**	**174**	**156**	**2,143**	**36,106**
TOTAL BUDGETARY RESOURCES	**$ 30,992**	**$ 111,396**	**$ 9,392**	**$ 9,184**	**$ 16,635**	**$ 5,417**	**$ 2,905**	**$ 2,391**	**$ 8,326**	**$ 196,638**
Outlays, Net	23,774	47,456	8,071	7,242	11,504	4,421	2,560	1,997	3,330	**110,355**
Distributed Offsetting Receipts	(3,992)	(959)	(139)	(1,669)	(159)	(4,385)	-	-	12	**(11,291)**
Agency Outlays, Net	**$ 19,782**	**$ 46,497**	**$ 7,932**	**$ 5,573**	**$ 11,345**	**$ 36**	**$ 2,560**	**$ 1,997**	**$ 3,342**	**$ 99,064**
Disbursements, Net (total) (mandatory)	$ -	-	-	-	-	-	-	-	-	-

3. Statement of Custodial Activity

Substantially all duty, tax, and fee revenues collected by CBP are remitted to various general fund accounts maintained by Treasury and the U.S. Department of Agriculture. Treasury further distributes this revenue to other federal agencies in accordance with various laws and regulations. CBP transfers the remaining revenue (generally less than one percent of revenue collected) directly to either other federal or non-federal agencies. Refunds of revenue collected from import/export activities are recorded in separate accounts established for this purpose and are funded through permanent indefinite appropriations. These activities reflect the non-entity, or custodial, responsibilities that CBP, as an agency of the Federal Government, has been authorized by law to enforce.

CBP reviews selected documents to ensure all duties, taxes, and fees owed to the Federal Government are paid and to ensure all regulations are followed. If CBP determines duties, taxes, fees, fines, or penalties are due in addition to estimated amounts previously paid by the importer/violator, the importer/violator is notified of the additional amount due. CBP regulations allow the importer/violator to file a protest on the additional amount due for review by the Port Director. A protest allows the importer/violator the opportunity to submit additional documentation supporting the claim of a lower amount due or to cancel the additional amount due in its entirety. During this protest period, CBP does not have a legal right to the importer/violator's assets, and consequently CBP recognizes accounts receivable only when the protest period has expired, or an agreement is reached.

For FY 2020 and FY 2019, CBP had the legal right to collect $6,783 million and $7,732 million of receivables, respectively. In addition, there were $2,081 million and $2,768 million representing records still in the protest phase for both FY 2020 and FY 2019, respectively. CBP recognized as write-offs $84 and $1 million, respectively, of assessments that the Department had statutory authority to collect at September 30, 2020, and 2019, but have no future collection potential. Most of this amount represents duties, taxes, and fees.

Independent Auditors' Report

OFFICE OF INSPECTOR GENERAL

Independent Auditors' Report on DHS' FY 2020 Financial Statements and Internal Control over Financial Reporting

Homeland Security

November 13, 2020

OIG-21-08

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

November 13, 2020

MEMORANDUM FOR: The Honorable Chad F. Wolf
Acting Secretary
Department of Homeland Security

FROM: Sondra F. McCauley
Assistant Inspector General for Audits

SUBJECT: *Independent Auditors' Report on DHS' FY 2020 Financial Statements and Internal Control over Financial Reporting*

The attached report presents the results of an integrated audit of the Department of Homeland Security's (DHS) consolidated financial statements for fiscal years (FY) 2020 and 2019 and internal control over financial reporting as of September 30, 2020. This audit is required by the *Chief Financial Officers Act of 1990,* as amended by the *Department of Homeland Security Financial Accountability Act of 2004*. We contracted with the independent public accounting firm KPMG LLP (KPMG) to conduct the audit. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget audit guidance, and the GAO/CIGIE *Financial Audit Manual*. This report is incorporated into the Department's FY 2020 *Agency Financial Report*.

The Department continued to improve financial management in FY 2020 and achieved an unmodified (clean) opinion on all financial statements. However, KPMG issued an adverse opinion on DHS' internal control over financial reporting because of material weaknesses in internal control.

Summary

KPMG identified material weaknesses in internal control in two areas and other significant deficiencies in three areas. KPMG also reported instances of noncompliance with three laws and regulations.

Below are the material weaknesses, other significant deficiencies, and noncompliance with laws and regulations:

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OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Material Weaknesses

- Information Technology Controls and Information Systems
- Financial Reporting

Other Significant Deficiencies

- Custodial Activities: Entry Processing, Refunds and Drawbacks, and Seized and Forfeited Property
- Grants Management
- Insurance Liabilities

Noncompliance with Laws and Regulations

- Presidential *Memorandum on Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019*
- *Federal Managers' Financial Integrity Act of 1982*
- *Federal Financial Management Improvement Act of 1996*

Moving DHS' Financial Management Forward

The Department continued its commitment to identifying areas for improvement, developing and monitoring corrective actions, and establishing and maintaining effective internal control over financial reporting this past fiscal year. Looking forward, the Department must continue remediation efforts and stay focused in order to sustain a clean opinion on its financial statements and obtain a clean opinion on its internal control over financial reporting.

*****

KPMG is responsible for the attached Independent Auditors' Report dated November 13, 2020, and the conclusions expressed in the report.

To ensure the quality of the audit work performed, we evaluated KPMG's qualifications and independence, reviewed the approach and planning of the audit, monitored the progress of the audit at key points, reviewed and accepted KPMG's audit report, and performed other procedures that we deemed necessary. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on DHS's financial statements or internal control over financial reporting or provide conclusions

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OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

on compliance with laws and regulations. Our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions at (202) 981-6000, or your staff may contact Maureen Duddy, Deputy Assistant Inspector General for Audits at (617) 565-8723.

Attachment

DHS OIG HIGHLIGHTS

Independent Auditors' Report on DHS' FY 2020 Financial Statements and Internal Control over Financial Reporting

November 13, 2020

Why We Did This Audit

The *Chief Financial Officers Act of 1990* (Public Law 101-576) and the *Department Of Homeland Security Financial Accountability Act* (Public Law 108-330) require us to conduct an annual audit of the Department of Homeland Security's (DHS) consolidated financial statements and internal control over financial reporting.

What We Recommend

KPMG LLP made 29 recommendations that, when implemented, may help improve the Department's internal control.

For Further Information:
Contact our Office of Public Affairs at (202) 981-6000, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

The independent public accounting firm KPMG LLP (KPMG) has issued an unmodified (clean) opinion on DHS' consolidated financial statements for fiscal years 2020 and 2019. KPMG noted that the financial statements present fairly, in all material respects, DHS' financial position as of September 30, 2020 and 2019.

KPMG issued an adverse opinion on DHS' internal control over financial reporting as of September 30, 2020. KPMG identified material weaknesses in internal control in two areas and other significant deficiencies in three areas. KPMG also reported instances of noncompliance with three laws and regulations.

Material Weaknesses

- Information Technology Controls and Information Systems
- Financial Reporting

Other Significant Deficiencies

- Custodial Activities: Entry Processing, Refunds and Drawbacks, and Seized and Forfeited Property
- Grants Management
- Insurance Liabilities

Noncompliance with Laws and Regulations

- Presidential *Memorandum on Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019*
- *Federal Managers' Financial Integrity Act of 1982*
- *Federal Financial Management Improvement Act of 1996*

Management's Response

DHS concurred with all of the recommendations.

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OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Secretary and Inspector General
U.S. Department of Homeland Security:

Report on the Financial Statements and Internal Control

We have audited the accompanying consolidated financial statements of the U.S. Department of Homeland Security (DHS), which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements. We also have audited DHS's internal control over financial reporting as of September 30, 2020, based on criteria established in the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States.

Management's Responsibility for the Financial Statements and Internal Control over Financial Reporting

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements and an opinion on DHS's internal control over financial reporting based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditors' judgment, including the assessment of the risks that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Opinion on Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Homeland Security as of September 30, 2020 and 2019, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 15 to the consolidated financial statements, DHS had intragovernmental debt used to finance the *National Flood Insurance Program* (NFIP) of approximately $21 billion as of September 30, 2020 and 2019. The principal and interest payments are financed by the flood premiums from policyholders. Given the current rate structure, DHS will not be able to pay its debt from the premium revenue alone; therefore, DHS does not anticipate repaying the debt. Our opinion is not modified with respect to this matter.

Basis for Adverse Opinion on Internal Control over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. Material weaknesses have been identified in the following areas as described in the accompanying Exhibit I and included in the accompanying *Management's Report on Internal Control over Financial Reporting*.

A. Information Technology Controls and Information Systems
B. Financial Reporting

We considered the material weaknesses identified above in determining the nature, timing, and extent of audit procedures applied in our audit of the fiscal year 2020 consolidated financial statements, and these material weaknesses do not affect our opinion on the financial statements.

Adverse Opinion on Internal Control over Financial Reporting

In our opinion, because of the effect of the material weaknesses described in the Basis for Adverse Opinion paragraph above on the achievement of the objectives of the control criteria, DHS has not maintained effective internal control over financial reporting as of September 30, 2020, based on criteria established in *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States.

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the *Agency Financial Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board, which considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information in the About this Report, Message from the Secretary, Message from the Chief Financial Officer, Introduction, Other Information, and Acronym List sections, as listed in the Table of Contents of the *Agency Financial Report*, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the following areas, as described in Exhibit II, to be significant deficiencies.

C. Custodial Activities: Entry Processing, Refunds and Drawbacks, and Seized and Forfeited Property
D. Grants Management
E. Insurance Liabilities

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DHS's consolidated financial statements as of and for the year ended September 30, 2020 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03 and are described in Exhibit III.

F. Presidential *Memorandum on Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019* (COVID-19)
G. *Federal Managers' Financial Integrity Act of 1982* (FMFIA)

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances, described in Exhibit III, in which the DHS's financial management systems did not substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

DHS's Responses to Findings

DHS's responses to the findings identified in our audit are described in Appendix A. DHS's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the deficiencies we consider to be significant deficiencies, and the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 13, 2020

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Independent Auditors' Report
Exhibit I – Material Weaknesses

The weaknesses in internal control existed as of September 30, 2020 and the instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements were identified during the year ended September 30, 2020. The determination of which control deficiencies rise to the level of a material weakness or a significant deficiency is based on an evaluation of the impact of control deficiencies identified in all components, considered individually and in the aggregate, on the DHS consolidated financial statements as of September 30, 2020. Component-level deficiencies vary in severity. The associated entity level controls, as defined by the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book), are also identified in relation to the control activities in the corresponding areas of the following Exhibits.

The findings are presented in three Exhibits:

Exhibit I Material Weaknesses. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. DHS has material weaknesses within the following areas:

A. Information Technology Controls and Information Systems
B. Financial Reporting

Exhibit II Significant Deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by DHS management and others in positions of DHS oversight. DHS has significant deficiencies within the following areas:

C. Custodial Activities: Entry Processing, Refunds and Drawbacks, and Seized and Forfeited Property
D. Grants Management
E. Insurance Liabilities

Exhibit III Compliance and Other Matters. The compliance and other matters identified included instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters that are required to be reported under *Government Auditing Standards* or Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. DHS has instances of noncompliance as follows:

F. Presidential *Memorandum on Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019* (COVID-19)
G. *Federal Managers' Financial Integrity Act of 1982*
H. *Federal Financial Management Improvement Act of 1996*

Criteria DHS's internal control over financial reporting is based on the criteria established by the Green Book.

Independent Auditors' Report
Exhibit I – Material Weaknesses

I-A Information Technology Controls and Information Systems

Background:

Information technology (IT) controls are a critical subset of an entity's internal control. There are two main types of IT controls: IT general controls (ITGCs) and application controls. ITGCs operate over entire or large portions of systems and represent the foundation of an IT control structure. They are applied at the entity-wide, operating system, database, or application level, and include controls over access control, configuration management, segregation of duties, and contingency planning. Effective ITGCs are necessary to create the foundation for the operation of application controls. Application controls are those controls that directly relate to specific IT applications and ensure completeness, accuracy, validity, confidentiality, and availability of data. The deficiencies indicated in this Exhibit are representative of ITGC and application control deficiencies at headquarters and various components across DHS including U.S. Customs and Border Protection (CBP), Federal Emergency Management Agency (FEMA), U.S. Immigration and Customs Enforcement (ICE), Management Directorate (MGMT), Transportation Security Agency (TSA), U.S. Coast Guard (USCG), U.S. Citizenship and Immigration Services (USCIS), and U.S. Secret Service (USSS).

Conditions:

DHS did not design and implement the entity's information systems and related control activities to achieve objectives and respond to risks as required by Green Book principles 11, *Design Activities for Information Systems*, and 12, *Implement Control Activities*. Specifically, DHS had:

- Ineffective design, implementation, or operating effectiveness of ITGCs over IT operating systems, databases, and applications supporting financial reporting processes across DHS in the following areas:

  Access control and segregation of duties

  - User, service, privileged, and generic (including emergency, temporary, developer, and migrator) accounts not properly authorized, recertified, and revoked timely;
  - The principles of least privilege and segregation of duties not applied;
  - Password security not properly configured for data protection and inactivity;
  - Audit logging activity requirements not defined;
  - Audit logs not generated, reviewed, or analyzed;

  Configuration management

  - Systems not properly configured;
  - System changes not authorized or monitored;

  Security management

  - Assessments and documentation required for a new system Authority to Operate (ATO) not completed or approved; and
  - Periodic reviews of the results of vulnerability scans not performed.

- Ineffective design, implementation, or operating effectiveness of ITGCs at service organizations.
- Ineffective application controls and manual controls that are dependent upon the information derived from DHS information systems.

I.2

Independent Auditors' Report
Exhibit I – Material Weaknesses

DHS continued to have deficiencies in its design and implementation of controls over IT Controls and Information Systems. These deficiencies have persisted since the inception of DHS. As a result, DHS did not remediate identified internal control deficiencies on a timely basis as required by Green Book principle 17, *Evaluate Issues and Remediate Deficiencies*. Specifically, DHS had:

- Ineffective design and implementation of controls to remediate IT findings, including insufficient corrective actions to address deficiencies that have existed for several years in multiple information systems.

Causes:

These deficiencies are a result of the failure of entity level controls, as follows:

Green Book principle 7 requires that "Management should identify, analyze, and respond to risks related to achieving the defined objectives." DHS did not effectively implement and operate Green Book principle 7. Specifically:

- DHS did not fully implement a robust risk assessment of ITGCs that is necessary to identify weaknesses, nor did it assess the resulting risks created by IT deficiencies.
- DHS did not resolve the risks created by historic limitations in the functionality of its information systems.
- DHS did not successfully mitigate the risk created by implementing manual controls to compensate for risks resulting from decentralized systems and records management processes or utilities with limited automated capabilities.

Green Book principle 16 requires that "Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results." DHS did not effectively implement and operate Green Book principle 16. Specifically:

- DHS did not effectively implement a formalized process to monitor the third-party service organizations responsible for maintaining the infrastructure support for various IT systems.
- DHS established corrective action plans but had not monitored them to ensure they were tracking the progress toward remediation of deficiencies timely.

Effects:

Deficiencies in access controls and segregation of duties increase the risk that current employees, separated employees, or contractors may obtain unauthorized or inappropriate access to information systems or data. Such access could lead to unauthorized activities or inappropriate disclosures of sensitive data. Deficiencies in configuration management increase the risk that unauthorized or inappropriate changes to systems will be applied and go undetected by management, resulting in lower assurance that information systems will operate as intended and that data is reliable, valid, and complete. Deficiencies in security management increase the risk that system vulnerabilities will not be identified and remediated, compromising the reliability and integrity of data and increasing the risk of data loss.

In addition, system limitations contribute to deficiencies in multiple financial process areas across DHS. Many key DHS information systems are not compliant with Federal financial management system requirements as defined by FFMIA, as noted in Exhibit III. These system limitations cause a greater risk of error and result in inconsistent, incomplete, or inaccurate control execution.

Collectively, DHS not performing an appropriate risk assessment to identify and mitigate the ITGC and application control deficiencies limits DHS's ability to process, store, and report financial data in a manner that ensures accuracy, confidentiality, integrity, and availability. In response to these deficiencies, DHS intended to utilize manual controls; however, these manual controls often were not properly designed or implemented, or did not operate effectively, as reported in Exhibits I and II.

Independent Auditors' Report
Exhibit I – Material Weaknesses

Recommendations:

We recommend that DHS:

1. Office of the Chief Financial Officer (OCFO), in coordination with the Office of the Chief Information Officer (OCIO), the Office of the Chief Information Security Officer (OCISO), and component IT and financial management, complete a comprehensive risk analysis and develop a mitigation plan to reduce risks related to ITGC and application control deficiencies timely;

2. OCFO, in coordination with the OCIO, the OCISO, and component IT and financial management, design and implement an effective internal control process to address the risk of errors due to IT system functionality issues, the inability to rely on information derived from systems, and the inability to rely on application controls until system deficiencies are remediated;

3. OCFO, in coordination with the OCIO, the OCISO, and component IT and financial management, design and implement an effective internal control process to review service organization risks to ensure that ineffective ITGCs performed by service organizations are evaluated and appropriate compensating controls are designed and implemented by DHS and component management;

4. OCFO, in coordination with the OCIO, the OCISO, and component IT and financial management, make the necessary improvements to DHS's ITGC and application controls timely, as detailed in limited distribution Notices of Findings and Recommendations to DHS and component management, and monitor corrective action plans; and

5. OCISO, the OCIO, and component IT management sufficiently monitor IT vulnerabilities and limitations, and coordinate with the OCFO and component financial management to implement manual controls to mitigate risk.

I.4

Independent Auditors' Report
Exhibit I – Material Weaknesses

I-B Financial Reporting

Background:

Internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, and is designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles.

Conditions:

DHS did not design control activities to achieve objectives and respond to risks as required by Green Book principle 10, *Design Control Activities*, or implement the entity's information systems and related control activities through policies as required by Green Book principles 11, *Design Activities for Information Systems*, and 12, *Implement Control Activities*. Specifically, DHS had:

- Ineffective design, implementation, or operating effectiveness of controls supporting financial reporting processes across DHS in the following areas:

  Beginning balances

  - Beginning balances not reviewed for completeness and accuracy at the transaction level at USCG;

  Journal entries

  - Manual journal entries not properly reviewed and approved at CBP, MGMT, and TSA;
  - Manual journal entry amounts not validated with appropriate supporting documentation at CBP and USCG;
  - Manual journal entries not properly reviewed for correct U.S. Government Standard General Ledger (USSGL) accounts at FEMA and USCG;
  - Manual journal entry descriptions of the business events not aligned to the supporting documentation provided for the entry at USCG;

  Service organization control (SOC) reports

  - Service provider risks not addressed by obtaining and effectively reviewing SOC reports, or by assessing the risks when a SOC report does not exist at multiple components across DHS;

  Application controls and information derived from systems

  - Manual controls to compensate for application control deficiencies not designed and implemented at multiple components across DHS;
  - Baseline assessments of application controls and information derived from systems with effective ITGCs not reviewed for completeness and accuracy at CBP and headquarters; and

  Aggregation and reporting of financial information

  - Financial information, including the preparation of the Agency Financial Report, not completely and accurately prepared across DHS.

DHS continued to have deficiencies in its design and implementation of controls over Financial Reporting. DHS did not remediate identified internal control deficiencies on a timely basis as required by Green Book principle 17, *Evaluate Issues and Remediate Deficiencies*. Some of these deficiencies have persisted since the inception of DHS.

I.5

Independent Auditors' Report
Exhibit I – Material Weaknesses

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 4 requires that "Management should demonstrate a commitment to recruit, develop, and retain competent individuals." DHS did not effectively implement and operate Green Book principle 4. Specifically:

- DHS did not provide timely training on requirements for supporting documentation to individuals with responsibilities to review journal entries.

Green Book principle 5 requires that "Management should evaluate performance and hold individuals accountable for their internal control responsibilities." DHS did not effectively implement and operate Green Book principle 5. Specifically:

- DHS did not enforce accountability of personnel responsible for the review of journal entries and SOC reports.

Green Book principle 7 requires that "Management should identify, analyze, and respond to risks related to achieving the defined objectives." DHS did not effectively implement and operate Green Book principle 7. Specifically:

- DHS did not fully implement a robust risk assessment of ITGCs that is necessary to identify weaknesses, nor did it assess the resulting risks created by IT deficiencies.
- DHS did not assess the resulting risks created by IT deficiencies and their impact on other controls.

Green Book principle 9 requires that "Management should identify, analyze, and respond to significant changes that could impact the internal control system." DHS did not effectively implement and operate Green Book principle 9. Specifically:

- DHS did not identify the need to evaluate the proper USSGL accounts for a journal entry related to the new lost wages assistance program.

Green Book principle 13 requires that "Management should use quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 13. Specifically:

- DHS did not process data into quality information that was useable for operating controls effectively.
- DHS did not perform baseline testing of information generated by applications prior to relying on that information as part of a control.
- DHS did not identify the appropriate information requirements to support proposed journal entries.

Green Book principle 14 requires that "Management should internally communicate the necessary quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 14. Specifically:

- DHS did not communicate effectively between headquarters and components to report complete and accurate financial information.

Independent Auditors' Report
Exhibit I – Material Weaknesses

Green Book principle 16 requires that "Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results." DHS did not effectively implement and operate Green Book principle 16. Specifically:

- DHS did not perform continuous monitoring and testing of IT and financial controls for all significant areas.
- DHS did not sufficiently monitor the status of corrective action plans.
- DHS did not monitor the assigned processes and controls performed by service organizations.
- DHS did not monitor the service organization's controls surrounding the compilation of the National Flood Insurance Program (NFIP) financial statements and the related IT systems used to process insurance policies.
- DHS did not design and implement sufficient procedures to review SOC reports, including identification and assessment of complementary user entity controls.

Effects:

The failure to perform continuous monitoring and testing of IT and financial controls results in lack of timely remediation of existing deficiencies and noncompliance with FMFIA, as reported in Exhibit III.

The failure to adequately design, implement, and operate internal controls over beginning balances increases the risk that beginning balances could contain undetected misstatements.

The failure to adequately design, implement, and operate internal controls over journal entries increases the risk that misstatements can occur without being prevented, or detected and corrected timely.

The failure to provide timely training increases the risk that unsupported or incorrect journal entries will be recorded.

The failure to adequately design, implement, and operate internal controls related to oversight of service organizations increases the risk that misstatements can occur without being prevented, or detected and corrected timely.

The failure to adequately design, implement, and operate internal controls related to the baseline assessment of application controls and information derived from systems prevents management from relying on application controls. It also prevents management from relying on the information derived from systems used to record journal entries and perform control activities.

The lack of compensating controls for IT deficiencies also results in noncompliance with Federal financial management system requirements, as defined by FFMIA and reported in Exhibit III.

The failure to adequately design, implement, and operate internal controls over the reporting of financial information increases the risk that financial information in the Agency Financial Report is misstated.

Independent Auditors' Report
Exhibit I – Material Weaknesses

Recommendations:

We recommend that DHS:

6. develop new policies, or improve and reinforce existing policies, procedures, and related internal controls, that:
   a. beginning balances are recorded at the transaction level in the correct underlying general ledger systems in order to improve the quality of information in each system;
   b. journal entries are adequately researched, supported, and reviewed before and after recording in the general ledger;
7. provide training and enforce accountability for adherence to policies and procedures and provide the necessary financial reporting oversight;
8. improve the process for identification, analysis, and response to risks related to financial reporting;
9. align knowledgeable individuals to monitor and evaluate the roles of service organizations, assess controls at those service organizations, and identify and assess complementary user entity controls within the components relying on those service organizations;
10. improve monitoring controls over assessing internal controls and remediating known internal control deficiencies timely; and
11. improve or reinforce existing policies, procedures, and related internal controls over financial information, including preparation of the Agency Financial Report.

Independent Auditors' Report
Exhibit II – Significant Deficiencies

II-C Custodial Activities: Entry Processing, Refunds and Drawbacks, and Seized and Forfeited Property

Background:

The majority of DHS's custodial collections are from merchandise entering the United States from foreign ports of origin, against which DHS assesses import duties, taxes, and fees. Refunds are a remittance, in whole or in part, due to the overpayment of duties, taxes, or fees previously paid by an importer.

Drawback claims typically occur when imported goods on which duties, taxes, or fees have been previously paid are subsequently exported from the United States or destroyed. The *Trade Facilitation and Trade Enforcement Act of 2015* (TFTEA), implemented in February 2019, contained provisions for drawback modernization that simplified the rules for determining if exports are eligible for drawback refunds, expanded the timeframe for drawback claims, and eliminated some of the documentation requirements. All drawback claims filed after the implementation date are filed under the regulations in Code of Federal Regulations (CFR) 190. Drawback claims filed prior to the TFTEA implementation date were filed under the regulations in CFR 191.

DHS is also responsible for reporting seized and forfeited property that is in its custody. DHS seizes various items, including prohibited drugs and counterfeit goods. DHS relies on several of its components to enter case information, including weights and measures, into the seized and forfeited property system.

Conditions:

DHS did not design and implement control activities to achieve objectives and respond to risks as required by Green Book principles 10, *Design Control Activities*, or implement control activities through policies as required by Green Book principle 12, *Implement Control Activities*. Specifically, at CBP, DHS had:

- Ineffective design, implementation, or operating effectiveness of controls supporting custodial activities in the following areas:

  Entry processing:

  - Canceled entry transactions not properly reviewed;

  Refunds:

  - Refund approvals or refund liquidations not properly reviewed;
  - Interest rates for refund payments not properly reviewed;

  Drawbacks:

  - Policies and procedures over TFTEA drawback claims not finalized;
  - Accelerated payments not properly reviewed;
  - Drawback liquidations not properly reviewed;
  - Excessive pre-TFTEA drawback claims not prevented or detected and corrected;
  - Supporting documentation for pre-TFTEA drawback claims not maintained; and

  Seized and forfeited property:

  - Seized and forfeited asset transactions not recorded properly and timely in the seized and forfeited assets tracking system by CBP and ICE personnel.

II.1

Independent Auditors' Report
Exhibit II – Significant Deficiencies

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 4 requires that "Management should demonstrate a commitment to recruit, develop, and retain competent individuals." DHS did not effectively implement and operate Green Book principle 4. Specifically:

- DHS did not sufficiently train individuals to develop competencies for key roles in executing the internal control objectives related to the seized and forfeited property note to the financial statements, including use of the new destruction module in the system of record.

Green Book principle 5 requires that, "Management holds entity personnel accountable for performing their assigned internal control responsibilities." DHS did not effectively implement and operate Green Book principle 5. Specifically:

- DHS did not enforce compliance with existing policies over the review of cancelled entries, drawback and refund liquidations, administrative refunds, and accelerated drawback payments.

Green Book principle 6 requires that "Management defines objectives in specific terms so they are understood at all levels of the entity. This involves clearly defining what is to be achieved, who is to achieve it, how it will be achieved, and the time frames for achievement." DHS did not effectively implement and operate Green Book principle 6. Specifically:

- DHS did not clearly define how the review of drawback and refund liquidations, administrative refunds, and accelerated drawback payments would be achieved.

