



# Other Information

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

*Unaudited, see accompanying Auditors' Report*

## Tax Burden/Tax Gap

### *Revenue Gap*

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

#### Entry Summary of Trade Compliance Measurement (\$ in millions)

	<u>FY 2013</u>	<u>FY 2012</u>
Estimated Revenue Gap	\$530.4	\$635.6
Preliminary Revenue Gap of all collectable revenue for year (%)	1.27%	1.59%
Estimated Over-Collection	\$73.5	\$70.5
Estimated Under-Collection	\$603.9	\$706.1
Overall Trade Compliance Rate (%)	97.7%	95.9%

The preliminary overall compliance rate for Fiscal Year (FY) 2013 is 97.66 percent. The final overall trade compliance rate and estimated revenue gap for FY 2013 will be issued in February 2014.

## Schedule of Spending

The Schedule of Spending (SOS) presents an overview of how departments or agencies are spending money. The SOS presents total budgetary resources and total obligations incurred for the reporting entity. The data used to populate this schedule is the same underlying data used to populate the Statement of Budgetary Resources (SBR). Simplified terms are used to improve the public's understanding of the budgetary accounting terminology used in the SBR.

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

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

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

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

The Office of Management and Budget (OMB) Circular A-136 prescribed a new format to be used to present the FY 2013 SOS. In this new format, the SOS presents obligations incurred, that reflect an agreement to either pay for goods and services or provide financial assistance once agreed upon conditions are completed.

For purposes of this schedule, the breakdown of “How Was the Money Spent/Issued” is based on OMB budget object class definitions found in OMB Circular No. A-11.

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

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

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

**Department of Homeland Security  
Schedule of Spending  
For the Year Ended September 30, 2013  
(In Millions)**

	<b>2013</b>
<b>What Money is Available to Spend?</b>	
Total Resources	\$ 95,055
Less Amount Available but Not Agreed to be Spent	14,916
Less Amount Not Available to be Spent	3,574
<b>TOTAL AMOUNT AGREED TO BE SPENT</b>	<b>\$ 76,565</b>
 <b>How Was the Money Spent/Issued?</b>	
<i>U.S. Customs and Border Protection</i>	
Personnel Compensation and Benefits	\$ 9,661
Contractual Services and Supplies	3,142
Acquisition of Assets	592
Grants, Subsidies, and Contributions	6
Insurance, Refunds, and Other Spending	1,431
<b>Total Spending</b>	<b>14,832</b>
 <i>U.S. Coast Guard</i>	
Personnel Compensation and Benefits	5,471
Contractual Services and Supplies	4,190
Acquisition of Assets	1,205
Grants, Subsidies, and Contributions	31
Insurance, Refunds, and Other Spending	85
<b>Total Spending</b>	<b>10,982</b>
 <i>Federal Emergency Management Agency</i>	
Personnel Compensation and Benefits	1,189
Contractual Services and Supplies	2,309
Acquisition of Assets	776
Grants, Subsidies, and Contributions	10,953
Insurance, Refunds, and Other Spending	10,826
<b>Total Spending</b>	<b>26,053</b>
 <i>U.S. Immigration and Customs Enforcement</i>	
Personnel Compensation and Benefits	2,891
Contractual Services and Supplies	2,758
Acquisition of Assets	123
Insurance, Refunds, and Other Spending	13
<b>Total Spending</b>	<b>5,785</b>

(Continued)

**Department of Homeland Security**  
**Schedule of Spending**  
**For the Year Ended September 30, 2013**  
(In Millions)

	<b>2013</b>
<i><b>Transportation Security Administration</b></i>	
Personnel Compensation and Benefits	4,662
Contractual Services and Supplies	2,893
Acquisition of Assets	225
Grants, Subsidies, and Contributions	80
Insurance, Refunds, and Other Spending	4
<b>Total Spending</b>	<b>7,864</b>
 <i><b>Directorates and Other Components</b></i>	
Personnel Compensation and Benefits	3,905
Contractual Services and Supplies	6,435
Acquisition of Assets	545
Grants, Subsidies, and Contributions	141
Insurance, Refunds, and Other Spending	23
<b>Total Spending</b>	<b>11,049</b>
 <i><b>Department Totals</b></i>	
Personnel Compensation and Benefits	27,779
Contractual Services and Supplies	21,727
Acquisition of Assets	3,466
Grants, Subsidies, and Contributions	11,211
Insurance, Refunds, and Other Spending	12,382
<b>TOTAL AMOUNT AGREED TO BE SPENT</b>	<b>\$ 76,565</b>
 <b>Who Did the Money Go To?</b>	
Non-Federal Obligations	\$ 65,240
Federal Obligations	11,325
<b>TOTAL AMOUNT AGREED TO BE SPENT</b>	<b>\$ 76,565</b>

## Summary of Financial Statement Audit and Management Assurances

Table 1 and Table 2 below provide a summary of the financial statement audit results and management assurances for FY 2012.

**Table 1. FY 2013 Summary of the Financial Statement Integrated Audit Results**

<b>Audit Opinion</b>	<b>UNMODIFIED</b>				
<b>Restatement</b>	<b>YES</b>				
<b>Material Weakness</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending Balance</b>
Financial Reporting	1				1
IT Controls & System Functionality	1				1
Property, Plant & Equipment	1				1
Budgetary Accounting	1				1
Environmental and Other Liabilities	1		✓		0
<b>Total Material Weaknesses</b>	<b>5</b>	<b>0</b>	<b>(1)</b>	<b>0</b>	<b>4</b>

In FY 2013, the Independent Auditor’s Report on the integrated financial statement audit identified four material weakness conditions at the Department level. Corrective actions were implemented by management, which resulted in several conditions at the Department level being reduced in severity or resolved from prior year. For example, Environmental and Other Liabilities at U.S. Coast Guard (USCG), Financial Reporting at the Transportation Security Administration (TSA), Property, Plant and Equipment (PP&E) at the Immigration and Customs Enforcement (ICE), and Budgetary Accounting at FLETC, were all resolved. In addition, IT Controls and Systems Functionality at the Federal Emergency Management Agency (FEMA) was reduced in severity.

In FY 2013, the Department is providing reasonable assurance on internal controls over financial reporting, with the exception of four material weaknesses identified in Table 2. Management has performed its evaluation, and the assurance is provided based upon the cumulative assessment work performed on Entity Level Controls, Financial Reporting, Budgetary Resources, Environmental Liabilities, Fund Balance with Treasury, Human Resources and Payroll Management, Payment Management, Insurance Management, and Revenue and Receivables. DHS management has remediation work to continue in FY 2014; however, no additional material weaknesses were identified as a result of the work performed in these business process areas. The following table provides those areas where material weaknesses were identified and remediation work continues.

**Table 2. FY 2013 Effectiveness of Internal Control Over Financial Reporting**

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA SECTION 2)					
Statement of Assurance	Qualified				
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Reporting	1				1
IT Controls & System Functionality	1				1
Property, Plant & Equipment	1				1
Budgetary Accounting	1				1
<b>Total Material Weaknesses</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4</b>
EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA SECTION 2)					
Statement of Assurance	Unqualified				
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Assistance Awards Policy & Oversight	1		✓		0
Acquisition Management	1		✓		0
Funds Control	1		✓		0
<b>Total Material Weaknesses</b>	<b>3</b>	<b>0</b>	<b>(3)</b>	<b>0</b>	<b>0</b>
CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS (FMFIA SECTION 4)					
Statement of Assurance	SYSTEMS DO NOT CONFORM WITH FINANCIAL SYSTEM REQUIREMENTS				
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Federal Financial Management Systems Requirements, including Financial Systems Security & Integrate Financial Management Systems	1				1
Noncompliance with the U.S. Standard General Ledger	1				1
Federal Accounting Standards	1				1
<b>Total Non-Conformances</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>
Compliance with Federal Financial Management Improvement Act (FFMIA)					
	DHS		Auditor		
<b>1. System Requirements</b>	Noncompliance noted		Noncompliance noted		
<b>2. Accounting Standards</b>	Noncompliance noted		Noncompliance noted		
<b>3. USSGL at Transaction Level</b>	Noncompliance noted		Noncompliance noted		

