



Financial Information

The *Financial Information* section demonstrates our commitment to effective stewardship over the funds DHS receives to carry out its mission, including compliance with relevant financial management legislation. It includes the *Independent Auditors' Report* on the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources and Statements of Custodial Activity as well as the Department's *Agency Financial Statements* and accompanying *Notes to the Financial Statements*. The audit report is provided by KPMG LLP.

Message from the Chief Financial Officer

November 13, 2014



On behalf of the men and women of the Department of Homeland Security (DHS) financial management community, I am proud to announce that the Department has earned its second consecutive unmodified (clean) audit opinion on its financial statements. The Department was also able to provide reasonable assurance that internal control over financial reporting was operating effectively. These achievements demonstrate the Department's dedication and commitment to proper stewardship of taxpayer dollars.

The Department has built a solid foundation of robust financial policies, processes, and internal control resulting in a clean financial statement audit opinion two years in a row. In Fiscal Year (FY) 2014, the DHS financial management community anticipated and mitigated additional audit risks as they arose, and remediated Component-level significant deficiency

conditions within Financial Reporting and Information Technology. This brings us closer to our goal of an unqualified (clean) audit opinion on internal control over financial reporting as we continue strengthening our processes.

When DHS was stood up in 2003, the Department had 18 material weaknesses, causing significant concern for not only Department leadership, but with the members of our oversight committees. Today, DHS has four outstanding material weaknesses. We acknowledge these areas for improvement and remain committed to eliminating the remaining material weaknesses to achieve a clean audit opinion on our internal control over financial reporting.

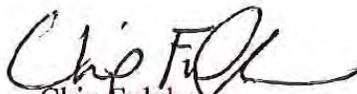
Our achievements are due to the hard work and dedication of employees across the Department, starting with strong leadership support. In a unified effort, the Department and its partner Components work together to identify and resolve audit issues, sharing expertise and resources to get the job done.

DHS will continue to ensure taxpayer dollars are managed with integrity, accuracy, and steady attention, and that the systems and processes used for all aspects of financial management demonstrate the highest standard of accountability and transparency. During FY 2014, two of our largest Components, the U.S. Coast Guard and the Transportation Security Administration, began efforts to modernize their financial systems. These efforts ensure that DHS leadership and other stakeholders, including Congress, have accurate and useful financial information to support decision making and oversight of the Homeland Security missions.

The DHS FY 2014 Agency Financial Report (AFR) is our principal financial statement of accountability to the American people, the President of the United States, and the United States Congress. We are confident this AFR gives a comprehensive view of the Department of Homeland

Security's financial activities and affirms our commitment to sound financial management practices in support of the Homeland Security missions.

Sincerely,



Chip Fulghum
Chief Financial Officer

Introduction

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

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

1. The Consolidated **Balance Sheets** present, as of September 30, 2014 and 2013, those resources owned or managed by the Department of Homeland Security (DHS) that represent future economic benefits (assets), amounts owed by DHS that will require payments from those resources or future resources (liabilities), and residual amounts retained by DHS comprising the difference (net position).
2. The Consolidated **Statements of Net Cost** present the net cost of DHS operations for the fiscal years ended September 30, 2014 and 2013. DHS net cost of operations is the gross cost incurred by DHS less any exchange revenue earned from DHS activities.
3. The Consolidated **Statements of Changes in Net Position** present the change in DHS's net position resulting from the net cost of DHS operations, budgetary financing sources, and other financing sources for the fiscal years ended September 30, 2014 and 2013.
4. The Combined **Statements of Budgetary Resources** present how and in what amounts budgetary resources were made available to DHS during fiscal years 2014 and 2013, the status of these resources at September 30, 2014 and 2013, the changes in the obligated balance, and outlays of budgetary resources for the fiscal years ended September 30, 2014 and 2013.
5. The Consolidated **Statements of Custodial Activity** present the disposition of custodial revenue collected and disbursed by DHS on behalf of other recipient entities for the fiscal years ended September 30, 2014 and 2013.
6. The **Notes to the Financial Statements** provide detail and clarification for amounts on the face of the financial statements as of September 30, 2014 and 2013.