Green Book principle 7 requires that "Management should identify, analyze, and respond to risks related to achieving the defined objectives." DHS did not effectively implement and operate Green Book principle 7. Specifically:

- DHS did not analyze and respond to identified risks related to drawback claims submitted prior to the implementation of TFTEA.

Green Book principle 9 requires that "Management should identify, analyze, and respond to significant changes that could impact the internal control system." DHS did not effectively implement and operate Green Book principle 9. Specifically:

- DHS did not identify whether existing drawback controls addressed the identified risks.

Green Book principle 14 requires that "Management should internally communicate the necessary quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 14. Specifically:

- DHS did not communicate quality information down and across reporting lines to enable personnel to perform key roles related to interest rates for refund payments and seized and forfeited property.

Green Book principle 15 requires that "Management should externally communicate the necessary quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 15. Specifically:

- DHS did not communicate quality information to claimants and brokers related to the document retention period for drawback claims.

Effects:

The failure to fully establish and define control activities related to the entry process could lead to potential misstatements of net taxes, duties, and trade receivables on the Balance Sheet and total cash collections on the Statement of Custodial Activity.

II.2

Independent Auditors' Report
Exhibit II – Significant Deficiencies

Until all CFR 191 drawback claims are processed, DHS's failure to implement effective controls over the drawback process may subject DHS to financial loss due to excessive drawback claims. In addition, drawback claims are governed by the laws and regulations in effect at the time of filing. As the length of the drawback lifecycle can last for years, it will take several years for claims filed under CFR 191 to be completed.

The failure to fully establish and define control activities related to the refund and drawback processes could lead to potential misstatements of payables on the Balance Sheet and refund and drawback disbursements on the Statement of Custodial Activity.

Failure to fully establish and define control activities related to seized and forfeited property may result in misstatements of the Seized and Forfeited Property note to the financial statements.

Recommendations:

We recommend that DHS:

Entry processing:

12. update guidance to ensure consistent performance of control activities across all DHS locations and distribute to appropriate personnel;
13. provide training to all personnel on new policies to ensure consistent implementation at all DHS locations;

Refunds:

14. update policies and procedures to clearly define how the review of refund liquidations and administrative refunds is achieved;
15. update guidance over the review of interest rates;

Drawbacks:

16. finalize the Drawback Handbook to document designed control activities over TFTEA drawback claims;
17. complete a robust risk assessment related to TFTEA drawback claims;
18. update policies and procedures to clearly define how the review of accelerated payments and drawback liquidations is achieved;
19. track and monitor the progress made in liquidating legacy drawback claims to support timely liquidation in accordance with the requirements of CFR 191;

Seized and forfeited property:

20. train individuals to develop competencies for key seized and forfeited property accounting roles, including timely and accurately recording and reviewing transactions in the system of record;
21. enhance the destruction module in the system of record; and
22. design and implement a control to mitigate the risk of inaccurate updates to property records after initial seizure.

II.3

II-D Grants Management

Background:

DHS manages multiple Federal disaster and non-disaster grant programs. In fiscal year 2018, DHS began implementation of the process to standardize all grant management activities, which continued into FY 2020. This included coordination among the grant regional offices and central management as well as among the various grant programs. In order to monitor the spending of the disaster and non-disaster grant funding, DHS performs site visits and monitors Federal Financial Reports submitted by grant recipients. The internal control deficiencies related to grants management were reported in prior years and persisted in FY 2020.

In FY 2020, DHS implemented a new grant program to provide lost wages assistance to state entities to supplement unemployment benefits related to the coronavirus pandemic. The internal control deficiencies related to the lost wages assistance program are new in FY 2020.

Conditions:

DHS did not design control activities to achieve objectives and respond to risks as required by Green Book principle 10, *Design Control Activities*, or implement control activities through policies as required by Green Book principle 12, *Implement Control Activities.* Specifically, at FEMA, DHS had:

- Ineffective controls over monitoring of grant recipients, including the completeness and accuracy of the Master Repository Listing used to monitor grant recipients' Federal Financial Reports;
- Ineffective implementation of monitoring controls over corrective action plans identified in the grant recipients' audit reports;
- Inconsistent delegation of authority documentation for controls over the review of disaster and non-disaster grant obligations and deobligations; and
- Insufficient controls over grant obligations related to the lost wages assistance program.

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 3 requires that "Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 3. Specifically:

- DHS failed to obtain sufficient written documentation to continue operating the lost wages assistance program after reaching the limit imposed by the Presidential *Memorandum on Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019.*

Green Book principle 4 requires that "Management should demonstrate a commitment to recruit, develop, and retain competent individuals." DHS did not effectively implement and operate Green Book principle 4. Specifically:

- DHS personnel lack a sufficient level of understanding of control requirements to delegate the authority to review disaster and non-disaster obligations and deobligations.

Green Book principle 5 requires that "Management should evaluate performance and hold individuals accountable for their internal control responsibilities." DHS did not effectively implement and operate Green Book principle 5. Specifically:

- DHS did not enforce accountability of personnel responsible for monitoring corrective action plans.

Independent Auditors' Report
Exhibit II – Significant Deficiencies

Green Book principle 13 requires that "Management should use quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 13. Specifically:

- DHS failed to maintain reliable data used in the monitoring of the Federal Financial Reports and site visits.

Effects:

The failure to use quality information to implement standardized internal controls within DHS during FY 2020 caused ineffective monitoring of open and closed grants. Ineffective monitoring may result in inaccurate or unauthorized expense reporting by grant recipients and increases the risk that DHS may not identify corrective actions for grant recipients timely. In addition, DHS's failure to use quality information elevates the risk of invalid obligations due to untimely closure of grants. The failure to obtain sufficient written documentation to continue operating the lost wages program leads to unauthorized grant obligations and non-compliance with the Presidential Memorandum, as reported in Exhibit III.

Recommendations:

We recommend that DHS:

23. develop policies and procedures to monitor grant recipients, including validating and documenting the completeness and accuracy of the Master Repository Listing, and monitoring corrective action plans;
24. provide training and enforce accountability for adherence to policies and procedures; and
25. design and implement controls over grant obligations for the lost wages assistance program to ensure compliance with the Presidential Memorandum.

II-E Insurance Liabilities

Background:

DHS manages the NFIP, a program to provide flood insurance to policyholders through a network of write-your-own (WYO) insurance companies. These insurance companies provide services on behalf of DHS, including underwriting premium policies and processing claims. In FY 2020, DHS implemented a new information system to aggregate the WYO financial information. DHS used the WYO data, along with NFIP loss and loss adjustment expense factors, to estimate the actuarially derived flood insurance liability for claims incurred but not yet reported as of September 30, 2020.

Conditions:

DHS did not design control activities to achieve objectives and respond to risks as required by Green Book principle 10, *Design Control Activities*, or implement the related control activities through policies as required by Green Book principle 12, *Implement Control Activities*. Specifically, at FEMA, DHS had:

- Insufficient design of the controls over the validation of the underlying data used in the valuation of the flood insurance liability; and
- Insufficient design and implementation of the controls over the assumptions, methods, and models used in the valuation of the flood insurance liability.

II.5

Independent Auditors' Report
Exhibit II – Significant Deficiencies

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 9 requires that "Management should identify, analyze, and respond to significant changes that could impact the internal control system." DHS did not effectively implement and operate Green Book principle 9. Specifically:

- DHS did not appropriately anticipate and plan for the implementation of a new information system that contains the underlying data used in the actuarial insurance liability estimate.
- DHS did not properly assess and document the appropriateness of changes to the methods, models, and assumptions for the actuarial insurance liability estimate.

Effects:

The failure to adequately design, implement, and operate internal controls over the actuarially derived estimate increases the risk that misstatements to insurance liabilities on the Balance Sheet can occur without being prevented, or detected and corrected, timely.

Recommendations:

We recommend that DHS:

26. develop new policies, or improve and reinforce existing policies, procedures, and related internal controls, that:
    a. the underlying data to actuarially derived estimates is reviewed timely;
    b. information derived from the systems used in the operations of controls is determined to be complete and accurate;
    c. risks related to the methods, models, assumptions, and data elements are assessed each year to identify, plan, and respond to changes; and
    d. changes to the methods, models, assumptions, and data elements are sufficiently documented.

Independent Auditors' Report
Exhibit III – Compliance and Other Matters

III-F Presidential Memorandum on Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019 (COVID-19)

On August 8, 2020, the President signed a Presidential Memorandum directing FEMA to use up to $44 billion of the Disaster Relief Fund (DRF) to provide lost wages assistance to state entities (i.e., states, territories, and the District of Columbia) to supplement state expenditures for unemployment benefits.

The grant program was available to eligible claimants until the balance of the DRF reached $25 billion or December 6, 2020, whichever occurred first. Despite reaching a DRF balance of $25 billion, FEMA continued to operate the lost wages assistance program.

Recommendation:

We recommend that DHS:

27. design and implement controls to ensure compliance with the Presidential Memorandum.

III-G *Federal Managers' Financial Integrity Act of 1982*

FMFIA requires agencies to establish effective internal control and information systems, and to continuously evaluate and assess the effectiveness of their internal control. DHS's implementation of OMB Circular No. A-123 facilitates compliance with FMFIA. DHS has implemented a multi-year plan to achieve full assurance on internal control. However, the DHS *Secretary's Assurance Statement*, dated November 13, 2020, as presented in *Management's Discussion and Analysis* of DHS's FY 2020 *Agency Financial Report*, acknowledged the existence of control activities demonstrating material weaknesses, and therefore provided qualified assurance that internal control over financial reporting was operating effectively as of September 30, 2020. Management's findings were similar to the control deficiencies described in Exhibits I and II. DHS did not perform continuous monitoring and testing of both IT and financial controls for all significant areas.

While DHS progressed toward compliance with FMFIA, DHS did not fully establish effective systems, processes, policies, and testing procedures to ensure that internal controls were operating effectively throughout DHS. Deficiencies related to monitoring the internal control system are discussed in Exhibit I, Comments **I-A**, *Information Technology Controls and Information Systems*, and **I-B**, *Financial Reporting*.

Recommendation:

We recommend that DHS:

28. continue its corrective actions to address internal control deficiencies in order to ensure compliance with FMFIA, and implement the recommendations provided in Exhibits I and II.

III-H *Federal Financial Management Improvement Act of 1996*

FFMIA Section 803(a) requires that agency Federal financial management systems comply with: (1) applicable Federal accounting standards; (2) Federal financial management system requirements; and (3) the USSGL at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability.

III.1

Independent Auditors' Report
Exhibit III – Compliance and Other Matters

As of September 30, 2020, DHS's financial management systems did not comply substantially with Federal financial management system requirements, as described in Exhibit I, Comment **I-A**, *Information Technology Controls and Information Systems*, and application of the USSGL at the transaction level, as described in Exhibit I, Comment **I-B**, *Financial Reporting*. The DHS Secretary stated in the *Secretary's Assurance Statement,* dated November 13, 2020, that DHS's financial management systems did not substantially conform to government-wide requirements mandated by FFMIA. DHS's remedial actions and related timeframes are also presented in Table 3 of *Management's Discussion and Analysis* in the FY 2020 AFR.

Recommendation:

We recommend that DHS:

29. improve its financial management systems to ensure compliance with FFMIA, and implement the recommendations provided in Exhibit I.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix A
Management Comments to the Draft Report

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

Homeland Security

November 13, 2020

MEMORANDUM FOR: The Honorable Joseph V. Cuffari
Inspector General

FROM: Troy D. Edgar
Chief Financial Officer

SUBJECT: Fiscal Year 2020 Financial and Internal Control Audit

Thank you for your audit report on the Department's financial statement and internal control over financial reporting for fiscal years (FY) 2020 and 2019. We agree with the Independent Public Accountant's conclusions. We are pleased to have earned an unmodified financial statement audit opinion for the eighth consecutive year.

In FY 2020, the Department faced unprecedented challenges due to the COVID-19 pandemic. DHS was a key part of the whole of government response and received and executed significant additional funding to support the national recovery effort. Despite these challenges, we continue to make progress on financial reporting and internal control to ensure that we carry on the Department's mission while safeguarding our resources.

As noted in the report, the Department made progress by eliminating a significant deficiency in Property, Plant, and Equipment and resolving a control weakness associated with actuarial pension liabilities. We are focused on improving information technology controls and have put in place an aggressive strategy to modernize our financial systems. At the start of FY 2021, the Department successfully migrated the Transportation Security Administration (TSA) to a modern integrated financial and procurement system, and other components are scheduled for modernization in the years ahead. This speaks to the Department's progress and commitment to strengthening information technology controls.

I look forward to working collaboratively with the Office of Inspector General and the Independent Public Accountant in the years ahead to further strengthen DHS financial management and internal control.

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OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B
Report Distribution

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Washington, DC 20528-0305

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, Payment Integrity, Fraud Reduction, Reduce 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.

Table 3: Entry Summary of Trade Compliance Measurement

($ in millions)

	FY 2020 (Preliminary)	FY 2019 (Final)
Estimated Revenue Gap	$325.1	$1,358.4
Estimated Revenue Gap of all collectable revenue for year (%)	0.38%	1.65%
Estimated Over-Collection	$889.5	$2,457.8
Estimated Under-Collection	$564.4	$1,099.4
Estimated Overall Trade Compliance Rate (%)	98.37 %	98.33 %

The preliminary overall compliance rate for FY 2020 is 98.37 percent. The final overall trade compliance rate and estimated revenue gap for FY 2020 will be issued in February 2021.

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.

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 approved 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 New Obligations and Upward Adjustments line on the SBR.

How was the Money Spent/Issued? This section presents services or items that were purchased, categorized by Component. 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 Cybersecurity and Infrastructure Security Agency (CISA), the Countering Weapons of Mass Destruction (CWMD) Office, 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 Inspector General (OIG), 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 New Obligations and Upward Adjustments 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, 2020 and 2019
(In Millions)

	2020	2019
What Money is Available to Spend?		
Total Resources	$ 196,638	$ 140,085
Less Amount Available but Not Agreed to be Spent	(33,291)	(45,706)
Less Amount Not Available to be Spent	(2,815)	(2,828)
TOTAL AMOUNT AGREED TO BE SPENT	**$ 160,532**	**$ 91,551**
How Was the Money Spent/Issued?		
U.S. Customs and Border Protection		
Personnel Compensation and Benefits	$ 12,501	$ 12,285
Contractual Services and Supplies	5,008	4,911
Acquisition of Assets	2,927	2,752
Grants, Subsidies, and Contributions	-	-
Insurance, Refunds, and Other Spending	7,480	2,790
Total Spending	**27,916**	**22,738**

(Continued)

Department of Homeland Security
Combined Schedule of Spending
For the Years Ended September 30, 2020 and 2019
(In Millions)

	2020	2019
U.S. Coast Guard		
Personnel Compensation and Benefits	6,427	6,240
Contractual Services and Supplies	4,846	4,997
Acquisition of Assets	1,218	1,733
Grants, Subsidies, and Contributions	116	106
Insurance, Refunds, and Other Spending	19	7
Total Spending	**12,626**	**13,083**
Federal Emergency Management Agency		
Personnel Compensation and Benefits	1,904	1,762
Contractual Services and Supplies	11,338	5,635
Acquisition of Assets	305	493
Grants, Subsidies, and Contributions	72,588	12,231
Insurance, Refunds, and Other Spending	1,599	4,213
Total Spending	**87,734**	**24,334**
U.S. Immigration and Customs Enforcement		
Personnel Compensation and Benefits	3,775	3,537
Contractual Services and Supplies	4,349	4,700
Acquisition of Assets	407	213
Grants, Subsidies, and Contributions	-	-
Insurance, Refunds, and Other Spending	48	40
Total Spending	**8,579**	**8,490**
Transportation Security Administration		
Personnel Compensation and Benefits	5,521	5,354
Contractual Services and Supplies	2,509	2,605
Acquisition of Assets	180	285
Grants, Subsidies, and Contributions	79	79
Insurance, Refunds, and Other Spending	3	4
Total Spending	**8,292**	**8,327**
Directorates and Other Components		
Personnel Compensation and Benefits	5,943	5,514
Contractual Services and Supplies	8,596	8,164
Acquisition of Assets	682	785
Grants, Subsidies, and Contributions	148	112
Insurance, Refunds, and Other Spending	16	4
Total Spending	**15,385**	**14,579**

(Continued)

Department of Homeland Security
Combined Schedule of Spending
For the Years Ended September 30, 2020 and 2019
(In Millions)

	2020	2019
Department Totals		
Personnel Compensation and Benefits	36,071	34,692
Contractual Services and Supplies	36,646	31,012
Acquisition of Assets	5,719	6,261
Grants, Subsidies, and Contributions	72,931	12,528
Insurance, Refunds, and Other Spending	9,167	7,058
TOTAL AMOUNT AGREED TO BE SPENT	**$ 160,532**	**$ 91,551**
Who Did the Money Go To?		
Non-Federal Governments, Individuals and Organizations	$ 133,939	$ 69,433
Federal Agencies	26,593	22,118
TOTAL AMOUNT AGREED TO BE SPENT	**$ 160,532**	**$ 91,551**

Summary of Financial Statement Audit and Management Assurances

The tables below provide a summary of the financial statement audit results and management assurances for FY 2020.

Table 4: Summary of Financial Statement Audit

Audit Opinion	Unmodified				
Restatement	No				
Areas of Material Weakness(es)	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Reporting	1	0	0	0	1
IT Controls & Information Systems	1	0	0	0	1
Total Material Weaknesses	**2**	0	0	0	**2**

Management has performed its evaluation, and the assurance is provided based upon the cumulative assessment work performed on Entity Level Controls, Financial Reporting, Budgetary Accounting, Fund Balance with Treasury, Human Resources and Payroll Management, Payment Management, Insurance Management, Grants Management, Property Plant and Equipment, Revenue and Receivables, and Information Technology General Controls across the Department. DHS has remediation work to continue in FY 2021; however, no additional areas of material weakness were identified as a result of the assessment work performed in FY 2020. The following table indicates the areas of material weakness that were identified and where DHS will continue focused remediation efforts in FY 2021.

Table 5: Summary of Management Assurances

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2)						
Statement of Assurance	Modified					
Areas of Material Weakness(es)	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Financial Reporting	1	0	0	0	0	1
IT Controls & System Functionality	1	0	0	0	0	1
Total Areas of Material Weakness	**2**	**0**	**0**	**0**	**0**	**2**
EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA SECTION 2)						
Statement of Assurance	Unmodified					
Areas of Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None Noted	0	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**

CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS (FMFIA § 4)						
Statement of Assurance	Federal Systems do not conform to financial management system requirements					
Non-Conformance(s)	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Federal Financial Management Systems Requirements, including Financial Systems Security & Integrate Financial Management Systems.	1	0	0	0	0	1
Noncompliance with the U.S. Standard General Ledger	1	0	0	0	0	1
Federal Accounting Standards	1	0	0	0	0	1
Total Non-Conformances	**3**	**0**	**0**	**0**	**0**	**3**

COMPLIANCE WITH SECTION 803(a) OF THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)		
	DHS	Auditor
1. Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	Lack of compliance noted	Lack of compliance noted
3. USSGL at Transaction Level	Lack of compliance noted	Lack of compliance noted

Payment Integrity

The Payment Integrity Information Act of 2019 (PIIA)[8] requires agencies to review and assess all programs and activities they administer and identify those determined to be susceptible to significant improper payments[9], estimate the annual amount of improper payments, and submit those estimates to Congress. In accordance with the Office of Management and Budget (OMB) Circular A-123, *Requirements for Payment Integrity Improvement,* federal agencies are required to assess improper payments and report[10] annually on their efforts. In addition to this report, official detailed information on the Department's improper payments as well as information reported in prior years can be found at https://paymentaccuracy.gov/.

In 2020, the Department continued to make significant progress to improve its processes to comply with PIIA and reduce improper payments. DHS met established reduction targets for all applicable programs[11] deemed susceptible to significant improper payments due to continued corrective action efforts and sustained internal controls. 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.

Supplemental Appropriations for Disaster Relief Requirements

In 2017, the nation faced a historic Atlantic hurricane season. The effects from consecutive hurricanes Harvey, Irma and Maria were widespread, causing long-lasting damage across the southern continental U.S. and surrounding islands, as well as Puerto Rico and the U.S. Virgin Islands.

- On August 25, 2017, Hurricane Harvey made landfall in Texas as a Category 4 storm. For several days, the storm hovered near the Houston metropolitan area and set a record for the most rainfall from a U.S. tropical cyclone. Of households impacted by Harvey, 80 percent did not have flood insurance.
- On September 6, 2017, Hurricane Irma became one of the strongest Atlantic hurricanes on record. The storm's center passed just north of the U.S. Virgin Islands and Puerto Rico and destroyed critical infrastructure on St. Thomas and St. John in the U.S. Virgin Islands, as well as Puerto Rico and the Florida Keys. As Irma was the first major hurricane to make landfall in Florida since 2005, the public followed evacuation orders as the storm approached Florida, resulting in one of the largest sheltering missions in U.S. history.
- On September 19, 2017, the Center of Hurricane Maria passed southeast of St. Croix, U.S. Virgin Islands, as a Category 5 storm and made landfall in Puerto Rico as a Category 4 storm the next day. Hurricane Maria severely damaged or destroyed a significant portion of both territories' already fragile critical infrastructure. Maria left Puerto Rico's 3.7 million residents without electricity and the resulting response represents the longest sustained air mission of food and water delivery in FEMA history.

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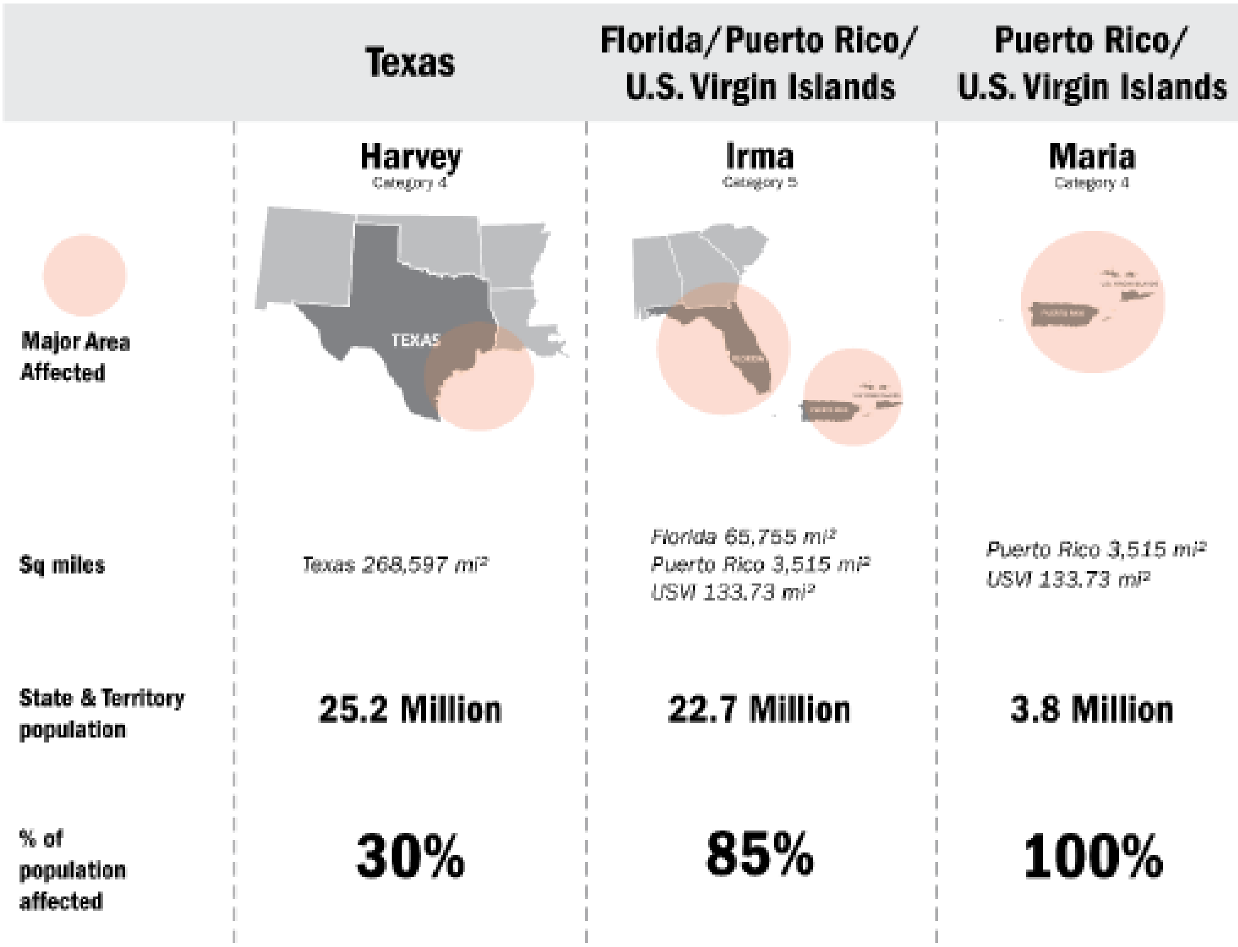
[8] Unless otherwise indicated, the term "PIIA" is used to reflect the current legislative language regarding improper payments as it formally revoked the Improper Payments Information Act of 2002 (IPIA), the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).

[9] A program with significant improper payments has both a 1.5 percent improper payment rate of program outlays and at least $10 million in improper payments of all program or activity payments made during the year or exceeds $100 million in improper payments regardless of the improper payment rate percentage of total program outlays.

[10] Due to rounding throughout all following figures and tables, amounts and percentages may not exactly total to the respective summary amounts and percentages reported.

[11] The only DHS program with an established reduction target was the FEMA Vendor Payment program as the program has been fully baselined and thus had an established a formal reduction target in place for FY 2020 reporting.

Figure 6: Harvey, Irma, and Maria Locations and Associated Impact



Supplemental appropriations were designated as an emergency requirement in the Supplemental Appropriations for Disaster Relief Requirements, 2017 (P.L. 115-56, the Additional Supplemental Appropriations for Disaster Relief Requirements Act of 201 7 (P.L. 115-72), and the Further Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2018 (P.L. 115-123) were issued to specific agencies to provide the resources needed to recover and rebuild following recent hurricanes and other applicable natural disasters. Within these supplemental appropriations, DHS received a total supplemental appropriation amount of $50.72 billion[12]. The breakout of DHS Components receiving this supplemental funding is documented in the table below.

[12] Due to rounding, amounts may not reflect exact appropriated values.

