



U.S. Department of Homeland Security Annual Financial Report

Fiscal Year 2010



Homeland
Security

About this Report

The *U.S. Department of Homeland Security Annual Financial Report for Fiscal Year (FY) 2010* presents the Department's detailed financial information relative to our mission and the stewardship of those resources entrusted to us. It also provides readers with a sense of the Department's priorities, strengths, and challenges in implementing programs to enhance the safety of our Nation.

For FY 2010, the Department is using the alternative approach as identified in the Office of Management and Budget's Circular A-136 to produce its Performance and Accountability Reports consisting of the following three reports:

- ***DHS Annual Financial Report***: Publication Date – November 15, 2010
- ***DHS Annual Performance Report***: Publication Date – February 7, 2011
- ***DHS Summary of Performance and Financial Information***: Publication Date – February 15, 2011

When published, all three reports will be located at our public website at:
http://www.dhs.gov/xabout/budget/editorial_0430.shtm.

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Message from the Secretary

November 15, 2010



I am pleased to submit the Department of Homeland Security's (DHS) Annual Financial Report for Fiscal Year (FY) 2010. This report provides an assessment of the Department's detailed financial information and our stewardship of taxpayer resources in support of our mission of securing the United States. In 2010, DHS completed the first-ever Quadrennial Homeland Security Review (QHSR), which established a unified, strategic framework for homeland security missions and goals. Subsequently, DHS conducted a Bottom-Up Review (BUR) to align our programmatic activities and organizational structure to better serve those missions and goals.

The QHSR reflects the most comprehensive assessment and analysis of homeland security to date. DHS worked closely with the White House, National Security Staff, other federal departments and agencies, and our state, local, tribal and territorial partners to represent the whole-of-government approach to national security envisioned by the Administration.

This report outlines the Department's major goals and priorities, consistent with the QHSR and the BUR, as we work to build a more ready and resilient Nation.

Priority Areas

To build a safe, secure, and resilient homeland, DHS is focused on six Departmental missions: preventing terrorism and enhancing security; securing and managing our borders; enforcing and administering our immigration laws; safeguarding and securing cyberspace; ensuring resilience to disasters; and complementary Department responsibilities. Additionally, DHS is constantly striving to mature and strengthen the homeland security enterprise.

Preventing Terrorism and Enhancing Security

Protecting the United States from terrorism is the cornerstone of homeland security. DHS's counterterrorism responsibilities focus on three goals: preventing terrorist attacks; preventing the unauthorized acquisition, importation, movement, or use of chemical, biological, radiological, and nuclear materials and capabilities within the United States; and reducing the vulnerability of critical infrastructure and key resources, essential leadership, and major events to terrorist attacks and other hazards.



Securing and Managing Our Borders

DHS secures the Nation's air, land, and sea borders to prevent illegal activity while facilitating lawful travel and trade. The Department's border security and management efforts focus on three interrelated goals: effectively securing U.S. air, land, and sea borders; safeguarding and streamlining lawful trade and travel; and disrupting and dismantling transnational criminal and terrorist organizations.

Enforcing and Administering Our Immigration Laws

DHS is focused on smart and effective enforcement of U.S. immigration laws while streamlining and facilitating the legal immigration process. The Department has fundamentally reformed immigration enforcement, focusing on identifying and removing criminal aliens who pose a threat to public safety and targeting employers who knowingly and repeatedly break the law.

Safeguarding and Securing Cyberspace

By statute and Presidential directive, DHS has the lead for the Federal Government to secure civilian government computer systems and works with industry and state, local, tribal and territorial governments to secure critical infrastructure and information systems. DHS analyzes and reduces cyber threats and vulnerabilities; distributes threat warnings; and coordinates the response to cyber incidents to ensure that our computers, networks, and cyber systems remain safe.

Ensuring Resilience to Disasters

DHS provides the coordinated, comprehensive federal response in the event of a terrorist attack, natural disaster or other large-scale emergency while working with federal, state, local, and private sector partners to ensure a swift and effective recovery effort. The Department's efforts to build a ready and resilient Nation include fostering a community-oriented approach; bolstering information sharing; providing grants, plans and training to our homeland security and law enforcement partners; and facilitating rebuilding and recovery along the Gulf Coast.

Complementary Department Responsibilities

DHS leads and supports many activities that provide essential support to national and economic security including, but not limited to: maximizing collection of customs revenue; protecting the financial services sector; maintaining the safety and security of the marine transportation system; preventing the exploitation of children; providing law enforcement training; and coordinating the Federal Government's response to global intellectual property theft. DHS contributes in many ways to these elements of broader U.S. national and economic security while fulfilling its other five homeland security missions.

This report highlights the Department's activities and accomplishments in each of these mission areas in FY 2010 and discusses upcoming initiatives that will build on these efforts to achieve a safer and more secure Nation.



Maturing and Strengthening the Homeland Security Enterprise

The integration of all or part of 22 different federal departments and agencies into a unified, integrated DHS has historically presented both public policy and management challenges. The QHSR, BUR, and ongoing initiatives under the Secretary’s Efficiency Review highlight the Department’s recent steps taken towards greater unification and integration. Since its launch in March 2009, the DHS Efficiency Review program has implemented over 30 separate initiatives to achieve these aims while also promoting greater accountability, transparency, and customer satisfaction. The Efficiency Review has led to improvements in how the Department manages its resources in several areas, including its physical assets and support of its workforce, as well as the day-to-day expenditures required to do business. Additionally, we are continuing our investment and commitment to the Acquisition Workforce—investing in our employees through workforce training and integrated professional and leadership development—and are making significant investments in data center consolidation. Further, while DHS currently operates in 50 disparate locations throughout the National Capital Region, we are making significant progress on construction of a unified headquarters at the St. Elizabeths campus.

Management Assurances and Performance Measurement

Pursuant to the *Department of Homeland Security Financial Accountability Act*, in FY 2010, the Department focused its efforts on eliminating audit qualifications and executing corrective actions to strengthen Department-wide internal controls over financial reporting. The Department is addressing the remaining material weaknesses and making progress toward a clean audit opinion. Most significantly, the U.S. Coast Guard’s Financial Strategy for Transformation and Audit Readiness has increased the value of auditable balance sheet amounts from \$3 to \$53 billion between FY 2008 and FY 2010. The Department is proud of these accomplishments and will continue to partner with the U.S. Coast Guard to obtain an audit opinion in the near term.

The Department is committed to improving performance measurement and accountability by increasing the quality of the Department’s performance measures and linking those measures to the mission outcomes articulated in the QHSR and the BUR. DHS is currently in the process of assessing all of its performance measures to align them with the QHSR and the BUR and create a comprehensive performance plan that will provide the basis for strategic planning and management controls.

The men and women of the Department of Homeland Security remain focused on achieving our objectives in the coming year while continuing to be responsible stewards of taxpayer resources. The scope of our mission is broad, challenging, and vital to the security of the Nation. We will continue to meet these and other challenges head-on, with a sense of urgency and purpose that the American people expect and that our mission requires. Thank you for your partnership and collaboration.

Yours very truly,


Janet Napolitano



Management's Discussion and Analysis

The *Management's Discussion and Analysis (MD&A)* section explains the Department's mission, goals, and organization, and summarizes program and financial performance.

See inside front cover for a description of the DHS approach to performance and accountability reporting.



