

# 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 executor 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 8<sup>th</sup> 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

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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,

A handwritten signature in black ink, appearing to read "Troy Edgar". The signature is fluid and cursive, with the first name "Troy" and last name "Edgar" clearly distinguishable.

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)**

	<b>2020</b>	<b>2019</b>
<b>ASSETS (Note 2)</b>		
<b>Intragovernmental</b>		
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
<b>Total Intragovernmental</b>	<b>\$ 144,429</b>	<b>\$ 120,207</b>
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
<b>TOTAL ASSETS</b>	<b>\$ 183,009</b>	<b>\$ 158,099</b>

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
<b>Total Intragovernmental</b>	<b>\$ 30,960</b>	<b>\$ 31,411</b>

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
<b>Total Liabilities</b>	<b>\$ 133,431</b>	<b>\$ 112,909</b>

Commitments and Contingencies (Note 21)

(Continued)

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

	<b>2020</b>	<b>2019</b>
<b>NET POSITION</b>		
<b>Unexpended Appropriations</b>		
Unexpended Appropriations-Other Funds (Combined)	\$ 94,375	\$ 87,723
<b>Cumulative Results of Operations</b>		
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)
<b>Total Net Position</b>	<b>\$ 49,578</b>	<b>\$ 45,190</b>
 <b>TOTAL LIABILITIES AND NET POSITION</b>	 <b>\$ 183,009</b>	 <b>\$ 158,099</b>

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)**

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

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

	<u>2020</u>	<u>2019</u>
<b>Departmental Operations and Other Support Components</b>		
Gross Cost	5,094	3,740
Less Earned Revenue	<u>(1,302)</u>	<u>(63)</u>
<b>Net Cost</b>	<u><b>3,792</b></u>	<u><b>3,677</b></u>
<b>Total Department of Homeland Security</b>		
Gross Cost	127,215	80,818
Less Earned Revenue	<u>(14,874)</u>	<u>(15,655)</u>
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)	<u>3,061</u>	<u>924</u>
<b>NET COST OF OPERATIONS</b>	<u><b>\$ 115,402</b></u>	<u><b>\$ 66,087</b></u>

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
<b>Unexpended Appropriations:</b>				
Beginning Balances	\$ -	\$ 87,723	\$ -	\$ 87,723
<b>Budgetary Financing Sources:</b>				
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
<b>Total Unexpended Appropriations</b>	<b>\$ -</b>	<b>\$ 94,375</b>	<b>\$ -</b>	<b>\$ 94,375</b>
<b>Cumulative Results of Operations:</b>				
Beginning Balances	(3,789)	(38,744)	-	(42,533)
<b>Budgetary Financing Sources:</b>				
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)
<b>Other Financing Sources (Non-exchange):</b>				
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)
<b>Cumulative Results of Operations</b>	<b>\$ (2,598)</b>	<b>\$ (42,199)</b>	<b>\$ -</b>	<b>\$ (44,797)</b>
<b>NET POSITION</b>	<b>\$ (2,598)</b>	<b>\$ 52,176</b>	<b>\$ -</b>	<b>\$ 49,578</b>

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
<b>Unexpended Appropriations</b>				
Beginning Balances	\$ -	\$ 84,662	\$ -	\$ 84,662
<b>Budgetary Financing Sources:</b>				
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
<b>Total Unexpended Appropriations</b>	<b>\$ -</b>	<b>\$ 87,723</b>	<b>\$ -</b>	<b>\$ 87,723</b>
<b>Cumulative Results of Operations</b>				
Beginning Balances	(4,451)	(37,415)	-	(41,866)
<b>Budgetary Financing Sources:</b>				
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
<b>Other Financing Sources (Non-Exchange):</b>				
Donations and Forfeitures of Property 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)
<b>Cumulative Results of Operations</b>	<b>\$ (3,789)</b>	<b>\$ (38,744)</b>	<b>\$ -</b>	<b>\$ (42,533)</b>
<b>NET POSITION</b>	<b>\$ (3,789)</b>	<b>\$ 48,979</b>	<b>\$ -</b>	<b>\$ 45,190</b>

The accompanying notes are an integral part of these statements.