Figure 7: DHS Breakout of Supplemental Appropriation Funding Received

Component	Program	Period of Availability (FY)	Appropriated Value ($M)	Transfer-In Value ($M)	Transfer-Out Value ($M)	Value for Program Use ($M)
Federal Emergency Management Agency	Disaster Relief Fund	No-Year	$7,400.00	$0.00	$0.00	$7,400.00
	Disaster Relief Fund	No-Year	$18,670.00	$0.00	$10.00	$18,660.00
	Operations and Support	18-19	$58.80	$0.00	$0.00	$58.80
	Procurement, Construction, and Improvements	18-20	$1.20	$0.00	$0.00	$1.20
	Disaster Relief Fund	No-Year	$23,500.00	$0.00	$0.00	$23,500.00
Federal Law Enforcement Training Center	Operations and Support	18-19	$5.37	$0.00	$0.00	$5.37
	Procurement, Construction, and Improvements	18-22	$5.00	$0.00	$0.00	$5.00
Office of the Inspector General	Operations and Support	No-Year	$0.00	$10.00	$0.00	$10.00
	Operations and Support	18-20	$25.00	$0.00	$0.00	$25.00
Transportation and Security Administration	Operations and Support	18-19	$10.32	$0.00	$0.00	$10.32
U.S. Customs and Border Protection	Operations and Support	18-19	$104.49	$0.00	$0.00	$104.49
	Procurement, Construction, and Improvements	18-22	$45.00	$0.00	$0.00	$45.00
U.S. Immigration and Customs Enforcement	Operations and Support	18-19	$30.91	$0.00	$0.00	$30.91
	Procurement, Construction, and Improvements	18-22	$33.05	$0.00	$0.00	$33.05
United States Coast Guard	Operating Expenses	18-19	$112.14	$0.00	$0.00	$112.14
	Environmental Compliance and Restoration	18-22	$4.04	$0.00	$0.00	$4.04
	Acquisition, Construction, and Improvements	18-22	$718.92	$0.00	$0.00	$718.92
					TOTAL:	$50,724.24

P.L. 115-123 requires any agency receiving funds under P.L. 115-123 as well as P.L. 115-72 and P.L. 115-56 to consider any programs expending more than $10 million of funds in any one fiscal year highly susceptible to improper payments for the purposes of the PIIA. Once disaster supplemental funded programs met or exceeded the $10M threshold in payments applicable for PIIA review, the program was deemed susceptible to significant improper payments and thus applicable for statistical sampling and reporting.

For 2020 testing and reporting, DHS is able to include statistical testing results for the FEMA Vendor Payment (VP) program, which incorporated its applicable FY 2019 disaster supplemental appropriations disbursements into the pre-existing program. Due to the burden of testing and reporting the remaining ten programs related solely to disaster supplemental appropriation disbursements, DHS is reporting statistical testing results two years in arrears. Therefore, FY 2018 disbursement testing outcomes are reported in the 2020 results noted below for the following programs:

- CBP Operations & Support (O&S) - Disaster Supplemental Funds
- FEMA Commercial Bill of Lading - Disaster Supplemental Funds
- FEMA Disaster Case Management - Disaster Supplemental Funds
- FEMA DRF - Individuals and Households Program - Disaster Supplemental Funds
- FEMA Payroll - Disaster Supplemental Funds
- FEMA Public Assistance - Disaster Supplemental Funds
- FEMA Travel - Disaster Supplemental Funds
- FEMA Urban Search & Rescue - Disaster Supplemental Funds
- ICE O&S - Disaster Supplemental Funds

- USCG Operating Expense - Disaster Supplemental Funds

1. Payment Reporting

The OMB Circular A-123, Appendix C provides the definition for an improper payment and serves as applicable guidance to agencies for compliance with PIIA. OMB guidance has broken down improper payments into further types, to include overpayments, underpayments, unknown, and technically improper due to statute or regulation.

- **Overpayment**[13] – An overpayment is a payment that is evidently higher than it should have been (including a duplicate payment)
- **Underpayment** – An underpayment is a payment that is evidently lower than it should have been
- **Unknown** – Unable to discern that the payment was proper due to a lack of documentation
- **Technically Improper**[14] – Right recipient and right amount but payment process fails to follow applicable regulatory and/or statutory requirements.

Following the OMB Circular A-123, Appendix C guidance, and accounting for the additional requirements within the Supplemental Appropriations for Disaster Relief Requirements, the Department has identified the following programs or activities susceptible to significant improper payments and is able to provide results[15] and reporting this year[16].

Regular[17] DHS Programs for Reporting

Federal Protective Service (FPS) – Payroll Program

The U.S. Department of Homeland Security is the primary federal agency responsible for the protection of all federal property owned or occupied by the Federal Government, whether it is owned or leased by the General Services Administration. The authority to carry out this mission has been delegated to FPS.

To achieve that mission, FPS employees law enforcement security officers, criminal investigators, and police officers along with contract guard staff to conduct security screenings at federal buildings.

When the Homeland Security Act of 2002 was passed, FPS was transferred from GSA to the newly formed U.S. Department of Homeland Security, structured within U.S. Immigration and Customs Enforcement. In 2009, the DHS transferred FPS to the National Protection and

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[13] Based on OMB reporting requirements effective beginning in 2019, payments deemed improper due to insufficient supporting documentation are reported as “Unknown” and distinguished from verified overpayments.

[14] For 2020 reporting, DHS did not categorize any improper payments as “Technically Improper”. As such, this improper payment type is not reflected within the reporting of the program specific results.

[15] Reporting for all programs reflects amounts in ($M). Amount and percentage totals may have slight variances noted due to rounding. For official reported values, refer to https://paymentaccuracy.gov/. All values aligned to “unknown” are due solely to an error reason type of “insufficient documentation to determine”.

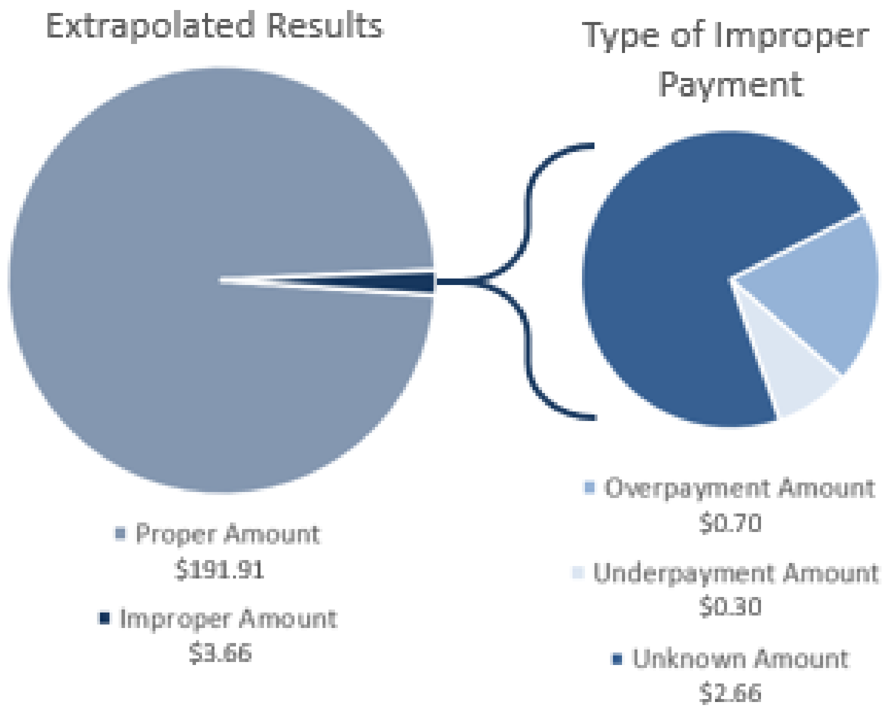
[16] Due to the burden of testing and reporting the ten programs related solely to disaster supplemental appropriation disbursements, DHS is reporting statistical testing results two years in arrears for these programs. For additional information, please refer to the additional detail around the Supplemental Appropriations for Disaster Relief Requirements supplied later in this section.

[17] Program funding not consisting of funding received through the Supplemental Appropriations for Disaster Relief Requirements, 2017 (P.L. 115-56, the Additional Supplemental Appropriations for Disaster Relief Requirements Act of 201 7 (P.L. 115-72), and the Further Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2018 (P.L. 115-123)

Programs Directorate[18],[19]. During the 2018 improper payments review process, FPS Payroll was identified as susceptible to significant improper payments based on the comprehensive risk assessment results. As such, beginning in 2019, the FPS Payroll program conducted statistical sampling and continues to report annual results.

For the testing conducted in 2020, FPS' assessment over the Payroll program reported a 1.87 percent improper payment rate. The breakout of the extrapolated results is provided in the following chart:

Figure 8: FPS Payroll: Breakout of Extrapolated Results



Consolidated[20] DHS Programs for Reporting

FEMA –VP Program

FEMA strives to disburse prompt payments for goods and services that are covered by the Prompt Payment Act. Most of the payments falling under the VP program are contractual, to include rental and lease agreements, purchase orders, delivery orders, blanket purchase agreements, etc., invoice payments based on the receipt of satisfactory performance of contract terms.

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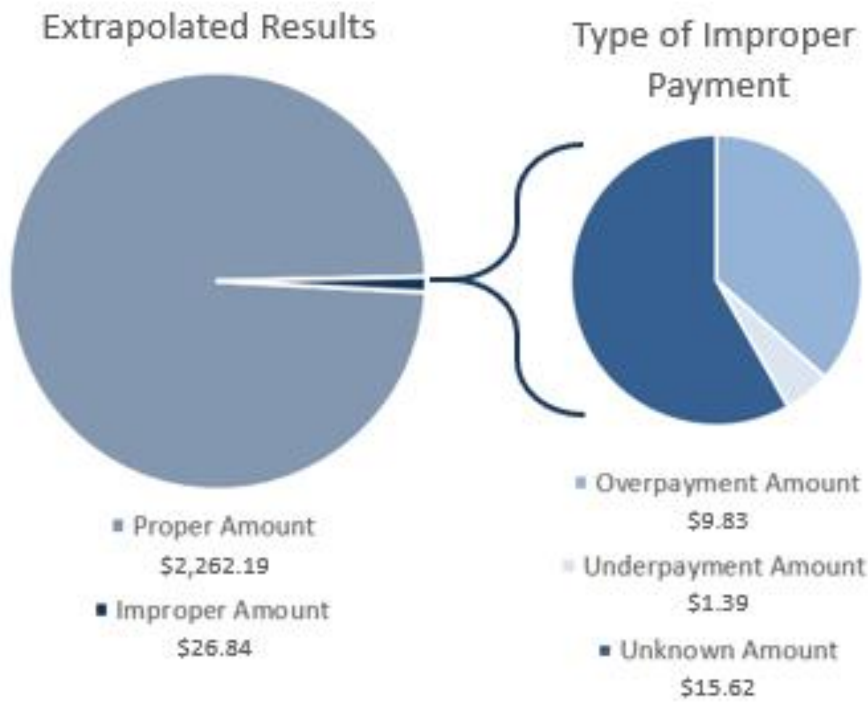
[18] The Cybersecurity and Infrastructure Security Agency (CISA), formerly known as the National Protection and Programs Directorate (NPPD), was established on November 16, 2018 when the Cybersecurity and Infrastructure Security Agency Act of 2018 was signed into law.

[19] In May 2019, DHS announced its decision to transfer FPS from its Cybersecurity and Infrastructure Security Agency (CISA) to its Management Directorate, and to report to the Under Secretary for Management. This transition was officially completed on October 1, 2019.

[20] Program funding consisting of both regular DHS funding as well as funding received through the Supplemental Appropriations for Disaster Relief Requirements, 2017 (P.L. 115-56, the Additional Supplemental Appropriations for Disaster Relief Requirements Act of 201 7 (P.L. 115-72), and the Further Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2018 (P.L. 115-123)

For the testing conducted in 2020, FEMA incorporated the associated FY 2019 disaster supplemental funding disbursements applicable for review under PIIA. Despite the increased program size with the inclusion of the disaster supplemental funding disbursed in FY 2019, due to continued focus and diligent FEMA efforts, the FEMA VP program has been able to reduce its reported improper payment rate from 1.70 percent in 2018 down to 1.17 percent in 2020. The breakout of the extrapolated results is provided in the following chart:

Figure 9: FEMA Vendor Pay: Breakout of Extrapolated Results



<u>**Disaster Supplemental[21] DHS Programs for Reporting**</u>

CBP –O&S – Disaster Supplemental Funding Program

During the Hurricane Harvey, Irma, and Maria disasters, CBP's highest priorities were to promote life-saving and life-sustaining activities, the safe evacuation of people who are leaving the impacted area, the maintenance of public order, the prevention of the loss of property to the extent possible, and the speedy recovery of the region. At the request of FEMA, local and state authorities, DHS law enforcement personnel would be in the affected areas to conduct search and rescue, air traffic de-confliction and public safety missions.

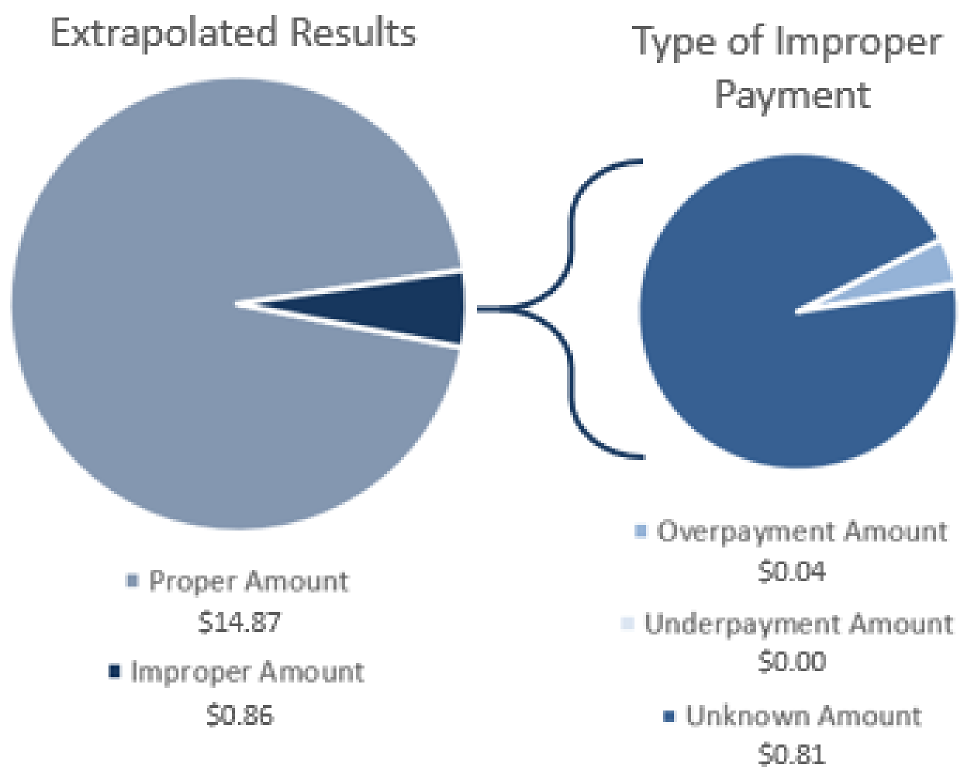
CBP also was responsible for providing for the safety and security of CBP employees and associated family members. As such, CBP actively evacuated employees as needed, from the paths of the hurricanes.

For the testing conducted in 2020, CBP's assessment was focused on the associated FY 2018 disaster supplemental funding disbursements of over $15 million applicable for review under

[21] Program funding solely consisting of funding received through the Supplemental Appropriations for Disaster Relief Requirements, 2017 (P.L. 115-56, the Additional Supplemental Appropriations for Disaster Relief Requirements Act of 201 7 (P.L. 115-72), and the Further Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2018 (P.L. 115-123)

PIIA. The CBP O&S Disaster Supplemental Funding program reported a 5.45 percent improper payment rate in 2020. The breakout of the extrapolated results is provided om the following chart:

Figure 10: CBP O&S – Disaster Supplemental Funding: Breakout of Extrapolated Results



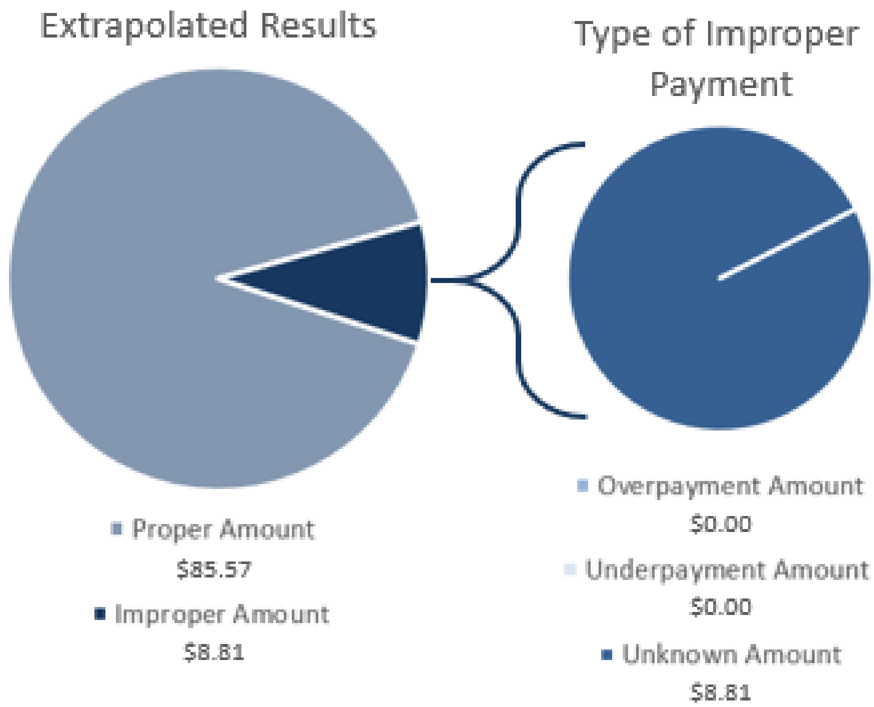
FEMA – Commercial Bill of Lading (CBoL)– Disaster Supplemental Funding Program

The FEMA Tender of Service Program uses bills of lading to acquire freight transportation services. The bills of lading, sometimes referred to as a commercial bill of lading (CBoL), establishes the terms of contract between a shipper (i.e. FEMA or other authorized federal agencies) and a Tender of Service Program and serves as a receipt of goods, a contract of carriage, and documentary evidence of title.

FEMA uses an automated, web-based Third-Party Payment System to streamline the audit, approval and payment processes associated with transportation-related expenses

For the testing conducted in 2020, FEMA's assessment was focused on the associated FY 2018 disaster supplemental funding disbursements of over $94 million applicable for review under PIIA. The FEMA CBoL Disaster Supplemental Funding program reported a 9.33 percent improper payment rate in 2020. The breakout of the extrapolated results is provided in the following chart:

Figure 11: FEMA CBoL – Disaster Supplemental Funding: Breakout of Extrapolated Results



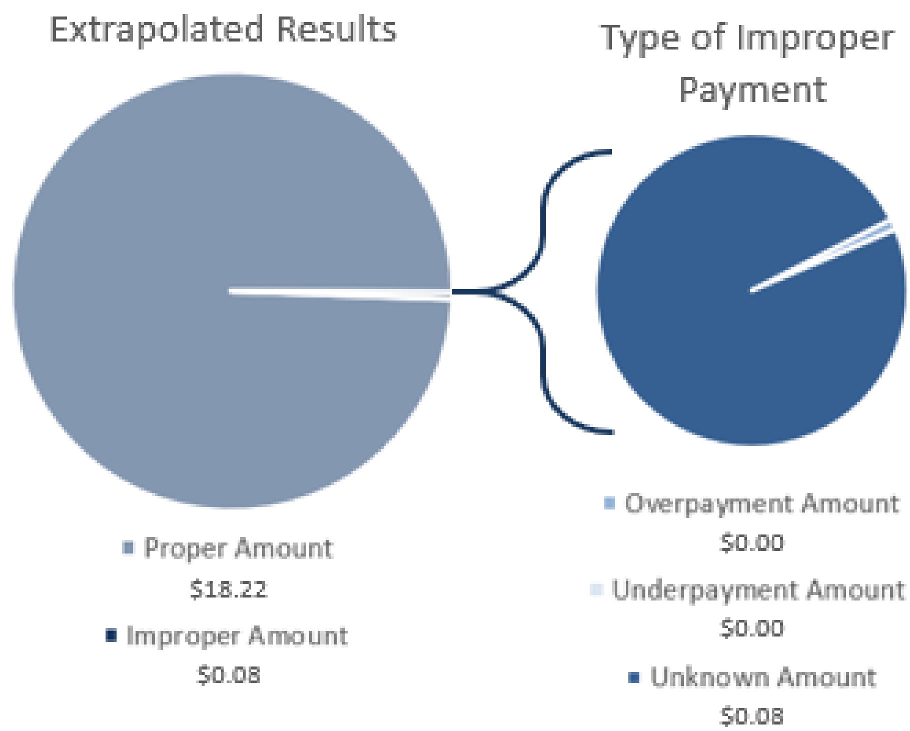
FEMA – Disaster Case Management (DCM) – Disaster Supplemental Funding Program

Disaster Case Management involves partnerships between a case manager and a disaster survivor. The intention of this program is to assess and address a survivor's unmet needs through a disaster recovery plan. This disaster recovery plan includes resources, decision-making priorities, providing guidance, and tools to assist disaster survivors.

While Section 426 of the Stafford Act authorizes FEMA to "provide case management services, including financial assistance, to State or local government agencies or qualified private organizations to provide such services to victims of major disasters to identify and address unmet needs," the DCM program is administered in partnership with the U.S. Department of Health and Human Services. This partnership provides the client with a single person to facilitate access to a broad range of resources. The process involves assessing the client's needs caused by and related to the disaster, developing a goal-oriented plan outlining the steps necessary for recovery, organizing and coordinating resources that match the client's needs, monitoring progress, and, when necessary, advocating on behalf of the client.

For the testing conducted in 2020, FEMA's assessment was focused on the associated FY 2018 disaster supplemental funding disbursements of over $18 million applicable for review under PIIA. The FEMA DCM Disaster Supplemental Funding program reported a 0.46 percent improper payment rate in 2020. The breakout of the extrapolated results is provided in the following chart:

Figure 12: FEMA DCM – Disaster Supplemental Funding: Breakout of Extrapolated Results



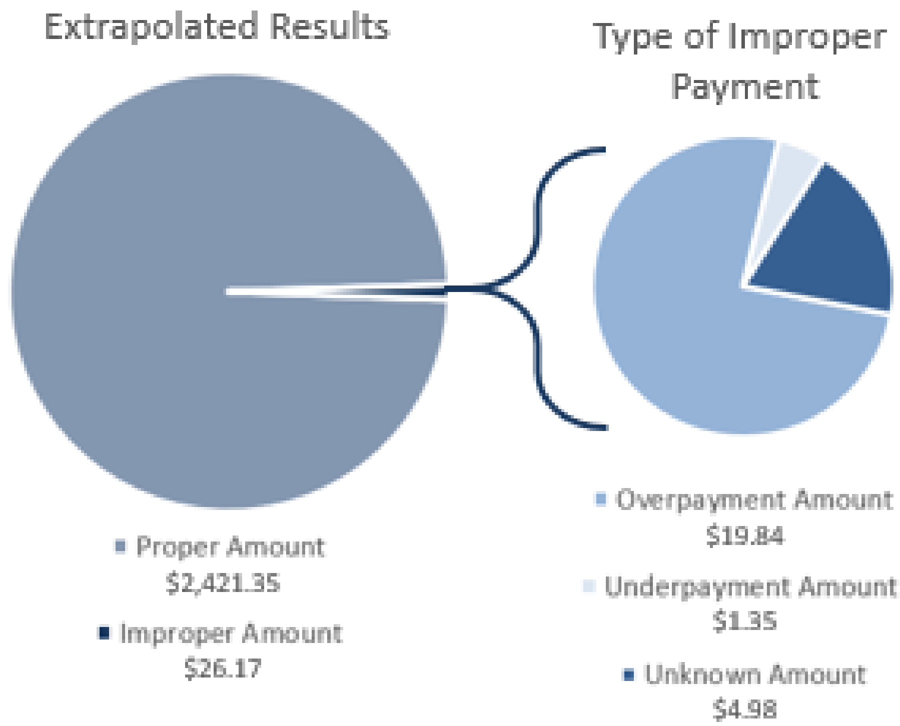
FEMA – Disaster Relief Fund – Individuals and Households Program (IHP) – Disaster Supplemental Funding Program

FEMA's IHP provides financial and direct services to eligible individuals and households affected by a disaster, who have uninsured or under-insured necessary expenses and serious needs. FEMA determines the appropriate types of Housing Assistance for which an individual or household may be eligible based on disaster-caused loss, access to life-sustaining services, cost-effectiveness, and other factors. Individuals and households may receive more than one type of Housing Assistance, including a combination of financial assistance and direct services for disaster-caused damage to a disaster survivor's primary residence.

Applicants may also receive financial assistance for other disaster-caused necessary expenses and serious needs. The types of other needs assistance are divided into two categories of assistance that are either dependent or non-dependent on the applicant's ability to secure a U.S. Small Business Administration (SBA) disaster loan. The SBA provides low-interest, long-term loans to help eligible applicants with transportation losses, moving and storage expenses, as well as repair/replacement funds for real and personal property damage caused by the disaster.

For the testing conducted in 2020, FEMA's assessment was focused on the associated FY 2018 disaster supplemental funding disbursements of over $2 billion applicable for review under PIIA. The FEMA DRF IHP Disaster Supplemental Funding program reported a 1.07 percent improper payment rate in 2020. The breakout of the extrapolated results is provided in the following chart:

Figure 13: FEMA DRF IHP – Disaster Supplemental Funding: Breakout of Extrapolated Results



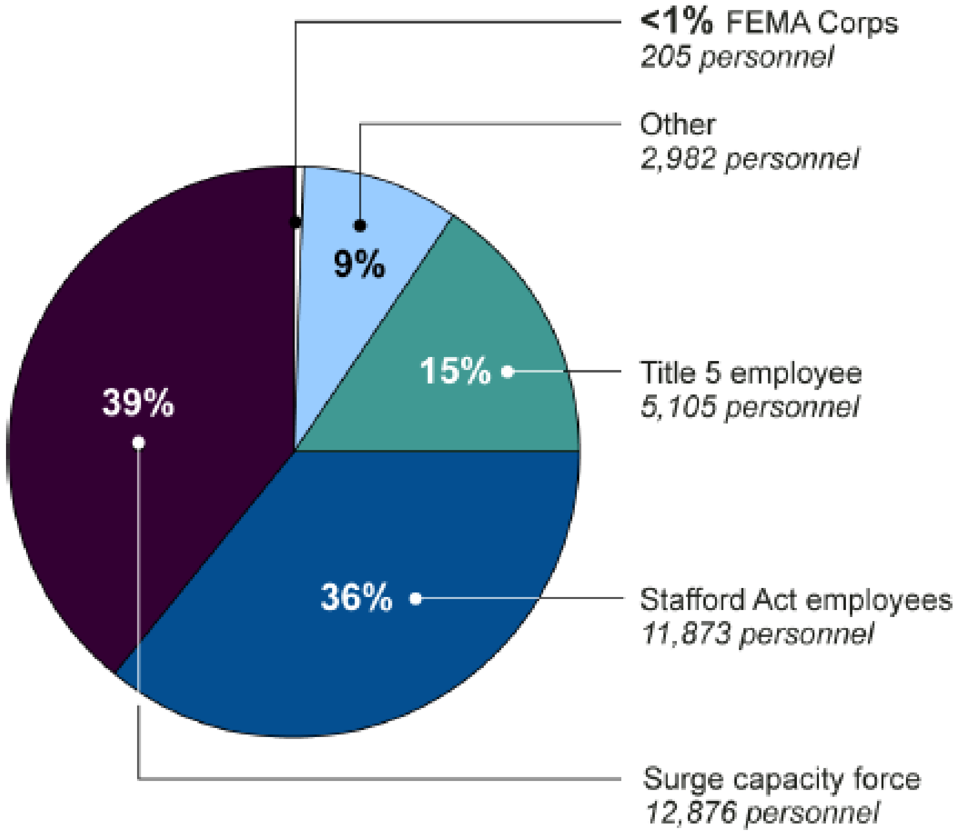
FEMA – Payroll – Disaster Supplemental Funding Program

The federal disaster workforce is designed to scale up or down depending on the timing and magnitude of disasters, and includes the following categories of employees:

- **Title 5** – Employees that make up FEMA's day-to-day workforce and are responsible for administering the agency's ongoing program activities. During disasters, these employees can be deployed as needed.
- **Stafford Act** – Stafford Act employees provide support for disaster-related activities and augment FEMA's disaster workforce. Stafford Act employees include on call and recovery staff who are temporary employees and can be deployed to fulfill any role specifically related to the incident for which they are hired and qualified. In addition, reservists can be utilized. These reservists work on an intermittent basis and are deployed as needed to fulfill incident management roles.
- **Surge Capacity Force** – The Surge Capacity Force supplements FEMA's disaster workforce in a major disaster and consists of volunteers who are employees of DHS components, such as the TSA and USSS, as well as employees of other federal agencies, as authorized by the Post-Katrina Act[22].
- **FEMA Corps** – FEMA Corps is a team-based national service program operated by AmeriCorps in partnership with FEMA. Members are not FEMA employees, but are deployed to augment FEMA's workforce for disaster readiness, preparedness, response, and recovery work under the supervision of FEMA staff.