Mission and Organization

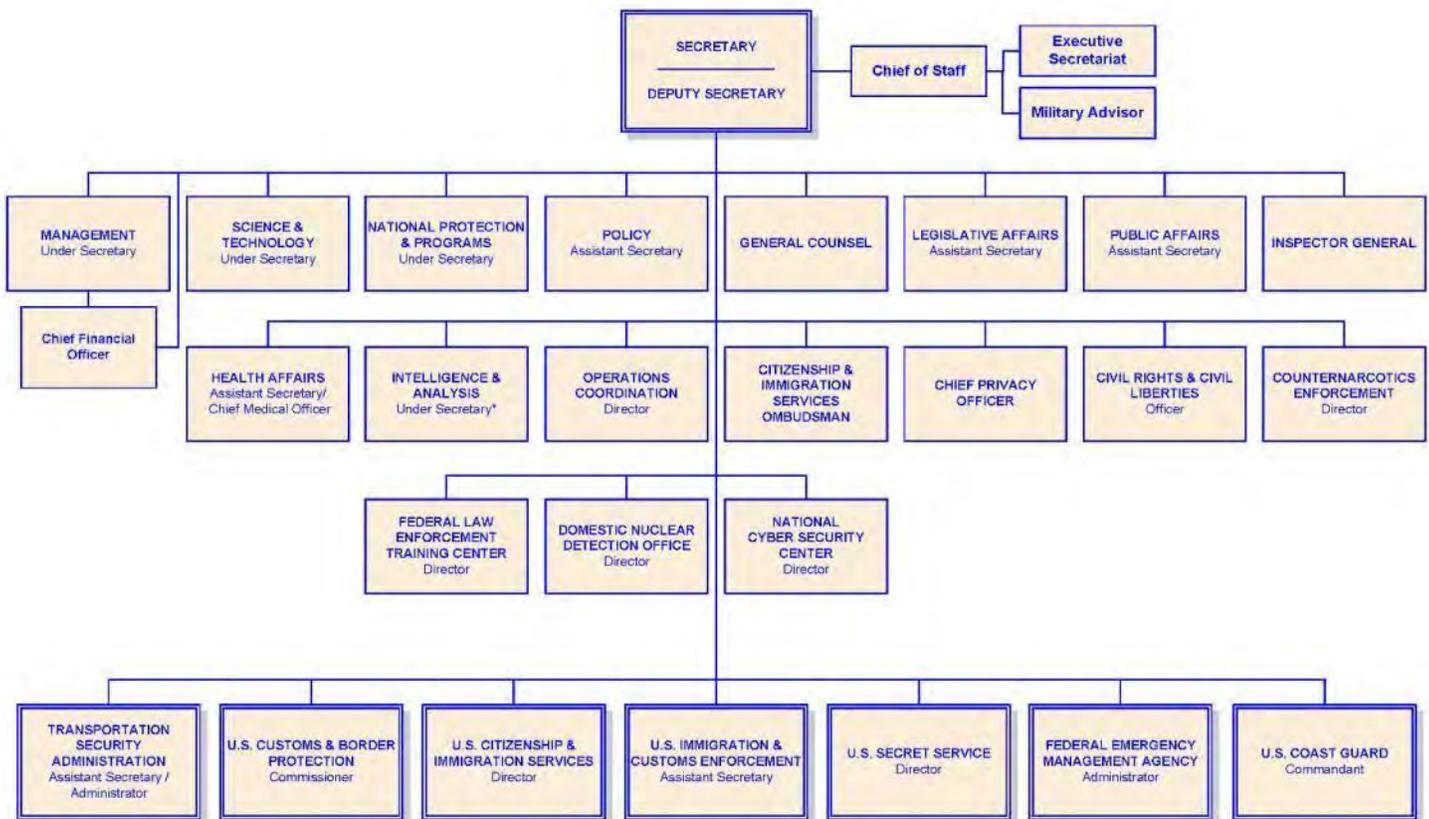
Our Mission

We will lead efforts to achieve a safe, secure, and resilient homeland. We will counter terrorism and enhance our security; secure and administer our borders; enforce and administer our immigration laws; protect cyber networks and critical infrastructure; and ensure resilience from disasters.

Our Organization

The Department of Homeland Security leverages resources within Federal, state, local, territorial, and tribal governments, coordinating multiple agencies and programs into a single, integrated effort focused on protecting the American people and their homeland. The seven Operational Components, listed along the bottom of the chart below, lead the Department's operational activities to protect our Nation. The remaining Components of the Department provide resources, analysis, equipment, research, policy development, and support to ensure the front-line organizations have the tools and resources to accomplish the DHS mission. For more information, visit our website at <http://www.dhs.gov/xabout/structure>.

Figure 1. DHS Organization Chart





Quadrennial Homeland Security Review

In February 2010, DHS published our Nation's first-ever comprehensive review of America's homeland security strategy—the [*Quadrennial Homeland Security Review \(QHSR\)*](#). The QHSR was the first step in setting forth the strategic foundation to guide the activities of the homeland security enterprise toward a common end—a homeland that is safe, secure, and resilient against terrorism and other hazards. The QHSR accomplished this by laying out a vision for a secure homeland, key mission priorities, and specific goals for each of those mission areas.

The QHSR identified five mission areas for the homeland security enterprise:

Mission 1: Preventing Terrorism and Enhancing Security – Preventing a terrorist attack in the United States remains the cornerstone of homeland security. Our vision is a secure and resilient Nation that effectively prevents terrorism in ways that preserve our freedom and prosperity. Achieving this vision requires us to focus on the core goal of preventing terrorist attacks, highlighting the challenges of preventing attacks using chemical, biological, radiological, and nuclear (CBRN) weapons and managing risks to critical infrastructure.

Mission 2: Securing and Managing Our Borders – A safe and secure homeland requires that we secure our air, land, and sea borders and disrupt and dismantle transnational criminal and terrorist organizations while facilitating lawful travel and trade.

Mission 3: Enforcing and Administering Our Immigration Laws – Virtually all Americans are affected by our immigration system. A fair and effective immigration system enriches American society, unifies families, and promotes our security. The success of our Nation's immigration policy plays a critical role in advancing homeland security.

Mission 4: Safeguarding and Securing Cyberspace – Our economic vitality and national security depend today on a vast array of interdependent and critical cyber networks, systems, services, and resources. If these cyber tools and networks cannot function properly, we will not be able to effectively communicate, travel, power our homes, run our economy, or obtain government services.

Mission 5: Ensuring Resilience to Disasters – Despite ongoing vigilance and efforts to protect this country and its citizens, major accidents and disasters, as well as terrorist attacks, will occur. The challenge is to build the capacity of American society to be resilient in the face of attacks, disasters, and other crises. Our vision is a Nation that understands the hazards and risks we face; is prepared for disasters; can withstand the disruptions that attacks and disasters may cause; can manage itself effectively during a crisis; can recover quickly and effectively; and can adapt to conditions that have changed as a result of the event.



Bottom-up Review

A bottom-up review ([BUR](#)) of DHS was initiated in November 2009 as an immediate follow-on and complement to the QHSR. The BUR included an assessment of the organizational alignment of the Department with the homeland security missions set forth in the QHSR, including the Department's organizational structure, management systems, procurement systems, and physical and technical infrastructure. The BUR also included a review and assessment of the effectiveness of the mechanisms of the Department for utilizing the requirements developed in the QHSR in the development of the Department's acquisition strategies and expenditure plan.

The BUR Report describes the alignment of the Department with the homeland security missions, and sets forth the Department's priority initiatives and enhancements to increase mission performance, improve Department management, and increase accountability over the next four years. The BUR Report includes recommendations for improving the organizational alignment of the Department and enhancing its business processes.

The BUR is the second step of a three-step process. The Department's FY 2012 budget request will begin the process of implementing the BUR initiatives and enhancements, and the corresponding FY 2012–2016 Future Years Homeland Security Report will set forth the budget plan required to provide sufficient resources to successfully execute the full range of homeland security missions as described in the QHSR and the priority initiatives and enhancements set forth in the BUR Report over the FY 2012–2016 period, in order to set a foundation for future success.

As a result of the BUR and discussions of the Department's FY 2012 budget request and FY 2012–2016 Future Years Homeland Security Report, the Department articulated a sixth mission, designed to address the many activities DHS leads and supports that provide essential support to national and economic security, referred to throughout as *Complementary Department Responsibilities*. These activities include, but are not limited to: maximizing collection of customs revenue; protecting the financial services sector; maintaining the safety and security of the marine transportation system; preventing the exploitation of children; providing Federal law enforcement training; and coordinating the Federal Government's response to global intellectual property theft. DHS contributes in many ways to these elements of broader U.S. national and economic security while fulfilling its other five homeland security missions.



Performance Overview

The performance overview provides an analysis of each homeland security mission area, selected accomplishments for FY 2010, and key future initiatives to strengthen the Department's efforts in achieving a safer and more secure Nation.

Preventing Terrorism and Enhancing Security

Preventing a terrorist attack in the United States remains the cornerstone of homeland security. Our vision is a secure and resilient Nation that effectively prevents terrorism in ways that preserve our freedom and prosperity. Achieving this vision requires us to focus on the core goal of preventing terrorist attacks, highlighting the challenges of preventing attacks using chemical, biological, radiological, and nuclear (CBRN) weapons and managing risks to critical infrastructure.

We will achieve this mission through the following goals:

- **Prevent Terrorist Attacks:** Prevent malicious actors from conducting terrorist attacks within or against the United States.
- **Prevent the Unauthorized Acquisition or Use of CBRN Materials and Capabilities:** Prevent malicious actors from acquiring or moving dangerous chemical, biological, radiological, and nuclear materials or capabilities within the United States.
- **Manage Risks to Critical Infrastructure, Key Leadership, and Events:** Reduce the vulnerability of key sectors to attack or disruption.

DHS Performs 100 Percent Watchlist Matching for U.S. Airlines

In June 2010, Secretary Janet Napolitano announced that 100 percent of passengers flying domestically and internationally on U.S. airlines are now being checked against the U.S. Government's consolidated terrorist watchlist through the Transportation Security Administration's ([TSA](#)) [Secure Flight](#) program—a major step in fulfilling a key 9/11 Commission recommendation.