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

	<u>2020</u>		<u>2019</u>	
	<u>Budgetary</u>	<u>Non- Budgetary Credit Reform Financing Accounts</u>	<u>Budgetary</u>	<u>Non- Budgetary Credit Reform Financing Accounts</u>
<b>BUDGETARY RESOURCES</b>				
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
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$ 196,547</b>	<b>\$ 91</b>	<b>\$ 139,980</b>	<b>\$ 105</b>
 <b>STATUS OF BUDGETARY RESOURCES</b>				
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	-
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$ 196,547</b>	<b>\$ 91</b>	<b>\$ 139,980</b>	<b>\$ 105</b>
 <b>OUTLAYS NET</b>				
	110,355	-	71,444	-
Distributed Offsetting Receipts	(11,291)	-	(12,417)	-
<b>AGENCY OUTLAYS, NET</b>	<b>\$ 99,064</b>	<b>\$ -</b>	<b>\$ 59,027</b>	<b>\$ -</b>
Disbursements, Net (total) (mandatory)		<b>\$ -</b>		<b>\$ 62</b>

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
<b>Revenue Activity</b> (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
<b>Total Custodial Revenue</b>	<b>78,857</b>	<b>80,801</b>
<b>Disposition of Collections</b>		
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
<b>Total Disposition of Collections</b>	<b>78,857</b>	<b>80,801</b>
<b>NET CUSTODIAL ACTIVITY</b>	<b>\$ -</b>	<b>\$ -</b>

The accompanying notes are an integral part of these statements.



## Notes to the Financial Statements

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## 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 cybersystems 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<sup>5</sup>:

- **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

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<sup>5</sup> Financial reporting Components are to be distinguished from direct report Components described in the Management's Discussion and Analysis, *Our Organization*.

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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.



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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).

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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.

<b>Asset Description</b>	<b>Capitalization Threshold</b>	<b>Useful Life</b>
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

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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.



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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

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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.

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### 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	<u>3,132</u>	<u>2,666</u>
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	<u>6,824</u>	<u>7,757</u>
Total Non-Entity Assets	9,956	10,423
Total Entity Assets	173,053	147,676
<b>Total Assets</b>	<b><u>\$ 183,009</u></b>	<b><u>\$ 158,099</u></b>

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
<b>Total Budgetary Status</b>	<b>128,999</b>	<b>106,963</b>
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)
<b>Total Fund Balance with Treasury</b>	<b>\$ 131,013</b>	<b>\$ 108,971</b>

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

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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
<b>Total Cash and Other Monetary Assets</b>	<b>\$ 77</b>	<b>\$ 67</b>

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
<b>Total Investments, Net</b>		<b>\$ 11,045</b>	<b>\$ 14</b>	<b>\$ 28</b>	<b>\$ 11,087</b>	



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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
<b>Total Investments, Net</b>		<b>\$ 10,379</b>	<b>\$ (54)</b>	<b>\$ 27</b>	<b>\$ 10,352</b>	

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):

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

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):

<b>As of September 30, 2020:</b>	<b>Gross Receivables</b>	<b>Allowance</b>	<b>Total Net Receivables</b>
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
<b>Total Taxes, Duties, and Trade Receivables, Net</b>	<b>\$ 12,884</b>	<b>\$ (6,101)</b>	<b>\$ 6,783</b>

<b>As of September 30, 2019:</b>	<b>Gross Receivables</b>	<b>Allowance</b>	<b>Total Net Receivables</b>
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
<b>Total Taxes, Duties, and Trade Receivables, Net</b>	<b>\$ 12,757</b>	<b>\$ (5,025)</b>	<b>\$ 7,732</b>

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 *Emergency 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

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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):**

	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Community Disaster 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:

	Interest		
	Differential	Other	Total
Community Disaster Loans			
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:**

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

**Total Direct Loan Subsidy Expense**

	2020	2019
Community Disaster Loans	<u>\$ 101</u>	<u>\$ 157</u>

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

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

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

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.

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

	<u>2020</u>	<u>2019</u>
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	<u>604</u>	<u>504</u>
Add subsidy re-estimate by Component		
Technical/default re-estimate	5	(2)
<b>Ending balance of the subsidy cost allowance</b>	<b><u>\$ 609</u></b>	<b><u>\$ 502</u></b>

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

	<u>2020</u>	<u>2019</u>
Community Disaster Loans	<u>\$ 4</u>	<u>\$ 2</u>

**9. Inventory and Related Property, Net**

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

	<u>2020</u>	<u>2019</u>
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	<u>2,300</u>	<u>2,144</u>
Inventory		
Inventory Purchased for Resale	34	37
Less: Allowance for Losses	(7)	(8)
Total Inventory, Net	<u>27</u>	<u>29</u>
Stockpile Materials Held in Reserve	<u>57</u>	<u>122</u>
<b>Total Inventory and Related Property, Net</b>	<b><u>\$ 2,384</u></b>	<b><u>\$ 2,295</u></b>

## 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:

<b>Seized Property:</b>	<b>Beginning Balance</b>	<b>New Seizures</b>	<b>Remissions and Adjustments</b>	<b>New Forfeitures</b>	<b>Ending Balance</b>
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
<b>Forfeited Property:</b>					
<b>Forfeited Property:</b>	<b>Beginning Balance</b>	<b>New Forfeitures</b>	<b>Transfers and Adjustments</b>	<b>Destroyed</b>	<b>Ending Balance</b>
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