[22] 266 U.S.C. § 711(b)

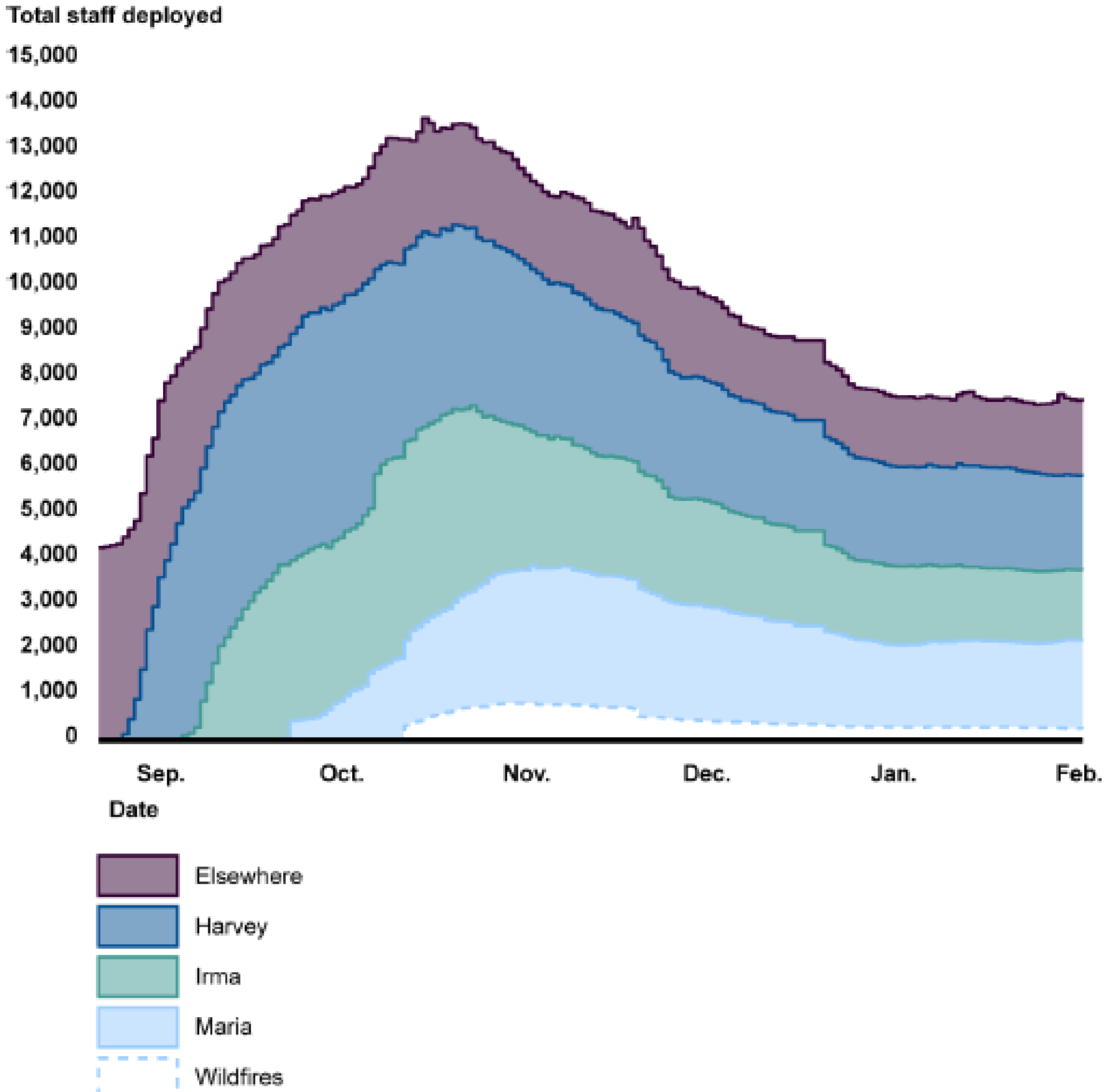
Figure 14: Federal Disaster Workforce as of January 31, 2018[23]



As a result of the Hurricane Harvey, Irma, and Maria disasters, many of the available federal employees were deployed to support these recovery and response activities.

[23] Government Accountability Office (GAO) analysis of DHS data (GAO-18-472)

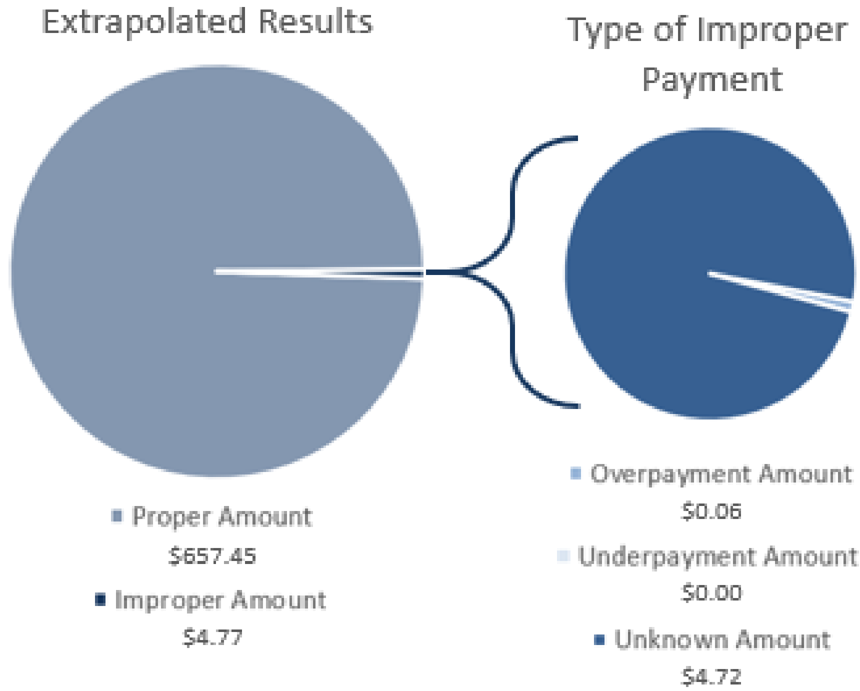
Figure 15: Federal Disaster Workforce Deployed in Response to the 2017 Disasters in September 2017 through February 2018[24]



For the testing conducted in 2020, FEMA's assessment was focused on the associated FY 2018 disaster supplemental funding disbursements of over $39 million applicable for review under PIIA. The FEMA Payroll Disaster Supplemental Funding program reported a 0.72 percent improper payment rate in 2020. The breakout of the extrapolated results is on the following chart:

[24] GAO analysis of DHS data (GAO-18-472)

Figure 16: FEMA Payroll – Disaster Supplemental Funding: Breakout of Extrapolated Results



FEMA - Public Assistance (PA) – Disaster Supplemental Funding Program

The Robert T. Stafford Disaster Relief and Emergency Assistance Act, as Amended (Stafford Act), Title 42 of the USC § 5121 et seq., authorizes the President to provide federal assistance when the magnitude of an incident or threatened incident exceeds the affected State, Territorial, Indian Tribal, and local government capabilities to respond or recover.

The purpose of the PA Grant Program is to support communities' recovery from major disasters by providing them with grant assistance for debris removal, life-saving emergency protective measures, and restoring public infrastructure. Local governments, states, tribes, territories, and certain private nonprofit organizations are eligible to apply. The FEMA PA Grant Program relies on Regional Offices to manage, operate, and maintain program activities and operations. For the breakout of FEMA Regions, please refer to the map below.

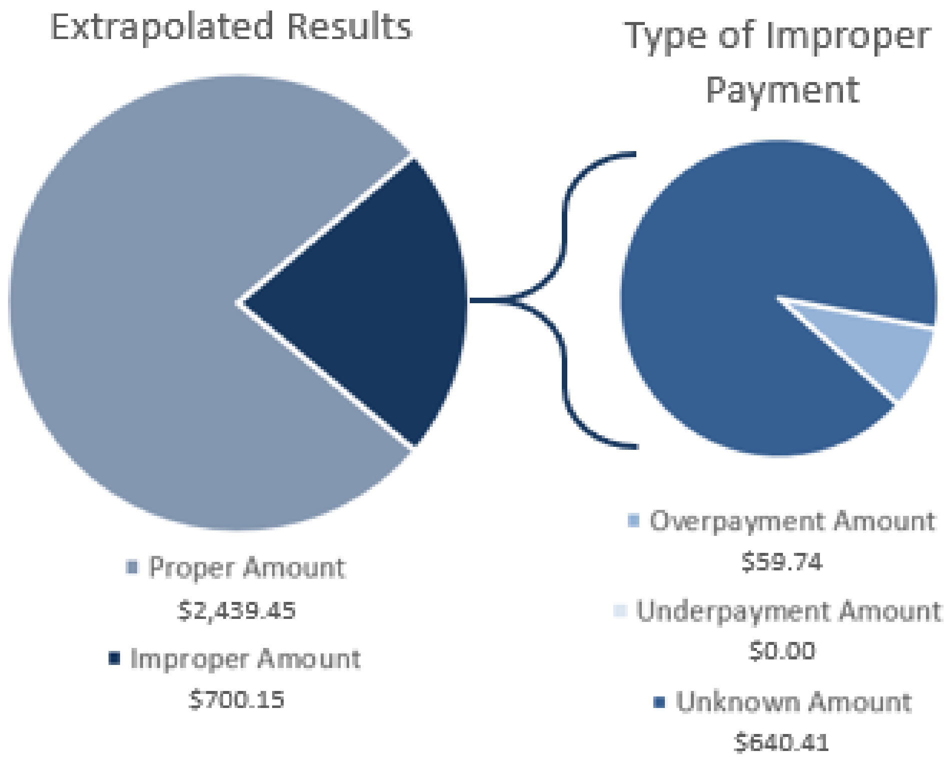
Figure 17: Map of FEMA regions

Public Assistance is FEMA's largest grant program and provides emergency assistance to save lives and protest property and assists communities with repairing public infrastructure affected by federally declared incidents.

To streamline internal operations and improve the overall experience for local communities as they worked to rebuild public infrastructure damaged during the hurricane season, FEMA leadership expedited the launch of the updated PA Grant Program delivery model on September 12, 2017. The revised delivery approach was designed to more easily adapt to the size, complexity, and cost of recovery operations. However, FEMA later determined that neither Puerto Rico nor the U.S. Virgin Islands had the capacity or the experience to effectively implement this approach.

For the testing conducted in 2020, FEMA's assessment was focused on the associated FY 2018 disaster supplemental funding disbursements of over $3 billion applicable for review under PIIA. The FEMA PA Disaster Supplemental Funding program reported a 22.30 percent improper payment rate in 2020, primarily due to insufficient documentation for the Puerto Rico and the U.S. Virgin Islands grantees. The breakout of the extrapolated results is on the following chart:

Figure 18: FEMA PA – Disaster Supplemental Funding: Breakout of Extrapolated Results



FEMA is currently undertaking remediation efforts with Puerto Rico and the U.S. Virgin Islands to obtain proper documentation to support the grant drawdowns and disbursements. If documentation cannot be obtained, FEMA will plan to move forward with debt collection procedures.

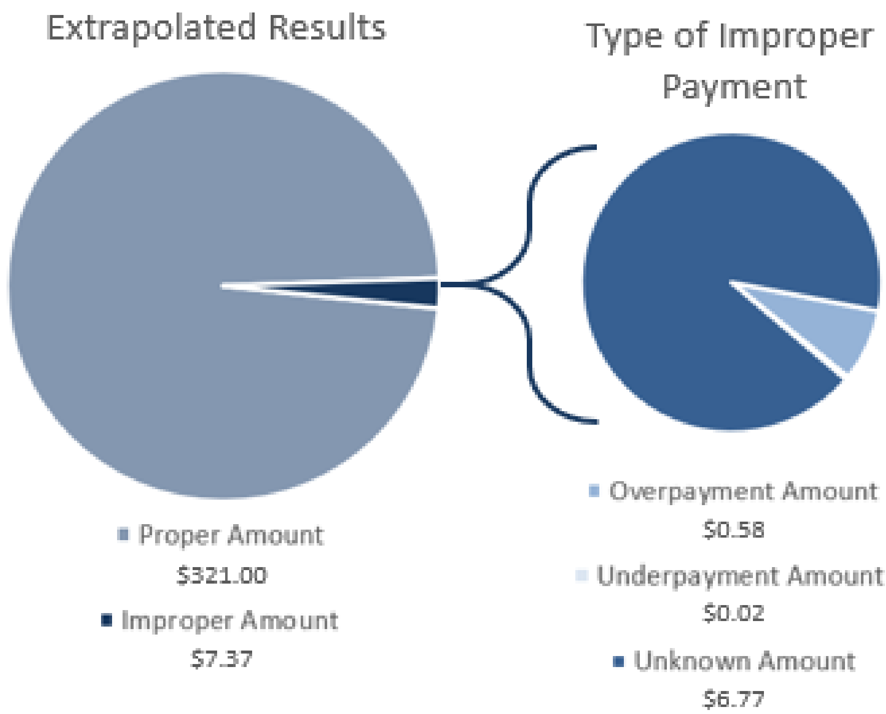
As the FEMA PA Disaster Supplemental Funding program has a report error rate above 1.5 percent and an extrapolated error amount over $10 million, the program is above the OMB statutory thresholds and is considered susceptible to significant improper payments. Supplemental information, to include corrective actions already taken and additional corrective actions that are planned, is available on https://paymentaccuracy.gov/.

FEMA – Travel – Disaster Supplemental Funding Program

Under typical disaster operations, responders are moved to the disaster response area via commercial travel options or on roadways from nearby states, as possible. However, limitations on air travel due to capacity constraints and power outages can result in the requirement to coordinate and mobilize agency partners to provide chartered transportation until commercial travel options can be fully resumed.

For the testing conducted in 2020, FEMA's assessment was focused on the associated FY 2018 disaster supplemental funding disbursements of over $3 billion applicable for review under PIIA. The FEMA PA Disaster Supplemental Funding program reported a 22.30 percent improper payment rate in 2020, primarily due to insufficient documentation for Puerto Rico and the U.S. Virgin Islands. FEMA is undertaking a remediation process with the U.S. Virgin Islands and Puerto Rico to obtain proper documentation; if none is provided, FEMA will issue letters of debt collection requiring the repayment of the funds for which there is insufficient documentation. The breakout of the extrapolated results is on the following chart:

Figure 19: FEMA Travel – Disaster Supplemental Funding: Breakout of Extrapolated Results



FEMA – Urban Search & Rescue (US&R) – Disaster Supplemental Funding Program

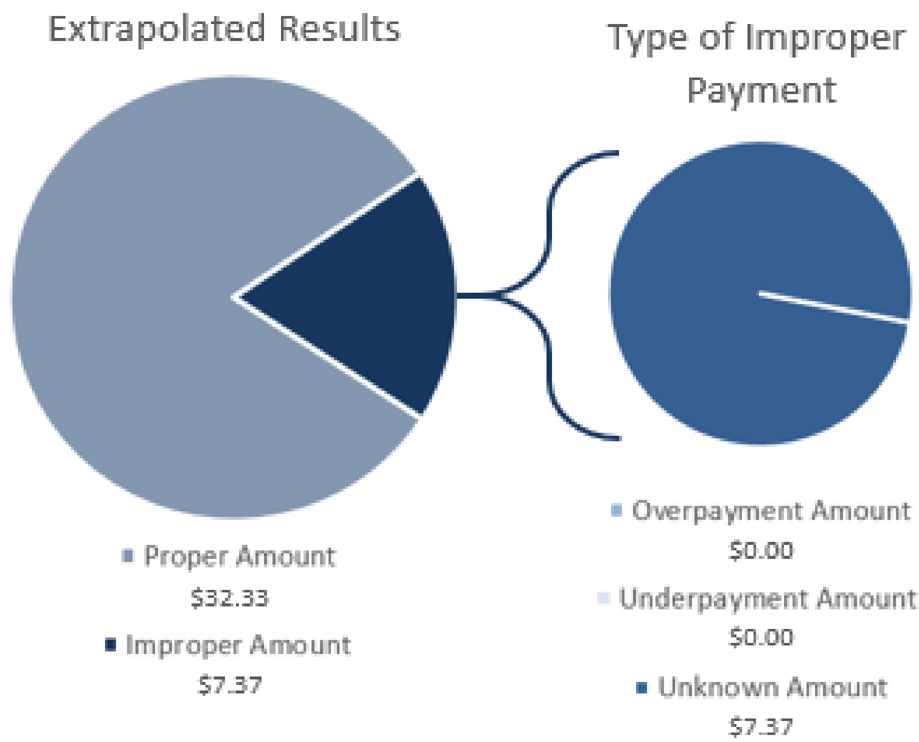
The National Urban Search & Rescue (US&R) Response System, established under the authority of the Federal Emergency Management Agency in 1989, is a framework for organizing federal, state and local partner emergency response teams as integrated federal disaster response task forces. US&R task forces can be deployed by FEMA to a disaster area to provide assistance in structural collapse rescue, or they may be pre-positioned when a major disaster threatens a community. Each US&R task force is composed of members specializing in search, rescue, medicine, hazardous materials, logistics and planning, including technical specialists such as physicians, structural engineers, and canine search teams.

Figure 20: FEMA US&R Tennessee Task Force One (TN-TF1)

Disaster response is locally executed, state/territory managed and federally supported. Local fire departments, emergency management, and local and state law enforcement are the first to arrive at the scene and begin rescue.

For the testing conducted in 2020, FEMA's assessment was focused on the associated FY 2018 disaster supplemental funding disbursements of over $39 million applicable for review under PIIA. The FEMA US&R Disaster Supplemental Funding program reported an 18.56 percent improper payment rate in 2020 due to insufficient documentation. The breakout of the extrapolated results is on the following chart:

Figure 21: FEMA US&R – Disaster Supplemental Funding: Breakout of Extrapolated Results



FEMA has worked diligently with the US&R task forces and associated federal, state, and local partners to obtain the required documentation to support the FY 2018 disbursements and to implement corrective actions related to training, guidance updates, and policy changes, as needed, to reduce future improper payment rates.

ICE –O&S – Disaster Supplemental Funding Program

During the Hurricane Harvey, Irma, and Maria disasters, ICE's highest priorities were to promote life-saving and life-sustaining activities, the safe evacuation of people who are leaving the impacted area, the maintenance of public order, the prevention of the loss of property to the extent possible, and the speedy recovery of the region. At the request of FEMA, local and state authorities, DHS law enforcement personnel would be in the affected areas to conduct search and rescue, air traffic de-confliction and public safety missions.

ICE also was responsible for providing for the safety and security of those in custody and to protect them from bodily harm in the event of a hurricane or a major destructive storm. As such, ICE detainees from select detention facilities were temporarily transferred to various other detention facilities outside the projected path of the hurricanes.

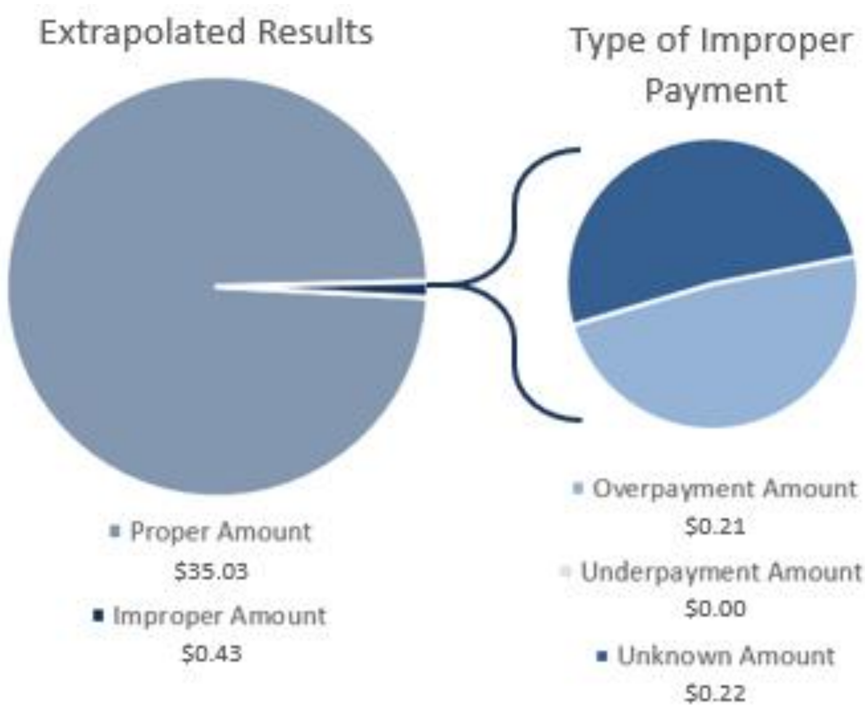
For the testing conducted in 2020, ICE's assessment was focused on the associated FY 2018 disaster supplemental funding disbursements of over $11 million applicable for review under PIIA. The ICE O&S Disaster Supplemental Funding program reported a 0.00 percent improper payment rate in 2020.

USCG – Coast Guard Operating Expense – Disaster Supplemental Funding Program

As the Nation's maritime first responder, the Coast Guard has unique capabilities, capacity, and authorities that allow it to play a critical role in disaster response. For each of the Hurricanes noted and all-natural disasters along our coastline, Coast Guard crews are typically the first federal responders to enter an impacted area, right alongside the state, local, tribal, and territorial responders, to conduct rescues and assess damage. In addition to search and rescue operations, the Coast Guard flows forces into the impacted regions to restore ports and waterways, respond to pollution, provide security and additional law enforcement capability where necessary, and protect offshore petrochemical platforms.

For the testing conducted in 2020, USCG's assessment was focused on the associated FY 2018 disaster supplemental funding disbursements of over $35 million applicable for review under PIIA. The USCG Operating Expense Disaster Supplemental Funding program reported a 1.21 percent improper payment rate in 2020. The breakout of the extrapolated results is provided below:

Figure 22: USCG Operating Expense – Disaster Supplemental Funding: Breakout of Extrapolated Results



The table on the next page summarizes improper payment amounts for all DHS programs deemed to be susceptible to significant improper payments. It provides a breakdown of estimated proper as well as improper payments and associated rates for each applicable DHS program or activity.

Table 6: DHS Improper Payment Results and Reduction Outlook

DHS Program Name	Testing Conducted in FY 2019			Testing Conducted in FY 2020					Testing to be Conducted in FY2021
	Outlays ($M)	Improper Amount ($M)	Improper Rate (%)	Outlays ($M)	Proper Amount ($M)	Proper Rate (%)	Improper Amount ($M)	Improper Rate (%)	Reduction Target (%)
DHS Programs Reporting on Disbursements from One Fiscal Year Prior									
FEMA – VP Program	$4,383.97	$44.58	1.02%	$2,289.03	$2,262.19	98.83%	$26.84	1.17%	1.15%
FPS – Payroll	$205.08	$4.93	2.40%	$195.57	$191.91	98.13%	$3.66	1.87%	1.50%
DHS Programs Reporting on Disbursements from Two Fiscal Years Prior									
CBP – O&S – Disaster Supplemental Funding	*N/A - Program identified to begin reporting in FY 2020*			$15.73	$14.87	94.55%	$0.86	5.45%	*N/A*[25]
FEMA – CBoL – Disaster Supplemental Funding	*N/A - Program identified to begin reporting in FY 2020*			$94.38	$85.57	90.67%	$8.81	9.33%	*N/A*[13]
FEMA – DCM – Disaster Supplemental Funding	*N/A - Program identified to begin reporting in FY 2020*			$18.30	$18.22	99.56%	$0.08	0.46%	*N/A*[13]
FEMA – DRF IHP – Disaster Supplemental Funding	*N/A - Program identified to begin reporting in FY 2020*			$2,447.52	$2,421.35	98.93%	$26.17	1.07%	*N/A*[13]
FEMA – Payroll – Disaster Supplemental Funding	*N/A - Program identified to begin reporting in FY 2020*			$662.22	$657.45	99.28%	$4.77	0.72%	*N/A*[13]
FEMA – PA – Disaster Supplemental Funding	*N/A - Program identified to begin reporting in FY 2020*			$3,139.60	$2,439.45	77.70%	$700.15	22.30%	*N/A*[13]
FEMA – Travel – Disaster Supplemental Funding	*N/A - Program identified to begin reporting in FY 2020*			$328.37	$321.00	97.75%	$7.37	2.25%	*N/A*[13]
FEMA – US&R – Disaster Supplemental Funding	*N/A - Program identified to begin reporting in FY 2020*			$39.70	$32.33	81.44%	$7.37	18.56%	*N/A*[13]
ICE – O&S – Disaster Supplemental Funding	*N/A - Program identified to begin reporting in FY 2020*			$11.05	$11.05	100.00%	$0.00	0.00%	*N/A*[13]
USCG –Operating Expense – Disaster Supplemental Funding	*N/A - Program identified to begin reporting in FY 2020*			$35.46	$35.03	98.79%	$0.43	1.21%	*N/A*[13]
DHS Programs Granted OMB Relief from Reporting Effective in FY 2020									
FEMA – Flood Hazard Mapping & Risk Analysis	$174.91	$0.009	0.005%	*N/A - Program was granted OMB relief from reporting*					
FEMA – NFIP	$9,310.28	$0.31	0.003%	*N/A - Program was granted OMB relief from reporting*					
FEMA – PA Program	$3,764.07	$26.72	0.71%	*N/A - Program was granted OMB relief from reporting*					
TOTAL[26]	$17,838.30	$76.55	0.43%[27]	$9,276.94	$8,490.43	91.52%	$786.51	8.48%[28]	N/A

[25] The program does not have reduction target percentage provided as 2020 was the first year that the program conducted PIIA sampling and reporting and, in accordance with OMB Circular A-123, Appendix C, has an allowance of 24 months of reporting to establish a baseline before establishing a reduction target.