“Secure Flight fulfills a key recommendation of the of the *9/11 Commission Report*, enabling TSA to screen passengers directly against the U.S. Government's consolidated watchlist using passenger name, date of birth, and gender before a boarding pass is issued,” said Secretary Napolitano. “This program is one of our many layers of security—coordinated with our partners in the airline industry and governments around the world—that we leverage to protect the traveling public against threats of terrorism.”

In addition to facilitating secure travel for all passengers, the program helps prevent the misidentification of passengers who have names similar to individuals on the U.S. Government's consolidated terrorist watchlist.



Successful Test of Maritime Radiation Detection Technology

The Department's Domestic Nuclear Detection Office (DNDO) has established the U.S. Government's premier radiological and nuclear detection system test and evaluation organization. Since 2005, DNDO has conducted 48 separate test and evaluation campaigns at more than 20 experimental and operational venues. In FY 2010, DNDO completed the *Dolphin* test campaign to evaluate the performance of currently available radiological and nuclear detection systems mounted on small vessels and designed for operation in the maritime environment. These systems were tested in the San Diego, California harbor under operational conditions with U.S. Coast Guard and local law enforcement participation. This test successfully demonstrated the feasibility of boat-mounted systems, and will be instructive to Federal, state, local and tribal entities developing capabilities throughout U.S. port regions, seeking to counter the threat of nuclear terrorism in our coastal waters and harbors.



Future Initiatives

Strengthening Aviation Security:

The attempted terrorist attack on December 25, 2009, illustrated the continuing and evolving nature of the threat to the aviation transportation system. DHS implements a layered security system to address evolving threats and, over the past year, has embarked upon a major global initiative, in conjunction with the International Civil Aviation Organization (ICAO), to improve aviation security technology and processes around the world. Over the past nine months, Secretary Napolitano has participated in regional aviation security summits around the world, forging historic agreements with her international colleagues to strengthen the civil aviation system through enhanced information collection and sharing, cooperation on technological development, and modernized aviation security standards. On October 8, 2010, the ICAO General Assembly passed an unprecedented joint Declaration on Aviation Security, which calls on member states to address new and emerging threats by developing and deploying new security technologies that better detect dangerous materials; strengthening security measures and standards for airport inspections and cargo screening around the globe; and promoting innovative, effective, and efficient security approaches and information-sharing strategies among member states to raise awareness of threats and trends. DHS is also partnering with the Department of Energy—including the National Laboratories—and private industry to develop new and more effective technologies to deter and disrupt known threats and anticipate and protect against new threats. DHS will also continue to collaborate with the aviation industry to use a risk-based approach to inform decisions about changes to operations, business processes, and aircraft development.

**Standardizing and Institutionalizing the National Fusion Center Network:**

Since 2003, a national network of fusion centers has been developed at the state, local, tribal, and territorial level, supported by DHS and the Department of Justice with funding, training, exercises, and technical assistance. As part of a systematic effort to fully integrate these centers into national intelligence efforts, DHS will assess and raise the current level of capability of fusion centers in conjunction with Federal, state, local, tribal, and territorial partners and the private sector.

Securing and Managing Our Borders

A safe and secure homeland requires that we secure our air, land, and sea borders and disrupt and dismantle transnational criminal and terrorist organizations while facilitating lawful travel and trade.

We will achieve this mission through the following goals:

- **Secure U.S. Air, Land, and Sea Borders:** Prevent the illegal flow of people and goods across U.S. air, land, and sea borders.
- **Safeguard Lawful Trade and Travel:** Facilitate and secure lawful trade and travel.
- **Disrupt and Dismantle Transnational Criminal Organizations:** Disrupt and dismantle transnational organizations that engage in smuggling and trafficking across the U.S. border.

Western Hemisphere Travel Initiative

The Western Hemisphere Travel Initiative ([WHTI](#)) requires U.S. citizens and nonimmigrant aliens from Canada, Bermuda, and Mexico departing from or entering the United States from within the Western Hemisphere by air, land or sea ports-of-entry to have WHTI-compliant documents—passports or other approved documents that denote identity and citizenship.



U.S. Customs and Border Protection's (CBP) comprehensive local, national, and international outreach campaign has led to a high rate of WHTI document compliance, averaging more than 95 percent nationally throughout FY 2010. CBP now conducts queries against law enforcement databases on more than 95 percent of the traveling public, up from just 5 percent in FY 2005.

In FY 2010, CBP enhanced a new software capability deployed to all land border ports to provide highly accurate traveler counts and targeted intelligence alerts, which has contributed to a 30 percent increase in drug seizures on the southern border. In addition, apprehensions due to false claims of U.S. citizenship increased 25 percent, while the rate of fraudulent documents intercepted increased by 12 percent throughout FY 2010.



Border Enforcement Security Task Forces and Operation In Plain Sight

DHS's Immigration and Customs Enforcement ([ICE](#)) partnered with Federal, state, local and foreign law enforcement counterparts to create the Border Enforcement Security Task Force (BEST) initiative—a series of multi-agency teams that work to identify, disrupt, and dismantle criminal organizations posing significant threats to our border security.

Operation [In Plain Sight](#), which was initiated by the Tucson BEST and carried out in coordination with the Phoenix BEST and Mexican law enforcement, was an Arizona-wide investigation of alien smuggling in the transportation infrastructure from Mexico to the United States. This investigation culminated in FY 2010 and uncovered major smuggling organizations using private and commercial transportation to move aliens across the Arizona border, through Tucson, and into Phoenix, from which they dispersed to locations throughout the United States.



Operation In Plain Sight resulted in nearly 50 criminal arrests and more than 40 administrative arrests; seizures of illicit weapons, cash, and vehicles; and the initiation of promising investigations of criminal organizations in Mexico—effectively dismantling an entire criminal enterprise engaged in smuggling through Arizona.

Future Initiatives

Expanding Joint Operations and Intelligence Capabilities:

DHS will unify the use of technology, surveillance capabilities, and related resources across air, land, and maritime domains, with an emphasis on data collection, data processing, and data integration across domains. DHS will also create and lead new Joint Interagency Task Forces (JIATF) to harmonize operations and intelligence for the geographical approaches not currently covered by JIATF–South, as well as for the arrival of people and goods into the United States.

Additional Southwest Border Security Capabilities:

The recent passage and signing of Southwest border security supplemental legislation will provide additional capabilities to secure the Southwest border at and between our ports of entry and reduce the illicit trafficking of people, drugs, currency, and weapons. Specifically, this bill provides \$14 million for improved tactical communications systems along the Southwest border; \$32 million for two additional CBP unmanned aircraft systems; \$176 million for an additional 1,000 Border Patrol agents to be deployed between ports of entry; \$68 million to hire 250 new CBP officers at ports of entry and to maintain 270 officers currently deployed to ports of entry; \$80 million for 250 new ICE agents; and \$6 million to construct two forward operating bases along the Southwest border to improve coordination of border security activities.



Enforcing and Administering Our Immigration Laws

Virtually all Americans are affected by our immigration system. A fair and effective immigration system enriches American society, unifies families, and promotes our security. Our Nation's immigration policy plays a critical role in advancing homeland security.

We will achieve this mission through the following goals:

- **Strengthen and Effectively Administer the Immigration System:** Promote lawful immigration, facilitate administration of immigration services, and promote the integration of lawful immigrants into American society while guarding against fraud and abuse of the immigration system.
- **Prevent Unlawful Immigration:** Reduce conditions that encourage foreign nationals to illegally enter and remain in the United States, while identifying and removing those who violate our laws.

U.S. Citizenship and Immigration Services Redesigns “Green Card”

In FY 2010, U.S. Citizenship and Immigration Services (USCIS) redesigned the [Permanent Resident Card](#), commonly known as the “Green Card,” to incorporate several major new security features. The Green Card redesign is the latest advance in USCIS's ongoing efforts to deter immigration fraud. State-of-the-art technology incorporated into the new card prevents counterfeiting, obstructs tampering, and facilitates quick and accurate authentication. USCIS will issue all Green Cards in the new, more secure format and will replace Green Cards already in circulation as individuals apply for renewal or replacement.



“Redesigning the Green Card is a major achievement for USCIS,” said USCIS Director Alejandro Mayorkas. “The new security technology makes a critical contribution to the integrity of the immigration system.”

The enhanced features will better serve law enforcement, employers, and immigrants, all of whom look to the Green Card as definitive proof of authorization to live and work in the United States.



National Fugitive Operations Program – Operation Cross Check

The National Fugitive Operations Program is one facet of DHS’s strategy to identify and remove dangerous criminal aliens from the United States. ICE Fugitive Operations Teams prioritize aliens who pose a threat to national security and public safety, including members of transnational street gangs, child sex offenders, and aliens with prior convictions for violent crimes. The Fugitive Operations Teams use intelligence-based information and leads to locate and arrest aliens who have been ordered to leave the country, but have failed to comply. Today ICE has 104 Fugitive Operations Teams deployed nationwide. This targeted enforcement strategy is yielding impressive results, as the Nation’s fugitive alien population continues to decline.