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For the Fiscal Year Ended September 30, 2019:

<b>Seized Property:</b>	<b>Beginning Balance</b>	<b>New Seizures</b>	<b>Remissions and Adjustments</b>	<b>New Forfeitures</b>	<b>Ending Balance</b>
<b>Illegal Drugs (in kilograms):</b>					
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
<b>Forfeited Property:</b>					
<b>Illegal Drugs (in kilograms):</b>	<b>Beginning Balance</b>	<b>New Forfeitures</b>	<b>Transfers and Adjustments</b>	<b>Destroyed</b>	<b>Ending Balance</b>
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<sup>6</sup>. 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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<sup>6</sup> 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
<b>Total General Property, Plant, and Equipment, Net</b>		<b>\$ 53,451</b>	<b>\$ 26,890</b>	<b>\$ 26,561</b>

### Total PP&E and Accumulated Depreciation Reconciliation:

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

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
<b>Total General Property, Plant, and Equipment, Net</b>		<b>\$ 50,393</b>	<b>\$ 25,720</b>	<b>\$ 24,673</b>

## 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
<b>Collection-type Assets</b>				
USCG	9	-	-	9
CBP	2	-	-	2
USCIS	5	-	-	5
TSA	10	-	-	10
MGMT	1	-	-	1
S&T	1	-	-	1
USSS	2	-	-	2
<b>Non-Collection-type Assets</b>				
USCG	69	-	-	69
S&T	1	-	-	1
FLETC	1	-	-	1
<b>Multi-use Heritage Assets</b>				
USCG	96	-	-	96
CBP	4	-	-	4
FEMA	1	-	-	1
ICE	1	-	-	1
<b>Total Stewardship PP&amp;E</b>	<b>203</b>	<b>-</b>	<b>-</b>	<b>203</b>

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

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

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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):

	<u>2020</u>	<u>2019</u>
Intragovernmental:		
Advances and Prepayments	\$ 862	\$ 542
Total Intragovernmental	<u>862</u>	<u>542</u>
Public:		
Advances and Prepayments	964	929
Other Assets	2	2
Total Public	<u>966</u>	<u>931</u>
<b>Total Other Assets</b>	<b><u>\$ 1,828</u></b>	<b><u>\$ 1,473</u></b>



### 14. Liabilities Not Covered by Budgetary Resources

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

	<u>2020</u>	<u>2019</u>
Intragovernmental:		
Debt (Note 15)	\$ 20,525	\$ 20,525
Accrued FECA Liability (Note 18)	414	489
Other	144	83
Total Intragovernmental	<u>21,083</u>	<u>21,097</u>
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	<u>72,875</u>	<u>67,915</u>
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
<b>Total Liabilities</b>	<b><u>\$ 133,431</u></b>	<b><u>\$ 112,909</u></b>

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):

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

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.

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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
<b>Total Federal Employee and Veterans' Benefits</b>	<b>\$ 69,814</b>	<b>\$ 65,107</b>

#### 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
<b>Ending Liability Balance</b>	<b>\$ 55,439</b>	<b>\$ 7,380</b>	<b>\$ 4,500</b>	<b>\$ 67,319</b>

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
<b>Ending Liability Balance</b>	<b>\$ 50,870</b>	<b>\$ 6,575</b>	<b>\$ 4,567</b>	<b>\$ 62,012</b>

**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

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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.

## Financial Information

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
  - o the average of the last 10 equalization pays for each category (General Service (GS), Uniformed Division (UD), and Senior Executive Service (SES)), and
  - o 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).



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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):

<b>As of September 30, 2020:</b>	<b>Current</b>	<b>Non-Current</b>	<b>Total</b>
<b>Intragovernmental:</b>			
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
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 7,904</b>	<b>\$ 317</b>	<b>\$ 8,221</b>
<b>Public:</b>			
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
<b>Total Other Liabilities with the Public</b>	<b>\$ 26,417</b>	<b>\$ 2,487</b>	<b>\$ 28,904</b>
<b>Total Other Liabilities</b>	<b>\$ 34,321</b>	<b>\$ 2,804</b>	<b>\$ 37,125</b>

As of September 30, 2019:	Current	Non- Current	Total
<b>Intragovernmental:</b>			
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
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 8,474</b>	<b>\$ 277</b>	<b>\$ 8,751</b>
<b>Public:</b>			
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
<b>Total Other Liabilities with the Public</b>	<b>\$ 10,633</b>	<b>\$ 2,734</b>	<b>\$ 13,367</b>
<b>Total Other Liabilities</b>	<b>\$ 19,107</b>	<b>\$ 3,011</b>	<b>\$ 22,118</b>