[26] The total does not represent a true statistical improper payment estimate for the Department.

[27] The estimated DHS improper payment rate is not a true statistical estimate for the Department and was calculated using estimated total outlays as well as the estimated total improper payment amount as reported for testing conducted in 2019.

[28] The estimated DHS improper payment rate is not a true statistical estimate for the Department and was calculated using estimated total outlays as well as the estimated total improper payment amount as reported for testing conducted in 2020.

For additional information related to the Department's improper payment efforts, details on the annual results to include error reasoning, corrective actions, as well as other areas of interest, please refer to the government-wide reporting archive, https://paymentaccuracy.gov/.

2. Actions Taken to Address Auditor Recovery Recommendations

During FY 2020, the Department did not have any recapture audit activities conducted. As such, DHS did not have any auditor recovery recommendations to be addressed and reported in 2020.

For additional information related to the Department's recovery audit efforts, please refer to https://paymentaccuracy.gov/.

3. Fraud Reduction Report

On June 30, 2016, Congress enacted P.L. 114-186, the Fr*aud Reduction and Data Analytics Act* (FRDAA). The FRDAA requires agencies to conduct an evaluation of fraud risks and use a risk-based approach to design and implement financial and administrative control activities to mitigate identified fraud risks; collect and analyze data from reporting mechanisms on detected fraud to monitor fraud trends and improve fraud prevention controls; and use the results of monitoring, evaluation, audits, and investigations to improve fraud prevention, detection, and response.

DHS continued implementation of several initiatives to comply with the FRDAA, manage fraud risks, and enhance fraud prevention and detection controls. The Department conducts annual evaluations of fraud risk across its Components and business processes and considers fraud when identifying, analyzing, and responding to risks in alignment with the GAO *Standards for Internal Control* fraud risk principle. DHS fraud risk assessments consider the inherent risk of various types of fraud that could occur, as well as risk tolerance, in determining appropriate risk responses. DHS Components also determine whether controls are in place and operating effectively to mitigate identified fraud risks to an acceptable level. DHS Component fraud risk assessments inform the Department's Fraud Risk Profile, in alignment with leading practices from the GAO *Framework for Managing Fraud Risks in Federal Programs* (Fraud Framework). The Department also adhered to OMB Circular A-123 and continued to adopt leading practices from the GAO Fraud Framework in its efforts to better assess, respond to, and manage fraud risk.

In FY2020, the Components' fraud risk assessments identified areas of elevated risk related to grants management, insurance management, seized property, revenue and receivables management, and human resources and payroll management. Additionally, the fraud risk assessments indicated elevated risks with regards to purchase cards and travel related payment management. DHS utilized the results from these fraud risk assessments to monitor the potential risk of fraud at each of the Components and to plan additional control activities, as needed, to further reduce fraud risk.

Data Analytics

The Department continues to implement and utilize data analytics in areas of elevated fraud risk, as appropriate, to detect and prevent fraud. DHS has historically assessed elevated fraud risk in purchase card programs due to higher inherent risk and environmental factors such as natural disaster responses. To assist in mitigating these risks, DHS implemented a purchase card analytics process to identify potential misuse and non-compliance trends within the purchase card program. The Department is also initiating data analytics to analyze risks related to travel and payroll management. Going forward, DHS will continue to expand upon its data analytic capabilities to identify red flags, test targeted areas for potential fraud, and further enhance fraud risk management capabilities. In FY2021, the Department plans to target COVID-19 response related purchase card disbursements and assess for anomalies and potential fraud.

Other Initiatives

Other supporting initiatives include the following:

- *Procurement Monitoring and Oversight*: Embedded within the Federal Acquisition Regulations and the Homeland Security Acquisition Manual are measures to identify indicators of procurement fraud, and internal controls to prevent such fraud. The DHS Office of the Chief Procurement Officer (OCPO) monitors compliance with acquisition regulations and DHS policy across the Department, through its procurement oversight program. In addition, OCPO has an established industry engagement and communication program, providing an external control for ensuring compliance with DHS procurement requirements by encouraging collaboration across the acquisition community and with other institutions to enhance procurement policies, processes, and outcomes.
- *Payment Integrity*: In accordance with PIIA, OMB requires programs identified as susceptible to improper payments to be tested, and for the root causes of improper payments to include a risk analysis of the potential for fraudulent activity. DHS is also required by OMB to report confirmed fraud, as reported by the OIG, which is a subset of amounts reported in the semi-annual report to Congress. In FY 2021, DHS will analyze confirmed fraud data to identify root causes of fraud instances and strengthen controls to further mitigate and reduce the risk of fraud. The Department will use this data, including the results of GAO and OIG audits, evaluations, and examinations, to continuously enhance control activities and improve fraud prevention, detection, and response.

Gone Act

Grants Programs

The DHS continues its efforts in closing out grants and cooperative agreement awards. The summary table below shows the number of awards and balances for which closeout has not yet occurred, but for which period of performance had elapsed by two years or more prior to September 30, 2020 (i.e., on or before September 30, 2018).

Table 7: Grants/Cooperative Agreements Summary Status

($ in millions)

Category	2-3 years	3-5 years	More than 5 years
Number of Grants / Cooperative Agreements with Zero Dollar Balances	644	484	3
Number of Grants / Cooperative Agreements with Undistributed Balances	201	142	10
Total Dollar Amount of Undistributed Balances	$23	$32	$21

DHS awards approximately $10 billion annually in grants and cooperative agreements through eight DHS financial assistance awarding offices. The awarding offices include FEMA, USCG, Domestic Nuclear Detection Office, Office of Health Affairs, ICE, National Protection & Programs Directorate, S&T, and USCIS. FEMA awards ninety-eight percent of DHS grants and cooperative agreements.

DHS awarding offices use disparate grant management systems, and this has created a multitude of challenges in closing grant awards and cooperative agreements in a timely manner. In this regard, DHS is providing centralized oversight and training on grants management processes. These improved processes and an integrated system environment will better support the close out of grants and cooperative agreements in a timely manner. Once fully implemented, DHS management officials will be able to make data-driven decisions that lead to faster action and facilitate better outcomes for the American public.

Real Property

DHS has developed a systematic real property capital planning process, as required by OMB M-20-03, and has relevant policies and processes to provide required oversight and direction over its portfolio. DHS is a federated organizational structure with Components having their own existing authorities to plan and execute the real property programs within DHS policy and oversight. As outlined in DHS Instructions 252-04-001 and 101-01-001 and supported by the DHS Real Property Asset Management System Manual (AMSM) drafted, DHS Components are required to perform capital planning that aligns with the Department's Planning, Programming, Budgeting, and Execution (PPBE) processes. Additional information can be found on https://www.performance.gov/homeland-security/ and DHS's Annual Performance Report.

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 2020. Additional information about these penalties and the latest adjustment is available in the Federal Register Volume 85, No. 177 at the following link: https://www.govinfo.gov/content/pkg/FR-2020-06-17/pdf/2020-11124.pdf.

Table 8: 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); INA Section 231(g); 8 CFR 280.53(b)(1)	2002	$1,419
Non-compliance with landing requirements at designated ports of entry for aircraft transporting aliens	8 USC 1224; INA Section 234; 8 CFR 280.53(b)(2)	1990	$3,855
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); INA Section 243(c)(1)(A); 8 CFR 280.53(b)(4)	1996	$3,251
Failure to remove alien stowaways under section 241(d)(2) of the INA	8 USC 1253(c)(1)(B); INA Section 243(c)(1)(B); 8 CFR 280.53(b)(5)	1996	$8,128
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 INA (for each alien)	8 USC 1281(d); INA Section 251(d); 8 CFR 280.53(b)(6)	1990	$385
Use of alien crewmen for longshore work in violation of section 251(d) of the INA	8 USC 1281(d); INA Section 251(d); 8 CFR 280.53(b)(6)	1990	$9,639
Failure to control, detain, or remove alien crewmen	8 USC 1284(a); INA Section 254(a); 8 CFR 280.53(b)(7)	1990	Minimum $964 Maximum $5,783
Employment on passenger vessels of aliens afflicted with certain disabilities	8 USC 1285; INA Section 255; 8 CFR 280.53(b)(8)	1990	$1,928
Discharge of alien crewmen	8 USC 1286; INA Section 256; 8 CFR 280.53(b)(9)	1990	Minimum $2,891 Maximum $5,783
Bringing into the United States alien crewmen with intent to evade immigration laws	8 USC 1287; INA Section 257; 8 CFR 280.53(b)(10)	1990	$19,277
Failure to prevent the unauthorized landing of aliens	8 USC § 1321(a); INA Section 271(a); 8 CFR 280.53(b)(11)	1990	$5,783
Bringing to the United States aliens subject to denial of admission on a health-related ground	8 USC § 1322(a); INA Section 272(a); 8 CFR 280.53(b)(12)	1990	$5,783
Bringing to the United States aliens without required documentation	8 USC § 1323(b); INA Section 273(b); 8 CFR 280.53(b)(13)	1990	$5,783

Penalty	Authority	Year Enacted	Adjusted New Penalty
Improper entry	8 USC § 1325(b) INA Section 275(b); 8 CFR 280.53(b)(15)	1996	Minimum $81 Maximum $407
Dealing in or using empty stamped imported liquor containers	19 USC 469	1879	$540
Transporting passengers between coastwise points in the United States by a non-coastwise qualified vessel	46 USC 55103(b); 19 CFR 4.80(b)(2)	1898	$812
Towing a vessel between coastwise points in the United States by a non-coastwise qualified vessel	46 USC 55111(c); 19 CFR 4.92	1940	Minimum $946 Maximum $2,976 plus $162 per ton
Failure to depart voluntarily	8 USC 1229(c)(d); INA Section 243(c)(1)(A); 8 CFR 280.53(b)(3)	1952	Minimum $1,625; Maximum $8,128
Failure to depart	8 USC 1324d; INA Section 274D; 8 CFR 280.53(b)(14)	1952	$813
Employing a vessel in a trade without a required Certificate of Documentation	19 USC 1706(a); 19 CFR 4.80(i)	1980	$1,352
Transporting passengers coastwise for hire by certain vessels (knows as Bowaters vessels) that do not meet specified conditions	46 USC 12118(f)(3)	1958	$540
ICE			
Violation of Immigration and Nationality Act (INA) sections 274C(a)(1)–(a)(4) (First offense)	8 CFR 270.3(b)(1)(ii)(A)	1990	Minimum $481 Maximum $3,855
Violation of Immigration and Nationality Act (INA) sections 274C(a)(5)–(a)(6) (First offense)	8 CFR 270.3(b)(1)(ii)(B)	1996	Minimum $407 Maximum $3,251
Violation of Immigration and Nationality Act (INA) sections 274C(a)(1)–(a)(4) (Subsequent offenses)	8 CFR 270.3(b)(1)(ii)(C)	1990	Minimum $3,855 Maximum $9,639
Violation of Immigration and Nationality Act (INA) sections 274C(a)(5)–(a)(6) (Subsequent offenses)	8 CFR 270.3(b)(1)(ii)(D)	1996	Minimum $3,251 Maximum $8,128
Violation/prohibition of indemnity bonds	8 CFR 274a.8(b)	1986	$2,332
Knowingly hiring, recruiting, referral, or retention of unauthorized aliens (per unauthorized alien) (First offense)	8 CFR 274a.10(b)(1)(ii)(A)	1986	Minimum $583 Maximum $4,667
Knowingly hiring, recruiting, referral, or retention of unauthorized aliens (per unauthorized alien) (Second offense)	8 CFR 274a.10(b)(1)(ii)(B)	1986	Minimum $4,667 Maximum $11,665
Knowingly hiring, recruiting, referral, or retention of unauthorized aliens (per unauthorized alien) (Subsequent offenses)	8 CFR 274a.10(b)(1)(ii)(C)	1986	Minimum $6,999 Maximum $23,331
I–9 paperwork violations	8 CFR 274a.10(b)(2)	1986	Minimum $234 Maximum $2,332
Failure to depart voluntarily	8 USC 1229c(d); INA Section 240B(d); 8 CFR 280.53(b)(3)	1996	Minimum $1,625 Maximum $8,128

Penalty	Authority	Year Enacted	Adjusted New Penalty
Failure to depart	8 USC 1324(d); INA Section 274D; 8 CFR 280.53(b)(14)	1996	$813
NPPD			
Non-compliance with CFATS regulations	6 USC 624(b)(1); 6 CFR 27.300(b)(3)	2002	$35,486
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), (5); 49 USC 46301(d)(8)	2003	$13,910 (up to a total of $69,553 total for small business, $556,419 for others)
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), (5); 49 USC 46301(d)(8)	2003	$13,910 (up to a total of $69,553 total for small business, $556,419 for others)
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), (5); 49 USC 46301(d)(8)	2003	$34,777 (up to a total of $556,419 per civil penalty action)
Violation of any other provision of title 49 USC or of 46 USC ch. 701, a regulation prescribed, or order issued under thereunder (49 CFR Ch. XII § 1503.401(b))	49 USC 114(v)	2009	$11,904 (up to a total of $59,522 for individuals and small businesses, $476,174 for others)
USCG			
Saving Life and Property	14 USC 521(c)	2014	$10,839
Saving Life and Property (Intentional Interference with Broadcast)	14 USC 521(e)	2012	$1,112
Confidentiality of Medical Quality Assurance Records (first offense)	14 USC 645(i); 33 CFR 27.3	1992	$5,444
Confidentiality of Medical Quality Assurance Records (subsequent offenses)	14 USC 645(i); 33 CFR 27.3	1992	$36,297
Aquatic Nuisance Species in Waters of the United States	16 USC 4711(g)(1); 33 CFR 27.3	1996	$40,640
Obstruction of Revenue Officers by Masters of Vessels	19 USC 70; 33 CFR 27.3	1935	$8,116
Obstruction of Revenue Officers by Masters of Vessels—Minimum Penalty	19 USC 70; 33 CFR 27.3	1935	$1,894
Failure to Stop Vessel When Directed; Master, Owner, Operator or Person in Charge	19 USC 1581(d)	1930	$5,088
Failure to Stop Vessel When Directed; Master, Owner, Operator or Person in Charge - Minimum Penalty	19 USC 1581(d)	1930	$1,018
Anchorage Ground/Harbor Regulations General	33 USC 471; 33 CFR 27.3	2010	$11,767
Anchorage Ground/Harbor Regulations St. Mary's River	33 USC 474; 33 CFR 27.3	1946	$812
Bridges/Failure to Comply with Regulations	33 USC 495(b); 33 CFR 27.3	2008	$29,707
Bridges/Drawbridges	33 USC 499(c); 33 CFR 27.3	2008	$29,707
Bridges/Failure to Alter Bridge Obstructing Navigation	33 USC 502(c); 33 CFR 27.3	2008	$29,707
Bridges/Maintenance and Operation	33 USC 533(b); 33 CFR 27.3	2008	$29,707

Penalty	Authority	Year Enacted	Adjusted New Penalty
Bridge to Bridge Communication; Master, Person in Charge or Pilot	33 USC 1208(a); 33 CFR 27.3	1971	$2,164
Bridge to Bridge Communication; Vessel	33 USC 1208(b); 33 CFR 27.3	1971	$2,164
PWSA Regulations	33 USC 1232(a)	1978	$95,881
Vessel Navigation: Regattas or Marine Parades; Unlicensed Person in Charge	46 USC 70041(d)(1)(B); 33 CFR 27.3	1990	$9,639
Vessel Navigation: Regattas or Marine Parades; Owner Onboard Vessel	46 USC 70041(d)(1)(C); 33 CFR 27.3	1990	$9,639
Vessel Navigation: Regattas or Marine Parades; Other Persons	46 USC 70041(d)(1)(D); 33 CFR 27.3	1990	$4,819
Oil/Hazardous Substances: Discharges (Class I per violation)	33 USC 1321(b)(6)(B)(i); 33 CFR 27.3	1990	$19,277
Oil/Hazardous Substances: Discharges (Class I total under paragraph)	33 USC 1321(b)(6)(B)(i); 33 CFR 27.3	1990	$48,192
Oil/Hazardous Substances: Discharges (Class II per day of violation)	33 USC 1321(b)(6)(B)(ii); 33 CFR 27.3	1990	$19,277
Oil/Hazardous Substances: Discharges (Class II total under paragraph)	33 USC 1321(b)(6)(B)(ii); 33 CFR 27.3	1990	$240,960
Oil/Hazardous Substances: Discharges (per day of violation) Judicial Assessment	33 USC 1321(b)(7)(A); 33 CFR 27.3	1990	$48,192
Oil/Hazardous Substances: Discharges (per barrel of oil or unit discharged) Judicial Assessment	33 USC 1321(b)(7)(A); 33 CFR 27.3	1990	$1,928
Oil/Hazardous Substances: Failure to Carry Out Removal/Comply With Order (Judicial Assessment)	33 USC 1321(b)(7)(B); 33 CFR 27.3	1990	$48,192
Oil/Hazardous Substances: Failure to Comply with Regulation Issued Under 1321(j) (Judicial Assessment)	33 USC 1321(b)(7)(C); 33 CFR 27.3	1990	$48,192
Oil/Hazardous Substances: Discharges, Gross Negligence (per barrel of oil or unit discharged) Judicial Assessment	33 USC 1321(b)(7)(D); 33 CFR 27.3	1990	$5,783
Oil/Hazardous Substances: Discharges, Gross Negligence—Minimum Penalty (Judicial Assessment)	33 USC 1321(b)(7)(D); 33 CFR 27.3	1990	$192,768
Marine Sanitation Devices; Operating	33 USC 1322(j); 33 CFR 27.3	1972	$8,116
Marine Sanitation Devices; Sale or Manufacture	33 USC 1322(j); 33 CFR 27.3	1972	$21,640
International Navigation Rules; Operator	33 USC 1608(a); 33 CFR 27.3	1980	$15,173
International Navigation Rules; Vessel	33 USC 1608(b); 33 CFR 27.3	1980	$15,173
Pollution from Ships; General	33 USC 1908(b)(1); 33 CFR 27.3	1980	$75,867
Pollution from Ships; False Statement	33 USC 1908(b)(2); 33 CFR 27.3	1980	$15,173
Inland Navigation Rules; Operator	33 USC 2072(a); 33 CFR 27.3	1980	$15,173
Inland Navigation Rules; Vessel	33 USC 2072(b); 33 CFR 27.3	1980	$15,173
Shore Protection; General	33 USC 2609(a); 33 CFR 27.3	1988	$53,524
Shore Protection; Operating Without Permit	33 USC 2609(b); 33 CFR 27.3	1988	$21,410
Oil Pollution Liability and Compensation	33 USC 2716a(a); 33 CFR 27.3	1990	$48,192
Clean Hulls; Civil Enforcement	33 USC 3852(a)(1)(A); 33 CFR 27.3	2010	$44,124
Clean Hulls; False statements	33 USC 3852(a)(1)(A); 33 CFR 27.3	2010	$58,833
Clean Hulls; Recreational Vessel	33 USC 3852(c); 33 CFR 27.3	2010	$5,883
Hazardous Substances, Releases Liability, Compensation (Class I)	42 USC 9609(a); 33 CFR 27.3	1986	$58,328

Penalty	Authority	Year Enacted	Adjusted New Penalty
Hazardous Substances, Releases Liability, Compensation (Class II)	42 USC 9609(b); 33 CFR 27.3	1986	$58,328
Hazardous Substances, Releases Liability, Compensation (Class II subsequent offense)	42 USC 9609(b); 33 CFR 27.3	1986	$174,985
Hazardous Substances, Releases, Liability, Compensation (Judicial Assessment)	42 USC 9609(c); 33 CFR 27.3	1986	$58,328
Hazardous Substances, Releases, Liability, Compensation (Judicial Assessment subsequent offense)	42 USC 9609(c); 33 CFR 27.3	1986	$174,985
Safe Containers for International Cargo	46 USC 80509; 33 CFR 27.3	2006	$6,376
Suspension of Passenger Service	46 USC 70305; 33 CFR 27.3	2006	$63,761
Vessel Inspection or Examination Fees	46 USC 2110(e); 33 CFR 27.3	1990	$9,639
Alcohol and Dangerous Drug Testing	46 USC 2115; 33 CFR 27.3	1998	$7,846
Negligent Operations: Recreational Vessels	46 USC 2302(a); 33 CFR 27.3	2002	$7,097
Negligent Operations: Other Vessels	46 USC 2302(a); 33 CFR 27.3	2002	$35,486
Operating a Vessel While Under the Influence of Alcohol or a Dangerous Drug	46 USC 2302(c)(1); 33 CFR 27.3	1998	$7,846
Vessel Reporting Requirements: Owner, Charterer, Managing Operator, or Agent	46 USC 2306(a)(4); 33 CFR 27.3	1984	$12,219
Vessel Reporting Requirements: Master	46 USC 2306(b)(2); 33 CFR 27.3	1984	$2,444
Immersion Suits	46 USC 3102(c)(1); 33 CFR 27.3	1984	$12,219
Inspection Permit	46 USC 3302(i)(5); 33 CFR 27.3	1983	$2,549
Vessel Inspection; General	46 USC 3318(a); 33 CFR 27.3	1984	$12,219
Vessel Inspection; Nautical School Vessel	46 USC 3318(g); 33 CFR 27.3	1984	$12,219
Vessel Inspection; Failure to Give Notice IAW 3304(b)	46 USC 3318(h); 33 CFR 27.3	1984	$2,444
Vessel Inspection; Failure to Give Notice IAW 3309 (c)	46 USC 3318(i); 33 CFR 27.3	1984	$2,444
Vessel Inspection; Vessel ≥ 1600 Gross Tons	46 USC 3318(j)(1); 33 CFR 27.3	1984	$24,441
Vessel Inspection; Vessel <1600 Gross Tons	46 USC 3318(j)(1); 33 CFR 27.3	1984	$4,888
Vessel Inspection; Failure to Comply with 3311(b)	46 USC 3318(k); 33 CFR 27.3	1984	$24,441
Vessel Inspection; Violation of 3318(b)-3318(f)	46 USC 3318(l); 33 CFR 27.3	1984	$12,219
List/count of Passengers	46 USC 3502(e); 33 CFR 27.3	1983	$254
Notification to Passengers	46 USC 3504(c); 33 CFR 27.3	1983	$25,479
Notification to Passengers; Sale of Tickets	46 USC 3504(c); 33 CFR 27.3	1983	$1,273
Copies of Laws on Passenger Vessels; Master	46 USC 3506; 33 CFR 27.3	1983	$510
Liquid Bulk/Dangerous Cargo	46 USC 3718(a)(1); 33 CFR 27.3	1983	$63,699
Uninspected Vessels	46 USC 4106; 33 CFR 27.3	1988	$10,705
Recreational Vessels (maximum for related series of violations)	46 USC 4311(b)(1); 33 CFR 27.3	2004	$337,016
Recreational Vessels; Violation of 4307(a)	46 USC 4311(b)(1); 33 CFR 27.3	2004	$6,740
Recreational Vessels	46 USC 4311(c); 33 CFR 27.3	1983	$2,549
Uninspected Commercial Fishing Industry Vessels	46 USC 4507; 33 CFR 27.3	1988	$10,705
Abandonment of Barges	46 USC 4703; 33 CFR 27.3	1992	$1,814
Load Lines	46 USC 5116(a); 33 CFR 27.3	1986	$11,665
Load Lines; Violation of 5112(a)	46 USC 5116(b); 33 CFR 27.3	1986	$23,331
Load Lines; Violation of 5112(b)	46 USC 5116(c); 33 CFR 27.3	1986	$11,665

Penalty	Authority	Year Enacted	Adjusted New Penalty
Reporting Marine Casualties	46 USC 6103(a); 33 CFR 27.3	1996	$40,640
Reporting Marine Casualties; Violation of 6104	46 USC 6103(b); 33 CFR 27.3	1988	$10,705
Manning of Inspected Vessels; Failure to Report Deficiency in Vessel Complement	46 USC 8101(e); 33 CFR 27.3	1990	$1,928
Manning of Inspected Vessels	46 USC 8101(f); 33 CFR 27.3	1990	$19,277
Manning of Inspected Vessels; Employing or Serving in Capacity not Licensed by USCG	46 USC 8101(g); 33 CFR 27.3	1990	$19,277
Manning of Inspected Vessels; Freight Vessel <100 GT, Small Passenger Vessel, or Sailing School Vessel	46 USC 8101(h); 33 CFR 27.3	1983	$2,549
Watchmen on Passenger Vessels	46 USC 8102(a)	1983	$2,549
Citizenship Requirements	46 USC 8103(f)	1983	$1,273
Watches on Vessels; Violation of 8104(a) or (b)	46 USC 8104(i)	1990	$19,277
Watches on Vessels; Violation of 8104(c), (d), (e), or (h)	46 USC 8104(j)	1990	$19,277
Staff Department on Vessels	46 USC 8302(e)	1983	$254
Officer's Competency Certificates	46 USC 8304(d)	1983	$254
Coastwise Pilotage; Owner, Charterer, Managing Operator, Agent, Master or Individual in Charge	46 USC 8502(e)	1990	$19,277
Coastwise Pilotage; Individual	46 USC 8502(f)	1990	$19,277
Federal Pilots	46 USC 8503	1984	$61,098
Merchant Mariners Documents	46 USC 8701(d)	1983	$1,273
Crew Requirements	46 USC 8702(e)	1990	$19277
Small Vessel Manning	46 USC 8906	1996	$40,640
Pilotage: Great Lakes; Owner, Charterer, Managing Operator, Agent, Master or Individual in Charge	46 USC 9308(a)	1990	$19,277
Pilotage: Great Lakes; Individual	46 USC 9308(b)	1990	$19,277
Pilotage: Great Lakes; Violation of 9303	46 USC 9308(c)	1990	$19,277
Failure to Report Sexual Offense	46 USC 10104(b)	1989	$10,245
Pay Advances to Seamen	46 USC 10314(a)(2)	1983	$1,273
Pay Advances to Seamen; Remuneration for Employment	46 USC 10314(b)	1983	$1,273
Allotment to Seamen	46 USC 10315(c)	1983	$1,273
Seamen Protection; General	46 USC 10321	1993	$8,831
Coastwise Voyages: Advances	46 USC 10505(a)(2)	1993	$8,831
Coastwise Voyages: Advances; Remuneration for Employment	46 USC 10505(b)	1993	$8,831
Coastwise Voyages: Seamen Protection; General	46 USC 10508(b)	1993	$8,831
Effects of Deceased Seamen	46 USC 10711	1983	$510
Complaints of Unfitness	46 USC 10902(a)(2)	1983	$1,273
Proceedings on Examination of Vessel	46 USC 10903(d)	1983	$254
Permission to Make Complaint	46 USC 10907(b)	1983	$1,273
Accommodations for Seamen	46 USC 11101(f)	1983	$1,273
Medicine Chests on Vessels	46 USC 11102(b)	1983	$1,273
Destitute Seamen	46 USC 11104(b)	1983	$254
Wages on Discharge	46 USC 11105(c)	1983	$1,273

Penalty	Authority	Year Enacted	Adjusted New Penalty
Log Books; Master Failing to Maintain	46 USC 11303(a)	1983	$510
Log Books; Master Failing to Make Entry	46 USC 11303(b)	1983	$510
Log Books; Late Entry	46 USC 11303(c)	1983	$382
Carrying of Sheath Knives	46 USC 11506	1983	$127
Documentation of Vessels	46 USC 12151(a)(1)	2012	$16,687
Documentation of Vessels; Activities involving mobile offshore drilling units	46 USC 12151(a)(2)	2012	$27,813
Engaging in Fishing After Falsifying Eligibility (fine per day)	46 USC 12151(c)	2006	$127,525
Numbering of Undocumented Vessel; Willful violation	46 USC 12309(a)	1983	$12,740
Numbering of Undocumented Vessels	46 USC 12309(b)	1983	$2,549
Vessel Identification System	46 USC 12507(b)	1988	$21,410
Measurement of Vessels	46 USC 14701	1986	$46,664
Measurement; False Statements	46 USC 14702	1986	$46,664
Commercial Instruments and Maritime Liens	46 USC 31309	1988	$21,410
Commercial Instruments and Maritime Liens; Mortgagor	46 USC 31330(a)(2)	1988	$21,410
Commercial Instruments and Maritime Liens; Violation of 31329	46 USC 31330(b)(2)	1988	$53,524
Port Security	46 USC 70119(a)	2002	$35,486
Port Security; Continuing Violations	46 USC 70119(b)	2006	$63761
Maritime Drug Law Enforcement	46 USC 70506(c)	2010	$5,883
Hazardous Materials: Related to Vessels	49 USC 5123(a)(1)	2012	$83,439
Hazardous Materials: Related to Vessels; Penalty from Fatalities, Serious Injuries/ Illness or substantial Damage to Property	49 USC 5123(a)(2)	2012	$194,691
Hazardous Materials: Related to Vessels; Training	49 USC 5123(a)(3)	2012	$502

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 for the OMB CFO Council's Metric Tracking System. Metric statistics are reported with at least a six-week lag. DHS Components conduct periodic reviews to identify potential problems. On time-payments for FY 2020 were 96.79% versus the goal of 98%. Total interest paid in FY 2020 was $1,043,287.14 or $47.24 per million invoiced. This represent an improvement over FY 2019 were the Department's on time-payments was 93% and the total interest paid was $2,588,846.32.