ICE launched Operation Cross Check, an ICE operation targeting fugitive or criminal aliens who pose a threat to national security and community safety, in December 2009. ICE has conducted Cross Check operations in 37 states, including in California, Texas, Virginia and Arizona, as well as regional operations in the Southeast, Northeast and Midwest. In FY 2010, through Operation Cross Check, ICE arrested 2,064 convicted criminals, fugitives, and aliens who have illegally re-entered the United States after removal.

Future Initiatives

Improving the Detention and Removal Process:

DHS administers the detention and removal process in partnership with the Department of Justice. To expedite the removal of criminal and other dangerous foreign nationals, DHS will continue to increase non-investigatory law enforcement staffing for detention and removal operations in order to focus law enforcement on criminal investigations. DHS will continue to expand the Secure Communities program and the Criminal Alien Program nationwide. These programs ensure that criminal aliens are identified within Federal, state, and local jails and prisons and have removal orders by the time they complete their criminal sentence, removing the burden of detaining these aliens beyond their criminal sentences while they are awaiting removal orders. DHS is also working to revise national standards for detainee care and treatment, including those needing continuing medical treatment, ensuring that detention facilities housing immigration detainees meet or exceed these standards and canceling the contracts at facilities that receive deficient ratings.

Targeting Egregious Employers Who Knowingly Exploit Illegal Workers:

Preventing unlawful immigration depends on reducing the demand for illegal labor. DHS has improved and expanded the E-Verify system, adding new features to monitor for fraud and redesigning the system to ensure compliance and ease of use. The Administration also announced the “I E-Verify” initiative to let consumers know which businesses are working to maintain legal workforces by using E-Verify. While implementing E-Verify improvements and enhancing efforts to promote voluntary employer compliance, DHS is also focusing on worksite enforcement, targeting egregious employers who knowingly exploit illegal labor. Since January 2009, DHS has



audited more than 3,200 employers suspected of hiring illegal labor, debarred more than 225 companies and individuals, and issued more than \$50 million in financial sanctions—more than the total amount of penalties issued in the entire previous administration.

Safeguarding and Securing Cyberspace

Our economic vitality and national security depend on a vast array of interdependent and critical cyber networks, systems, services, and resources. If these cyber tools and networks cannot function properly, we will not be able to effectively communicate, travel, power our homes, run our economy, or obtain Government services.

We will achieve this mission through the following goals:

- **Create a Safe, Secure, and Resilient Cyber Environment:** Ensure malicious actors are unable to effectively exploit cyberspace, impair its safe and secure use, or attack the Nation's information infrastructure.
- **Promote Cybersecurity Knowledge and Innovation:** Ensure that the Nation is prepared for the cyber threats and challenges of tomorrow.

Cybersecurity Investigations – Credit Card Trafficking

Agents with the [U.S. Secret Service](#) initiated an undercover cyber-based investigation involving a suspect operating under the nickname “BadB,” which they identified as Vladislav Anatolievich Horohorin, an international credit card trafficker thought to be one of the most prolific sellers of stolen data.

U.S. Secret Service agents determined Horohorin, who is a citizen of Israel and the Ukraine, allegedly used online criminal forums such as “CarderPlanet” and “carder.su” to sell stolen credit card information, known as “dumps,” to online purchasers around the world. Using an online undercover identity, U.S. Secret Service agents negotiated the sale of numerous stolen credit card dumps. In FY 2010, Horohorin was indicted by a Federal grand jury on charges of access device fraud and aggravated identity theft. He is currently being detained in France pending extradition to the United States.





Cyber Storm III

In FY 2010, DHS hosted Cyber Storm III—a three-day exercise that brings together a diverse cross-section of the Nation's cyber incident responders to assess U.S. cyber response capabilities.

“Securing America's cyber infrastructure requires close coordination with our Federal, state, international and private sector partners,” said Secretary Napolitano. “Exercises like Cyber Storm III allow us build upon the significant progress we've made in responding to evolving cyber threats.”

Cyber Storm III is an exercise scenario that simulates a large-scale cyber attack on critical infrastructure across the Nation. The goal of the exercise is to examine and strengthen collective cyber preparedness and response capabilities, involving thousands of participants across government and industry. Seven Cabinet-level departments, 11 states, 12 international partners, and 60 private-sector companies participated. As part of Cyber Storm III, DHS exercised elements of the newly-developed National Cyber Incident Response Plan—a blueprint for the Nation's cybersecurity incident response.

Cyber Storm III also represented the first major exercise testing the new National Cybersecurity and Communications Integration Center which serves as the hub of national cybersecurity coordination and was established at the beginning of FY 2010.



Future Initiatives

Increasing DHS's Predictive and Forensic Capabilities for Cyber Intrusions and Attacks:

The ability to predict the emergence of new cyber threats will help mitigate the effects of such threats. Likewise, the ability to determine the source of a cyber attack, intrusion, or disruption both increases the likelihood of a successful prosecution of the attacker and creates a powerful deterrent effect against both state and non-state actors. To that end, DHS will build a new predictive analytic capability that will work closely with the law enforcement and intelligence communities and the private sector to improve the identification of cyber adversaries, establish and advance deterrence strategies, and promote a more accurate understanding of emerging cyber threats. To meet these goals, DHS is currently enhancing its efforts to recruit and develop an expanded cyber intelligence and analysis team.

Increase the Focus and Integration of DHS's Operational Cybersecurity and Infrastructure Resilience Activities:

DHS has substantial operational cyber security responsibilities, which are inextricably intertwined with its responsibilities to manage all hazards risk to critical infrastructure. DHS typically manages its operational responsibilities through Operating Components. However, the majority of DHS's operational activities relating to cyber security and infrastructure protection and resilience are



currently administered by the National Protection and Programs Directorate (NPPD), which is designated as a DHS headquarters element. DHS will focus NPPD's activities on operations and more closely align cyber and critical infrastructure protection and resilience efforts, in cooperation with the private sector, to secure cyber networks and make critical infrastructure resilient. DHS will examine ways to clarify NPPD's increasingly operational role as opposed to other elements of the DHS headquarters, as well as NPPD's functions not related to cybersecurity or infrastructure protection and resilience.

Ensuring Resilience to Disasters

Despite ongoing vigilance and efforts to protect this country and its citizens, major accidents and disasters, as well as terrorist attacks, may occur. The challenge is to build the capacity of American society to be resilient in the face of attacks, disasters, and other crises. Our vision is a Nation that understands the hazards and risks we face; is prepared for disasters; can withstand the disruptions that terrorist attacks and disasters may cause; can manage itself effectively during a crisis; can recover quickly and effectively; and can adapt to conditions that have changed as a result of the event.

We will achieve this mission through the following goals:

- **Mitigate Hazards:** Strengthen capacity at all levels of society to withstand threats and hazards.
- **Enhance Preparedness:** Engage all levels and segments of society in improving preparedness.
- **Ensure Effective Emergency Response:** Strengthen response capacity nationwide.
- **Rapidly Recover:** Improve the Nation's ability to adapt and rapidly recover.

Preparedness Grants – Improving Federal, State, Local, and Tribal Government Preparedness Capabilities

In FY 2010, DHS provided more than \$3.8 billion in Federal Emergency Management Agency ([FEMA](#)) preparedness grants designed to help states, urban areas, tribal governments and nonprofit organizations enhance their protection, prevention, response, and recovery capabilities for risks associated with potential terrorist attacks and other hazards.



DHS uses a risk-based methodology to identify areas eligible for homeland security grants, accounting for threats, population, and prevalence of critical infrastructure. To support our Nation's first responders, DHS has eliminated red tape by streamlining the grant process and expanding what grants can be used for, such as maintenance and sustainability, enabling local jurisdictions to continue to support previous investments rather than buying new equipment or technology each year. DHS has also made it easier to put fire grants to work quickly to rehire laid-off firefighters and retain current forces by waiving the local match requirement, salary cap, and retention requirements to give fire departments more flexibility in protecting the jobs of veteran firefighters.



FEMA Responds to Tennessee Floods

On May 1 and 2, 2010, Tennessee experienced one of the worst rain storms in its history. The Cumberland River crested at nearly 52 feet in Nashville, a level not seen since 1937.

FEMA was on the scene from the very beginning, supporting the immediate needs of water, food, generators, and shelter.

More than \$136 million in FEMA assistance has been provided to individuals and households for rental assistance and home repair to help residents continue the recovery process. An additional \$18 million has been provided to the state and local governments to reimburse them for the repairs to infrastructure such as damaged roads and flooded utilities. In addition, FEMA opened 67 Disaster Recovery Centers across the affected area to provide assistance to people affected by the severe storms and flooding. With FEMA's support, Tennessee and its residents are on the road to recovery.