### *Effectiveness of Internal Control Over Financial Reporting*

Pursuant to the *Department of Homeland Security Financial Accountability Act*, the Department has focused its efforts on evaluating corrective actions to assess whether previously reported material weaknesses continue to exist. In cases where material weaknesses continue to exist, the Department focused on identifying significant financial reporting areas where assurance can be provided and developed interim compensating measures to support the Secretary's commitment to obtain a clean opinion on all financial statements. Since FY 2005 DHS reduced audit qualifications from 10 to 0, and material weaknesses by more than half. For the eighth consecutive year, we have made progress strengthening Department-wide internal controls over financial reporting, as evidenced by the following FY 2013 achievements:



- USCG sustained the implemented the Audit Command Language as a mitigating control and reduced the severity of weaknesses related to Financial Reporting and Budgetary Accounting.
- The Offices of the Chief Financial Officer (OCFO) and Chief Information Security Officer partnered to provide direct assistance to Components in executing financial system security corrective actions and performing validation and verification procedures, resulting continued risk reductions of system security vulnerabilities at FEMA, ICE, and USCIS.
- TSA's corrective actions fully remediated a longstanding material weakness in Financial Reporting by developing sustainable processes, policies, and procedures for effective internal controls related to Internal Use Software and reconciliation of property balances.
- FEMA continues to work toward strengthening its internal controls surrounding the tracking and monitoring of audit findings; finalizing governance policy for strategic funds management of public assistance and hazard mitigation grants; and developed an enhanced process for post-award grant financial monitoring; and prioritizing regions with large volumes of OIG open audit recommendations of large amounts of questioned costs for timelier review and close-actions. In addition, FEMA continues to work toward establishing and strengthen controls over Budgetary Accounting by implementing and sustaining enhanced policies, procedures, and processes to improve the accuracy in recording funding transactions; performing and documenting monthly Budget Execution reviews resulting FEMA's ability to validate undelivered orders (UDOs).
- MGT's corrective actions reduced the severity of a long standing material weakness in Budgetary Accounting. Office of Financial Operations has developed a process to communicate with trading partners on a regular basis to identify unfilled customer/undelivered order balances and a process to effectively monitor UDOs where the period of performance has expired.

Significant internal control challenges remain in the areas of Financial Reporting; IT Controls and System Functionality; PP&E; and Budgetary Accounting. To support the remediation effort, the Department's CFO has initiated a financial system modernization initiative to address the Component's challenges with remediating the existing material weaknesses and non-compliance with federal financial systems requirements. The CFO conducts weekly risk management meetings with applicable Components, Senior Management, and Staff. Table 3 summarizes financial statement audit material weaknesses in internal controls as well as planned corrective actions with estimated target correction dates.

**Table 3. FY 2013 Internal Control Over Financial Reporting Corrective Actions**

Material Weakness	Component	Year Identified	Target Correction
		USCG and ICE	FY 2003
<b>Financial Reporting</b>	DHS has not established an effective financial reporting process due to the lack of integrated financial processes and systems. The USCG materially contributes, while ICE aggregated weaknesses significantly contribute to the Department's overall material weakness.		
<b>Corrective Actions</b>	The DHS OCFO will continue to support USCG, FEMA, and ICE in implementing corrective actions to establish effective financial reporting control activities.		

Material Weakness	Component	Year Identified	Target Correction
		USCG, FEMA, CBP, ICE, and USCIS	FY 2003
<b>IT Controls and System Functionality</b>	The Department's Independent Public Auditor has identified Financial Systems Security as a material weakness in internal controls since FY 2003 due to inherited control deficiencies surrounding general computer and application controls. FEMA materially contributes, while USCG, U.S. Customs and Border Protection (CBP), ICE, and USCIS significantly contribute to the Department's overall material weakness. The <i>Federal Information Security Management Act</i> mandates that federal agencies maintain IT security programs in accordance with OMB and National Institute of Standards and Technology guidance. In addition, the Department's financial systems do not conform to the <i>Federal Financial Management Improvement Act</i> .		
<b>Corrective Actions</b>	The DHS OCFO and OCIO will support USCG, FEMA, CBP, ICE, and USCIS design and implementation of internal controls in accordance with DHS 4300A, <i>Sensitive Systems Handbook, Attachment R: Compliance Framework for CFO Designated Financial Systems</i> . In addition, the Department will continue to move forward with financial system modernization.		

Material Weakness	Component	Year Identified	Target Correction
		USCG, CBP, and ICE	FY 2003
<b>Property, Plant, and Equipment</b>	The controls and related processes surrounding USCG PP&E to accurately and consistently record activity are either not in place or contain errors and omissions. In addition, a significant deficiency was identified at CBP and a material weakness at ICE which contribute to the overall material weakness.		
<b>Corrective Actions</b>	USCG will implement policies and procedures to support completeness, existence, and valuation assertions for PP&E. The DHS OCFO will continue efforts to support USCG and other Components in implementing corrective actions to address capital asset conditions and develop policies and procedures to establish effective financial reporting control activities.		

Material Weakness	Component	Year Identified	Target Correction
	USCG, FEMA, ICE, and MGMT	FY 2004	FY 2014
<b>Budgetary Accounting</b>	The Department identified weaknesses in the Budgetary Resource Management process such as the lack of fully implemented policies and procedures, ineffective monitoring controls, and lack of effective verification and validation of obligation. USCG, FEMA, ICE, and MGMT contribute to the overall Department level material weakness.		
<b>Corrective Actions</b>	The DHS OCFO will continue to support USCG, FEMA, ICE, and MGMT, in implementing corrective actions to establish effective financial reporting control activities including funds controls, effective obligation management, and validation of undelivered orders.		

*Effectiveness of Internal Control Over Operations*

The DHS Management Directorate is dedicated to ensuring that departmental offices and Components perform as an integrated and cohesive organization, focused on the Department’s frontline operations to lead efforts to achieve a safe, secure, and resilient homeland. Critical to this mission is a strong internal control structure. As we strengthen and unify DHS operations and management, we will continually assess and evaluate internal controls to ensure the effectiveness and efficiency of operations and compliance with laws and regulations. For the eighth consecutive year, we have made tremendous progress in strengthening Department-wide internal controls over operations, as evidenced by the following FY 2013 achievements:

- The OCFO improved stewardship of Federal assistance funding across DHS. The OCFO published seventeen policies in FY 2013 to guide Components’ and Awardees’ actions; improved completeness and accuracy of data provided to OMB’s Data Quality Initiative from 50 percent to 99 percent; drafted a Financial Assistance Risk Strategy document and a Financial Assistance Component and Awarding Offices Oversight Plan; substantially completed implementation of the financial assistance policy framework to streamline and standardize processes across the Department; held a Financial Assistance Training Day; and stood up the Council of Heads of Financial Assistance Activities and Chief Executives of Financial Assistance Activities. The remaining weakness centers on the execution and monitoring of Financial Assistance policies. As a result of these actions, this FY 2012 material weakness was downgraded to a reportable condition which will be tracked internally.
- The OCFO, working with Components, improved funds control. Specifically, USSS completely implemented funds control policies and procedures to address a prior-year Anti-Deficiency Act violation reported by GAO. ICE improved the organizational effectiveness of funds management by establishing controls for the undelivered orders monitoring and de-obligation processes and by clearly defining roles, responsibilities, and authorities of Budget, Procurement, Finance, and Program Offices and realized approximately \$204 million of expired funds. As a result of these actions, this FY 2012 material weakness was downgraded to a reportable condition which will be tracked internally.

- The Office of the Chief Procurement Officer working with a fully established Program Accountability and Risk Management Office reduced or eliminated conditions that contributed to a material weakness in FY 2012 for Acquisition Management. Actions taken in FY 2013 to close the competency gap between junior and senior level employees and build an interdisciplinary workforce include: establishing certification programs for nine acquisition disciplines, holding classroom and online courses at the Homeland Security Acquisition Institute, and implementation of a Federal Acquisition Institute Training Application System which tracks certifications, documents training plans, and handles class registrations. Improvements in industry-Government communication include: training offered at five industry led seminars and a mock debriefing workshop, establishment of an Industry Liaison Council, and monitoring and results from an Acquisition Planning and Forecast System. The remaining weakness centers on the lack of financial and procurement systems integration. As a result of these actions, this FY 2012 material weakness was downgraded to a reportable condition which will be tracked internally.