#### **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.

## Financial Information

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

	<u>2020</u>	<u>2019</u>
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
<b>Total Accrued Payroll and Benefits</b>	<b><u>\$ 3,404</u></b>	<b><u>\$ 2,889</u></b>

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

	<u>2020</u>	<u>2019</u>
USCIS Application Fees	\$ 2,363	\$ 2,213
FEMA Unearned NFIP Fees	631	624
Advances from Others	169	164
<b>Total Deferred Revenue</b>	<b><u>\$ 3,163</u></b>	<b><u>\$ 3,001</u></b>

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
<b>Total Future Minimum Lease Payments</b>	<b>\$ 5,045</b>	<b>\$ 81</b>	<b>\$ 5,126</b>

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)
<b>Assets under Capital Lease, Net</b>	<b>\$ 9</b>	<b>\$ 12</b>

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):

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	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	-	-	-
<b>Total Future Minimum Lease Payments</b>	-	15	15
Less: Imputed Interest and Executory Costs	-	(2)	(2)
<b>Total Capital Lease Liability</b>	<b>\$ -</b>	<b>\$ 13</b>	<b>\$ 13</b>

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

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<sup>7</sup> 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):

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

<sup>7</sup> "In-force" refers to arrangements that are unexpired as of a given date.

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As of September 30, 2019:	<u>Accrued Liabilities</u>	<u>Estimated Range of Loss</u>	
		<u>Lower End</u>	<u>Upper End</u>
<b>Legal Contingencies</b>			
Probable	\$ 472	\$ 472	\$ 509
Reasonably Possible	-	\$ 325	\$ 948
<b>Environmental Contingencies</b>			
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.



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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 Trust Fund	Immigration and Boating 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
<b>Balance Sheet as of September 30, 2020</b>								
<b>ASSETS</b>								
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
<b>Total Intragovernmental Assets</b>	<b>511</b>	<b>2,260</b>	<b>2,227</b>	<b>8,036</b>	<b>7,551</b>	<b>1,131</b>	<b>1,462</b>	<b>23,178</b>
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
<b>Total Assets</b>	<b>\$ 871</b>	<b>\$ 2,260</b>	<b>\$ 3,195</b>	<b>\$ 8,662</b>	<b>\$ 8,491</b>	<b>\$ 1,137</b>	<b>\$ 1,670</b>	<b>\$ 26,286</b>
<b>LIABILITIES</b>								
Intragovernmental:								
Accounts Payable	\$ -	\$ 1,369	\$ 50	\$ -	\$ 184	\$ -	\$ 5	\$ 1,608
Debt	-	-	-	20,525	-	-	-	20,525
Other Liabilities	12	-	33	1	-	-	181	227
<b>Total Intragovernmental Liabilities</b>	<b>\$ 12</b>	<b>\$ 1,369</b>	<b>\$ 83</b>	<b>\$ 20,526</b>	<b>\$ 184</b>	<b>\$ -</b>	<b>\$ 186</b>	<b>\$ 22,360</b>
Accounts Payable	-	-	103	82	-	89	17	291
Federal Employee and Veteran Benefits	-	-	53	-	-	-	-	53
Other	-	-	2,663	3,423	-	76	18	6,180
<b>Total Liabilities</b>	<b>\$ 12</b>	<b>\$ 1,369</b>	<b>\$ 2,902</b>	<b>\$ 24,031</b>	<b>\$ 184</b>	<b>\$ 165</b>	<b>\$ 221</b>	<b>\$ 28,884</b>
<b>NET POSITION</b>								
Cumulative Results of Operations	\$ 859	\$ 891	\$ 293	\$ (15,369)	\$ 8,307	\$ 972	\$ 1,449	\$ (2,598)
<b>Total Liabilities and Net Position</b>	<b>\$ 871</b>	<b>\$ 2,260</b>	<b>\$ 3,195</b>	<b>\$ 8,662</b>	<b>\$ 8,491</b>	<b>\$ 1,137</b>	<b>\$ 1,670</b>	<b>\$ 26,286</b>

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	Sport Fish Restoration Customs and User Fees	Immigration Boating Trust Fund	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
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**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)
<b>Net Cost of Operations</b>	<b>\$ 747</b>	<b>\$ 112</b>	<b>\$ 602</b>	<b>\$ (1,511)</b>	<b>\$ (18)</b>	<b>\$ (88)</b>	<b>\$ 720</b>	<b>\$ 564</b>

**Statement of Changes in Net Position for the Year Ended September 30, 2020**

<b>Net Position Beginning of Period</b>	\$ 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
<b>Net Position, End of Period</b>	<b>\$ 859</b>	<b>\$ 891</b>	<b>\$ 293</b>	<b>\$ (15,369)</b>	<b>\$ 8,307</b>	<b>\$ 972</b>	<b>\$ 1,449</b>	<b>\$ (2,598)</b>

### **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

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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).