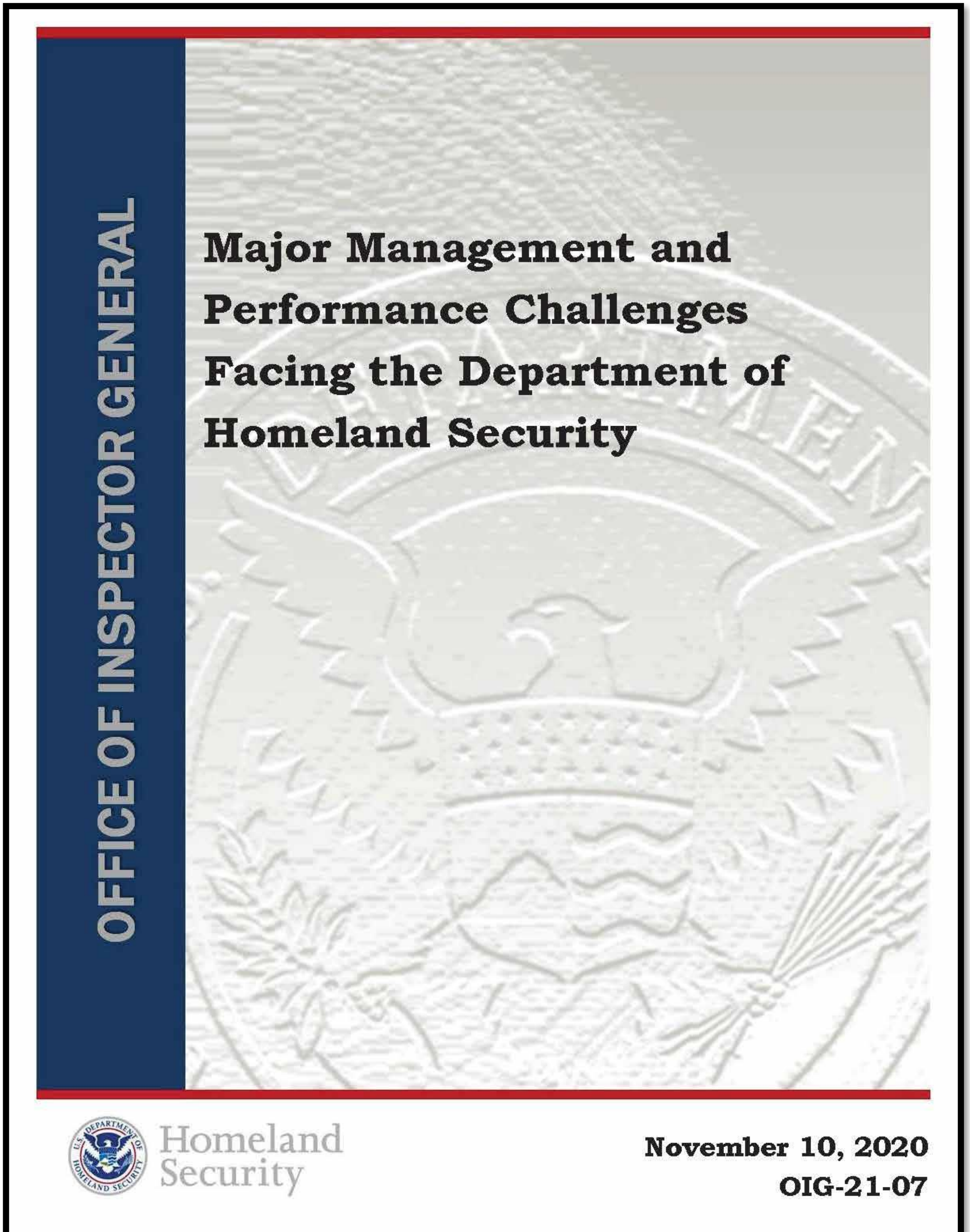
Debt Collection Improvement Act

The *Debt Collection Improvement Act* (DCIA) *of 1996* passed as part of the *Omnibus Consolidated Rescissions and Appropriations Act of 1996 (P.L. 100-134)* tasked Treasury with certain governmentwide debt collection responsibilities.

Among other things, the law provides that delinquent non-tax debts generally must be turned over to the Treasury for appropriate action to collect the debt. Certain types of debts are exempt from this requirement.

In compliance with 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 debt 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 on May 2014 and updated DCIA requirements for referring non-taxable debt.

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 10, 2020

OIG-21-07

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

November 10, 2020

MEMORANDUM FOR: The Honorable Chad F. Wolf
Secretary *(Acting)*

FROM: Joseph V. Cuffari, Ph.D.
Inspector General

JOSEPH V CUFFARI

Digitally signed by JOSEPH V CUFFARI
Date: 2020.11.10 17:54:34 -05'00'

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

For your information is our annual report, *Major Management and Performance Challenges Facing the Department of Homeland Security.* Pursuant to the *Reports Consolidation Act of 2000,* the Office of Inspector General must issue an annual statement summarizing what the Inspector General considers the most serious management and performance challenges facing the Department of Homeland Security and assessing its progress in addressing them. This requirement is consistent with our duties under the *Inspector General Act of 1978,* as amended, to conduct audits, as well as provide leadership and recommend policies to promote economy, efficiency, and effectiveness in DHS programs and operations. We remain committed to conducting independent oversight and making recommendations to help the Department address these major management and performance challenges.

We acknowledge and appreciate your ongoing efforts during this unprecedented time to ensure that our Nation and its citizens are safe, secure, and resilient against terrorism and other hazards. In evaluating the challenges facing DHS, we again considered their importance relative to the *Department of Homeland Security's Strategic Plan for Fiscal Years 2020-2024* (DHS' FY 2020-2024 Strategic Plan), as well as its Enterprise Risk Management and Immigration Data Integration initiatives. Appendix A presents the goals and objectives in DHS' FY 2020–2024 Strategic Plan; elsewhere in this report, we cite specific examples of DHS' strategic progress. Several management challenges we identified last year remain outstanding for the Department. Appendix B contains the Department's response in its entirety.

Based on our recent and prior audits, inspections, evaluations, special reviews, and investigations, and the current coronavirus 19 (COVID-19) pandemic, we consider the most serious management and performance challenges facing DHS to be:

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- Performing Fully and Effectively during COVID-19;
- Countering Terrorism and Homeland Security Threats;
- Ensuring Proper Financial Management;
- Ensuring Information Technology (IT) Supports Essential Mission Operations;
- Improving FEMA's Contracts and Grants Management, Disaster Assistance, and Fraud Prevention; and
- Strengthening Oversight and Management of Major Systems Acquisition.

Meeting these challenges requires unity of effort, a commitment to mastering management fundamentals, and the identification and allocation of appropriate resources. As we have noted in previous Major Management and Performance Challenges reports, many of the Department's senior leadership positions still do not have permanent, Presidentially Appointed and Senate confirmed officials.[1]

Performing Fully and Effectively during COVID-19

The challenge to continue mission critical operations and programs relates to every aspect of DHS' mission but particularly the DHS FY 2020–2024 Strategic Plan at Goal 5: Strengthen Preparedness and Resilience, Objectives 5.1, Build a National Culture of Preparedness, and 5.2: Respond During Incidents.[2]
In response to outbreaks of the coronavirus disease in the United States, the Secretary of Health and Human Services declared a public health emergency on January 31, 2020, under section 319 of the *Public Health Service Act*.[3]

[1] As of October 16, 2020, acting officials filled over 20 percent of all DHS senior leadership positions. At FEMA, which bears central responsibility for coordinating the whole of government response to COVID-19, two of four lead positions are either vacant or filled by an acting official: the Deputy Administrator and the Deputy Administrator for Resilience, respectively. See https://www.dhs.gov/leadership.
[2] DHS' 2020-2024 Strategic Plan recognizes that the Department's diverse and complex mission requires integration across eight operational components, which execute the Department's operational activities: seven support components, which formulate guidance on policy, management, research, training, and intelligence and enable mission execution; and the Office of the Secretary, which coordinates and oversees the activities of the Department. See https://www.dhs.gov/sites/default/files/publications/19_0702_plcy_dhs-strategic-plan-fy20-24.pdf, p. 4.
[3] See https://www.hhs.gov/about/news/2020/01/31/secretary-azar-declares-public-health-emergency-us-2019-novel-coronavirus.html.

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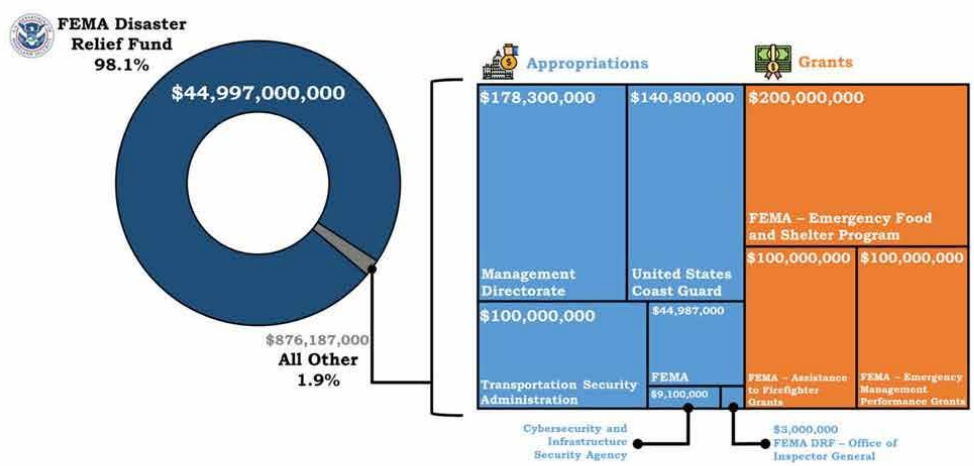
Soon thereafter, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic, noting that it was not just a public health crisis, but also one that would affect every sector of society.[4] Two days later, President Donald Trump declared COVID-19 a national emergency, freeing $50 billion in Federal resources to combat the pandemic.[5] In March and April of 2020, Congress passed four funding bills to address the public health and economic crises caused by COVID-19.[6] Together, this legislation authorized approximately $2.4 trillion in Federal spending. The following OIG graphic displays allocations to DHS.



Given this funding and the range of associated mandates, the Department reported it has adopted a layered response to delivering critical supplies and services. According to DHS, it is working through U.S. Customs and Border Protection (CBP), the Countering Weapons of Mass Destruction Office (CWMD), United States Coast Guard, Transportation Security Administration (TSA), Federal Emergency Management Agency (FEMA), U.S. Immigration and Customs Enforcement (ICE), the Cybersecurity and Infrastructure Security

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[4] See https://www.who.int/dg/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-COVID-19---11-march-2020.
[5] See https://www.whitehouse.gov/presidential-actions/proclamation-declaring-national-emergency-concerning-novel-coronavirus-disease-COVID-19-outbreak/.
[6] These include in order of passage the *Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020*, Pub. L. No. 116-123, 134 Stat. 146 (2020); *Families First Coronavirus Response Act*, Pub. L. No. 116-127, 134 Stat. 178 (2020); *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act), Pub. L. No. 116-136, 134 Stat. 281 (2020); and *Paycheck Protection Program and Health Care Enhancement Act*, Pub. L. No. 116-139, 134 Stat. 620 (2020).

Agency (CISA), and other operational and support components to protect the Nation.[7] CBP and CWMD, which houses the Department's Chief Medical Officer (CMO), reported providing direct support to the Centers for Disease Control and Prevention (CDC) by conducting enhanced health screenings at 15 major airports.[8]

In 2014 and 2016, we issued two reports on the preparedness of DHS' workforce to continue mission essential functions during a pandemic. In 2014, we reported that DHS did not adequately assess its needs before purchasing pandemic preparedness supplies and did not effectively manage its stockpile of pandemic personal protective equipment (PPE) and antiviral medical countermeasures.[9] In 2016, we reported that DHS may not have been able to effectively execute its preparedness plans during a pandemic.[10] We are currently assessing the adequacy and effectiveness of the corrective actions DHS took to address our report recommendations, through which we may identify ongoing challenges in this area. Since March 2020, we have initiated several audits and evaluations related to the Department's response to COVID-19, including audits of FEMA's Federal coordination efforts and medical supply chain.[11]

DHS has taken steps to protect its workforce by allowing remote performance, "any 80" hours,[12] and other flexibilities and support.[13] However, given the

[7] For additional details regarding the Department's effort to contain and prevent the spread of COVID-19, see https://www.dhs.gov/coronavirus?utm_source=hp_slideshow&utm_medium=web&utm_campaign=dhsgov/.
[8] *Id.* These screenings were in effect until September 14, 2020. As the Department lead for biodefense, CWMD's COVID-19 response activities also include coordinating DHS efforts with Federal interagency partners, decision support (e.g., intelligence analysis and biosurveillance activities), acquisition support (e.g., to acquire detection and reporting capability if needed). CWMD has further ensured internal access, maintenance, and support to classified systems and requested an exception to the rules regarding access to classified accounts to ensure users are not locked-out of their accounts due to non-use.
[9] *DHS Has Not Effectively Managed Pandemic Personal Protective Equipment and Antiviral Medical Countermeasures* (OIG-14-129), August 26, 2014.
[10] *DHS Pandemic Planning Needs Better Oversight, Training, and Execution* (OIG-17-02), October 12, 2016.
[11] See https://www.pandemicoversight.gov/oversight/reports?f[0]=report_type_taxonomy:89.

[12] This arrangement permits Federal employees to work outside normal duty hours during each pay period as long as their cumulative time and attendance totals 80 hours.
[13] DHS through its Office of the Chief Human Capital Officer (OCHCO) has also delivered more than 20 webinars and training sessions for supervisors, managers, and employees focused on updated or new human resources flexibilities issued by the Office of Personnel Management (e.g., on Telework, Leave Administration, and Performance Management) and the CARES Act,

nature of their work, certain DHS components and staff face heightened risk of exposure to COVID-19. In reviews conducted to determine how CBP and ICE were handling the COVID-19 pandemic at short- and longer-term detention facilities, we identified various actions taken to prevent and mitigate the pandemic's spread among staff.[14] Facilities noted decreases in current staff availability due to COVID-19, but reported having contingency plans to ensure continued operations. Personnel also expressed concerns with the availability of staff, as well as PPE, if there were an outbreak of COVID-19 in the facility. Overall, most facility responses show they were prepared to address COVID-19, but expressed concerns if the pandemic continued to spread.

In addition to possible DHS staff exposure to COVID-19, detained individuals also face a high risk of exposure due to the congregate nature of the facilities. In our reviews, we noted that facilities had taken actions to reduce the spread of COVID-19 among detained individuals, including increased cleaning and disinfecting of common areas, distribution of sanitizing materials, and quarantining new detainees, when possible, as a precautionary measure. However, personnel at facilities reported concerns with their inability to practice social distancing among detained individuals and to isolate or quarantine individuals who may be infected with COVID-19. Between the time we concluded our survey of ICE facilities and issued our report, the number of confirmed COVID-19 cases among ICE detainees increased significantly. We are currently conducting a more comprehensive review of ICE's response to the pandemic in detention facilities.

Finally, DHS faces a challenge to ensure stability and full and effective functioning of its components during COVID-19. For example, DHS recently faced the prospect of having to furlough almost 70 percent of its U.S. Citizenship and Immigration Services (USCIS) workforce reportedly due to decreased revenues related to COVID-19.[15] Although the component has been able to maintain operations through FY 2020, there is "no guarantee [USCIS] can avoid future furloughs. A return to normal operating procedures requires congressional intervention to sustain the agency through Fiscal Year 2021."[16]

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which made available Emergency Paid Sick Leave. OCHCO also established a COVID-19 Workforce Protection Cell to provide guidance on how to protect the DHS workforce.

[14] *Early Experiences with COVID-19 at ICE Detention Facilities* (OIG-20-42), June 18, 2020, and *Early Experiences with COVID-19 at CBP Border Patrol Stations and OFO Ports of Entry* (OIG-20-69), September 4, 2020.

[15] See https://www.rollcall.com/2020/05/18/uscis-seeks-1-2-billion-from-congress/. The DHS OIG has not independently reviewed the circumstances leading to the potential furlough of USCIS workers.

[16] See https://www.uscis.gov/news/news-releases/uscis-averts-furlough-of-nearly-70-of-workforce.

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We are conducting an audit to determine the effectiveness of USCIS' technology systems to provide timely and accurate electronic processing of immigration and naturalization benefit requests while field locations, asylum offices, and application support centers are closed or operating on a reduced workforce during the COVID-19 pandemic. We have previously reported that USCIS had made limited progress in transforming its paper-based processes into the new automated immigration benefits processing environment, known as the Electronic Immigration System (ELIS).[17] For example, ELIS did not havecritical functionality and internal controls needed to be fully operational for electronic benefits processing. Also, the underlying system design and architecture posed significant technical difficulties due to complex system interfaces and software coding defects, which led to slow processing time and frequent performance outages. USCIS subsequently addressed these issues and expanded electronic processing of immigration and naturalization benefits in ELIS.

Countering Terrorism and Homeland Security Threats

This challenge falls under the DHS FY 2020–2024 Strategic Plan's Goal 1: Counter Terrorism and Homeland Security Threats, Objectives 1.1, Collect, Analyze, and Share Actionable Intelligence; 1.2, Detect and Disrupt Threats; 1.3, Protect Designated Leadership Events, and Soft Targets; and 1.4, Counter Weapons of Mass Destruction and Emerging Threats.

DHS is challenged to properly plan, and provide adequate guidance, oversight, and monitoring of programs and operations to counter terrorism and homeland security threats. For example, a secure and resilient electoral process is a vital national interest and one of the Department's highest priorities.[18] Within DHS, CISA leads coordination efforts to manage risks to the Nation's 16 critical infrastructure sectors,[19] one of which — the government facilities sector — includes election infrastructure.[20] We believe that although DHS has improved

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[17] *Management Alert: U.S. Citizenship and Immigration Services' Use of the Electronic Immigration System for Naturalization Benefits Processing, January 19, 2017, OIG-17-26-MA; USCIS Has Been Unsuccessful in Automating Naturalization Benefits Delivery, November 30, 2017, OIG-18-23; USCIS Automation of Immigration Benefits Processing Remains Ineffective*, OIG-16-48, 03/09/16.
[18] See www.dhs.gov/topic/election-security.
[19] The Nation's 16 critical infrastructure sectors include systems and assets, whether physical or virtual, so vital to the United States that the incapacity or destruction of such systems and assets would have a debilitating impact on security, national economic security, national public health or safety, or any combination of those matters.
[20] The remaining 15 critical infrastructure sectors include chemical; commercial facilities; communications; critical manufacturing; dams; defense industrial base; emergency services; energy; financial services; food and agriculture; healthcare and public health; information technology; nuclear reactors, materials, and waste; transportation systems; and water and wastewater systems.

coordination efforts to secure the Nation's systems used for voting, it should take additional steps to protect the broader election infrastructure, which includes polling and voting locations, election technologies, and related storage facilities. During our recent audit in this area,[21] CISA reported it has developed a set of plans and guidance aimed at securing election systems for the 2020 election cycle. However, the plans do not sufficiently mitigate risks associated with physical security, terrorism threats, and targeted violence to the election infrastructure, nor do they identify dependencies on external stakeholders that impede mission performance.

DHS senior leadership turnover and ongoing CISA reorganization have hindered CISA's ability to enhance planning and effectively monitor its progress in securing the Nation's election infrastructure. On election day, CISA officials stated there was no evidence of a major cyberattack on the elections, and CISA would continue to monitor hacking attempts and cyber intrusions and coordinate information sharing with state and local officials.

In addition, DHS continues to face challenges (1) mitigating threats posed by high-risk cargo from foreigh airports, (2) countering Unmanned Aircraft Systems (C-UAS), (3) using canines effectively, (4) executing successful covert testing, (5) protecting commercial facilities, and (6) defending food, agriculture, and veterinary systems against terrorism and other high-consequence events in the United States. In May 2020, we reported on the extent to which CBP's Air Cargo Advance Screening (ACAS) program prevents air carriers from transporting high-risk cargo from foreign airports into the United States.[22] Although CBP identified and targeted high-risk cargo shipments, the component did not always prevent air carriers from transporting high-risk air cargo from foreign airports into the United States. This occurred because neither CBP nor TSA developed adequate policies and procedures to ensure air carriers promptly and appropriately resolved referrals of cargo determined to be high-risk before transporting the cargo.

We also found that DHS' capability to counter illicit use of UAS is limited.[23] Specifically, the Office of Strategy, Policy, and Plans did not execute a uniform department-wide approach to expanding C-UAS capabilities because it did not request funding to obtain subject matter experts to fulfill the Secretary's

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[21] *DHS Has Secured the Nation's Election Systems, but Work Remains to Protect the Infrastructure* (OIG-21-01), October 22, 2020.
[22] *CBP's ACAS Program Did Not Always Prevent Air Carriers from Transporting High Risk Cargo into the US* (OIG-20-34), May 11, 2020.
[23] *DHS Has Limited Capability to Counter Illicit Unmanned Aircraft Systems* (OIG-20-43), June 25, 2020.

requirements for such an approach, including developing a realistic work plan and issuing complete department-wide C-UAS guidance.

We identified deficiencies in TSA's use of passenger screening canine (PSC) teams. In April 2020, we reported TSA could not show that deployed PSC teams provide effective security at screening checkpoints.[24] Specifically, TSA did not:

- identify and document mission needs, capability gaps, and operational goals for deploying PSC teams;
- properly justify and document decisions on allocating PCS teams;
- justify the teams as the best, most cost-effective checkpoint security; or
- adequately oversee TSA management operations at airports.

We also found PSC teams have inherent limitations. As a result, our Nation's aviation system and the traveling public could be at risk of a catastrophic event caused by an undetected explosive device.

In May 2020, we reported that TSA did not monitor its Advanced Imaging Technology system (AIT) to ensure it continues to fulfill needed capabilities.[25] Although AIT met the requirement for system availability, TSA did not monitor the AIT system's probability of detection rate and throughput rate requirements set forth in TSA's operational requirements document. These issues occurred because TSA has not established comprehensive guidance to monitor AIT system performance. Without continuous monitoring and oversight, TSA cannot ensure AIT is meeting critical system performance requirements — a persistent weakness found in prior DHS OIG reports.[26]

We reported CBP does not comprehensively plan and conduct covert tests of its operations at Border Patrol checkpoints and ports of entry, use test results to address vulnerabilities, or widely share lessons learned.[27] In particular, CBP's two covert testing groups do not use risk assessments or intelligence to plan and conduct covert tests, plan coordinated tests, or design system-wide tests.

[24] *TSA Challenges with Passenger Screening Canine Teams (Redacted)* (OIG-20-28), April 28, 2020.
[25] *TSA Needs to Improve Monitoring of Deployed Advanced Imaging Technology Systems* (OIG-20-33), May 8, 2020.
[26] *TSA Penetration Testing of Advanced Imaging Technology,* (OIG-12-06), November, 2011; *Covert Testing of TSA's Passenger Screening and Technologies and Processes at Airport Security Checkpoints* (OIG-15-150), September 22, 2015; *Covert Testing of Access Controls to Airport Secure Areas* (OIG-19-21), February 13, 2019; *Covert Testing of TSA's Screening Checkpoint Effectiveness* (OIG-17-112), September 27, 2017.
[27] *CBP Needs a Comprehensive Process for Conducting Covert Testing and Resolving Vulnerabilities* (OIG-20-55), July 28, 2020.

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This occurred because CBP does not provide adequate guidance on risk- and intelligence-based test planning, direct the groups to coordinate, give them the necessary authority, or establish performance goals and measures for covert testing. Following testing, CBP does not widely share covert test results, consistently make recommendations, or ensure corrective actions are taken. Results are not widely shared because CBP has not defined roles and responsibilities for such sharing. Covert testing groups do not make recommendations or ensure corrective actions are implemented due to insufficient authority and policies directing these actions. Finally, CBP does not effectively manage covert testing groups to ensure data reliability, completeness, and compliance with security requirements due to leadership changes and limited staff.

We also examined the extent of DHS' efforts to deter and prevent terrorism or physical threats within the commercial facilities sector.[28] CISA, which is primarily responsible for working with components and partners to defend against current threats to the commercial facilities sector and build a more secure and resilient infrastructure, does not effectively coordinate and share best practices to enhance security across the sector. This occurred because CISA does not have comprehensive policies and procedures to support its role as the commercial facilities' Sector-Specific Agency. Without such policies and procedures, CISA cannot effectively fulfill its responsibilities and limits its ability to measure the Department's progress toward accomplishing its sector-specific objectives. CISA may also be missing opportunities to help commercial facility owners and operators identify threats and mitigate risks, leaving the commercial facilities sector vulnerable to terrorist attacks and physical threats. Finally, DHS' CWMD — although required under the *Securing Our Agriculture and Food Act* (SAFA) — has not effectively implemented a program to coordinate the Department's efforts to defend food, agriculture, and veterinary systems against terrorism and other high-consequence events in the United States.[29] This occurred because CWMD believed it did not have clearly defined authority from the Secretary to carry out the requirements of the SAFA. In addition, since its establishment in December 2017, CWMD has not prioritized SAFA requirements but instead has focused its resources on other mission areas. As a result, CWMD has limited awareness of DHS' ongoing efforts and cannot ensure it is adequately prepared to respond to a terrorist attack against the Nation's food, agriculture, or veterinary systems.