## Improper Payments Information Act

The *Improper Payments Information Act (IPIA) of 2002* (Pub. L. 107-300) requires agencies to review their programs and activities to identify those susceptible to significant improper payments. The IPIA was amended on July 22, 2010, by the *Improper Payments Elimination and Recovery Act (IPERA) of 2010* (Pub. L. 111-204). IPERA strengthened the requirement for government agencies to carry out cost-effective programs for identifying and recovering overpayments made to contractors, also known as “recovery auditing.” OMB has established specific reporting requirements for agencies with programs that possess a significant risk of improper payments and for reporting on the results of recovery auditing activities. As noted below, DHS will implement corrective action plans for all programs with estimated improper error amounts above \$10 million. Key achievements for FY 2013 include: the reduction in estimated improper payments for high risk programs, the completion of full independent reviews of the Components, the maturation of the Do Not Pay Implementation Plan; and closure of six of eight OIG recommendations from FY 2012 IPERA Compliance audit (with closure of the remaining two recommendations dependent upon FY 2013 OIG test-work). In the tables which follow, all table amounts are rounded to the nearest whole dollar.

### I. Risk Assessments

In FY 2013, DHS conducted risk assessments on 79 DHS programs, totaling nearly \$30 billion in FY 2012 disbursements. We completed risk assessments for all programs unless total disbursements were less than \$10 million or testing was required based on prior year results. We assessed all payment types except for federal Intra-governmental payments which were excluded based on changes to the definition of an improper payment contained in IPERA and as listed in the resulting OMB implementing guidance and government charge card payments which are separately tested under OMB Circular A-123 Appendix B, *Improving the Management of Government Charge Card Programs*. Agencies were also given the option of excluding payroll payments.

Improper payment estimates in this section are based on statistical estimates for FY 2012 payments. These estimates are then projected for FY 2013 and beyond, based on the timing and significance of improvements expected from completing corrective actions.

The susceptibility of programs making significant improper payments was determined by qualitative and quantitative factors. These factors included:

- Payment Processing Controls – Management’s implementation of internal controls over payment processes, including existence of current documentation, the assessment of design and operating effectiveness of internal controls over payments, the identification of deficiencies related to payment processes and whether or not effective compensating controls are present, and the results of prior IPIA payment sample testing.
- Quality of Internal Monitoring Controls – Periodic internal program reviews to determine if payments are made properly. Strength of documentation requirements and standards to support test of design and operating effectiveness for key payment controls. Presence or absence of compensating controls.

- Human Capital – Experience, training, and size of payment staff. Ability of staff to handle peak payment requirements. Level of management oversight and monitoring against fraudulent activity.
- Complexity of Program – Time program has been operating. Complexity and variability of interpreting and applying laws, regulations, and standards required of the program.
- Nature of Payments and Recipients – Type, volume, and size of payments. Length of payment period. Quality of recipient financial infrastructure and procedures. Recipient experience with federal award requirements.
- Operating Environment – Existence of factors that necessitate or allow for loosening of financial controls. Any known instances of fraud. Management’s experience with designing and implementing compensating controls.
- Additional Grant Programs Factors – Federal Audit Clearinghouse information on quality of controls within grant recipients. Identification of deficiencies or history of improper payments within recipients. Type and size of program recipients and sub-recipients. Maturity of recipients’ financial infrastructure, experience with administering federal payments, number of vendors being paid, and number of layers of sub-grantees.
- Contract Payment Management – Identification of contract management weaknesses identified in previous payment testing. Discrepancies between Contracting Officer Representatives (COR) reviewing and approving invoices with CORs listed in contract. Contractors reviewing and approving invoices on behalf of the COR. Lack of familiarity with goods and services listed on invoices. Time available to review invoices prior to payment. Sufficiency of supporting documentation to support invoice amount prior to payment. Completeness of contract file in order to verify agreed upon amounts for goods and/or services.

A weighted average of these qualitative factors was calculated. This figure was then weighted with the size of the payment population to calculate an overall risk score.

Based on this year’s assessment process, the following programs were deemed to be vulnerable to significant improper payments:

**Table 4. Programs at High-Risk for Improper Payments Based on FY 2013 Risk Assessments and Prior Year Payment Sample Testing**

Component	Program Name	FY 2013 Disbursements (Based on FY 2012 Actual Data) (\$ Millions)
CBP	Border Security Fencing	\$173
	Custodial – Refund & Drawback	\$1,937
FEMA <sup>1</sup>	Disaster Relief Program – Vendor Payments	\$750
	Insurance – National Flood Insurance Program (NFIP)	\$2,127
	Grants – Public Assistance Programs (PA)	\$3,670
	Grants – Homeland Security Grant Program (HSGP)	\$1,699
	Grants – Assistance to Firefighters Grants (AFG)	\$425
	Grants – Transit Security Grants Program (TSGP)	\$328
	Grants – Emergency Food and Shelter Program (EFSP)	\$89
ICE	Enforcement and Removal Operations (ERO)	\$1,691
NPPD	Federal Protective Service (FPS)	\$878
<b>Total Disbursements</b>		<b>\$13,767</b>

Note 1: All FEMA disbursement totals are national figures. Selected states and territories were tested for the state-administered programs HSGP, PA, TSGP. See the notes under Table 5 for a listing of states and territories tested for these programs in FY 2013.

## II. Statistical Sampling

For FY 2013 reporting, a stratified sampling design was used to test payments based on FY 2012 disbursement amounts and the assessed risk of the program. The design of the statistical sample plans and the extrapolation of sample errors across the payment populations were completed by a statistician under contract.

Sampling plans provided an overall estimate of the percentage of improper payment dollars within ±2.5 percent precision at the 90 percent confidence level, as specified by OMB M-03-13 guidance. An expected error rate of 3 to 10 percent of total payment dollars was used in the sample size calculation.

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

The following procedure describes the sample selection process:

- Grouped payments into mutually exclusive strata;
- Assigned each payment a randomly number generated using a seed;
- Sorted the population by stratum and random number within stratum; and

- Selected the number of payments within each stratum (by ordered random numbers) following the sample size design. For the certainty strata, all payments are selected.

To estimate improper payment dollars for the population from the sample data, the stratum-specific ratio of improper dollars (gross, underpayments, and overpayments, separately) to total payment dollars was calculated.

DHS sample test results are listed in Table 5.

**Table 5. DHS Sample Test Results**

Component	Program	FY 2013 Payment Population (Based on FY 2012 Actual Data) (\$ millions)	FY 2013 Sample Size (Based on FY 2012 Actual Data) (\$ millions)	FY 2013 Est. Error Amount (Based on FY 2012 Actual Data) (\$ millions)	FY 2013 Est. Error Percentage (Based on FY 2012 Actual Data) (%)
CBP	Border Security Fencing	\$173	\$107	\$0	<0.01%
	Refund & Drawback	\$1,937	\$88	\$7	0.36%
FEMA	Disaster Relief Program – Vendor Payments	\$750	\$296	\$23	3.11%
	Insurance – National Flood Insurance Program (NFIP)	\$2,127	\$29	\$0	0.02%
	Grants – Public Assistance Programs (PA) <sup>1</sup>	\$1,697	\$290	\$8	2.78%
	Grants – Homeland Security Grant Program (HSGP) <sup>2</sup>	\$595	\$155	\$4	2.71%
	Grants – Assistance to Firefighters Grants (AFG)	\$425	\$118	\$5	1.07%
	Grants – Transit Security Grants Program (TSGP) <sup>3</sup>	\$117	\$61	\$2	2.78%
	Grants – Emergency Food and Shelter Program (EFSP)	\$89	\$13	\$0	0.34%
ICE	Enforcement and Removal Operations (ERO)	\$1,691	\$438	\$73	4.33%
NPPD	Federal Protective Service	\$878	\$201	\$0	0.03%
<b>DHS</b>	<b>All Programs<sup>4</sup></b>	<b>\$10,479</b>	<b>\$1,796</b>	<b>\$122</b>	<b>1.16%<sup>5</sup></b>
<b>DHS</b>	<b>High Risk Programs<sup>6</sup></b>	<b>\$4,733</b>	<b>\$1,179</b>	<b>\$108</b>	<b>2.28%</b>

Note 1. Sample testing of the Public Assistance Program was done in two stages covering nine States (IA, IL, KS, LA, MN, MO, OH, OK, and TX). These States paid out \$1,697 million out of a national total of \$3,670 million. The totals in the table are the stage two payment populations for the States and Territory tested in FY 2012. DHS exempted Oklahoma from participating in improper payment testing during this reporting period due to significant 2013 tornado activity, as resources were needed to support relief efforts. The totals for sample size, error amount and error in the table reflect the exclusion of Oklahoma. See Table 12 Improper Payment Reduction Outlook for the national estimated error rate and amount.