Future Initiatives

Improving DHS's Ability to Lead in Emergency Management:

To improve overall effectiveness in emergency management, FEMA will create a new strategic approach to developing the agency's current workforce. This approach will involve recruiting and hiring the best talent available and strengthening skill sets across the workforce in support of FEMA's core responsibilities. DHS will create a career path for employees with emergency management responsibilities, including headquarters positions, field deployments, and mobility assignments, and implement both paid and unpaid internship programs to develop future emergency managers.

Engaging Private Sector to "Design-In" Greater Resilience for Critical Infrastructure:

DHS efforts to reduce vulnerabilities to critical infrastructure and key resources must incorporate resilience. It is more efficient and more effective to build in resilience by design than to retrofit for resilience once facilities and networks are developed. To that end, DHS will work with nongovernmental organizations that set infrastructure design standards to establish commonly agreed upon standards for critical infrastructure resilience. DHS will build upon the standards provided under Title IX of the *Implementing the 9/11 Recommendations Act of 2007*, and will seek to incorporate design standards for critical infrastructure resilience into federally administered insurance and re-insurance programs.



Complementary Department Responsibilities

DHS leads and supports many activities that provide essential support to national and economic security including, but not limited to: maximizing collection of customs revenue; protecting the financial services sector; maintaining the safety and security of the marine transportation system; preventing the exploitation of children; providing Federal law enforcement training; and coordinating the Federal Government's response to global intellectual property theft. DHS contributes in many ways to these elements of broader U.S. national and economic security while fulfilling its other five homeland security missions.

U.S. Trade Laws – Revenue Collection

CBP enforces U.S. trade laws and collects customs revenue, making it the third largest revenue generator for the U.S. Government after the Internal Revenue Service and the Social Security Administration. From September 2009 through August 2010, approximately \$29.1 billion in revenue was collected. In order to ensure that accurate revenue is collected from imports, CBP has a robust revenue targeting program in order to ensure compliance. This work is coordinated by CBP's National Targeting and Analysis Group.



Blue Campaign – Helping Stop Human Trafficking

The Blue Campaign was officially launched in July 2010 by U.S. Immigration and Customs Enforcement, U.S. Customs and Border Protection, U.S. Citizenship and Immigration Services, and the Federal Law Enforcement Training Center—underscoring the Department's unified effort to prevent human trafficking, assist victims, and hold traffickers accountable by bringing together the Department's diverse resources and expertise under one initiative.



To help citizens learn to identify and properly report indicators of human trafficking, the Department is launching public outreach tools that include social media, multilingual public awareness campaigns, and a comprehensive one-stop website for the Department's efforts to combat human trafficking at <http://www.dhs.gov/humantrafficking>.

The Blue Campaign also features new training initiatives for law enforcement and DHS personnel, enhanced victim assistance efforts, and the creation of new partnerships and interagency collaboration—including the deployment of additional victim assistance specialists and specialized training for law enforcement personnel.



Priority Goals

In the FY 2010 Budget, the Obama Administration defined Priority Goals, which represent areas in which the Administration has identified opportunities to significantly improve near-term performance. These goals are only a subset of each agency's critical efforts, which also include long-term strategic goals and goals dependent on new legislation or additional funding.

The DHS Priority Goals are:

- **Preventing Terrorism and Enhancing Security through Aviation Security:** *Improve commercial aviation security screening through layered security measures including the utilization of Transportation Security Officers, Secure Flight and Advanced Imaging Technology.* TSA is working to deploy the most effective layered screening technologies at all airports to detect threats on passengers and in baggage and cargo, and to improve the vetting process for air passengers against Government watchlists by implementing Secure Flight.
- **Preventing Terrorism and Enhancing Security through Surface Transportation Security:** *Improve security in the surface modes of transportation by performing risk assessments, closing vulnerability gaps, vetting key workers, providing training and deploying highly skilled prevention and response teams.* Millions of passengers and millions of tons of commodities move through our Nation's surface transportation network each year. DHS recognizes that the risk from terrorism and other hazards demands a coordinated approach to security involving all sector partners and stakeholders, including Federal, state, and local governments as well as the private sector. TSA is leveraging these partnerships to increase surface transportation security in mass transit, highways, freight rail, and pipelines.
- **Securing and Managing Our Borders through the Western Hemisphere Travel Initiative (WHTI):** *Prevent terrorist and criminal movement at land ports of entry through secure travel documents and enhanced technology that will effectively integrate vehicle and passenger data.* The initial success of WHTI improved vehicle processing at the land border by requiring travelers to present secure, technically enhanced travel documents. WHTI also strengthened CBP's ability to target violators by integrating vehicle and passenger data. WHTI continues to expand the use of technology to additional land locations and other key mission processing areas, including pedestrian, outbound, and the Border Patrol checkpoints.
- **Enforcing and Administering Our Immigration Laws through Detention and Removal Efficiency:** *Improve the efficiency of the process to detain and remove illegal immigrants from the United States.* ICE is prioritizing the arrest and removal of convicted criminals, fugitives, illegal re-entrants, recent border violators, and visa overstays, focusing enforcement resources on aliens who pose a public safety threat to the United States. In particular, the Secure Communities program uses biometric identification technology to better identify aliens arrested and booked for a crime in state and local jurisdictions.



- **Enforcing and Administering Our Immigration Laws through U.S. Citizenship and Immigration Services Business Transformation:** *Implement an enterprise-wide transformation to move from a form-driven, paper-based system into a centralized, electronic adjudication system in order to improve the speed, ease of use, and quality of immigration services.* In its current state, the USCIS relies largely on the movement of paper to deliver immigration benefits and services. In the future, USCIS will use a paperless, electronic system that will transform nearly all of the agency's processes. Through web-based technology, customers will maintain individual accounts with USCIS and be able to obtain more detailed and current information on their cases. By organizing and sharing information digitally, USCIS will increase the efficiency of its adjudications, while also facilitating the rapid and collaborative exchange of information with partner agencies.
- **Ensuring Resilience to Disasters by Strengthening Disaster Preparedness and Response Capabilities:** *Strengthen disaster preparedness and response by improving FEMA's operational capabilities and strengthening state, local, and private citizen preparedness.* FEMA is improving its operational capabilities; strengthening state, local, individual and private-sector preparedness through Emergency Management Institute training and preparedness grants; putting in place resources and strategies for temporary housing; and ensuring the availability of life-sustaining/life-saving commodities during disasters.
- **Maturing and Strengthening the Homeland Security Enterprise through Effective Information Sharing:** *Effectively deliver information in a timely manner that is responsive to state, local, tribal, and territorial information needs.* DHS is working to improve and enhance secure information-sharing capabilities for state and local partners; the timeliness and sufficiency of responses to stakeholders' requests; and internal information sharing. In addition to addressing these specific issues, DHS is developing a Department-wide information-sharing roadmap based on the strategic framework set forth in the QHSR.
- **Maturing and Strengthening the Homeland Security Enterprise by Improving Acquisition Execution:** *Improve acquisition execution across the DHS acquisition portfolio, by ensuring key acquisition expertise resides in major program office and acquisition oversight staffs throughout the Department.* This goal includes having disciplined oversight processes and robust acquisition program management teams in place. Oversight processes begin with having a well-defined acquisition requirement and a cost, schedule, and performance plan against which program managers are held accountable for results.



Financial Overview

DHS’s appropriated budgetary resources were approximately \$83 billion for FY 2010. The budget represents our plan for achieving the strategic objectives set forth by the Secretary to carry out our mission and to ensure that DHS manages its operations within the appropriated amounts using budgetary controls. DHS prepares its annual financial statements on an accrual basis, in accordance with generally accepted accounting principles, meaning that economic events are recorded as they occur, regardless of when cash is received or disbursed. DHS primarily uses the cash basis for its budgetary accounting. The cash basis is an accounting method in which income is recorded when cash is received and expenses are recorded when cash is paid out. These financial statements provide the results of our operations and financial position, including long-term commitments and obligations. The independent accounting firm KPMG LLP was engaged to audit the Balance Sheet and Statement of Custodial Activity.