Financial Statements

Department of Homeland Security Balance Sheets As of September 30, 2014 and 2013 (In Millions)

	<u>2014</u>	<u>2013</u>
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Notes 2 and 3)	\$ 59,041	\$ 58,002
Investments, Net (Note 5)	5,636	5,147
Accounts Receivable (Note 6)	333	271
Other (Note 13)		
Advances and Prepayments	1,009	1,207
Total Intragovernmental	\$ 66,019	\$ 64,627
Cash and Other Monetary Assets (Notes 2 and 4)	48	45
Accounts Receivable, Net (Notes 2 and 6)	1,576	1,914
Taxes, Duties, and Trade Receivables, Net (Notes 2 and 7)	3,049	2,682
Direct Loans, Net (Note 8)	10	73
Inventory and Related Property, Net (Note 9)	1,993	2,026
General Property, Plant, and Equipment, Net (Note 11)	20,783	19,878
Other (Note 13)		
Advances and Prepayments	680	657
TOTAL ASSETS	\$ 94,158	\$ 91,902
Stewardship Property, Plant, and Equipment (Note 12)		
LIABILITIES		
Intragovernmental		
Accounts Payable	\$ 1,766	\$ 1,860
Debt (Note 15)	24,081	24,076
Other (Note 18)		
Due to the General Fund	3,110	2,709
Accrued FECA Liability	365	358
Other	351	491
Total Intragovernmental	\$ 29,673	\$ 29,494
Accounts Payable	2,253	2,063
Federal Employee and Veterans' Benefits (Note 16)	50,700	51,223
Environmental and Disposal Liabilities (Note 17)	656	755
Other (Notes 18, 19, 20, and 21)		
Accrued Payroll and Benefits	2,053	1,807
Deferred Revenue and Advances from Others	3,363	3,180
Insurance Liabilities	596	697

(Continued)

Department of Homeland Security
Balance Sheets
As of September 30, 2014 and 2013
(In Millions)

	2014	2013
Refunds and Drawbacks	150	168
Other	2,372	2,366
Total Liabilities	\$ 91,816	\$ 91,753
Commitments and Contingencies (Notes 18, 19, 20, and 21)		
NET POSITION		
Unexpended Appropriations		
Unexpended Appropriations-Other Funds	\$ 46,838	\$ 47,853
Cumulative Results of Operations		
Cumulative Results of Operations-Funds from Dedicated Collections (Note 22)	(15,537)	(17,263)
Cumulative Results of Operations-Other Funds	(28,959)	(30,441)
Total Net Position	\$ 2,342	\$ 149
TOTAL LIABILITIES AND NET POSITION	\$ 94,158	\$ 91,902

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Statements of Net Cost
For the Years Ended September 30, 2014 and 2013
(In Millions)

Major Missions (Note 23)	2014	2013
<i>Fostering a Safe and Secure Homeland</i>		
Gross Cost	\$ 29,338	\$ 30,071
Less Earned Revenue	(4,118)	(3,807)
Net Cost	25,220	26,264
<i>Enforcing and Administering Our Immigration Laws</i>		
Gross Cost	8,748	8,572
Less Earned Revenue	(3,460)	(3,295)
Net Cost	5,288	5,277
<i>Ensuring Resilience to Disasters</i>		
Gross Cost	13,935	26,463
Less Earned Revenue	(3,809)	(3,781)
Net Cost	10,126	22,682
<i>Providing Essential Support to National, Economic, and Homeland Security</i>		
Gross Cost	8,689	9,032
Less Earned Revenue	(293)	(304)
Net Cost	8,396	8,728
<i>Total Department of Homeland Security</i>		
Gross Cost	60,710	74,138
Less Earned Revenue	(11,680)	(11,187)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB		
Assumption Changes	49,030	62,951
(Gain)/Loss on Pension, ORB, or OPEB Assumption (Note 16)	(1,335)	(2,411)
NET COST OF OPERATIONS	\$ 47,695	\$ 60,540

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Statement of Changes in Net Position
For the Year Ended September 30, 2014
(In Millions)