Note 2. Sample testing of the Homeland Security Grant Program was done in two stages covering 18 States (AZ, CO, FL, KY, LA, MI, MN, MO, MT, NC, NE, NJ, NM, NV, OH, PA, VT, and WA), District of Columbia, and Mariana Island. These States and Territories paid out \$595 million out of a national total of \$1,699 million. The totals in the table are the stage two payment populations for the States and Territories tested. See Table 12 Improper Payment Reduction Outlook for the national estimated error rate and amount.

Note 3. Sample testing of the Transit Security Grant Program was done in two stages covering twelve States (CA, CO, CT, IL, MD, MI, NC, NJ, NV, OH, RI, and UT), District of Columbia, and Puerto Rico. These States and Territories paid out \$117 million out of a national total of \$328 million. The totals in the table are the stage two payment populations for the States and Territories tested. See Table 12 Improper Payment Reduction Outlook for the national estimated error rate and amount.



Note 4. Program total of \$10,479 in this table differs from \$13,767 total in Table 12 Improper Payment Reduction Outlook. For State-Administered grant programs, this table lists the population totals for the States tested, while Table 12 Improper Payment Reduction Outlook lists the national payment populations.

Note 5. Percentage figures based on cumulative totals.

Note 6. Totals for programs with estimated error amounts of \$10 million or greater as listed in this table.

Several programs considered at high risk based on risk assessment grading were not confirmed as high risk based on sample test results. The main reason for the estimated error rates falling below \$10 million for these programs was the presence of strong compensating controls such as additional levels of payment review for manually intensive processes.

Based on the results of sample testing, corrective action plans are required for the following four programs due to national estimated error amounts above \$10 million:

1. FEMA’s Disaster Relief Program - Vendor Payments;
2. FEMA’s Public Assistance Program;
3. FEMA’s Homeland Security Grant Program; and,
4. ICE’s Enforcement and Removal Operations Program.

**III. Corrective Actions**

The following tables list corrective actions for programs with estimated improper error amounts above \$10 million. These corrective actions are targeted at addressing the root causes behind administrative and documentation errors caused by the absence of the supporting documentation necessary to verify the accuracy of the claim; or inputting, classifying, or processing applications or payments incorrectly by DHS, a state agency, or a third party who is not the beneficiary. Authentication and medical necessity errors and verification errors were either not identified or were immaterial to the estimated error rates and amounts of DHS high-risk programs.

*Status of Prior Year Corrective Action Plans for ICE High-Risk Programs*

**Table 6. ERO Corrective Actions**

Risk Factors	Corrective Actions	Completed Date
<b>Category of Error: Missing Documentation</b>		
1. Insufficient documentation to support and/or validate financial transactions	1. Provide payment documentation requirements and instructions to the program offices. Instructions to detail the following: (1) invoices that do not contain all invoice backup documentation must be rejected by the receiving and acceptance official, (2) compliance required with record retention guidelines according to National Archives and Records Administration, and (3) the need for program offices to maintain and have readily available all service agreements and memoranda of understanding.	Completed- May 2012
	2. Automate FY 2012 IPERA documentation collection by establishing a central SharePoint collaboration site.	Completed- March 2012

Risk Factors	Corrective Actions	Completed Date
<b>Category of Error: Invalid / Improper Invoice</b>		
1. Vendor payments delayed or made incorrectly due to inadequate information	1. Conduct refresher training for payment technicians on elements of a proper invoice and ensure that improper invoices are rejected upon receipt.	Completed- May 2012
<b>Category of Error: Contract Quality</b>		
1. Improper processing of contracts and obligations; not in compliance with the Federal Acquisition Regulation	1. Implement new receipt and acceptance requirements.	Completed- September 2012
<b>Category of Error: Payment Quality and Accuracy</b>		
1. Improper processing of vendor payments and disbursements	1. Conduct refresher training for contracting officer, contracting officer's representatives (COR), and/or program manager to ensure review of invoices to contracted pricing, invoice alignment to correct obligations, and accurate and complete supporting documentation.	Completed- May 2012
	2. Conduct refresher training for finance centers and implement an updated checklist to incorporate the review of invoices for date (discount/penalty), correct contract, and correct obligation lines.	Completed- May 2012
<b>Category of Error: Identify and Correct Known Errors in ICE Detention Agreements</b>		
1. Payments may be made inaccurately due to amount, vendor, and/or without appropriate supporting documentation	1. Establish a tracking report for identified vendor and pricing errors.	Completed - November 2012
	2. Modify detention agreements to correct known vendor errors.	Completed - December 2012
	3. Modify detention agreements to correct known pricing errors.	Completed - February 2013
	4. Identify FY 2012 invoice documentation for detention agreements currently located at ERO Offices and upload to centralized system of record for retention.	Completed - April 2013
<b>Category of Error: Updates Needed to Marshal Service Agreements (MSA) used for ICE Detainees</b>		
1. Payment may be made for ineligible items	1. Review MSAs to ensure ICE is included within the scope of the agreement and, when necessary, notify Procurement of need to add ICE to scope.	Completed - December 2012
	2. MSAs modified to include ICE in scope and updated agreement stored in system of record.	Partially Completed September 2013- Eight agreements updated with four remaining which will be incorporated into FY 2014 Corrective Action Plan

Risk Factors	Corrective Actions	Completed Date
<b>Category of Error: More Robust Invoice Review and Approval Needed</b>		
1. Payment may be made inaccurately due to amount, vendor, and/or without appropriate supporting documentation	1. Issue interim guidance regarding invoice review and approval to Contracting Officer Representatives (COR).	Completed - November 2012
	2. Conduct training sessions for CORs on interim guidance.	Completed - December 2012
	3. Develop invoice review checklist and reference guide. Conduct training sessions, as appropriate.	Completed - March 2013
	4. Issue final guidance.	Completed - March 2013
	5. Update checklist and reference guide. Conduct training sessions for CORs and accounting technicians on final guidance.	October 2013 – Closed out and incorporated into FY 2014 Corrective Action Plans
<b>Category of Error: Inaccurate Contracting Officer Representative Designations</b>		
1. Payment may be made inaccurately due to not being received by a duly authorized official	1. Review existing detention agreements for missing of inaccurate COR designation.	Completed - September 2013
	2. Update detention agreement to reflect designated COR.	Completed - September 2013
<b>Category of Error: Poor Obligating and Receiving and Acceptance Procedures</b>		
1. Payments may be made inaccurately due to amount, vendor, not received by duly authorized official, obligation not recorded properly, and/or without appropriate supporting documentation	1. Update procedures for obligating detention agreements.	Completed - February 2013
	2. Review, and if necessary, update guidance on completing requisitions for detention agreements to include coordination with Procurement to align contract requirements.	Completed - March 2013
	3. Update procedures regarding detention agreements receiving and acceptance. Provide guidance and instruction to CORs.	Completed - March 2013
<b>Category of Error: Enhancements Needed to Documentation Retention, Obligation, and Receiving/Acceptance Procedures for Telecommunications Orders</b>		
1. Payment may be made inaccurately without appropriate supporting documentation	1. Issue updated guidance on telecommunication order processing and recording.	Completed - March 2013
	2. Update guidance for obligating telecommunications orders and for receiving and acceptance.	Completed - May 2013
<b>Category of Error: Contract Quality</b>		
1. Improper processing of contracts and obligations; not in compliance with the Federal Acquisition Regulation	1. Establish and provide “Subject to Availability of Funds” guidance regarding notification to vendor for funds availability, receipt of invoice, and payment of interest.	Completed - May 2013

**Status of Prior Year Corrective Action Plans for NPPD High-Risk Programs**

The corrective actions implemented by NPPD and FPS will strengthen contract oversight and improve the review and processing of invoices and contract modifications.