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[28] *DHS Can Enhance Efforts to Protect Commercial Facilities from Terrorist and Physical Threats* (OIG-20-37), June 11, 2020.
[29] *DHS Is Not Coordinating the Department's Efforts to Defend the Nation's Food, Agriculture, and Veterinary Systems against Terrorism* (OIG-20-53), July 16, 2020.

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Ensuring Proper Financial Management

This challenge relates to every aspect of DHS' mission, and is captured in objectives listed under DHS' 2020–2024 Strategic Plan at Goal 6: Championing the Workforce and Strengthening the Department, Objectives 6.1, Strengthen Departmental Governance and Management and 6.3: Optimize Support to Mission Operations.

The Need for Modernization

Many key DHS financial systems do not comply with Federal financial management system requirements, as defined in the *Federal Financial Management Improvement Act of 1996*. Limitations in financial systems' functionality add substantially to the Department's challenges addressing systemic internal control weaknesses and restrict its ability to leverage IT systems to process and report financial data efficiently and effectively. These deficiencies may hinder DHS' ability to ensure proper financial planning payments and appropriate internal controls related to CARES Act funding.

Since its inception, DHS has made three major attempts to modernize and consolidate its financial systems. In 2017, DHS initiated its fourth attempt, the Financial Systems Modernization (FSM) TRIO program, to address the incompatible processes and antiquated financial management systems in use department-wide. The ultimate goal of this program is to improve the quality of financial information to support decision-making and improve the ability to provide timely and accurate reporting to ensure efficient stewardship of taxpayer dollars.

In accordance with DHS guidance, the Department developed a strategy to apply lessons learned from prior system updates to its current FSM TRIO effort. DHS indicated the program office had successfully identified 29 lessons from prior modernization efforts and has begun applying them to the FSM TRIO program. Our audit in this area highlights DHS' awareness of the importance of identifying and applying lessons learned and provides some assurance and a positive outlook for continued future progress of the FSM TRIO project.[30] Leveraging successful practices from prior efforts, and avoiding past errors, may help DHS use its resources wisely, mitigate risks, and achieve its goals for FSM TRIO.

[30] *DHS Confirmed It Has Applied Lessons Learned in the Latest Financial System Modernization Effort* (OIG-20-09), December 19, 2020.

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Internal Control Deficiencies

DHS has continued to make strides in establishing certain management fundamentals, including by again obtaining an unmodified opinion (clean) on its financial statements.[31] The independent public accounting firm KPMG LLP (KPMG) noted that financial statements present fairly, in all material respects, DHS' financial position as of September 30, 2019 and 2018. At the same time, KPMG issued an adverse opinion on DHS' internal control over financial reporting as of September 30, 2019. KPMG identified material weaknesses in internal control in two areas and other significant deficiencies in three areas. KPMG also reported two instances of noncompliance with laws and regulations.[32]

KPMG found material weaknesses in information technology controls and financial systems, and in financial reporting. Other significant deficiencies were identified in property, plant, and equipment; custodial activities; entry processing, refunds and drawbacks, and seized and forfeited property; and grants management.[33]

In December 2019, we reported internal control deficiencies at CBP in processing drawback claims.[34] From 2011 to 2018, CBP processed an average of $896 million in drawback claims annually. We found that CBP:

- did not have appropriate documentation retention periods to ensure importers and claimants maintained support for drawback transactions;
- did not require drawback specialists to review an importer's prior drawback claims to determine whether, taken together, the importer claimed an excessive amount; and
- did not have effective automated controls in its legacy drawback system to prevent, or detect and correct, excessive drawback claims.

Finally, since our first audit in 2017, DHS has continued to make progress in meeting its *Digital Accountability and Transparency Act of 2014* (DATA Act)

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31 *Independent Auditors' Report on DHS' FY 2019 Financial Statements and Internal Control over Financial Reporting* (OIG-20-03), November 15, 2019.
32 Specifically the *Federal Managers' Financial Integrity Act of 1982* and the *Federal Financial Management Improvement Act of 1996*.
33 In February 2020, the DHS Office of the Chief Financial Officer (CFO) delivered risk and internal control training to more than 450 DHS employees and awarded over 1,000 continuing education units to attendees from the financial management, program office, and information technology fields. This effort was followed in July 2020 with an annual CFO symposium attended by more than 600 DHS employees that covered multiple tracts related to financial management.
34 *Lack of Controls Could Affect CBP Drawbacks* (OIG-20-07), December 12, 2019.

reporting requirements, but challenges remain.[35] Our most recent audit focused on the completeness, accuracy, timeliness, and quality of DHS' FY 2019 first quarter spending data posted on USASpending.gov, and DHS' implementation and use of government-wide financial data standards. We found that to enable more effective tracking of Federal spending, DHS must continue to accurately align its budgetary data with the President's budget, reduce award misalignments across DATA Act files, improve the timeliness of financial assistance reporting, implement and use government-wide data standards, and address risks to data quality. Without these actions, DHS will struggle to meet its goal of achieving the highest possible data quality for submission to www.usaspending.gov.[36]

Ensuring IT Supports Essential Mission Operations

This challenge affects the Department's mission across all 22 components and is a necessary element for accomplishing all six goals in DHS' FY 2020–2024 Strategic Plan. Every day, employees across the Department rely on IT to carry out day-to-day mission operations. DHS continues to struggle when providing IT support for personnel, system functionality and integration, addressing deficiencies, and identifying and prioritizing systems for modernization.

Limitations in IT Functionality and Integration

DHS combined functions of 22 different Federal departments and agencies with broad responsibilities to collectively prevent attacks, mitigate threats, respond to national emergencies, preserve economic security, and preserve legacy agency functions. However, DHS faces ongoing challenges ensuring IT systems and infrastructure adequately support Department personnel. This year, we sought to determine the effectiveness of DHS' IT systems in tracking detainees and supporting efforts to reunify unaccompanied alien children with separated families.[37] We found that DHS did not have the IT system functionality needed to accurately track separated migrant families during the execution of the *Zero Tolerance Policy*.[38] DHS was also unable to reunify families as mandated by a

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[35] *DHS Has Made Progress in Meeting DATA Act Requirements, But Challenges Remain* (OIG-20-62), August 13, 2020.
[36] The DHS DATA Act team in communication with OIG stated it will continue to reconcile misalignments, correct errors, correct unacceptable warnings, and adjust existing internal controls as needed to improve the overall quality of data published for public consumption.
[37] *DHS Lacked Technology Needed to Successfully Account for Separated Migrant Families* (OIG-20-06), November 25, 2019.
[38] On April 6, 2018, the U.S. Attorney General issued a memorandum directing all Federal prosecutors' offices along the Southwest Border to work with DHS to adopt a "Zero Tolerance Policy," which required criminal prosecution of DHS referrals of 8 U.S.C. § 1325(a) vioations, to the extent practicable.

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Federal judge due to poor data tracking, information sharing, and IT systems capabilities.[39] Without the ability to track and share data on family separations and reunifications, CBP adopted various ad hoc methods to work around system limitations, but these methods led to widespread errors. These deficiencies also cost Border Patrol 28,000 hours and an additional $1.2 million in staff overtime. Because of these IT deficiencies, we could not confirm the total number of families DHS separated during the Zero Tolerance period. These conditions persisted because CBP did not address its known IT deficiencies, such as adding capability to track family separations, before implementing Zero Tolerance in May 2018.

We have highlighted similar technology challenges in prior reports.[40] For example, in 2017 we found ICE relied on myriad IT systems that lacked integration and information-sharing capabilities, forcing ICE personnel to laboriously piece together vital information from up to 27 distinct DHS information systems and databases to accurately determine an individual's overstay status. As a result, in some cases, it took months for ICE to determine a low priority visa holder's status and whether that person might pose a national security threat. ICE has since completed corrective actions that addressed our recommendations.

This year we sought to determine whether DHS had effectively identified and prioritized mission-critical legacy IT systems and infrastructure for modernization, identified associated challenges, and assessed related legislation and executive direction.[41] We found that the DHS Chief Information Officer (CIO) and most component CIOs conducted strategic planning activities to help prioritize legacy IT systems or infrastructure for modernization to accomplish mission goals. However, not all components have complied with or fully embraced these efforts due to a lack of standard guidance and funding. Meanwhile, DHS continues to rely on deficient and outdated IT systems to perform mission critical operations. Additionally, DHS has not yet leveraged the *Modernizing Government Technology Act of 2017* mandate to accelerate ongoing IT modernization efforts, as DHS and its components questioned whether the benefits of the Act outweighed the additional effort needed to use the resources provided under the Act. Until DHS addresses these issues, it will

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[39] *Ms. L. v. ICE*, 18-cv-428 (S.D. Cal. June 26, 2018).
[40] *DHS Tracking of Visa Overstays Is Hindered by Insufficient Technology* (OIG-17-56), May 1, 2017; *CBP's IT Systems and Infrastructure Did Not Fully Support Border Security Operations* (OIG-17-114), September 28, 2017; and *FEMA Faces Challenges in Managing Information Technology* (OIG-16-10), November 20, 2015.
[41] *Progress and Challenges in Modernizing DHS' IT Systems and Infrastructure* (OIG-20-61), August 10, 2020.

continue to face significant challenges to accomplish mission operations efficiently and effectively.

Information Security

OIG's FY 2019 *Federal Information Security Modernization Act* (FISMA) evaluation of DHS' information security showed an overall reduction in the programs' effectiveness.[42] DHS' information security program was not effective for FY 2019 because the Department earned a maturity rating of "Ad Hoc" (Level 1) in three of five functions, compared to last year's higher overall rating of "Managed and Measurable" (Level 4).[43] We attributed DHS' regression in managing its information security program to a change in Coast Guard's cybersecurity and FISMA reporting.

Risks to the Nation's systems and networks continue to increase as security threats evolve and become more sophisticated. As such, the cyber threat information DHS provides to Federal agencies and private sector entities must be actionable to help better manage this growing threat. However, the Department still faces challenges to improving the quality of cyber threat information it shares across Federal and private sector entities.[44] CISA's lack of progress in improving the quality of information it shares was attributed to a number of factors, such as limited numbers of participants sharing cyber indicators with CISA, delays receiving cyber threat intelligence standards, and insufficient CISA office staff. The Department faced similar challenges in sharing cyber threat information across Federal and private sector entities, as noted in our 2019 report.[45] Until CISA improves the quality of its information sharing, participants remain restricted in their ability to safeguard their systems and the data they process from attack, loss, or compromise.

Improving FEMA's Contracts and Grants Management, Disaster Assistance, and Fraud Prevention

This challenge relates directly to DHS' 2020–2024 Strategic Plan at Goal 5: Strengthen Preparedness and Resilience, Objectives 5.1: Build a National Culture of Preparedness, and 5.2: Respond during Incidents.

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[42] *Evaluation of DHS' Information Security Program for Fiscal Year 2019* (OIG-20-77), September 30, 2020.
[43] *Evaluation of DHS' Information Security Program for Fiscal Year 2018* (OIG-19-60), September 19, 2019.
[44] *DHS Made Limited Progress to Improve Information Sharing under the Cybersecurity Act in Calendar Years 2017 and 2018* (OIG-20-74), September, 25, 2020.
[45] *Biennial Report on DHS' Implementation of the Cybersecurity Act of 2015* (OIG-18-10).

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We have previously identified a pattern of FEMA management errors in overseeing procurements and reimbursing procurement costs; we continue to observe systemic problems and operational difficulties that contribute to FEMA not managing disaster relief grants and supplies adequately. At times, FEMA has not followed procurement laws, regulations, and procedures, nor has it ensured disaster grant recipients and subrecipients understand and comply with relevant authorities. FEMA has also proven susceptible to widespread fraud and made billions in improper payments, often due to lax oversight.[46]

Planning and Oversight Problems

In the aftermath of Hurricane Maria, we determined that FEMA did not maximize the use of advance contracts to address identified capability deficiencies and needs in Puerto Rico.[47] Specifically, we identified 49 of 241 new contracts issued for the same goods or services covered by existing advance contracts. In addition, FEMA did not issue any new advance contracts prior to Hurricane Maria and did not perform analysis to identify goods or services to obtain through advance contracts. We attributed FEMA's limited use of advance contracts to its lack of strategy and documented planning process for ensuring maximum use of advance contracts. Although FEMA reported to Congress in December 2007 it had a strategy in place, we determined it was a one-time strategy that did not meet the intent of the *Post-Katrina Emergency Management Reform Act of 2006*.[48] Without advance contracts to expedite acquisitions, goods and services for people in need may have been delayed or were more costly to the Government. Further, FEMA did not maintain contract files in accordance with Federal acquisition regulations and departmental or its own policy. This occurred because FEMA's Office of the Chief Procurement Officer did not have controls in place to ensure contract personnel follow Federal regulations and departmental or its own internal policy. As a result, FEMA's ability to hold contractors accountable for deliverables is hindered if contract files are not easily located.

We also determined that FEMA's Public Assistance grant to the Puerto Rico Electric Power Authority (PREPA) in the aftermath of Hurricane Maria did not comply with Public Assistance program guidelines.[49] Specifically, FEMA

[46] FEMA's Fraud Investigations and Inspections Division's (FIID) mission includes identifying, mitigating, deterring, and preventing fraudulent losses of Federal funds and assets through a variety of proactive efforts. In 2018, FIID requested and received permission to create and staff a new Program Review for the Inspections Branch (PRIB). To date, PRIB has conducted 3 program reviews that resulted in 156 recommendations and identified 59 best practices.
[47] *FEMA's Advance Contract Strategy for Disasters in Puerto Rico* (OIG-20-20), March 23, 2020.
[48] Pub. L. No. 109-295, § 691 (codified at 6 U.S.C. § 791).
[49] *FEMA's Public Assistance Grant to PREPA and PREPA's Contracts with Whitefish and Cobra Did Not Fully Comply with Federal Laws and Program Guidelines* (OIG-20-57), July 27, 2020.

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reimbursed PREPA more than $852 million for a time and material contract before confirming PREPA provided a high degree of oversight of the contract. Furthermore, FEMA did not determine whether the time and material costs incurred by PREPA were reasonable and eligible for the Public Assistance grant program. This occurred because FEMA lacked guidance about how to verify a subrecipient's oversight of time and material contracts and how to assess reasonableness of time and material contract costs. As a result, FEMA may have reimbursed PREPA for time and material costs that are ineligible for PA funds.

This year we also contracted with public accounting firms to perform numerous FEMA capacity audits related to Hurricanes Irma and Maria,[50] as well as an audit of the Sewerage and Water Board of New Orleans.[51] This body of work demonstrates that FEMA did not always ensure disaster grant subrecipients established and implemented policies, procedures, and practices to account for and expend Public Assistance grant funds according to Federal regulations and FEMA guidance. At the same time, FEMA did not provide adequate oversight or instruction, which increased the risk of ineligible costs, substandard service delivery, unallowable costs, and fraudulent activities related to Public Assistance funds.

Supply Chain Weaknesses

In reviewing FEMA's response to Hurricanes Irma and Maria in Puerto Rico, we also noted significant deficiencies in its commodity distribution process.[52] FEMA lost visibility of approximately 38 percent of its life-sustaining

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[50] *Capacity Audit FEMA Grants Awarded to Puerto Rico Department of Housing* (OIG-20-22), April 9, 2020; *Capacity Audit of FEMA Grant Funds Awarded to the Puerto Rico Aqueduct and Sewer Authority* (OIG-20-24), April 9, 2020; *Capacity Audit of FEMA Grant Funds Awarded to the Puerto Rico Department of Transportation and Public Works* (OIG-20-25), April 9, 2020; *Capacity Audit of FEMA Grant Funds Awarded to the Puerto Rico Department of Education* (OIG-20-26), April 9, 2020; *Capacity Audit of FEMA Grant Funds Awarded to the U.S. Virgin Islands Housing and Finance Authority* (OIG-20-29), May 4, 2020; *Capacity Audit of FEMA Grant Funds Awarded to the USVI Department of Education* (OIG-20-30), May 4, 2020; *Capacity Audit of FEMA Grant Funds Awarded to the USVI Water and Power Authority* (OIG-20-39), June 16, 2020; *Early Warning Audit of FEMA Public Assistance Grants to Collier County, Florida* (OIG-20-46), July 10, 2020; *Early Warning Audit of FEMA Public Assistance Grants to Lee County, Florida* (OIG-20-48), July 15, 2020; *Early Warning Audit of FEMA Public Assistance Grants to Polk County School Board, Florida* (OIG-20-50), July 20, 2020; and *Early Warning Audit of FEMA Public Assistance to Monroe County, Florida* (OIG-20-51), July 17, 2020.
[51] *Management of FEMA Public Assistance Grant Funds Awarded to the Sewerage and Water Board of New Orleans Related to Hurricanes Katrina, Isaac, and Gustav* (OIG-20-21), March 27, 2020.
[52] *FEMA Mismanaged the Commodity Distribution Process in Response to Hurricanes Irma and Maria* (OIG-20-76), September 25, 2020.

commodity shipments to Puerto Rico worth an estimated $257 million. Commodities successfully delivered to the Puerto Rico government took an average of 69 days to reach their final destinations. Consequently, FEMA could not provide reasonable assurance it provided sufficient life-sustaining commodities to Puerto Rico disaster survivors in a timely manner. Furthermore, FEMA's mismanagement included multiple contracting violations and policy contraventions that ultimately led to contract overruns of about $179 million and at least $50 million in questioned costs.

FEMA faced tremendous challenges meeting mission requirements because of the catastrophic nature of Hurricane Maria and multiple, concurrent, nationwide disasters. Although we understand FEMA's priority on expediting commodity shipments to disaster survivors, the extent of the deviations from established operating procedures significantly increased the risk for fraud, waste, and abuse. Some flexibility and adaptation of normal processes is expected during disaster responses, but controls necessary to safeguard commodities cannot be altogether ignored. FEMA's emphasis on delivering commodities to disaster survivors overrode the importance of following sound inventory management practices. To ensure this does not happen again, FEMA needs to develop a comprehensive strategy and implementation plans for improving asset tracking and in-transit visibility across all modes of transportation.

Ineligible and Questioned Costs, Improper Payments, and Potential Fraud Risks

FEMA's challenges to take additional, proactive steps to create and sustain a culture of fraud prevention and awareness will likely be exacerbated by the infusion of CARES Act funding.[53] Our work in FY 2020 shows FEMA continues to make ineligible payments from the disaster relief fund by not complying with Federal regulations and its own policies and guidelines.[54] Specifically, for ongoing rebuilding of schools in Louisiana from Hurricane Katrina, FEMA awarded $216.2 million in ineligible funding to repair or replace more than 292 Orleans Parish school facilities for the Recovery School District (RSD).[55] FEMA used a cost estimate rather than actual costs to determine how much to award RSD for schools that were already completed, thus awarding $156.6 million in

[53] *FEMA Must Take Additional Steps to Demonstrate the Importance of Fraud Prevention and Awareness in FEMA Disaster Assistance Programs* (OIG-19-55), July 24, 2019.
[54] *FEMA Should Recover $216.2 Million Awarded to the Recovery School District in Louisiana for Hurricane Katrina* (OIG-20-63), September 15, 2020.
[55] RSD is a statewide school district administered by the Louisiana Department of Education that intervenes in the management of chronically low-performing schools in Louisiana. Because of Orleans Parish public schools' poor performance, the Louisiana Legislature turned the majority of its schools over to RSD.

ineligible funding to RSD. FEMA duplicated benefits by not reducing the amount of the award by $57 million to account for other Federal grant funds RSD received. In addition, FEMA awarded $2.6 million in ineligible funding to replace portable school buildings that were not RSD's legal responsibility at the time of the hurricane.

In a different context, FEMA provides Federal funds through its Individuals and Households Program (IHP) for home repairs to applicants who claim to be underinsured or uninsured and for Small Business Administration (SBA) Dependent Other Needs Assistance (ONA) payments. From 2003 through 2018, FEMA paid $12.7 billion to individuals for home repair assistance and SBA Dependent ONA. We conducted two audits of FEMA's IHP — one related to home repairs and the other related to SBA ONA payments.[56] In both audits we identified weaknesses with FEMA's applicant eligibility determination and risk assessment processes. These weaknesses resulted in more than $6.3 billion in improper payments.

According to Office of Management and Budget (OMB) Circular A-123, Appendix C, when documentation or verification is non-existent to support eligibility payment decisions, payments must be considered improper. However, we found that FEMA through IHP does not collect sufficient supporting documentation or verify that applicants claiming to have no insurance are eligible for home repair assistance. Rather, according to FEMA, it relies on applicant self-certifications because no comprehensive repository of homeowner's insurance data exists and any additional verification processes would delay home repair payments. In the IHP SBA ONA program, FEMA did not collect sufficient income and dependent documentation or verify self-reported information to determine whether applicants below the income threshold, known as the Failed Income Test, were eligible for SBA Dependent ONA payments.

Additionally, FEMA has not adequately evaluated risk associated with not collecting or verifying homeowner's insurance or income and dependent information. Per Federal requirements, agencies must conduct risk assessments to determine whether programs are susceptible to improper payments. Rather, FEMA disregarded significant internal control deficiencies and prior audit findings when evaluating risk. Further, it assessed IHP at the overall program level and did not specifically evaluate each IHP form of assistance, such as SBA Dependent ONA. These weaknesses have allowed

[56] *FEMA Has Made More Than $3 Billion in Improper and Potentially Fraudulent Payments for Home Repair Assistance since 2003* (OIG-20-23), April 6, 2020; and *FEMA Has Paid Billions in Improper Payments for SBA Dependent Other Needs Assistance since 2003* (OIG-20-60), August 12, 2020.

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applicants self-certifying homeowner's insurance, income, and dependent information to receive less oversight despite posing the greatest risks for improper payments. Without implementing changes to its home repair and SBA Dependent ONA processes, FEMA cannot ensure it is being a prudent steward of taxpayer dollars and adequately assessing its risks of improper payments and fraud.

Lastly, we noted risks related to fraud in our review of FEMA's Transitional Sheltering Assistance Program.[57] FEMA contracted with Corporate Lodging Consultants (CLC) to provide hotel rooms for disaster survivors. In 2017, FEMA spent about $642 million for more than 5 million hotel rooms. We determined FEMA did not properly award or oversee its contract with CLC to administer disaster survivors' hotel stays, which ultimately resulted in the improper release of personally identifiable information (PII) for about 2.3 million disaster survivors. This unauthorized release of PII increased survivors' risk of identity theft. Inadequate contractor oversight may have also increased the risk that unacceptable lodging conditions were used.

Strengthening Oversight and Management of Major Systems Acquisition

This challenge relates to every aspect of DHS' mission, and is captured in objectives listed under DHS' 2020–2024 Strategic Plan at Goal 6: Championing the Workforce and Strengthening the Department, Objectives 6.1: Strengthen Departmental Governance and Management and 6.3: Optimize Support to Mission Operations.

Systems acquisitions are a key part of DHS' annual budget and are fundamental to the Department's ability to accomplish its mission.[58] A successful systems acquisition process requires an effective acquisition management infrastructure. Acquisition management is a complex process that goes beyond simply awarding a contract. It begins with the identification of a mission need; continues with the development of a strategy to fulfill that need while balancing cost, schedule, and performance; and concludes with contract closeout after satisfactorily meeting the terms. Acquisition management includes managing operational and life cycle requirements — from formulating concepts of operations, developing sound business strategies,

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[57] *FEMA Did Not Properly Award and Oversee the Transitional Sheltering Assistance Contract* (OIG-20-58), August 5, 2020.

[58] In FY 2020, DHS budget included about $5 billion for Procurement, Construction and Improvements, to fund planning, operational development, engineering, purchase, and deployment of assets to support component missions; and an additional $546 million for Research and Development, to provide resources needed to identify, explore, and demonstrate new technologies and capabilities to support component missions.

and exercising prudent financial management to assessing tradeoffs and managing program risks. The Department has generally made progress in its acquisition oversight processes and controls through implementation of a revised acquisition management directive. However, it continues to face challenges.

In our second of two audit reports concerning the acquisition of the Department's Performance and Learning Management System (PALMS), we determined that DHS' funding and payments for PALMS violated Federal appropriations law.[59] Specifically, DHS violated the bona fide needs rule, the purpose statute, and the *Antideficiency Act* when the DHS Working Capital Fund used component funds for PALMS implementation. The Department also violated the statutory prohibition on advance payments when it made upfront payments for annual PALMS subscriptions that exceeded the value of the subscription services received. The Department misspent more than $4.6 million in fees for more than 200,000 paid subscriptions that expired before the contractor provided any subscription services.

In July 2020, we reported CBP did not demonstrate the acquisition capabilities needed to execute the Analyze/Select Phase of the Southern Border Wall Acquisition Program effectively.[60] Specifically, CBP did not:

- conduct an Analysis of Alternatives to assess and select the most effective, appropriate, and affordable solutions to obtain operational control of the southern border as directed, but instead relied on prior outdated border solutions to identify materiel alternatives for meeting its mission requirement; or
- use a sound, well-documented methodology to identify and prioritize investments in areas along the border that would best benefit from physical barriers.

We also found the Department did not complete the required plan to execute the strategy to obtain and maintain control of the southern border, as required by its Comprehensive Southern Border Security Study and Strategy. Without an Analysis of Alternatives, a documented and reliable prioritization process, or a plan, the likelihood CBP will be able to obtain and maintain complete operational control of the southern border with mission effective, appropriate, and affordable solutions is diminished.

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[59] *PALMS Funding and Payments Did Not Comply with Federal Appropriations Law* (OIG-20-19), March 24, 2020.
[60] *CBP Has Not Demonstrated Acquisition Capabilities Needed to Secure the Southern Border* (OIG-20-52), July 14, 2020.

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We also reported that CBP did not have a comprehensive strategy for meeting its Large-Scale Non-Intrusive Inspection (LS-NII) equipment needs at all CBP locations.[61] Instead, CBP uses multiple plans, such as its Multi-Year Investment and Management Plan, and individual acquisition plans for each type of LS-NII equipment it may purchase. At times, these acquisition plans contained conflicting information and did not align with the program's approved lifecycle cost estimate. This occurred because DHS and CBP acquisition officials did not provide effective oversight of CBP's fragmented acquisition planning efforts and did not confirm acquisition plans aligned with LS-NII program objectives. Without improvements, CBP cannot ensure that its multi-million dollar investments in LS-NII technology and equipment will help the component fulfill its mission of protecting U.S. borders.

The Way Forward

As the Department coordinates the Federal response to COVID-19, we urge it to address these other major management and performance challenges. Achieving progress requires steady leadership, unity of effort, and a commitment to mastering management fundamentals. By establishing a strong, overarching internal control structure to reinforce established goals and objectives, the Department will be better able to assign roles and responsibilities, promote coordination of resources and cooperation among programs and operations, promulgate necessary policies and procedures, and ensure compliance and accountability.