### **Immigration Examination Fees**

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.

### **National Flood Insurance Program**

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.

### **Oil Spill Liability Trust Fund**

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

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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



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- 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

<b>For the Years Ended September 30 (in millions):</b>	<b>2020</b>	<b>2019</b>
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)
<b>Ending Borrowing Authority</b>	<b>\$ 20</b>	<b>\$ 6</b>

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.

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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
<b>FY 2019 Actual Balances per the FY 2021 Budget of the U.S. Government (in millions)</b>	<b>\$ 135,209</b>	<b>\$ 89,038</b>	<b>\$ 12,417</b>	<b>\$ 68,805</b>
<b>Reconciling Items:</b>				
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
<b>Per the 2019 Statement of Budgetary Resources</b>	<b>\$ 140,085</b>	<b>\$ 91,551</b>	<b>\$ 12,417</b>	<b>\$ 59,089</b>

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
Undelivered Orders – Paid	\$ 965	\$ 964	\$ 1,929
As of September 30, 2019:			
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):	<u>2020</u>	<u>2019</u>
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)
<b>Unobligated Balance from Prior Year Budget Authority, Net</b>	<b><u>\$ 51,848</u></b>	<b><u>\$ 50,768</u></b>

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.

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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	<b>\$ 72,444</b>	<b>\$ 7,630</b>	<b>\$ 80,074</b>

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	<b>\$ 2,928</b>	<b>\$ 3,634</b>	<b>\$ 683</b>	<b>\$ 364</b>	<b>\$ 7,609</b>

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
<b>Net Cost of Operations</b>	<b>\$ 16,018</b>	<b>\$ 99,384</b>	<b>\$ 115,402</b>
<b>Components of Net Cost That Are Not Part of Net Outlays:</b>			
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
<b>Increase/(Decrease) in Assets:</b>			
Accounts Receivable	1,113	(372)	741
Investments	51	-	51
Other Assets	331	(88)	243
<b>(Increase)/Decrease in Liabilities:</b>			
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)
<b>Other Financing Sources:</b>			
Federal Employee Retirement Benefit Costs			
Paid by OPM and Imputed to the Agency	\$ (1,648)	\$ -	\$ (1,648)
Transfers Out (In) Without Reimbursement	122	-	122
<b>Total Components of Net Cost That Are Not Part of Net Outlays</b>	<b>\$ (388)</b>	<b>\$ (22,534)</b>	<b>\$ (22,922)</b>
<b>Components of Net Outlays That Are Not Part of Net Operating Cost:</b>			
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
<b>Total Components of Net Outlays That Are Not Part of Net Operating Cost</b>	<b>\$ 6,861</b>	<b>\$ (280)</b>	<b>\$ 6,581</b>
<b>Other Temporary Timing Differences</b>	<b>2</b>	<b>1</b>	<b>3</b>
<b>Net Outlays</b>	<b>\$ 22,493</b>	<b>\$ 76,571</b>	<b>\$ 99,064</b>

Financial Information

As of September 30, 2019 (in millions):

	Intragovernmental	With the Public	Total
<b>Net Cost of Operations</b>	<b>\$ 16,117</b>	<b>\$ 49,970</b>	<b>\$ 66,087</b>
<b>Components of Net Cost That Are Not Part of Net Outlays:</b>			
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
<b>Increase/(Decrease) in Assets:</b>			
Accounts Receivable	(73)	(62)	(135)
Investments	21	-	21
Other Assets	(222)	47	(175)
<b>(Increase)/Decrease in Liabilities:</b>			
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)
<b>Other Financing Sources:</b>			
Federal Employee Retirement Benefit Costs			
Paid by OPM and Imputed to the Agency	\$ (1,827)	\$ -	\$ (1,827)
Transfers Out (In) Without Reimbursement	(618)	-	(618)
<b>Total Components of Net Cost That Are Not Part of Net Outlays</b>	<b>\$ (2,760)</b>	<b>\$ (5,594)</b>	<b>\$ (8,354)</b>
<b>Components of Net Outlays That Are Not Part of Net Operating Cost:</b>			
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
<b>Total Components of Net Outlays That Are Not Part of Net Operating Cost</b>	<b>\$ 2,576</b>	<b>\$ (1,277)</b>	<b>\$ 1,299</b>
<b>Other Temporary Timing Differences</b>	<b>(5)</b>	<b>-</b>	<b>(5)</b>
<b>Net Outlays</b>	<b>\$ 15,928</b>	<b>\$ 43,099</b>	<b>\$ 59,027</b>