**Table 7. Federal Protective Service Program Corrective Actions**

Risk Factors	Corrective Actions	Completed Date
<b>Category of Error: Contract Oversight</b>		
1. Contractor approving payment of invoices on behalf of the COTR	1. Remove contractors from the process of paying invoices, including terminating contractor access to Webview. Coordinate all Webview access requests through NPPD.	Completed- November 2011
2. Contract administration weakness	1. FPS Acquisition Division will establish a team of senior procurement officials and operational procurement staff to identify improvements to contract administration including invoicing and documentation.	Completed- March 2012
	2. FPS Acquisition Division will coordinate with program offices and contracting officers to identify and provide written delegations of authority to federal employees which facilitate an efficient invoice review and approval process.	Completed- January 2012
	3. Provide training to contracting officers, COTRs, and appropriate program officials on invoice review and contract modifications. Emphasis will be on the timely correction of errors on invoices and contract lines.	Completed- June 2012
<b>Category of Error: Contract Oversight</b>		
1. Contractor approving payment of invoices on behalf of the COR	1. Provide CORs with support to review and approve payments within Webview.	Completed- August 2013
	2. Issuance of updated Invoicing Policy (POP 603R1). POP 603R1 will provide additional support to CORs by requiring COs to approve all invoices submitted for payment. This will reduce the administrative responsibilities currently placed on the CORs. Per DHS Acquisition policy, the contacting officer may delegate certain authorities to the CORs such as reviewing invoices of any contract type; however approving authority may only be delegated to CORs for Firm Fixed Price type contracts. Most of FPS's contracts are other than Firm Fixed Price.	Completed- July 2013
2. Contract Administration Weakness	1. Continue to implement the recommendations of the IPERA Contract Administration Improvement Team and monitor progress/quality improvements	Completed- August 2013
	2. Issuance of updated Invoicing Policy (POP 603R1). POP 603R1 will address identified contract administration weaknesses, align FPS processes with the HSAM, and adopt the "best practices" of OPO and NPPD.	Completed- July 2013

**Corrective Action Plans for FY 2013 FEMA High-Risk Programs**

**Table 8. Planned Disaster Relief Fund Vendor Payments Program Corrective Actions**

Risk Factors	Corrective Actions	Target Completion Date
<b>Category of Error: Insufficient Policies to Prevent Improper Payments</b>		
1. FEMA COR manual needs to be updated for revised DHS COR policy	1. Update FEMA COR manual to be consistent with DHS COR policy regarding the following: <ul style="list-style-type: none"> <li>o Clarify who has the authority to approve cost reimbursable and T&amp;M payments (DHS COR manual section 7.14);</li> <li>o Clarify impact of DCAA-DHS MOU requiring 1<sup>st</sup> invoices be routed through DCAA on cost reimbursable contracts.</li> </ul>	March 2014
2. Vendor payments standard operating procedures need to be strengthened	1. Add a chapter on invoice reviews required in each step of the invoice payment cycle.	March 2014
3. Training needed on invoicing roles and responsibilities throughout the contract life-cycle	1. Institute mandatory and refresher training for contracting officers, contracting officer's technical representatives, and accounting technicians.	March 2014
<b>Category of Error: Non Contract Payments</b>		
1. Standard operating procedures needed	1. Develop a process and standard operating procedures for authorizing and paying non-contract payments such as lease payments and bills of lading.	March 2014
<b>Category of Error: Acceptance and Receiving</b>		
1. Reports and contract file maintenance needs improvement	1. Develop a standard inspection, acceptance, and receiving report for contracting officer's technical representatives and complete training on its proper completion and use.	January 2014
	2. Implement an electronic contract file maintenance system.	September 2014

\*Note: DRF-Vendor payments corrective action plan will not change because this year's testing yielded the same or similar issues as last year.

**Table 9. Planned Public Assistance Program Corrective Actions**

Risk Factors	Corrective Actions	Target Completion Date
<b>Category of Error: Unmet Work Completion Deadline</b>		
1. Failure to Complete Work During Period of Performance	1. Increase grantee documentation review guidance and create and conduct Public Assistance payment processing training.	June 2014

Risk Factors	Corrective Actions	Target Completion Date
<b>Category of Error: Scope Discrepancy between Project Worksheet Scope of Work (SOW) and Supporting Documentation</b>		
1. Discrepancies Found between PW SOW and Supporting Documentation	1. Require FEMA project specialists and Public Assistance coordinators to take training courses on proper PW data entry and development, project writing skills, and audit review requirements.	June 2014
	2. Develop reference guides and/or checklists for costs documentation reviews to improve consistency of scope reviews.	June 2014
	3. Offer grantee invoice and force account documentation review guidance or training to ensure the scope of supporting documentation falls within the scope of the PW/SA.	June 2014
<b>Category of Error: Insufficient Supporting Documentation</b>		
1. Missing Invoices and Missing Proof of Payment	1. Enhance HSGP <i>Guidance</i> related to grant financial management guidelines, standardized minimum reporting requirements, and financial recordkeeping to reduce gaps in the Grantee and Sub-Grantee invoice and/or other expenditure documentation.	March 2014
	2. Require Grantees and Sub-Grantees to comply with document retention requirements past the required three-year grant period.	March 2014
	3. Conduct training for HSGP program and financial officers to include compliance with standardized financial management practices, responding to documentation requests, and document retention	March 2014
<b>Category of Error: Time Frames Not Met</b>		
1. Application Deadlines not met	1. Enhance HSGP <i>Guidance</i> related to grant financial management guidelines, standardized minimum reporting requirements.	March 2014
	2. Reinforce Program Specialist training on Grant Approval Process.	March 2014
	3. Require Program Specialist to approve a Grant Adjustment Notice with First level supervisor approval for grant applications submitted after deadline.	March 2014
<b>Category of Error: Unallowable Costs</b>		
1. Grantees used current fiscal year grant funds to pay prior grant award expenditures	1. Provide grantees with additional training on Allowable and unallowable costs.	March 2014
	2. Develop Allowable Costs Quick Reference Guide and distribute to grantees on an annual basis.	March 2014
	3. Enhance Grants Financial Monitoring efforts by incorporating intermittent sample testing of expenditures during the grants life cycle.	September 2014

**Table 10. Planned Homeland Security Grant Program Corrective Actions**

Risk Factors	Corrective Actions	Target Completion Date
<b>Category of Error: Insufficient Supporting Documentation</b>		
1. Missing Invoices and Missing Proof of Payment	1. Enhance <i>HSGP Guidance</i> related to grant financial management guidelines, standardized minimum reporting requirements, and financial recordkeeping to reduce gaps in the Grantee and Sub-Grantee invoice and/or other expenditure documentation.	March 2014
	2. Require Grantees and Sub-Grantees to comply with document retention requirements past the required three-year grant period.	March 2014
	3. Conduct training for HSGP program and financial officers to include compliance with standardized financial management practices, responding to documentation requests, and document retention	March 2014
<b>Category of Error: Time Frames Not Met</b>		
1. Application Deadlines not met	1. Enhance <i>HSGP Guidance</i> related to grant financial management guidelines, standardized minimum reporting requirements.	March 2014
	2. Reinforce Program Specialist training on Grant Approval Process.	March 2014
	3. Require Program Specialist to approve a Grant Adjustment Notice with First level supervisor approval for grant applications submitted after deadline.	March 2014
<b>Category of Error: Unallowable Costs</b>		
1. Grantees used current fiscal year grant funds to pay prior grant award expenditures	1. Provide grantees with additional training on Allowable and unallowable costs.	March 2014
	2. Develop Allowable Costs Quick Reference Guide and distribute to grantees on an annual basis.	March 2014
	3. Enhance Grants Financial Monitoring efforts by incorporating intermittent sample testing of expenditures during the grants life cycle.	September 2014