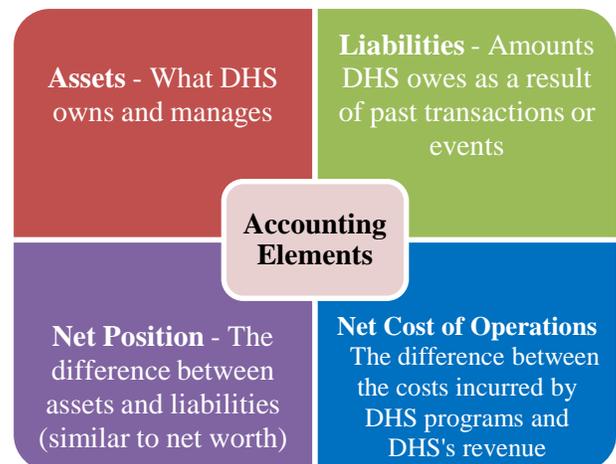
On October 28, 2009, the President of the United States signed the *FY 2010 Homeland Security Appropriations Act* (Pub. L. 111-83), which included a provision transferring the Federal Protective Service (FPS) from ICE to NPPD. The realignment allows FPS to focus on its primary mission—securing Federal buildings by performing building security assessments and deploying appropriate countermeasures—while enabling ICE to focus on the enforcement of immigration and customs laws. As a result of the transfer, certain reclassifications were made to the FY 2009 financial statements and related footnotes to conform to FY 2010 presentation.

The Department received \$2.8 billion in supplemental appropriations during FY 2009 as a result of *The American Recovery and Reinvestment Act of 2009* (Recovery Act) (Pub. L. 111-5). This funding included \$200 million for the consolidation of the DHS headquarters; \$420 million for modernization of CBP-owned land ports of entry; \$260 million for CBP border security technology, including non-intrusive inspection technology, Southwest border technology, and tactical communications equipment and radios; \$20 million for ICE automation modernization and tactical communications; \$1 billion for explosives detection systems and checkpoint screening equipment at airports nationwide; \$142 million for bridge alteration construction; \$98 million for U.S. Coast Guard shore and vessel preservation; \$100 million for the Emergency Food and Shelter Program; \$150 million for transit and rail security grants; \$150 million for port security grants; and \$210 million for Fire Station Construction grants. Additional Recovery Act information can be found at www.recovery.gov.

The Department restated FY 2009 balances primarily because of actions completed to correct financial management weaknesses reported in prior financial statement audit reports. The Department is taking corrective actions related to the causes of the restatements.

Balance Sheet

The Balance Sheet presents the resources owned or managed by DHS that have future economic benefits (assets) and the amounts owed by DHS that will





require future payments (liabilities). The difference between DHS’s assets and liabilities is the residual amount retained by DHS (net position) that is available for future programs and capital investments.

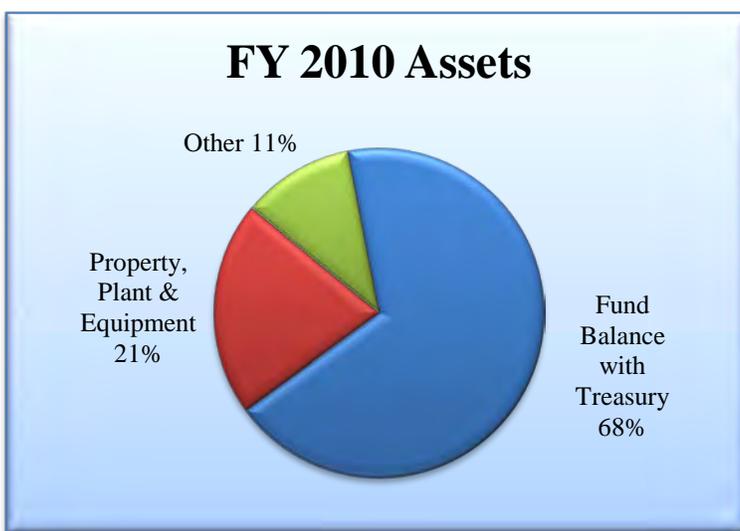
Assets – What We Own and Manage

Assets represent amounts owned or managed by DHS that can be used to accomplish its mission. At September 30, 2010, DHS had \$90 billion in assets, representing a \$5 billion increase from FY 2009 restated assets of \$85 billion.

Fund Balance with Treasury (FBwT), the Department’s largest asset, comprises 68 percent (\$61 billion) of the total assets. Included in FBwT is the remaining balance of DHS unspent prior-year budgets plus miscellaneous receipts. FBwT increased approximately \$4 billion from FY 2009 in part due to additional funding for the Deepwater Horizon oil spill recovery efforts in the Gulf (as referenced in Note 22) and an increase in funds received for TSA’s Explosive Detection technology.

Property, Plant, and Equipment (PP&E) is the second largest asset, comprising 21 percent of total assets. The major items in this category include construction in progress, buildings and facilities, vessels, aircraft, and other equipment. In acquiring these assets, DHS either spent cash or incurred a liability to make payment at a future date; however, because these assets should provide future benefits to help accomplish the DHS mission, DHS reports these items as assets rather than expenses. PP&E is recorded net of accumulated depreciation. Recording the net value of the PP&E items is intended to approximate its remaining useful life. During FY 2010, PP&E increased by \$1 billion. A large part of this was due to the U.S. Coast Guard’s increases in equipment related to the National Security Cutter and Rescue 21 efforts. Also contributing to this increase was SBI*net* Virtual Fence Construction, software development and modernization, and aircraft upgrades at CBP.

As of September 30 (in Millions)	FY 2010	FY 2009 (Restated)
Fund Balance with Treasury	\$60,822	\$57,172
General Property, Plant, and Equipment, Net	19,074	17,697
Other	10,201	9,935
Total Assets	\$90,097	\$84,804



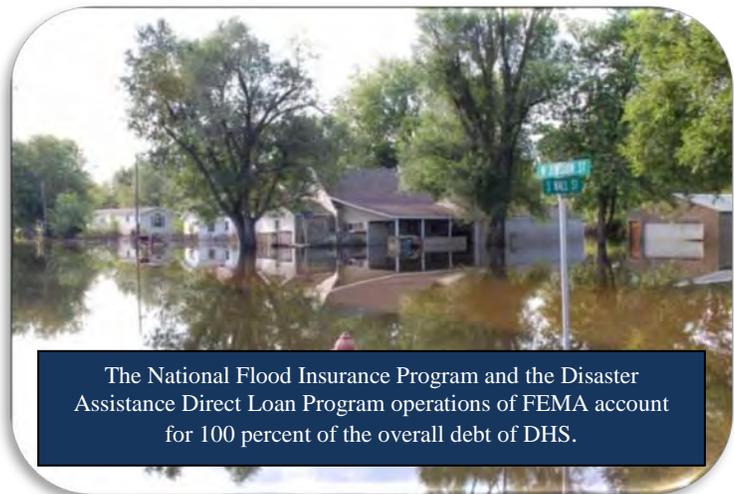
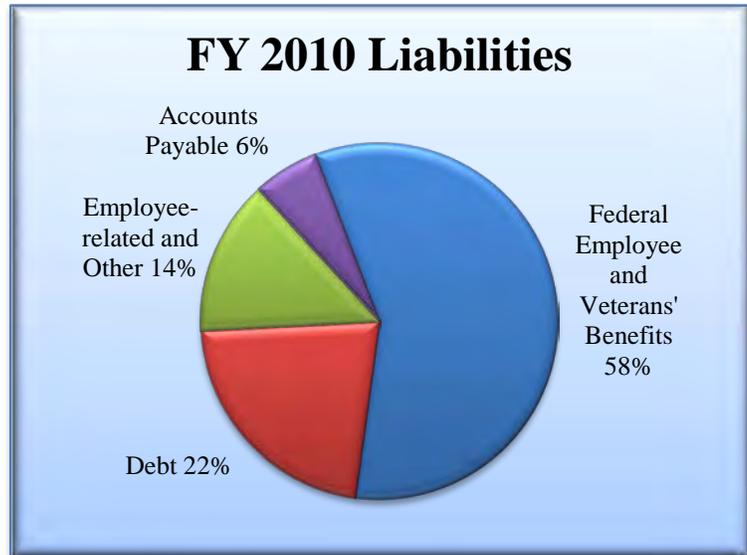


Liabilities – What We Owe

At September 30, 2010, DHS reported approximately \$84 billion in total liabilities. Liabilities are the amounts owed to the public or other Federal agencies for goods and services provided but not yet paid for; to DHS employees for wages and future benefits; and for other liabilities. Eighty-seven percent of these liabilities will need to be paid from funds received in future appropriations. DHS's largest liability not covered by budgetary resources is for Federal Employee and Veterans' Benefits, arising primarily from U.S. Coast Guard personnel benefits. The National Flood Insurance Program (NFIP) administered by FEMA is the second largest such liability. Liabilities increased approximately \$9 billion from FY 2009 restated liabilities which totaled \$75 billion.

DHS's largest liability is for Federal Employee and Veterans' Benefits, representing 58 percent of total liabilities. This liability increased approximately \$9 billion from FY 2009. This increase primarily relates to U.S. Coast Guard changing its assumptions used to calculate Retired Pay and Military Care Actuarial liability. DHS owes these amounts to current and past civilian and military personnel for pension and other post-employment benefits. The liability also includes medical costs for approved workers compensation cases and an estimate for incurred but not yet reported workers' compensation costs. This liability is not covered by current budgetary resources, and DHS will use future appropriations to cover these liabilities.