	2014			Consolidated Total
	Funds from Dedicated Collections	All Other Funds	Eliminations	
Cumulative Results of Operations				
Beginning Balances	\$ (17,263)	\$ (30,441)	\$ -	\$ (47,704)
Budgetary Financing Sources				
Other Adjustments	(10)	-	-	(10)
Appropriations Used	-	44,986	-	44,986
Non-exchange Revenue	1,931	9	-	1,940
Donations and Forfeitures of Cash and Cash Equivalents	3	-	-	3
Transfers In/Out without Reimbursement	(3,234)	2,754	-	(480)
Other	-	(6)	-	(6)
Other Financing Sources				
Transfers In/Out without Reimbursement	(56)	446	-	390
Imputed Financing	143	1,492	131	1,504
Other	3,108	(532)	-	2,576
Total Financing Sources	1,885	49,149	131	50,903
Net Cost of Operations	(159)	(47,667)	(131)	(47,695)
Net Change	1,726	1,482	-	3,208
Cumulative Results of Operations	(15,537)	(28,959)	-	(44,496)
Unexpended Appropriations				
Beginning Balance	-	47,853	-	47,853
Budgetary Financing Sources				
Appropriations Received	-	45,453	-	45,453
Appropriations Transferred In/Out	-	(17)	-	(17)
Other Adjustments	-	(1,465)	-	(1,465)
Appropriations Used	-	(44,986)	-	(44,986)
Total Budgetary Financing Sources	-	(1,015)	-	(1,015)
Total Unexpended Appropriations	-	46,838	-	46,838
NET POSITION	\$ (15,537)	\$ 17,879	\$ -	\$ 2,342

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Statement of Changes in Net Position
For the Year Ended September 30, 2013
(In Millions)

	2013			Consolidated Total
	Funds from Dedicated Collections	All Other Funds	Eliminations	
Cumulative Results of Operations				
Beginning Balances	\$ (12,055)	\$ (31,874)	\$ -	\$ (43,929)
Budgetary Financing Sources				
Other Adjustments	(10)	-	-	(10)
Appropriations Used	-	49,795	-	49,795
Non-exchange Revenue	3,015	9	-	3,024
Donations and Forfeitures of Cash and Cash Equivalents	2	-	-	2
Transfers In/Out without Reimbursement	(3,159)	2,561	(39)	(559)
Other Financing Sources				
Transfers In/Out without Reimbursement	13	118	39	92
Imputed Financing	133	1,353	149	1,337
Other	3,090	(6)	-	3,084
Total Financing Sources	3,084	53,830	149	56,765
Net Cost of Operations	(8,292)	(52,397)	(149)	(60,540)
Net Change	(5,208)	1,433	-	(3,775)
Cumulative Results of Operations	(17,263)	(30,441)	-	(47,704)
Unexpended Appropriations				
Beginning Balances	-	43,076	-	43,076
Budgetary Financing Sources				
Appropriations Received	-	58,445	-	58,445
Appropriations Transferred In/Out	-	(123)	-	(123)
Other Adjustments	-	(3,750)	-	(3,750)
Appropriations Used	-	(49,795)	-	(49,795)
Total Budgetary Financing Sources	-	4,777	-	4,777
Total Unexpended Appropriations	-	47,853	-	47,853
NET POSITION	\$ (17,263)	\$ 17,412	\$ -	\$ 149

The accompanying notes are an integral part of these statements.

**Department of Homeland Security
Statements of Budgetary Resources
For the Years Ended September 30, 2014 and 2013
(In Millions)**

	2014		2013	
	Budgetary	Non- Budgetary Credit Reform Financing Accounts	Budgetary	Non- Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES				
Unobligated Balance Brought Forward, October 1	\$ 18,490	\$ -	\$ 12,329	\$ 1
Adjustment to Unobligated Balance, Brought Forward, October 1 (Note 32)	-	-	(1,077)	-
Unobligated Balance Brought Forward, October 1, As Adjusted	18,490	-	11,252	1
Recoveries of Prior Year Unpaid Obligations	2,812	7	2,873	2
Other Changes in Unobligated Balance	(875)	-	(877)	-
Unobligated Balance from Prior Year Budget Authority, Net	20,427	7	13,248	3
Appropriations	54,385	-	64,245	-
Borrowing Authority (Note 25)	(410)	32	6,660	45
Spending Authority from Offsetting Collections	10,845	34	10,685	169
TOTAL BUDGETARY RESOURCES	\$ 85,247	\$ 73	\$ 94,838	\$ 217
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred (Note 24)	\$ 67,452	\$ 36	\$ 76,348	\$ 217
Unobligated Balance, End Of Year				
Apportioned	14,277	37	14,914	-
Exempt from Apportionment	2	-	2	-
Unapportioned (Note 3)	3,516	-	3,574	-
Total Unobligated Balance, End of Year	17,795	37	18,490	-
TOTAL BUDGETARY RESOURCES	\$ 85,247	\$ 73	\$ 94,838	\$ 217