**Corrective Action Plans for FY13 ICE High-Risk Program**

**Table 11. Planned ERO Corrective Actions**

Risk Factors	Corrective Actions	Target Completion Date
<b>Category of Error: Lack of contractual documentation to support disbursement</b>		
1. Payments may be made when a proper contracting document does not exist; program offices may establish IROs to obligate for services outside of procurement channels	1. Review current guidance on Internal Recurring Obligations (IRO) and other miscellaneous obligations	December 2013
	2. Update documentation (ICS, SOP, etc.) as necessary	December 2013
	3. Communicate proper procurement procedures for IROs (i.e. wireless communications) and reinforce understanding of proper procurement procedures and contact info for questions	December 2013
	4. Transition inappropriately issued IROs to BPA calls or other modes of contracting, as necessary	March 2014
<b>Category of Error: R&amp;A is not performed consistently and properly</b>		
1. Payment may be made for incorrect amounts, items/services that are out of scope, duplicate items billed and services outside the period of performance  2. Receiving & acceptance not performed by authorized COR/Program POC, or COR/Program POC not designated in the contract	1. Review current guidance for CORs on receiving & acceptance	December 2013
	2. Update guidance for R&A to ensure all proper elements are captured and to ensure R&A is performed by the appropriate official(s) identified in the contract	January 2014
	3. Conduct mandatory training for all CORs on proper R&A	February 2014
	4. Distribute periodic communications to reinforce proper procedures and develop procedures for monitoring performance of receipt and acceptance by the appropriate official	April 2014
<b>Category of Error: COR invoice review and approval is not performed consistently and accurately</b>		
1. Payment may be made for incorrect amounts, items/services that are out of scope, duplicate items billed and services outside the period of performance  2. Invoice review & approval not performed by authorized COR/Program POC, or COR/Program POC not designated in the contract	1. Review current guidance for CORs on invoice review and approval	December 2013
	2. Update guidance for COR invoice review and approval to ensure all proper elements are captured and to ensure invoice review and approval is performed by the appropriate official(s) identified in the contract (signature on invoice?)	January 2014
	3. Conduct mandatory training for all CORs on proper invoice review and approval	February 2014
	4. Distribute periodic communications to reinforce proper procedures and develop procedures for monitoring the reviews	June 2014





#### IV. Program Improper Payment Reporting

Table 12 summarizes improper payment amounts for DHS high-risk programs. Improper payment percent (IP%) and improper payment dollar (IP\$) results are provided from last year's testing of FY 2011 payments and this year's testing of FY 2012 payments. Data for projected future-year improvements is based on the timing and significance of completing corrective actions.

**Table 12. Improper Payment Reduction Outlook**

Improper Payment Reduction Outlook (\$ in millions)															
Program	PY Outlays	PY IP%	PY IP\$	CY Outlays	CY IP%	CY IP\$	CY +1 Outlays	CY +1 Est. IP%	CY +1 Est. IP\$	CY +2 Est. Outlays	CY +2 Est. IP%	CY +2 Est. IP\$	CY +3 Est. Outlays	CY +3 Est. IP%	CY +3 Est. IP\$
	(Based on FY 2011 Actual Data)			(Based on FY 2012 Actual Data)			(Based on FY 2013 Actual and Estimated Data)			(Based on 2014 Estimated Data)			(Based on 2015 Estimated Data)		
BSF (CBP) <sup>1</sup>	\$197	0.03%	\$0	\$173	0.01%	\$0	\$157	0.01%	\$0	N/A	N/A	N/A	N/A	N/A	N/A
R&D (CBP)	\$1,343	0.01%	\$0	\$1,937	0.36%	\$7	\$1,300	0.02%	\$0	\$1,300	0.02%	\$0	\$1,300	0.02%	\$0
DRF (FEMA)	\$494	3.09%	\$15	\$750	3.11%	\$23	\$609	2.95%	\$18	\$618	2.81%	\$17	\$659	2.67%	\$18
NFIP (FEMA)	\$794	0.75%	\$6	\$2,127	0.02%	\$0	\$1,335	0.02%	\$0	\$1,419	0.02%	\$0	\$1,627	0.02%	\$0
PA (FEMA) <sup>2</sup>	\$2,990	0.31%	\$9	\$3,670	1.11%	\$41	\$3,397	1.05%	\$36	\$3,352	1.00%	\$34	\$3,473	0.95%	\$33
HSGP (FEMA) <sup>2</sup>	\$1,472	1.00%	\$15	\$1,699	1.31%	\$22	\$1,562	1.24%	\$19	\$1,578	1.18%	\$19	\$1,613	1.12%	\$18
AFG (FEMA)	\$471	1.60%	\$8	\$425	1.07%	\$5	\$427	1.02%	\$4	\$441	0.97%	\$4	\$431	0.92%	\$4
TSGP (FEMA) <sup>2</sup>	\$196	1.77%	\$3	\$328	2.06%	\$7	\$211	1.96%	\$4	\$245	1.86%	\$5	\$261	1.77%	\$5
EFSP (FEMA)	\$45	2.51%	\$1	\$89	0.34%	\$0	\$112	0.32%	\$0	\$82	0.31%	\$0	\$94	0.29%	\$0
ERO (ICE)	\$1,570	8.47%	\$133	\$1,691	4.33%	\$73	\$1,585	4.30%	\$68	\$1,446	4.00%	\$58	\$1,429	3.70%	\$53
FPS (NPPD) <sup>3</sup>	\$733	1.37%	\$10	\$878	0.03%	\$0	\$922	0.50%	\$5	\$968	0.50%	\$5	\$1,016	0.50%	\$5
<b>All Programs<sup>4</sup></b>	<b>\$10,305</b>	<b>1.94%</b>	<b>\$200</b>	<b>\$13,767</b>	<b>1.30%</b>	<b>\$178</b>	<b>\$11,618</b>	<b>1.33%</b>	<b>\$154</b>	<b>\$11,449</b>	<b>1.24%</b>	<b>\$142</b>	<b>\$11,903</b>	<b>1.14%</b>	<b>\$136</b>

Note 1: CBP's Border Security Fencing Program is on track to be eliminated in FY2014.

Note 2: FEMA has three State-Administered Programs—HSGP, PA, and TSGP—that are tested on a three-year cycle. To calculate the national error rate for FY 2012 actual data, error rates from States tested in FY 2011, FY 2012 and FY 2013 were applied to the FY 2012 State payment populations to derive a national average. Estimated outlays for FEMA programs were calculated by averaging the total disbursements for the past three fiscal years, due to the volatile nature of the programs tested. TSGP estimated outlay figures were based on the past two fiscal years that this program was tested.

Note 3: The error rate is projected to rise next year as the exceptionally low error rate of 0.03% may not prove sustainable. The estimated error rate reduction target of 0.50% is sustainable.

Note 4: After receiving approval from the Office of Inspector General and The Office of Management and Budget, FEMA's Disaster Relief Program- Individual and Households Program (IHP) was granted relief from testing in FY 2013. In dropping this program from the Improper Payment Reduction Outlook Table, the Totals for All Programs for PY will differ from the All Program CY totals published in the FY 2012 Annual Financial Report. PY figures for the IHP were \$880 million in FY 2011 disbursements, a 0.29% estimated error rate, and a \$3 million estimated error amount. Testing of this program will resume in FY 2014 as by legislation payments funded by the Disaster Relief Appropriations Act of 2013 must be considered at high-risk for improper payments and FEMA's IHP program received such funding.

**Overpayments and Underpayments Details**

The table that follows provides overpayment and underpayment breakouts for the Department’s high-risk programs. The table shows that over 99 percent of the Department’s estimated improper payments are due to overpayments.

**Table 13. Overpayment and Underpayment Detail on DHS Sample Test Results**

Component	Program	FY 2013 Gross Total (Based on FY 2012 Actual Data)		FY 2013 Overpayment Total (Based on FY 2012 Actual Data)		FY 2013 Underpayment Total (Based on FY 2012 Actual Data)	
		Est. Error Amount (\$ millions)	Est. Error Percentage (%)	Est. Error Amount (\$ millions)	Est. Error Percentage (%)	Est. Error Amount (\$ millions)	Est. Error Percentage (%)
CBP	BSF	\$0	0.01%	\$0	0.01%	\$0	0.01%
	R&D	\$7	0.36%	\$7	0.36%	\$0	0.00%
FEMA	DRF	\$23	3.11%	\$23	3.10%	\$0	0.01%
	NFIP	\$0	0.02%	\$0	0.01%	\$0	0.01%
	PA <sup>1</sup>	\$41	1.11%	\$41	1.11%	\$0	0.00%
	HSGP <sup>1</sup>	\$22	1.31%	\$22	1.31%	\$0	0.00%
	AFG	\$5	1.07%	\$5	1.07%	\$0	0.00%
	TSGP <sup>1</sup>	\$7	2.06%	\$7	2.06%	\$0	0.00%
	EFSP	\$0	0.34%	\$0	0.34%	\$0	0.00%
ICE	ERO	\$73	4.33%	\$72	4.29%	\$1	0.04%
NPPD	FPS	\$0	0.03%	\$0	0.02%	\$0	0.01%
<b>DHS</b>	<b>All Programs<sup>2</sup></b>	<b>\$178</b>		<b>\$177</b>		<b>\$1</b>	

Note 1: Figures for FEMA’s State-Administered Programs (HSGP, PA and TSGP) are based on the National error estimates listed in Table 12.