As of September 30 (in Millions)	FY 2010	FY 2009 (Restated)
Federal Employee and Veterans' Benefits	\$48,317	\$39,425
Debt	18,505	19,004
Employee-related and Other	12,029	11,101
Accounts Payable	4,745	4,972
Total Liabilities	\$83,596	\$74,502



Debt is DHS's second-largest liability, representing 22 percent of total liabilities. This debt results from Department of Treasury loans and related interest payable to fund the NFIP and Disaster Assistance Direct Loan Program operations of FEMA. Total debt decreased approximately \$500 million from FY 2009 due to the NFIP. Most of this debt is not covered by current budgetary

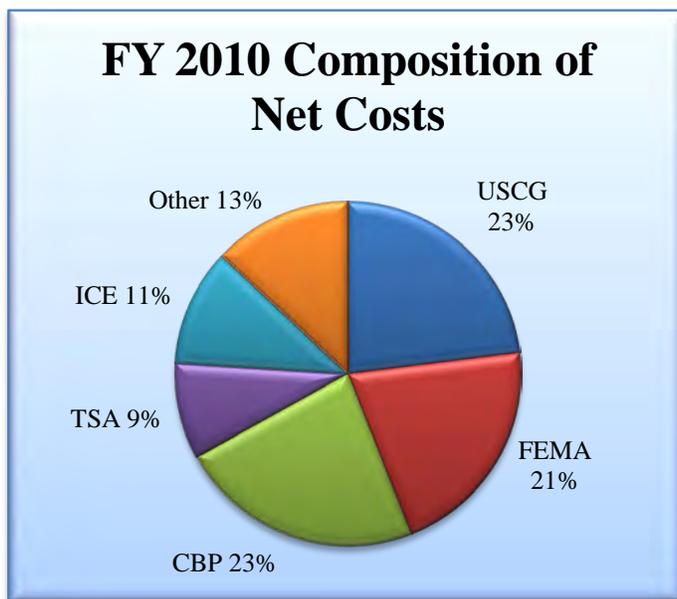


resources. The premiums collected by FEMA for disaster assistance do not cover the cash outlays. This is discussed further in Note 15 in the financial section.

Employee-related and other liabilities, comprising 14 percent of the Department's liabilities, increased approximately \$1 billion from FY 2009. The difference primarily relates to an increase in importing taxes due to Treasury, an increase in accrued payroll due to workforce expansion, and an increase in contingent liabilities. Also included in these liabilities are unpaid wages and benefits for current DHS employees. Six percent of total liabilities results from accounts payable, which are actual or estimated amounts DHS owes to vendors for goods and services provided for which we have not yet paid. These liabilities are covered by current budgetary resources.

Statement of Net Cost

Net Cost of Operations represents the difference between the costs incurred by DHS programs less revenues. The U.S. Coast Guard incurred 23 percent of total net costs, in ensuring maritime safety, security, and stewardship. The five percent decrease in the U.S. Coast Guard's net cost is primarily due to current and future funded expenses for Retirement Pay, Actuarial Pension and Health Care, and Environmental Compliance and Restoration. CBP, which represents 23 percent of total net cost, saw a net cost increase of approximately ten percent from FY 2009 primarily due to workforce growth and increases in property, plant, and equipment depreciation and contingent liabilities. FEMA represents 21 percent of the Department's net cost, a nine percent decrease from FY 2009 resulting from additional NFIP earned revenue and reduced costs associated with disasters. TSA net costs represents nine percent of the Department total and went to ensuring the security and stewardship of the U.S. transportation network, primarily aviation security. Net costs for ICE, which represent eleven percent of the total, increased ten percent from FY 2009. This was primarily due to funding changes at the Detention and Removal Office and Southwest border initiatives.



In March 2010, TSA began deploying advanced imaging technology units purchased with *American Recovery and Reinvestment Act* funds.



During FY 2010, the Department earned approximately \$10.4 billion in revenues; this is a marginal increase of about \$600 million from the restated amount of \$9.8 billion on September 30, 2009. The Department classifies revenues as either exchange (“earned”) or non-exchange revenue. Exchange revenues arise from transactions in which DHS and the other party receive value and that are directly related to departmental operations. DHS also collects non-exchange duties, taxes, and fee revenues on behalf of the Federal Government. These non-exchange revenues are presented in the Statement of Custodial Activity rather than the Statement of Net Cost. An example of non-exchange revenue is user fees that CBP collects on behalf of the Federal Government as a result of its sovereign powers rather than as a result of providing goods or services for a fee. Non-exchange revenues are either retained by the Department to further its mission or returned to Treasury’s General Fund.

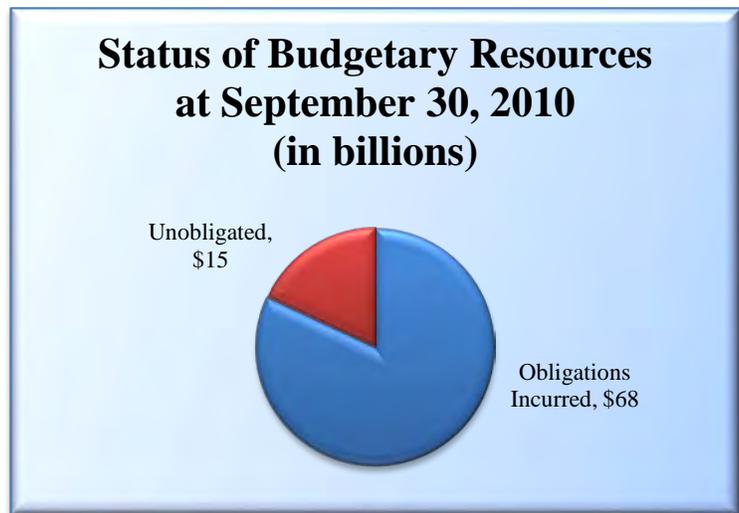
Statement of Changes in Net Position

Net position represents the accumulation of revenue, expenses, budgetary and other financing sources since inception, as represented by an agency’s balances in unexpended appropriations and cumulative results of operations on the Statement of Changes in Net Position. Financing sources increase net position and include, but are not limited to, appropriations, user fees, and excise taxes. The net costs discussed above and transfers to other agencies decrease net position. In FY 2010, the U.S. Coast Guard had higher costs due to a change in the assumptions used to calculate employee-related benefits.

Statement of Budgetary Resources

This statement provides information on the status of the approximately \$83 billion in budgetary resources available to DHS during FY 2010. This authority was derived from appropriations of \$56 billion, \$13 billion in authority carried forward from FY 2009, \$10 billion in collections, and \$4 billion of miscellaneous authority.

The total amount of resources available decreased by approximately \$2 billion from FY 2009 levels. This is primarily due to a decrease in FEMA’s prior year supplemental disaster funding, which reduced the availability of carry-forward amounts.



Of the total budget authority available, DHS incurred a total of \$68 billion in obligations from purchase orders placed, contracts awarded, salaries and benefits, or similar transactions. These obligations will require payments during the same or future period. As of September 30, 2010, \$15 billion of the \$83 billion available was not yet obligated. The \$15 billion represents \$5 billion in unavailable funding and \$10 billion in apportioned funds available for future use.



Statement of Custodial Activities

This statement presents the disposition of revenues collected and disbursed by DHS on behalf of other recipient entities. CBP collects revenue from a variety of duties, excise taxes, and various other fees, and USCIS collects user fees that are subsequently remitted to the Treasury's General Fund or to other entities. Note 31 in the financial section provides additional information on these activities. Total cash collections increased by more than \$3 billion in FY 2010. This is primarily due to increased importing into the U.S. during FY 2010, which resulted in additional cash collections for customs duties.

Stewardship Assets and Investments

DHS's stewardship assets primarily consist of U.S. Coast Guard heritage assets, which include ship equipment, lighthouses and other aids to navigation, communication items, military uniforms, ordnance, artwork, and display models. A heritage asset is any personal property that is retained by DHS because of its historic, cultural, educational, or artistic value as opposed to its current usefulness to carrying out the mission of the Department. Of the U.S. Coast Guard buildings and structures designated as heritage assets—including memorials, recreational areas, and other historical areas—more than two-thirds are multi-use heritage assets. CBP has four multi-use heritage assets located in Puerto Rico, and FEMA has one multi-use heritage asset that is used by the United States Fire Administration for training in Emmitsburg, Maryland. In addition, CBP, USCIS, and TSA have collection-type assets that consist of documents, artifacts, immigration and naturalization files, as well as architectural and building artifacts used for education.

Stewardship investments are substantial investments made by the Federal Government for the benefit of the Nation. When incurred, stewardship investments are treated as expenses in calculating net cost, but they are separately reported as Required Supplementary Stewardship Information (RSSI) to highlight the extent of investments that are made for long-term benefits. Included are investments in research and development, human capital, and non-Federal physical property.