### 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
<b>ASSETS</b>							<b>ASSETS</b>
<b>Intragovernmental Assets</b>							<b>Intragovernmental Assets</b>
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
<b>Total Investments, Net</b>	<b>11,087</b>	<b>11,087</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,087</b>	<b>Total Reclassified Investments, Net</b>
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
<b>Total Accounts Receivable</b>	<b>1,467</b>	<b>307</b>	<b>4</b>	<b>1,372</b>	<b>208</b>	<b>1,467</b>	<b>Total Reclassified A/R</b>
Other	862	42	-	820	-	862	Advances to Others and Prepayments
<b>Total Intragovernmental Assets</b>	<b>\$ 144,429</b>	<b>\$ 23,178</b>	<b>\$ 4</b>	<b>\$ 121,463</b>	<b>\$ 208</b>	<b>\$ 144,429</b>	<b>Total Intragovernmental Assets</b>
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

Financial Information

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
<b>Total Assets</b>	<b>\$ 183,009</b>	<b>\$ 26,286</b>	<b>\$ 4</b>	<b>\$ 156,935</b>	<b>\$ 208</b>	<b>\$ 183,009</b>	<b>Total Assets</b>
<b>LIABILITIES</b>							<b>LIABILITIES</b>
<b>Intragovernmental Liabilities</b>							<b>Intragovernmental Liabilities</b>
Accounts Payable	\$ 2,143	\$ 53	\$ -	\$ 732	\$ 12	\$ 773	Accounts Payable
		1,555	185	-	-	1,370	Transfers Payable
<b>Total Accounts Payable</b>	<b>2,143</b>	<b>1,608</b>	<b>185</b>	<b>732</b>	<b>12</b>	<b>2,143</b>	<b>Total Reclassified Accounts Payable</b>
Debt	20,596	20,525	-	71	-	20,596	Loans Payable
<b>Total Debt Associated with Loans</b>	<b>20,596</b>	<b>20,525</b>	<b>-</b>	<b>71</b>	<b>-</b>	<b>20,596</b>	<b>Total Reclassified Debt Associated with Loans</b>
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)
<b>Total Other</b>	<b>1,034</b>	<b>221</b>	<b>4</b>	<b>800</b>	<b>(17)</b>	<b>1,034</b>	<b>Total Reclassified Other</b>
<b>Total Intragovernmental Liabilities</b>	<b>\$ 30,960</b>	<b>\$ 22,360</b>	<b>\$ 189</b>	<b>\$ 8,784</b>	<b>\$ (5)</b>	<b>\$ 30,960</b>	<b>Total Intragovernmental Liabilities</b>
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

Financial Information

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
<b>Total Public Liabilities</b>	<b>\$ 102,471</b>	<b>\$ 6,524</b>	<b>\$ -</b>	<b>\$ 95,947</b>	<b>\$ -</b>	<b>\$ 102,471</b>	<b>Total Public Liabilities</b>
<b>Total Liabilities</b>	<b>\$ 133,431</b>	<b>\$ 28,884</b>	<b>\$ 189</b>	<b>\$ 104,731</b>	<b>\$ (5)</b>	<b>\$ 133,431</b>	<b>Total Liabilities</b>
<b>NET POSITION</b>							
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
<b>Total Net Position</b>	<b>\$ 49,578</b>	<b>\$ (2,598)</b>	<b>\$ -</b>	<b>\$ 52,176</b>	<b>\$ -</b>	<b>\$ 49,578</b>	<b>Total Net Position</b>
<b>Total Liabilities &amp; Net Position</b>	<b>\$ 183,009</b>	<b>\$ 26,286</b>	<b>\$ 189</b>	<b>\$ 156,907</b>	<b>\$ (5)</b>	<b>\$ 183,009</b>	<b>Total Liabilities &amp; Net Position</b>