Note 2: IHP was removed from the sample test results for FY13 as described in Note 2 to Table 12.

**V. Recapture of Improper Payments**

DHS completed recovery audit activities for FY 2012 disbursements and continued collection activities for errors identified in prior-year recovery audits. Work was completed at CBP, FEMA, ICE (and its cross-serviced Components) and USCG (and its cross-serviced Components). FLETC and USSS performed a cost analysis in FY 2012 and determined that a general recovery audit would not be cost effective. Given the subsequent lack of claims identified by much larger DHS Components who performed recovery audit work and the absence of major changes to payment operations and risks at FLETC and the U.S. Secret Service, the Department did not require that recovery audit work be performed at these two Components in FY 2013. Recovery audit work has focused on contracts as grant system limitations at FEMA make it cost prohibitive to generate the files needed to perform recovery audit work. Additionally, recovery audit work over contracts at FEMA has not proven to be cost-effective to date.

The USCG followed up on its telecommunications payments targeted recovery audit performed in FY 2011. The telecommunications claims previously identified for FY 2011 are under review to verify documentation and validity and are in dispute. Such claims are listed in Table 14 as determined to not be collectable. USCG is working closely with former and current recovery auditors to ensure all improper payments are properly identified and have adequate support. Upon further examination, and support, the USCG re-established \$1,495,732 in claims and collected \$1,413,000 (95%) of those claims to date.

In FY 2013, USCG placed a contract with a new recovery audit vendor to perform a general vendor accounts payable audit and a targeted, analysis of FY 2012 telecommunication invoices. Recovery audit functions were shifted to USCG's Office of Internal Controls to ensure continuous monitoring and reporting. In addition, a two pronged approach has been adopted in USCG's analysis of telecom invoices: (1) all telecommunication invoices are closely examined by the USCG Finance Center to ensure all potential improper payments are valid and supportable. (2) An in depth analysis is then performed by Telecommunication and Information Systems Command.

A number of internal controls were implemented in FY 2013 to include appropriate review and approval for telecommunications contracts. Only Designated Agency Representatives (DARs) are authorized to enter into telecom contracts for USCG. The number of DARs was reduced to 18; thereby significantly improving oversight, accountability, and continuous monitoring of telecom contracts within USCG.

In Table 14, which follows, current year (CY) equals FY 2012 disbursements for all Components.

**Table 14. Payment Recapture Audit Reporting**

Comp.	Type of Payment (contract, grant, benefit, loan, or other)	Amount Subject to Review for CY Reporting (\$ millions)	Actual Amount Reviewed and Reported (CY) (\$ millions)	Amount Identified for Recovery (CY) (\$000)	Amount Recovered (CY) (\$000)	% of Amount Recovered out of Amount Identified (CY)	Amount Outstanding (CY) (\$000)	% of Amount Outstanding out of Amount Identified (CY)	Amount Determined Not to be Collectable (CY) (\$000)	% of Amount Determined Not to be Collectable out of Amount Identified (CY)	Amounts Identified for Recovery (PYs) (\$000)	Amounts Recovered (PYs) (\$000) <sup>1</sup>	Cumulative Amounts Identified for Recovery (CY + PYs) (\$000)	Cumulative Amounts Recovered (CY + PYs) (\$000)	Cumulative Amounts Outstanding (CY + PYs) (\$000)	Cumulative Amounts Determined Not to be Collectable (CY + PYs) (\$000)
CBP	contract	\$1,549	\$1,549	\$100	\$100	100%	\$0	0%	\$0	0%	\$263	\$259	\$363	\$359	\$0	\$4
DNDO <sup>1</sup>	contract	\$84	\$84	\$0	\$0	0%	\$0	0%	\$0	0%	\$1	\$1	\$1	\$1	\$0	\$0
FEMA <sup>2</sup>	contract	\$1,055	\$1,055	\$0	\$0	0%	\$0	0%	\$0	0%	\$181	\$0	\$181	\$0	\$0	\$181
ICE	contract	\$2,344	\$2,344	\$0	\$0	0%	\$0	0%	\$0	0%	\$1,756	\$1,624	\$1,756	\$1,624	\$8	\$124
MGMT <sup>3</sup>	contract	\$647	\$647	\$0	\$0	0%	\$0	0%	\$0	0%	\$210	\$210	\$210	\$210	\$0	\$0
NPPD <sup>3</sup>	contract	\$1,459	\$1,459	\$6	\$6	100%	\$0	0%	\$0	0%	\$216	\$216	\$222	\$222	\$0	\$0
OHA <sup>3</sup>	Contract	\$49	\$49	\$0	\$0	0%	\$0	0%	\$0	0%	\$0	\$0	\$0	\$0	\$0	\$0
S&T <sup>3</sup>	contract	\$437	\$437	\$2	\$2	100%	\$0	0%	\$0	0%	\$55	\$55	\$57	\$57	\$0	\$0
TSA <sup>1</sup>	contract	\$1,716	\$1,716	\$69	\$0	0%	\$69	100%	\$0	0%	\$722	\$722	\$791	\$722	\$69	\$0
USCG <sup>1</sup>	contract	\$2,386	\$2,386	\$0	\$0	0%	\$0	0%	\$0	0%	\$4,252	\$1,578	\$4,252	\$1,578	\$83	\$2,591
USCIS <sup>3</sup>	contract	\$897	\$897	\$0	\$0	0%	\$0	0%	\$0	0%	\$904	\$892	\$904	\$892	\$3	\$9
<b>DHS Totals</b>		<b>\$12,623</b>	<b>\$12,623</b>	<b>\$177</b>	<b>\$108</b>	<b>61%</b>	<b>\$69</b>	<b>39%</b>	<b>\$0</b>	<b>0%</b>	<b>\$8,560</b>	<b>\$5,557</b>	<b>\$8,737</b>	<b>\$5,665</b>	<b>\$163</b>	<b>\$2,909</b>

Note 1. DNDO and TSA are cross-serviced by the USCG. The difference in USCG CY outstanding and cumulative outstanding consists of the re-established telecommunications claims.

Note 2. MGMT, NPPD, OHA, S&T, and USCIS are cross-serviced by ICE. The payment population for MGMT will be included in the final version of this report.

Note 3. The DHS Totals do not list FLETC and the USSS as these Components completed cost analysis which determined that recovery audit work would not be cost effective at this time.



## **VI. Ensuring Management Accountability**

The goals and requirements of IPERA were communicated to all levels of staff throughout the Offices of the Chief Financial Officer and to relevant program office and procurement staff. The Department's Chief Financial Officer and senior staff and FEMA's Chief Financial Officer and senior staff have incorporated improper payment reduction targets in their annual performance plans. FEMA grant program managers have communicated to primary recipients that continued funding is contingent upon supporting the Department's improper payments efforts.

Managers are responsible for completing internal control work on payment processing as part of the Department's OMB Circular A-123 effort. Management's improper payments efforts at all Federal Agencies are subject to an annual compliance review by the Agency's Office of Inspector General. The Department has implemented and the Office of the Inspector General has closed nearly all recommendations from the first two required annual reviews (FY 2011 and FY 2012).

## **VII. Agency Information Systems and Other Infrastructure**

The Department's agency information systems efforts are discussed under the section related to the *Federal Financial Management Improvement Act*.

## **VIII. Statutory or Regulatory Barriers**

None.

## **IX. Overall Agency Efforts**

Work to prevent, monitor, and recoup improper payments continues to expand at the Department. For example, use of Do Not Pay data expanded as the Department reconciled Death Master File and Excluded Parties List System data received monthly from Treasury. Also, a Payment Management Working Group was established, in part, to allow internal control, procurement, and payment management experts to jointly address improper payment issues. Management also worked closely with representatives from the Office of the Inspector General and The Office of Management and Budget to determine which programs have implemented sufficient internal control improvements to no longer be designated high-risk. These efforts should help the Department continue to consistently drive down improper payment error rates, especially at our highest-risk programs.

## Other Key Regulatory Requirements

### *Prompt Payment Act*

The *Prompt Payment Act* requires Federal agencies to make timely payments (within 30 days of receipt of invoice) to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts only when they are economically justified. The Department's Components submit Prompt Payment data as part of data gathered for the OMB CFO Council's Metric Tracking System (MTS). Periodic reviews are conducted by the DHS Components to identify potential problems. Interest penalties as a percentage of the dollar amount of invoices subject to the *Prompt Payment Act* has been measured between 0.001 percent and 0.006 percent for the period of October 2012 through September 2013, with an annual average of 0.002 percent (Note: MTS statistics are reported with at least a six week lag).