Other Key Regulatory Requirements

See the Other Accompanying Information section for *Prompt Payment Act*, *Debt Collection Improvement Act*, and Biennial User Charges Review information.



Management Assurances

The Federal Managers' Financial Integrity Act, Federal Financial Management Improvement Act, and Department of Homeland Security Financial Accountability Act

DHS is responsible for establishing, maintaining, and assessing internal control to provide reasonable assurance that the internal control objectives of the *Federal Managers' Financial Integrity Act*, 31 U.S. Code 3512 Sections 2 and 4, and the *Federal Financial Management Improvement Act*, Pub. L. 104-208, are met. To identify material weaknesses and nonconformance conditions, management used the following criteria:

- Merits the attention of the Executive Office of the President and the relevant Congressional oversight committees;
- Impairs fulfillment of essential operations or mission;
- Deprives the public of needed services;
- Significantly weakens established safeguards against waste, loss, unauthorized use or misappropriation of funds, property, other assets, or conflicts of interest;
- Substantial noncompliance with laws and regulations; and
- Financial management systems conformance to Government-wide systems requirements.

In addition, the *Department of Homeland Security Financial Accountability Act*, Pub. L. 108-330, requires a separate assertion and an audit opinion of the Department's internal controls over its financial reporting. A material weakness within internal control over financial reporting is defined as a reportable condition or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements or other significant financial reports, will not be prevented or detected.

The DHS Accountability Structure includes a Senior Management Council (SMC), an Internal Control Coordination Board (ICCB), and a Senior Assessment Team (SAT). The SMC approves the level of assurances for the Secretary's consideration and is comprised of the Department's Under Secretary for Management, Chief Financial Officer, Chief Administrative Services Officer, Chief Human Capital Officer, Chief Information Officer, Chief Information Security Officer, Chief Security Officer, and Chief Procurement Officer. The ICCB seeks to integrate and coordinate internal control assessments with other internal control related activities and includes representatives from all DHS lines of business to address crosscutting internal control issues. Finally, the SAT led by the Chief Financial Officer, is comprised of senior-level financial managers assigned to carry out and direct Component-level internal control over financial reporting assessments.

Individual Component assurance statements serve as the primary basis for the Secretary's assurance statements. The assurance statements are also based on information gathered from various sources including management initiated internal control assessments, program reviews, and evaluations. In addition, the DHS Office of Inspector General (OIG) and the Government Accountability Office (GAO) conduct reviews, audits, inspections, and investigations.



Secretary's Assurance Statement

November 12, 2010

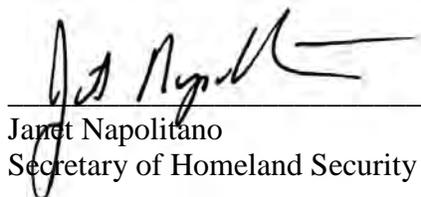
The Department of Homeland Security is committed to a culture of integrity, accountability, fiscal responsibility and transparency. The Department's management team is responsible for establishing and maintaining effective internal control over the three internal control objectives: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.

In accordance with the *Federal Managers' Financial Integrity Act* (FMFIA) and the *Department of Homeland Security Financial Accountability Act* (DHS FAA), I have directed an evaluation of internal control at the Department of Homeland Security in effect during the fiscal year (FY) ending September 30, 2010. This evaluation was conducted in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control*. The Department's approach for implementing Appendix A of OMB Circular No A-123, which focused on remediation of existing control deficiencies, was also approved by OMB.

The Department is unable to provide assurance that internal controls over financial reporting were operating effectively as of September 30, 2010, due to five material weaknesses listed in the Other Accompanying Information Section of this report. In addition, DHS does not currently have a consolidated financial management system, and most legacy systems do not comply with Federal Financial Management System Requirements, Accounting Standards, and the U.S. General Ledger at the transaction level. The Department can provide qualified assurance that the objectives of the FMFIA over nonfinancial operations have been achieved.

As a result of our strong commitment to improving internal controls, for the fifth consecutive year, the annual financial statement audit shows the Department continues to make progress. Audit qualifications have been reduced from ten to one, and the number of management-identified financial reporting material weaknesses have been reduced by more than half since FY 2005 (See Exhibits I and II). Specific improvements made by the Department and its Components include new policies, processes, and corrective actions that increased the auditable balance sheet balances to approximately ninety percent in FY 2010. Looking forward, to demonstrate continued stewardship and accountability, we are concentrating our efforts on obtaining an audit opinion on the Consolidated Balance Sheet and Statement of Custodial Activity by FY 2011.

I remain fully committed to an effective program of internal controls that accomplishes our mission while safeguarding the resources entrusted to us, and installing IT systems and processes used for all aspects of financial management that will demonstrate the highest levels of accountability and transparency.



Janet Napolitano
Secretary of Homeland Security



Progress in Strengthening Department-wide Financial Management

Due to our strong commitment to strengthening Department-wide financial management, the results of the annual audit continue to improve. The Department now has only one remaining audit qualification that prevents us from getting an audit opinion and has reduced our material weaknesses in internal controls over financial reporting by half since Fiscal Year (FY) 2005. The Department has also reduced its control deficiency findings by over twenty percent.

Our approach to improving internal control over financial reporting in FY 2010 focused on eliminating audit qualifications and executing corrective actions to strengthen Department-wide internal controls and significantly improved key financial areas. Most notably, improvements made by the U.S. Coast Guard and other Components include new policies, processes, and corrective actions that increased the auditable balance sheet balances to approximately ninety percent.

The Transportation Security Administration no longer contributes to an audit qualification and made tremendous progress this year by reducing control deficiency findings in the Financial Reporting and Information Technology Controls areas. U.S. Customs and Border Protection, U.S. Immigration and Customs Enforcement, and the National Protection and Programs Directorate also improved internal controls in Property, Plant and Equipment. In addition, the Federal Emergency Management Agency contributed to this year's audit success with reductions in Financial Reporting control deficiency findings.

To demonstrate our continued commitment, the Department is focused on obtaining an audit opinion next year on its Consolidated Balance Sheet and Statement of Custodial Activity. DHS also plans to begin implementing an integrated financial, procurement, and asset management system that will comply with Federal Financial Management Systems Requirements.

This year's successes demonstrate the quality, dedication, and professionalism of those who continue to improve financial management at the Department of Homeland Security. Our teams work tirelessly to ensure taxpayer dollars are managed with integrity, diligence, and accuracy, and that the systems and processes used for all aspects of financial management demonstrate the highest levels of accountability and transparency.



Exhibit I. Internal Control over Financial Reporting Assessment Results FY 2010

Internal Control Component	Management Directorate	Customs & Border Protection	U.S. Coast Guard	Federal Emergency Management Agency	Transportation Security Administration	Immigration & Customs Enforcement	U.S. Citizenship & Immigration Services	U.S. Secret Service	National Protection and Programs Directorate	Science & Technology Directorate	Federal Law Enforcement Training Center	Departmental Operations and Other
Entity Level Controls												
Financial Reporting												
Fund Balance with Treasury												
Financial System Security												
Budgetary Resources Management												
Property Management												
Grants Management												
Payment Management												
Revenue Management												
Human Resources Management												

Legend

	Material weakness condition.
	Test of design performed or verification and validation of corrective action taken to reduce risk of Department level material weakness.
	Test of operating effectiveness performed.
	No DHS level assessment work performed.

Exhibit II. Internal Control over Financial Reporting Assessment Results FY 2005

Internal Control Component	Management Directorate	Customs & Border Protection	U.S. Coast Guard	Federal Emergency Management Agency	Transportation Security Administration	Immigration & Customs Enforcement	U.S. Citizenship & Immigration Services	U.S. Secret Service	National Protection and Programs Directorate	Science & Technology Directorate	Federal Law Enforcement Training Center	Departmental Operations and Other
Entity Level Controls												
Financial Reporting												
Fund Balance with Treasury												
Financial System Security												
Budgetary Resources Management												
Property Management												
Grants Management												
Payment Management												
Human Resources Management												

Legend

	Material Weakness Condition
	Test of Design Performed or Corrective Action taken to reduce severity of material weakness condition

Federal Financial Management Improvement Act

The *Federal Financial Management Improvement Act* (FFMIA) of 1996 was designed to improve Federal financial management and reporting by requiring that financial management systems comply substantially with three requirements: (1) Federal financial management system requirements; (2) applicable Federal accounting standards; and (3) the United States Government Standard General Ledger at the transaction level. Furthermore, the Act requires independent auditors to report on agency compliance with the three stated requirements as part of financial statement audit reports. The Department's financial management systems do not comply with the FFMIA, and the Other Accompanying Information section of this report discusses planned remediation activities for bringing systems into substantial compliance with FFMIA.