**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
<b>Gross Costs</b>	\$ 127,215						<b>Non-Federal Costs</b>
		\$ 6,251	\$ -	\$ 101,897	\$ -	\$ 108,148	Non-Federal Gross Cost
		<b>6,251</b>	-	<b>101,897</b>	-	<b>108,148</b>	<b>Total Non-Federal Costs</b>
							<b>Intragovernmental Costs</b>
		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)
		<b>3,664</b>	-	<b>17,027</b>	<b>1,624</b>	<b>19,067</b>	<b>Total Intragovernmental Costs</b>
<b>Total Gross Costs</b>	<b>127,215</b>	<b>9,915</b>	-	<b>118,924</b>	<b>1,624</b>	<b>127,215</b>	<b>Total Reclassified Gross Costs</b>
<b>Earned Revenue</b>	(14,874)	(9,273)	-	(2,552)	-	(11,825)	Non-Federal Earned Revenue
		<b>(9,273)</b>	-	<b>(2,552)</b>	-	<b>(11,825)</b>	<b>Intragovernmental Revenue</b>
		(44)	-	(3,412)	(441)	(3,015)	Buy/Sell Revenue
		(34)	-	-	-	(34)	Federal Securities Interest Revenue Including Associated Gains/Losses (Exchange)
		<b>(78)</b>	-	<b>(3,412)</b>	<b>(441)</b>	<b>(3,049)</b>	<b>Total Intragovernmental Earned Revenue</b>
<b>Total Earned Revenue</b>	<b>(14,874)</b>	<b>(9,351)</b>	-	<b>(5,964)</b>	<b>(441)</b>	<b>(14,874)</b>	<b>Total Reclassified Earned Revenue</b>
(Gain)/Loss-Pension/ORB/OPEB Assumptions	3,061	-	-	3,061	-	3,061	(Gain)/Loss on Changes in Actuarial Assumptions (Non-Federal)
<b>Net Cost</b>	<b>\$ 115,402</b>	<b>\$ 564</b>	<b>\$ -</b>	<b>\$ 116,021</b>	<b>\$ 1,183</b>	<b>\$ 115,402</b>	<b>Net Cost</b>

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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
<b>UNEXPENDED APPROPRIATIONS</b>							
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)
<b>Total Appropriations Transferred In/Out</b>	<b>267</b>	<b>-</b>	<b>-</b>	<b>267</b>	<b>-</b>	<b>267</b>	<b>Total Reclassified Appropriations Transferred In/Out</b>
Appropriations Used	(108,143)	-	-	(108,143)	-	(108,143)	Appropriations Used (Federal)
<b>Total Unexpended Appropriations</b>	<b>\$ 94,375</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 94,375</b>	<b>\$ -</b>	<b>\$ 94,375</b>	
<b>CUMULATIVE RESULTS OF OPERATIONS</b>							
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						<b>Non-Federal Non-Exchange Revenues</b>
		378	-	-	-	378	Excise Taxes
		57	-	-	-	57	Customs Duties
		969	-	3	-	972	Other Taxes and Receipts
		<b>1,404</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>1,407</b>	<b>Total Non-Federal Non-Exchange Revenues</b>
		147	-	-	-	147	Federal Securities Interest Revenue, including Associated Gains/Losses (Non-Exchange)
		669	-	-	-	669	Other Taxes and Receipts
<b>816</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>816</b>	<b>Total Intragovernmental Non-Exchange Revenue</b>		
<b>Total Non-Exchange Revenues</b>	<b>2,223</b>	<b>2,220</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>2,223</b>	<b>Total Reclassified Non-Exchange Revenues</b>
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
<b>Total Transfers-In/Out w/o Reimbursement – Budgetary</b>	<b>(342)</b>	<b>(3,441)</b>	<b>-</b>	<b>3,099</b>	<b>-</b>	<b>(342)</b>	<b>Total Reclassified Transfers-In/Out w/o Reimbursement – Budgetary</b>
Other	1,306						<b>Non-Federal Other</b>
		3,026	-	(105)	-	2,921	Other Taxes and Receipts
		<b>3,026</b>	<b>-</b>	<b>(105)</b>	<b>-</b>	<b>2,921</b>	<b>Total Non-Federal Other</b>
							<b>Intragovernmental Other</b>
		(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)
		<b>(146)</b>	<b>-</b>	<b>(1,469)</b>	<b>-</b>	<b>(1,615)</b>	<b>Total Intragovernmental Other</b>
<b>Total Other</b>	<b>1,306</b>	<b>2,880</b>	<b>-</b>	<b>(1,574)</b>	<b>-</b>	<b>1,306</b>	<b>Total Reclassified Other</b>
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
<b>Total Financing Sources</b>	<b>113,138</b>	<b>1,755</b>	<b>-</b>	<b>111,383</b>	<b>-</b>	<b>113,138</b>	
<b>Net Cost of Operations</b>	<b>(115,402)</b>	<b>(564)</b>	<b>-</b>	<b>(116,021)</b>	<b>(1,183)</b>	<b>(115,402)</b>	<b>Net Cost of Operations</b>
<b>Ending Balance – Cumulative Results of Operations</b>	<b>\$ (44,797)</b>	<b>\$ (2,598)</b>	<b>\$ -</b>	<b>\$ (43,382)</b>	<b>\$ (1,183)</b>	<b>\$ (44,797)</b>	<b>Net Position – Ending Balance</b>
<b>Total Net Position</b>	<b>\$ 49,578</b>	<b>\$ (2,598)</b>	<b>\$ -</b>	<b>\$ 50,993</b>	<b>\$ (1,183)</b>	<b>\$ 49,578</b>	<b>Total Net Position</b>
<b>Statement of Custodial Activity</b>							
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