(Continued)

Department of Homeland Security
Statements of Budgetary Resources
For the Years Ended September 30, 2014 and 2013
(In Millions)

	2014		2013	
	Budgetary	Non- Budgetary Credit Reform Financing Accounts	Budgetary	Non- Budgetary Credit Reform Financing Accounts
CHANGE IN OBLIGATED BALANCE				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	\$ 39,466	\$ 144	\$ 42,807	\$ 18
Obligations Incurred	67,452	36	76,348	217
Outlays, Gross	(63,885)	(93)	(76,807)	(89)
Actual Transfers, Unpaid Obligations, Net	(10)	-	(9)	-
Recoveries of Prior Year Unpaid Obligations	(2,812)	(7)	(2,873)	(2)
Unpaid Obligations, End of Year	40,211	80	39,466	144
Uncollected Payments:				
Uncollected Customer Payments From Federal Sources, Brought Forward, October 1	(1,715)	(131)	(1,686)	(16)
Change in Uncollected Customer Payments from Federal Sources	23	59	(29)	(115)
Uncollected Customer Payments from Federal Sources, End of Year	(1,692)	(72)	(1,715)	(131)
Obligated Balance, Start of Year, Net	\$ 37,751	\$ 13	\$ 41,121	\$ 2
Obligated Balance, End of Year, Net	\$ 38,519	\$ 8	\$ 37,751	\$ 13
BUDGET AUTHORITY AND OUTLAYS, NET				
Budget Authority, Gross	\$ 64,820	\$ 66	\$ 81,590	\$ 214
Actual Offsetting Collections	(11,013)	(124)	(10,767)	(374)
Change in Uncollected Customer Payments from Federal Sources	23	59	(29)	(115)
Budget Authority, Net	\$ 53,830	\$ 1	\$ 70,794	\$ (275)
Outlays	\$ 63,885	\$ 93	\$ 76,807	\$ 89
Actual Offsetting Collections	(11,013)	(124)	(10,767)	(374)
Outlays, Net	52,872	(31)	66,040	(285)
Distributed Offsetting Receipts	(7,823)	-	(7,518)	-
Agency Outlays, Net	\$ 45,049	\$ (31)	\$ 58,522	\$ (285)

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Statements of Custodial Activity
For the Years Ended September 30, 2014 and 2013
(In Millions)

	2014	2013
Revenue Activity (Note 30)		
Sources of Cash Collections:		
Duties	\$ 33,856	\$ 31,663
User Fees	1,576	1,586
Excise Taxes	3,273	3,163
Fines and Penalties	63	64
Interest	58	(36)
Miscellaneous	206	185
Total Cash Collections	39,032	36,625
Accrual Adjustments, Net	332	221
Total Custodial Revenue	39,364	36,846
Disposition of Collections		
Transferred to Others:		
Federal Entities:		
U.S. Department of Agriculture	10,339	9,694
Treasury General Fund Accounts	25,325	23,698
U.S. Army Corps of Engineers	1,510	1,523
Other Federal Agencies	44	44
Non-Federal Entities:		
Government of Puerto Rico	-	6
Other Non-Federal Entities	146	83
(Increase)/Decrease in Amounts Yet to be Transferred	464	300
Refunds and Drawbacks (Notes 18 and 30)	1,536	1,498
Retained by the Department	-	-
Total Disposition of Custodial Revenue	39,364	36,846
Net Custodial Activity	\$ -	\$ -

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

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Notes to the Financial Statements

1. *Summary of Significant Accounting Policies*

A. Reporting Entity

The Department was established by the *Homeland Security Act of 2002*, Pub. L. 107-296, dated November 25, 2002, as an executive department of the U.S. Federal Government. DHS leads efforts to achieve a safe, secure, and resilient homeland by countering terrorism and enhancing our security; securing and managing our borders; enforcing and administering our immigration laws; protecting our cybersystems and critical infrastructure; and ensuring resilience from disasters. In addition, DHS contributes in many ways to elements of broader U.S. national and economic security while also working to mature and strengthen the Department and the homeland security enterprise. The Department includes the following financial reporting Components¹:

- **U.S. Customs and Border Protection (CBP)**
- **U.S. Coast Guard (USCG)**
- **U.S. Citizenship and Immigration Services (USCIS)**
- **Federal Emergency Management Agency (FEMA)**
- **Federal Law Enforcement Training Centers (FLETC)**
- **National Protection and Programs Directorate (NPPD)**
- **U.S. Immigration and Customs Enforcement (ICE)**
- **Office of Health Affairs (OHA)**
- **Departmental Operations and Other**, including the Management Directorate (MGMT), the Office of the Secretary, the Office of Inspector General (OIG), the Domestic Nuclear Detection Office (DNDO), the Office of Intelligence and Analysis (I&A), and the Office of Operations Coordination and Planning (OPS)
- **U.S. Secret Service (USSS)**
- **Science and Technology Directorate (S&T)**
- **Transportation Security Administration (TSA)**

¹ Financial reporting Components are to be distinguished from direct report Components described in the Management's Discussion and Analysis, Mission and Organization.

B. Basis of Presentation

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

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

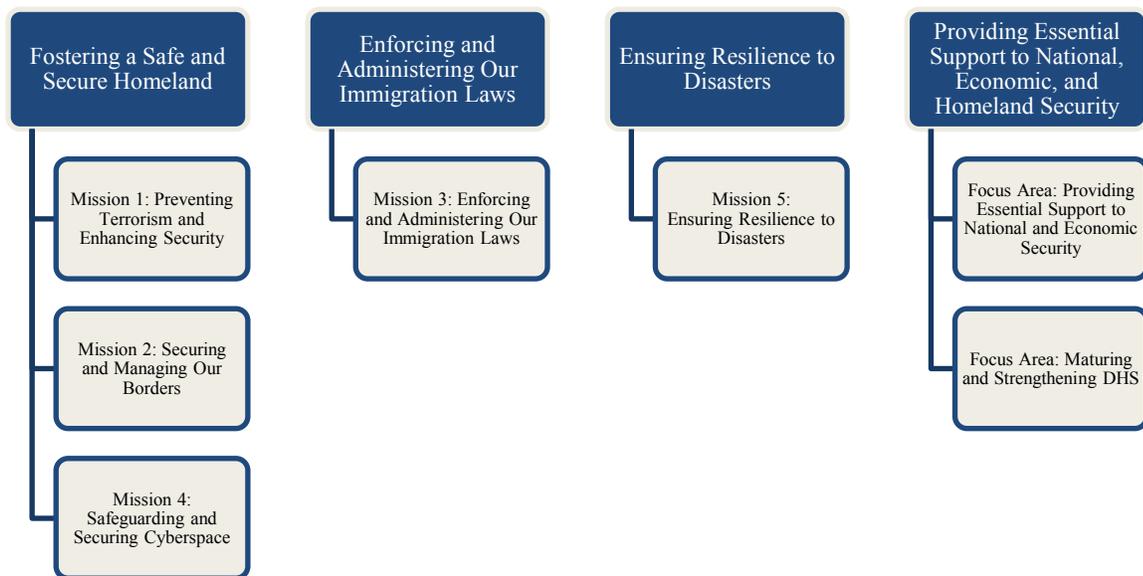
The Department's financial statements reflect the reporting of Departmental activities, including appropriations received to conduct operations and revenue generated from operations. The financial statements also reflect the reporting of certain non-entity (custodial) functions performed by the Department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

Intragovernmental assets and liabilities are derived from activity with other federal entities. All other assets and liabilities result from activities with parties outside the Federal Government, such as domestic and foreign persons, organizations, or governments. Intragovernmental earned revenue includes collections or revenue accruals from other federal entities, and intragovernmental costs are payments or expense accruals to other federal entities. Transactions and balances among the Department's Components have been eliminated in the consolidated presentation of the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and the Statements of Custodial Activity. The Statements of Budgetary Resources are reported on a combined basis; therefore, intradepartmental balances have not been eliminated.