### *Debt Collection Improvement Act*

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

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

The *Reports Consolidation Act of 2000* (P.L. 106-531) requires that, annually, the U.S. Department of Homeland Security (DHS) Office of Inspector General (OIG) prepare a statement summarizing the most serious management and performance challenges facing the Department and an assessment of the Department's progress in addressing those challenges. For Fiscal Year 2013, OIG has identified the Department's major challenges in 9 broad areas:

<b>Summary of OIG's Assessment of DHS' Major Challenges</b>	
DHS Operations Integration	DHS is challenged by little or no cross-component coordination and communication and weak department-level authority.
Acquisition Management	DHS continues to face challenges in planning, coordinating, overseeing, and ensuring compliance with policies and procedures.
Financial Management	Management still has significant work to remediate material weaknesses and achieve sustainable financial statement audit results.
IT Management and Cybersecurity	DHS and its Components face challenges in continuity and contingency planning, protecting against insider threats, securing infrastructure, and social media.
Transportation Security	TSA operations need to evolve continuously to address new and changing threat environments and in using staff and resources efficiently.
Border Security	DHS needs to continue to develop new and better methods to interdict illegal entry into the United States. CBP is challenged in its ability to measure its performance and effectiveness.
Grants Management	FEMA needs to develop a system to prioritize preparedness grant funding and develop good measures of its grants' effects on preparedness. FEMA also needs to ensure that States improve grant administration.
Employee Accountability and Integrity	DHS and its Components face various allegations of wrongdoing. Drug trafficking organizations that seek to corrupt employees at the Nation's borders present a major challenge.
Infrastructure Protection	DHS faces challenges in implementing the Chemical Facility Anti-Terrorism Standards program to improve the security of high-risk chemical facilities.

Additional background, OIG observations, and management progress and next steps for each challenge can be found in our report *Major Management and Performance Challenges Facing DHS* ([DHS-OIG reports](#)).



## Management's Response

Overcoming these challenges requires long-term strategies for ensuring stable operations as well as sustained management attention and resources. DHS carries out multiple complex and highly diverse missions. While the Department continually strives to improve the efficiency and effectiveness of its programs and operations, as progress is achieved and as new initiatives begin, new management and performance challenges can arise.

DHS appreciates OIG's perspective on the most serious challenges facing the Department as well as recognition of the significant progress and substantial accomplishments DHS has made to date. A more detailed management response to these challenges was previously provided to OIG and included in the final report which can be found at the web link referenced above.



## **Acronym List**

## Acronyms

AFG – Assistance to Firefighters Grants	DOD – U.S. Department of Defense
AFR – Agency Financial Report	DOL – U.S. Department of Labor
APG – Agency Priority Goal	EDS – Explosive Detection System
BP – British Petroleum	EFSP – Emergency Food and Shelter Program
CBP – U.S. Customs and Border Protection	ELIS – Electronic Immigration Application System
CBRN – Chemical, Biological, Radiological, and Nuclear	ERO – Enforcement and Removal Operations
CDL – Community Disaster Loan	EU – European Union
CDP – Center for Domestic Preparedness	FBwT – Fund Balance with Treasury
CDS – Consequence Delivery System	FCRA – Federal Credit Reform Act of 1990
CFO – Chief Financial Officer	FECA – Federal Employees Compensation Act
CFR – Code of Federal Regulations	FEMA – Federal Emergency Management Agency
CIO – Chief Information Officer	FERS – Federal Employees Retirement System
CISO – Chief Information Security Officer	FFMIA – Federal Financial Management Improvement Act of 1996
CMD – Continuous Monitoring and Diagnostics	FISMA – Federal Information Security Management Act
COBRA – Consolidated Omnibus Budget Reconciliation Act of 1985	FLETA – Federal Law Enforcement Training Accreditation
COR – Contracting Officer Representative	FLETC – Federal Law Enforcement Training Centers
COTR – Contract Officer’s Technical Representative	FMFIA – Federal Managers’ Financial Integrity Act
COTS – Commercial Off-the-Shelf	FOSC – Federal On-scene Coordinators
CSI – Container Security Initiative	FPS – Federal Protective Service
CSRS – Civil Service Retirement System	FSM – Financial Systems Modernization
C-TPAT – Customs Trade Partnership Against Terrorism	FY – Fiscal Year
CY – Current Year	GAAP – Generally Accepted Accounting Principles
DACA – Deferred Action for Childhood Arrivals	GAO – U.S. Government Accountability Office
DADLP – Disaster Assistance Direct Loan Program	GCCF – Gulf Coast Claims Facility
DAR – Designated Agency Representatives	GSA – General Services Administration
DC – District of Columbia	HSAM – Homeland Security Acquisition Manual
DCAA – Defense Contract Audit Agency	HSGP – Homeland Security Grant Program
DHS – Department of Homeland Security	HSI – Homeland Security Investigations
DIEMS – Date of Initial Entry into Military Service	
DMO – Departmental Management and Operations	
DNDO – Domestic Nuclear Detection Office	

HS-STEM – Homeland Security Science, Technology, Engineering and Mathematics	OCIO – Office of the Chief Information Officer
I&A – Office of Intelligence and Analysis	OHA – Office of Health Affairs
ICE – U.S. Immigration and Customs Enforcement	OIG – Office of Inspector General
ICS-CERT – Industrial Control Systems Cyber Emergency Response Team	OMB – Office of Management and Budget
IEFA – Immigration Examination Fee Account	OM&S – Operating Materials and Supplies
IHP – Individuals and Household Programs	OPA – Oil Pollution Act of 1990
IILCM – Integrated Investment Life Cycle Management	OPEB – Other Post Retirement Benefits
INA – Immigration Nationality Act	OPM – Office of Personnel Management
IPERA – Improper Payments Elimination and Recovery Act	OPS – Office of Operations Coordination and Planning
IPIA – Improper Payments Information Act of 2002	ORB – Other Retirement Benefits
IPR – Intellectual Property Rights	OSLTF – Oil Spill Liability Trust Fund
ISP – Internet Service Provider	OTA – Other Transaction Agreements
IT – Information Technology	OTIA – Office of Technology Innovation and Acquisition
LL/LA – Lessons Learned / Lessons Anticipated	PA – Public Assistance
LOI – Letters of Intent	PCS – Permanent Change of Station
MERHCF – Medicare-Eligible Retiree Health Care Fund	PP&E – Property, Plant, and Equipment
MGMT – Management Directorate	Pub. L. – Public Law
MHS – Military Health System	PY – Prior Year
MRA – Mutual Recognition Arrangement	QHSR – Quadrennial Homeland Security Review
MRS – Military Retirement System	R&D – Research and Development
MSA – Marshal Service Agreements	RPM – Radiation Portal Monitor
MTS – Metric Tracking System	RSF – Recovery Support Function
NCPS – National Cybersecurity Protection System	SAT – Senior Assessment Team
NFIP – National Flood Insurance Program	SBR – Statement of Budgetary Resources
NPFC – National Pollution Funds Center	SCDL – Special Community Disaster Loan
NPPD – National Protection and Programs Directorate	SES – Senior Executive Service
NSSE – National Security Special Event	SFFAS – Statement of Federal Financial Accounting Standards
OCFO – Office of the Chief Financial Officer	SFRBTF – Sport Fish Restoration Boating Trust Fund
OCHCO – Office of the Chief Human Capital Officer	SMC – Senior Management Council
	SRIA – Sandy Recovery Improvement Act of 2013
	S&T – Science and Technology Directorate
	STB – Single Transaction Bond
	TAFS – Treasury Account Fund Symbol
	TCM – Trade Compliance Measurement

THIRA – Threat and Hazard Identification  
and Risk Assessments

Treasury – U.S. Department of the Treasury

TSA – Transportation Security  
Administration

TSGP – Transit Security Grants Program

UAS – Unmanned Aerial Systems

U.S. – United States

U.S.C. – United States Code

USCG – U.S. Coast Guard

USCIS – U. S. Citizenship and Immigration  
Services

USSS – U.S. Secret Service

VA – U.S. Department of Veterans Affairs

YWCA – Young Women’s Christian  
Association

WYO – Write Your Own



Homeland  
Security



Homeland  
Security