Financial Information

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
<b>Reclassified Non-Exchange Custodial Collections</b>	<b>78,857</b>	-	-	<b>78,857</b>	-	<b>78,857</b>	<b>Reclassified Non-Exchange Custodial Collections</b>
<i>Disposition of Custodial Collections</i>							
<b>Transferred to Federal Entities</b>							
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)
<b>Total Transferred to Federal Entities</b>	<b>72,266</b>	-	-	<b>72,266</b>	-	<b>72,266</b>	
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
<b>Total (Increase)/Decrease in Amounts Yet to be Transferred</b>	<b>(1,094)</b>	-	-	<b>(1,094)</b>	-	<b>(1,094)</b>	

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	
<b>Total Transferred to Non-Federal Entities</b>	<b>6,591</b>	-	-	<b>6,591</b>	-	<b>6,591</b>	
<i>Total Dispositions of Collections</i>	<b>\$ 78,857</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 78,857</b>	<b>\$ -</b>	<b>\$ 78,857</b>	<i>Total Reclassified Disposition of Non-Exchange Custodial Collections</i>



### 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
<b>Totals</b>	<b>\$ 45,873</b>	<b>\$ 289</b>	<b>\$ 46,162</b>

#### 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
<b>Totals</b>	<b>\$ 52,681</b>

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
<b>Total Budget Authority</b>	<b>\$ 93,849</b>
Obligations - COVID-19	(52,681)
Obligations - Other	(25,376)
Total Obligations Incurred	\$ (78,057)
<b>DRF Available Budgetary Resources for Future Years</b>	<b>\$ 15,792</b>

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.

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

## 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
<b>BUDGETARY RESOURCES</b>										
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
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$ 30,992</b>	<b>\$ 111,396</b>	<b>\$ 9,392</b>	<b>\$ 9,184</b>	<b>\$ 16,635</b>	<b>\$ 5,417</b>	<b>\$ 2,905</b>	<b>\$ 2,391</b>	<b>\$ 8,326</b>	<b>\$ 196,638</b>
<b>STATUS OF BUDGETARY RESOURCES</b>										
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	<b>3,076</b>	<b>23,662</b>	<b>813</b>	<b>892</b>	<b>4,009</b>	<b>1,181</b>	<b>174</b>	<b>156</b>	<b>2,143</b>	<b>36,106</b>
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$ 30,992</b>	<b>\$ 111,396</b>	<b>\$ 9,392</b>	<b>\$ 9,184</b>	<b>\$ 16,635</b>	<b>\$ 5,417</b>	<b>\$ 2,905</b>	<b>\$ 2,391</b>	<b>\$ 8,326</b>	<b>\$ 196,638</b>
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)
<b>Agency Outlays, Net</b>	<b>\$ 19,782</b>	<b>\$ 46,497</b>	<b>\$ 7,932</b>	<b>\$ 5,573</b>	<b>\$ 11,345</b>	<b>\$ 36</b>	<b>\$ 2,560</b>	<b>\$ 1,997</b>	<b>\$ 3,342</b>	<b>\$ 99,064</b>
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](http://www.oig.dhs.gov)

November 13, 2020

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

**FROM:** Sondra F. McCauley *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

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**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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Department of Homeland Security

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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](mailto: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.



**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.

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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.



**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

**Independent Auditors' Report**  
**Exhibit I – Material Weaknesses**

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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**

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**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.

**Independent Auditors' Report**  
**Exhibit I – Material Weaknesses**

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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**

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*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.



**Independent Auditors' Report**  
**Exhibit I – Material Weaknesses**

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**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.

**Independent Auditors' Report**  
**Exhibit I – Material Weaknesses**

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**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**

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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 FMFIA 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**

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*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**

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**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.

**Independent Auditors' Report**  
**Exhibit II – Significant Deficiencies**

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**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.

**Independent Auditors' Report**  
**Exhibit II – Significant Deficiencies**

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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.

**Independent Auditors' Report**  
**Exhibit II – Significant Deficiencies**

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**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**

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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.

**Independent Auditors' Report**  
**Exhibit II – Significant Deficiencies**

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*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**

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**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.

**Independent Auditors' Report**  
**Exhibit III – Compliance and Other Matters**

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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.



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

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**Appendix B**  
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