[61] *CBP Does Not Have a Comprehensive Strategy for Meeting Its LS-NII Needs* (OIG-20-75), September 28, 2020.

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Appendix A

GOAL 1: COUNTER TERRORISM AND HOMELAND SECURITY THREATS
OBJECTIVE 1.1: COLLECT, ANALYZE, AND SHARE ACTIONABLE INTELLIGENCE
OBJECTIVE 1.2: DETECT AND DISRUPT THREATS
OBJECTIVE 1.3: PROTECT DESIGNATED LEADERSHIP, EVENTS, AND SOFT TARGETS
OBJECTIVE 1.4: COUNTER WEAPONS OF MASS DESTRUCTION AND EMERGING THREATS

GOAL 2: SECURE U.S. BORDERS AND APPROACHES
OBJECTIVE 2.1: SECURE AND MANAGE AIR, LAND, AND MARITIME BORDERS
OBJECTIVE 2.2: EXTEND THE REACH OF U.S. BORDER SECURITY
OBJECTIVE 2.3: ENFORCE U.S. IMMIGRATION LAWS
OBJECTIVE 2.4: ADMINISTER IMMIGRATION BENEFITS TO ADVANCE THE SECURITY AND PROSPERITY OF THE NATION

GOAL 3: SECURE CYBERSPACE AND CRITICAL INFRASTRUCTURE
OBJECTIVE 3.1: SECURE FEDERAL CIVILIAN NETWORKS
OBJECTIVE 3.2: STRENGTHEN THE SECURITY AND RESILIENCE OF CRITICAL INFRASTRUCTURE
OBJECTIVE 3.3: ASSESS AND COUNTER EVOLVING CYBERSECURITY RISKS
OBJECTIVE 3.4: COMBAT CYBERCRIME

GOAL 4: PRESERVE AND UPHOLD THE NATION'S PROSPERITY AND ECONOMIC SECURITY
OBJECTIVE 4.1: ENFORCE U.S. TRADE LAWS AND FACILITATE LAWFUL INTERNATIONAL TRADE AND TRAVEL
OBJECTIVE 4.2: SAFEGUARD THE U.S. TRANSPORTATION SYSTEM
OBJECTIVE 4.3: MAINTAIN U.S. WATERWAYS AND MARITIME RESOURCES
OBJECTIVE 4.4: SAFEGUARD U.S. FINANCIAL SYSTEMS

GOAL 5: STRENGTHEN PREPAREDNESS AND RESILIENCE
OBJECTIVE 5.1: BUILD A NATIONAL CULTURE OF PREPAREDNESS
OBJECTIVE 5.2: RESPOND DURING INCIDENTS
OBJECTIVE 5.3: SUPPORT OUTCOME-DRIVEN COMMUNITY RECOVERY
OBJECTIVE 5.4: TRAIN AND EXERCISE FIRST RESPONDERS

GOAL 6: CHAMPION THE DHS WORKFORCE AND STRENGTHEN THE DEPARTMENT
OBJECTIVE 6.1: STRENGTHEN DEPARTMENTAL GOVERNANCE AND MANAGEMENT
OBJECTIVE 6.2: DEVELOP AND MAINTAIN A HIGH PERFORMING WORKFORCE
OBJECTIVE 6.3: OPTIMIZE SUPPORT TO MISSION OPERATIONS

Source: Department of Homeland Security's Strategic Plan for Fiscal Years 2020–2024 (undated)
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Appendix B
DHS Comments to the Draft Report

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

November 3, 2020

MEMORANDUM FOR: Joseph V. Cuffari, Ph.D.
Inspector General
Office of Inspector General

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

JIM H CRUMPACKER Digitally signed by JIM H CRUMPACKER Date: 2020.11.03 16:12:13 -05'00'

SUBJECT: Management Response to the Office of Inspector General's (OIG) Draft Report: "Major Management and Performance Challenges [MMPC] Facing the Department of Homeland Security" (Project No. 21-006-IQO-DHS)

Thank you for the opportunity to comment on this draft report. As Acting Secretary of Homeland Security Chad Wolf remarked during his "2020 State of the Homeland" address on September 9, 2020:

> "The Department of Homeland Security [DHS or the Department] is bound by one mission, one creed. Answering the call, often times in the most arduous of environments and difficult circumstances, to safeguard the American people, our homeland, and our values from all threats, all the time—both today, tomorrow, and in the years to come … we stand—ready to rise and ready to face the next challenge that threatens our homeland."

The Acting Secretary also highlighted that during the past year the Department was:

- Leading the Federal Government's response to a global pandemic;
- Protecting federal buildings and federal law enforcement officers from an emerging threat of violent rioters;
- Combatting crises at the Southern Border, including human trafficking, drug smuggling, and unprecedented illegal migration flows;
- Fortifying our economic security by tightening our immigration system, preserving free and fair trade, and thwarting the growing threats posed by China now and in the future; and
- Identifying and preventing malign foreign actors and nation states from interfering in our elections and protecting our election infrastructure.

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Against each of these challenges, DHS has marshaled its resources, tapped its authorities, and unified its efforts to safeguard the American people and our way of life. Yet, as Acting Secretary Wolf also stated, "We will not rest on yesterday's success. Our eyes are on the horizon. On the future."

DHS recognizes the Office of Inspector General's (OIG) perspective on the most serious management and performance challenges facing the Department and our progress in addressing these challenges. DHS is also mindful of its responsibility to be a good steward of taxpayer dollars.

Senior DHS leadership, however, is concerned that in developing the challenges identified in this year's MMPC report, OIG (1) understated the vast responsibility the Federal Emergency Management Agency (FEMA) has had to assume in response to the coronavirus (COVID-19) pandemic, and (2) focused on highlighting the findings and conclusions its auditors, evaluators, and inspectors summarized in previously published reports without including almost any Departmental perspective on these issues. It is important to recognize that various DHS leaders, program officials, and subject matter experts expressed significant concerns about and disagreement with many of OIG's findings and conclusions at the time the original reports were published.

Without this context, OIG's MMPC report is extremely misleading and, frankly, does a disservice to end users of the report (including Congress and the public) by providing a skewed discussion about the challenges OIG believes DHS faces, challenges with which the Department does not necessarily disagree. We note that the Departmental concerns and disagreements were discussed in the referenced individual final reports and subsequent communications; however, it is unlikely that end users of OIG's MMPC report will seek or access all of this information in order to obtain the missing Departmental perspectives.

Additional information about FEMA's significantly increased responsibilities and examples of specific contextual concerns with selected audits the OIG highlighted in its various challenge areas is provided below:

- **Performing Fully and Effectively during COVID-19**

OIG's MMPC report tremendously understates the magnitude of new responsibilities FEMA assumed in the face of the COVID-19 pandemic, a historic challenge that has tested federal response capabilities. For the first time in our Nation's history, all 55 states and territories, as well as District of Columbia were declared under the same nationwide Emergency Declaration. On March 19, 2020, FEMA was designated to lead federal COVID-19 pandemic response operations, while keeping up with all of

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its other responsibilities at the same time. The scale and scope of this pandemic necessitated a collaborative interagency response. There have been more than 46,000 personnel from over 40 agencies—such as the Department of Defense, Department of Health and Human Services (HHS), Centers for Disease Control and Prevention, Department of Veterans Affairs, U.S. Army Corps of Engineers, Defense Logistics Agency — embedded within FEMA's National Response Coordination Center and ten Regional Response Coordination Centers to coordinate response and recovery efforts at both the national and local levels.

FEMA has obligated $54 billion in support of COVID-19 efforts, including $42 billion for the Lost Wages Assistance Program to ease the economic burden for those struggling with lost wages due to the COVID-19 pandemic pursuant to a Presidential authorization. Additionally, as of October 30, 2020, FEMA, HHS, and the private sector coordinated delivery of or are currently shipping: 309.2 million N95 respirators, 1.3 billion surgical and procedural masks, 66.9 million face and eye shields, 571.4 million surgical gowns and coveralls, 33.3 billion gloves, and more than 15,000 ventilators. FEMA also supported HHS efforts to drastically expand COVID-19 testing capabilities.

While COVID-19 has affected all of the Agency's operations, the men and women of FEMA never lost sight of ongoing recovery efforts or need to posture for future incidents. Since March 13, 2020, there have been 35 non-COVID major disaster declarations across 21 states, including declarations for flooding, hurricanes, tornadoes, and wildfires. FEMA deployed more than 8,300 staff to these and other non-COVID active disasters operating out of physical and virtual Joint Field Offices, Joint Recovery Offices, and Regional Offices across the nation. Furthermore, FEMA actively worked to ensure sustained resilience of its operations. The Agency has enhanced facility redundancy, increased robust staffing options, deepened its interagency partnerships, and drafted new guidance to ensure prioritization of life safety, life sustainment, and workforce protection while maintaining delivery of FEMA programs to the highest level possible.

- **Countering Terrorism and Homeland Security Threats**

  - "TSA Challenges with Passenger Screening Canine [PSC] Teams (Redacted)," OIG-20-28, dated April 28, 2020.

  OIG reported the Transportation Security Administration (TSA) could not show that deployed PSC teams provide effective security at screening checkpoints and thus our Nation's aviation system and the traveling public could be at risk of a catastrophic event caused by an undetected explosive device. However, TSA

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strongly disagreed with the report's conclusions, including the statement that "TSA could have redirected the nearly $77 million it spent on PSC teams to other security programs and activities to better protect the aviation system." TSA leadership stated: "The OIG audit team has not completed any analysis with the level of methodological rigor necessary to support these conclusions."

- "CBP Needs a Comprehensive Process for Conducting Covert Testing and Resolving Vulnerabilities (Redacted)," OIG-20-55, dated July 28, 2020.

OIG reported that U.S. Customs and Border Protection (CBP) did not comprehensively plan and conduct covert tests of its operations at Border Patrol checkpoints and ports of entry, use test results to address vulnerabilities, or widely share lessons learned. The OIG report took nearly two years to complete and in its management response, CBP stated its concern that the report contains several inaccurate and misleading representations. These included the definition of "risk" OIG applied to CBP's program methodologies, which could seemingly only be explained by OIG fundamentally misunderstanding Homeland Security risk management doctrine and CBP's covert testing program. CBP contests the OIG's conclusion that CBP does not comprehensively plan and conduct covert testing or use its test results to address vulnerabilities as a false understanding of the process.

Ensuring Proper Financial Management

- "DHS Confirmed It Has Applied Lessons Learned in the Latest Financial System Modernization Effort," OIG-20-09, dated December 19, 2020.

With regard to "The Need for Modernization" portion of this challenge, the OIG referenced only one report highlighting DHS's awareness of the importance of identifying and applying lessons learned as the Department continues to implement the Financial Systems Modernization (FSM) TRIO program. OIG's narrative then went on to mention avoiding past errors and using resources wisely. While the Department appreciates OIG's recognition of the progress made to modernize DHS financial systems, the narrative did not mention senior DHS leadership's disappointment with the report because (1) the scope and objectives of the report varied so greatly from those OIG originally announced, resulting in a much less value-added report for the Department, and (2) the report's conclusion that money spent on the FSM program could have been better spent had more focused attention been dedicated to identifying and applying lessons learned through the years lacked context and, as such, was misleading. More specifically, the report did not provide any context concerning the value received from prior FSM efforts (i.e., investments). In fact, DHS realized significant benefits from

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these efforts, which was outlined in the Department's management response to OIG's report.

The referenced OIG report also took nearly two years to complete and is now almost a year old, meaning that the information contained therein is extremely dated. The TRIO program, which is overseen by a Headquarters Joint Program Management Office (JPMO) and is part of a broader FSM program, managed by the JPMO, includes three DHS Components: (1) Countering Weapons of Mass Destruction (CWMD), (2) TSA, and (3) the United States Coast Guard (USCG). CWMD has used the Financial Systems Modernization Solution (FSMS) for several years and successfully underwent a technical refresh in 2019. DHS is proud to report that TSA was migrated to FSMS in October 2020. The implementation and cutover activities were very successful in large part due to the reliance on FSM lessons learned. The JPMO maintains a repository with over 700 lessons learned and leverages these lessons across all FSM programs, including Trio and future efforts for FEMA, U.S. Immigration and Customs Enforcement, and other Components. Lessons are gathered in the following categories, in alignment with Project Management Institute standards: (1) Change Management, (2) Communications, (3) Cost, (4) Documentation, (5) Governance, (6) Human Resources, (7) Procurement, (8) Project Management, (9) Quality, (10) Risk, (11) Schedule, (12) Scope, and (13) Systems Engineering.

It is also important to note the OIG's MMPC report does not recognize that the Department continues to make significant progress ensuring proper financial management as evidenced by having now earned an unmodified (clean) audit opinion on its financial statements for the past eight years and greatly reducing its' material weaknesses and significant internal control deficiencies. USCG and FEMA, the two primary drivers of remaining weaknesses, are both scheduled to move to modern systems in fiscal years 2022 and 2024, respectively.

- **Ensuring Information Technology (IT) Supports Essential Mission Operations**

  - "DHS Lacked Technology Needed to Successfully Account for Separated Migrant Families," OIG-20-06, dated November 25, 2019.

OIG reported, in part, that DHS was unable to reunify families as mandated by a federal judge due to poor data tracking, information sharing, and IT systems capabilities. Not disclosed in the MMPC report was DHS's concern, among others, that OIG's inflated numbers that will lead to misunderstandings and misperceptions as to the Department's operational efforts and compliance with court orders. Specifically, OIG's report inaccurately characterized the level of

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certainty to which DHS and the Department of Health and Human Services (HHS) identified separated parents and children. OIG's conclusions were based on a flawed analysis of DHS data systems in an attempt to try to confirm the numbers of "potentially separated minors who were not included in DHS's numbers." The OIG's data analysis did not include information from the full range of sources and methods used by DHS, HHS, and the Department of Justice to identify and verify the numbers of separated children. As a result, the degrees of certainty between the multi-agency reunification effort and the OIG's limited analysis were not remotely comparable.

- "Evaluation of DHS' Information Security Program for Fiscal Year 2019," OIG-20-77, dated September 30, 2020.

OIG reported an overall reduction in the program's effectiveness. The Department disagreed with OIG's overall assessment that DHS regressed in the management of its information security program due to the decision made by a former DHS Chief Information Officer (CIO) permitting the USCG to submit their cybersecurity and Federal Information Security Modernization Act (FISMA) reports to the Department of Defense. OIG's conclusion seemed to primarily derive from an incorrect legal assessment that the CIO lacked the authority to make such a decision, despite the Department reiterating the DHS CIO is afforded *statutory authority* to accept cybersecurity risk for the Department. DHS previously demonstrated in meetings and with supporting documentation that the CIO acted appropriately to accept risk and confirmed this decision with the Office of Management and Budget and Federal Chief Information Security Officer.

- **Improving FEMA's Grant Management, Disaster Assistance, and Fraud Prevention.**

- "FEMA Mismanaged the Commodity Distribution Process in Response to Hurricanes Irma and Maria," OIG-20-76, dated September 25, 2020.

With regard to the "Supply Chain Weakness" portion of this challenge, the OIG referenced a single report highlighting "significant deficiencies" in FEMA's commodity distribution process. In its management response to this report, FEMA leadership disagreed with OIG's conclusion. FEMA explained that while the response to Hurricanes Irma and Maria in Puerto Rico posed a number of logistical challenges, FEMA delivered a historic quantity of 63.6 million (M) meals and 74.1 M liters of water to the Commonwealth of Puerto Rico government from September 2017 through April 2018. FEMA also explained how it recognized the opportunity for, and taken actions to improve staffing, training, processes, tools, and accounting for meals and water.

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- "FEMA Has Made More Than $3 Billion in Improper and Potentially Fraudulent Payments for Home Repair Assistance since 2003," OIG-20-23, dated April 6 2020, and "FEMA Has Paid Billions in Improper Payments for SBA [Small Business Administration] Dependent Other Needs Assistance since 2003," OIG-20-60, dated August 12, 2020.

With regard to the "Improper Payments and Fraud Prevention" portion of this challenge, the OIG reported weaknesses in FEMA's applicant eligibility determination and risk assessment processes resulting in more than $6.3 billion in improper payments. The OIG did not report that FEMA leadership strongly disagreed with the OIG's conclusions. For example, FEMA believes the OIG overstates the amount of questionable home repair assistance FEMA provided by categorically questioning assistance payments made to applicants who self-certified a lack of homeowner's insurance. FEMA has exhaustively researched potential ways to reliably and expeditiously verify whether an applicant has homeowner's insurance. FEMA also has significant concerns with the methodology that was used to project the improper payment figure provided within the home repair report. Of the $3 billion of assistance payments questioned by the OIG, the OIG's report raises potential questions about 2 percent of the limited sample of payments reviewed.

Concerning OIG-20-60, FEMA also did not agree with the OIG's assessment that a five percent deviation in income reporting necessarily indicated an error on FEMA's part. The U.S. Census Bureau reported that the U.S. median household income during 2017 was $60,336, five percent of which is $3,017. FEMA does not regard a $3,000 reporting differential to automatically indicate error or malintent. A multitude of reasons could explain why an applicant's reported income immediately after a disaster is $3,000 less or more than what they report at the end of the year, such as income fluctuation. Many applicants—US citizens, noncitizen nationals, or qualified aliens—do not have a standard and predictable annual salary, so comparing reported income at different points in the same year could produce discrepancies that are not attributable to the applicant purposefully misrepresenting their income in an attempt to qualify for disaster aid.

FEMA believes that it is unlikely that all these income reporting differentials were incorrect and not, at least in some cases, due to actual income differences between the time reported to FEMA and the time reported to the IRS. However, even if all applications had a reporting differential due to an error on the part of the applicant, FEMA does not believe such errors warrant slowing the delivery of potentially life-saving disaster assistance for the other nearly 80 percent of the applicant's in order to eliminate that reporting error.

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- **Strengthening Oversight and Management of Major Systems Acquisition**

  - "PALMS [Performance and Learning Management System] Funding and Payments Did Not Comply with Federal Appropriations Law," OIG-20-19, dated March 24, 2020.

The OIG highlights its belief that DHS's funding and payments for PALMS violated federal appropriations law, and a statutory prohibition on advance payments resulting in more than $4.6 million being misspent. The MMPC report, however, does not disclose that many DHS program officials, subject matter experts (including counsel), and others disagreed with the OIG's conclusions, which they viewed as significantly flawed and inaccurate factual representations, despite numerous meetings and the thousands of pages of technical comments and supporting documentation provided to the audit team during the two and a half years it took to complete this audit.

In addition, DHS viewed the OIG's findings and recommendations as inconsistent with the legislative framework governing the DHS Working Capital Fund and argued that these findings contravened longstanding interpretations of those governing provisions and the administrative practices and policies that effectuate those interpretations. DHS also non-concurred with the nine recommendations in the report, disagreements which remain open and unresolved.

  - "CBP Has Not Demonstrated Acquisition Capabilities Needed to Secure the Southern Border," OIG-20-52, dated July 14, 2020.

In a report that took nearly three years to complete, the OIG concluded DHS and CBP inadequately analyzed and incompletely documented the decision-making processes. In its management response, DHS expressed strong disagreement with the OIG's analysis and expressed concerns about the apparent misalignment of purpose and product with the OIG's report, specifically: (1) regarding the role of an Executive Branch agency, (2) conflation and confusion of "Operational Control" and "Impedance and Denial," and (3) the proper use of an Analysis of Alternatives versus an Alternatives Analysis. The OIG made three recommendations, two with which DHS non-concurred and one with which it agreed based on the belief DHS had already completed it. The OIG asserted what DHS viewed as an appropriate response to the third recommendation was inadequate, resulting in all recommendations remaining open and unresolved.

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- "CBP Does Not Have a Comprehensive Strategy for Meeting Its LS-NII [Large Scale Non-Intrusive Inspection] Needs," OIG-20-75, dated September 20, 2020.

The OIG reported that CBP did not have a comprehensive strategy for meeting its LS-NII equipment needs at all CBP locations. DHS and CBP strongly disagreed with the OIG's conclusion that acquisition officials did not provide effective oversight of CBP's acquisition planning efforts and did not confirm acquisition plans aligned with LS-NII program objectives. In fact, the LS-NII program's acquisition planning was consistent with the Department's Management Directive 102-01, "Acquisition Management," dated February 25, 2019, and its implementing instructions. For example, the OIG's draft report did not address the program's demonstrated compliance with required acquisition activities, including recognizing that the program: (1) had an approved Acquisition Program Baseline, (2) was exempt from having a Test and Evaluation Master Plan, and (3) was actively pursuing acquisition management activities to address future program requirements. The report instead suggests that CBP is not acting in accordance with DHS acquisition policies.

In addition, the OIG did not disclose Departmental concerns that the OIG's findings reflected in the draft report were not timely or current. For example, the OIG announced the LS-NII audit on April 24, 2018 and released its draft report for technical and management comments on June 23, 2020. During this 26-month audit period, however, DHS' acquisition policies were revised, and the OIG's findings did not fully account for these policy revisions.

Looking forward to next year's MMPC report, DHS leadership would appreciate receiving the OIG's draft in August or September (as has occurred in some past years) to begin the review, comment, and final publication process. Receiving the report in October or November, as occurred this year and in some prior years, places an undue burden on both DHS and the OIG to finalize the report for inclusion as part of the Department's Annual Financial Report by mid-November, as required by statute.

Again, thank you for the opportunity to review and comment on this draft report. DHS strives to maintain a culture where all its employees and contractors understand that audits help make us better and both auditors and auditees must be engaged throughout the audit lifecycle. DHS will continue to be open and transparent with the OIG and responsive to the OIG's requests for information, devoting an appropriate level of attention among competing mission-related priorities and demands to the OIG's work. DHS will also remain committed to actively following up on recommendation implementation. Please feel free to contact me if you have any questions. We look forward to working with you during the coming year.

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Additional Information and Copies

To view this and any of our other reports, please visit our website at: www.oig.dhs.gov.

For further information or questions, please contact Office of Inspector General Public Affairs at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov.
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Acronym List

Unaudited, see accompanying Auditors' Report

Acronyms

ACE – Automated Commercial Environment

AFR – Agency Financial Report

AGA – Association of Government Accountants

APG – Agency Priority Goal

ATON – Aids to Navigation

BRS – Blended Retirement System

CBoL – Commercial Bill of Lading

CBP – U.S. Customs and Border Protection

CBRN – Chemical, Biological, Radiological and Nuclear

CDC – Centers for Disease Control and Prevention

CDL – Community Disaster Loans

CEAR – Certificate of Excellence in Accountability Reporting

CFATS – Chemical Facility Anti–Terrorism Standards

CFO – Chief Financial Officer

CFR – Code of Federal Regulations

CIO – Chief Information Officer

CISA – Cybersecurity and Infrastructure Security Agency

COBRA – Consolidated Omnibus Budget Reconciliation Act of 1985

COLA – Cost of Living Allowance

CONOPS – Concept of Operations

COTS – Commercial Off–the–Shelf

CPI – Consumer Price Index

CSR – Cancer Statistics Review

CSRS – Civil Service Retirement System

CUAS – Counter Unmanned Aircraft Systems

CWMD – Countering Weapons of Mass Destruction

DADLP – Disaster Assistance Direct Loan Program

DATA Act – Digital Accountability and Transparency Act of 2014

DC – District of Columbia

DCIA – Debt Collection Improvement Act of 1996

DCM – Disaster Case Management

DHS – Department of Homeland Security

DIEMS – Date of Initial Entry into Military Service

DOD – U.S. Department of Defense

DOJ – Department of Justice

DOL – U.S. Department of Labor

DPIO – Deputy PIO

DRF – Disaster Relief Fund

EDS – Explosive Detection System

ERM – Enterprise Risk Management

ERO – Enforcement and Removal Operations

FAA – DHS Financial Accountability Act

FBwT – Fund Balance with Treasury

FCRA – Federal Credit Reform Act of 1990

FECA – Federal Employees Compensation Act of 1916

FEMA – Federal Emergency Management Agency

FERS – Federal Employees Retirement System

FEVB – Federal Employee and Veterans' Benefits

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

FPS – Federal Protective Service

FR – Financial Report

FRDAA – Fraud Reduction and Data Analytics Act

FSM – Financial Systems Modernization

FY – Fiscal Year

GAAP – Generally Accepted Accounting Principles

GAO – U.S. Government Accountability Office

GETS – Government Emergency Telecommunications Service

GPRA – Government Performance and Results Act of 1993

GPRAMA – GPRA Modernization Act of 2010

GSA – General Services Administration

GTAS – Government-wide Treasury Account Symbol

HFIAA Homeowner Floor Insurance Affordability Act

HVA – High Value Assets

IA – Individual Assistance

I&A – Office of Intelligence and Analysis

ICE – U.S. Immigration and Customs Enforcement

ICMM – Internal Control Maturity Model

IEFA – Immigration Examination Fee Account

IHP – Individuals and Households Program

INA – Immigration Nationality Act

IPE – Information Produced by Entity

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

LOI – Letter of Intent

MERHCF – Medicare–Eligible Retiree Health Care Fund

MGMT – Management Directorate

MHS – Military Health System

MRS – Military Retirement System

NFIP – National Flood Insurance Program

NRCC – National Response Coordination Center

NRMC – National Risk Management Center

O&S – Operations & Support

OCPO – Chief Procurement Officer

OIG – Office of Inspector General

OMB – Office of Management and Budget

OM&S – Operating Materials and Supplies

OPA – Oil Pollution Act of 1990

OPCON – Operational Control

OPEB – Other Post Retirement Benefits

OPLA – Office of the Principal Legal Advisor

OPM – Office of Personnel Management

OPO – Office of Protective Operations

OPS – Office of Operations Coordination

ORB – Other Retirement Benefits

OSLTF – Oil Spill Liability Trust Fund

OTA – Other Transaction Agreement

PA – Public Assistance

PA&E – Program Analysis and Evaluation

PIIA – Payment Integrity Information Act of 2019

PIO – Performance Improvement Officer

PP&E – Property, Plant, and Equipment

P.L. – Public Law

SAR – Search and Rescue

SBA - Small Business Administration

SBR – Statement of Budgetary Resources

SFFAS – Statement of Federal Financial Accounting Standards

SFRBTF – Sport Fish Restoration Boating Trust Fund

SNC - Statement of Net Cost

SOC – Service Organization Control

SOS – Schedule of Spending

SR – Strategic Review

S&T – Science and Technology Directorate

TAFS – Treasury Appropriation Fund Symbol

TBI – Treasury Breakeven Inflation

TCM – Trade Compliance Measurement

Treasury – Department of the Treasury

TSA – Transportation Security Administration

UAS – Unmanned Aerial System

U.S. – United States

US&R – Urban Search & Rescue

USC – United States Code

USCG – U.S. Coast Guard

USCIS – U. S. Citizenship and Immigration Services

USPS – U.S. Postal Service

USSGL – U.S. Standard General Ledger

USSS – U.S. Secret Service

VA – U.S. Department of Veterans Affairs

VP – Vendor Payment

WYO – Write Your Own

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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 the offices involved in the Department's FY 2020 Agency Financial Report for their hard work and contributions.

Homeland
Security