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

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

The Department presents its Statement of Net Cost by grouping the five missions and two focus areas described in the DHS [FY 2012-2016 Strategic Plan](#) into four major missions. The consolidation of the five missions and two focus areas into four major missions allows the reader of the financial statements to see how resources are spent towards a common objective of a safe, secure, and more resilient America. The diagram below shows the relationship between the Department’s five missions and two focus areas described in the DHS FY 2012-2016 Strategic Plan and the four major missions used to present the Statement of Net Cost and related disclosures:



C. Basis of Accounting

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

D. Use of Estimates

Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of consolidated financial statements, and the reported amounts of revenue and claims and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include: the year-end accruals of accounts and grants payable; contingent legal and environmental liabilities; accrued workers’ compensation; allowance for doubtful accounts receivable; allowances for obsolete inventory and operating materials and supplies (OM&S) balances; allocations of indirect common costs to construction-in-progress; capitalized property, plant, and equipment (PP&E); depreciation; subsidy re-estimates; deferred revenue; National Flood Insurance Program (NFIP) insurance liability; actuarial assumptions

related to workers' compensation; military and other pension, retirement and post-retirement benefit assumptions; allowances for doubtful duties, fines, penalties, and certain non-entity receivables; and payables related to custodial activities and undeposited collections.

E. Entity and Non-Entity Assets

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

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

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

F. Fund Balance with Treasury

Fund Balance with Treasury represents the aggregate amount of the Department's accounts with the U.S. Department of the Treasury (Treasury) available to pay current liabilities and finance authorized purchases, except as restricted by law. The Department's Fund Balance with Treasury balances are primarily appropriated, revolving, trust, deposit, receipt, and special fund amounts remaining as of the end of the fiscal year. Fund Balance with Treasury does not include fiduciary amounts (see Note 1.Y., Fiduciary Activities).

For additional information, see Note 3, Fund Balance with Treasury.

G. Cash and Other Monetary Assets

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

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

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

H. Investments, Net

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

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

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

I. Accounts Receivable, Net

Accounts receivable represents amounts due to the Department from other federal agencies and the public. In general, intragovernmental accounts receivable arise from the provision of goods and services to other federal agencies and are expected to be fully collected.

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

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

Taxes, duties, and trade receivables consist of duties, user fees, fines and penalties, refunds and drawback overpayments, and interest associated with import/export activity, which have been established as a specifically identifiable, legally enforceable claim which remain uncollected as of year-end.

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

J. Advances and Prepayments

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

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

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

For additional information, see Note 13, Other Assets.

K. Direct Loans, Net

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

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

Loans receivable are recorded at the present value of the estimated net cash flows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recorded in the allowance for subsidy, which is estimated and adjusted annually, as of year-end. Interest receivable is the total interest that has accrued on each of the outstanding loans, less any cancellations that may have been recorded due to the FEMA cancellation policy as described in 44 Code of Federal Regulations (CFR) Section 206.366.

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

L. Inventory and Related Property, Net

Department OM&S consists primarily of goods, including repairable spare parts, consumed during the maintenance of assets used to perform DHS missions, including vessels, small boats, electronic systems, and aircraft.

OM&S managed by the USCG Inventory Control Points in Elizabeth City, North Carolina, and Baltimore, Maryland, consists of consumable and repairable items that are valued at historical cost using a moving average cost and accounted for using the consumption method. OM&S repairable items that are in a "held for repair" status are recorded at historical cost with an allowance for the cost of the repair. Items that are no longer usable by DHS are categorized as excess, obsolete, and unserviceable OM&S, and are stated at net realizable value.

OM&S held at CBP sites consists of aircraft parts, vessel parts, and Office of Technology Innovation and Acquisition (OTIA) parts and CBP uniforms to be used in CBP's operations. Aircraft and OTIA parts and materials are recorded at average unit cost. Vessel parts and uniforms are recorded using the first-in/first-out valuation method. Both methods approximate actual acquisition costs.

Inventory is tangible personal property held for sale or used in the process of production for sale. Inventories on hand at year-end are stated at cost using standard price/specific identification, first-in/first-out, or moving average cost methods, which approximates historical cost. Revenue on inventory sales and associated cost of goods sold are recorded when merchandise is sold to the end user. Department inventories consist primarily of the USCG Supply Fund—which provides uniform clothing, subsistence provisions, retail stores, technical material, and fuel—and the USCG Industrial Fund, which provides inventory for the repair of USCG and other government agency ships and vessels.

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

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

M. Seized and Forfeited Property

Seized property falls into two categories: prohibited and nonprohibited. Prohibited seized property includes illegal drugs, contraband, and counterfeit items that cannot legally enter into the commerce of the United States. Prohibited seized property results primarily from criminal investigations and passenger/cargo processing. Nonprohibited seized property includes items that are not inherently illegal to possess or own, such as monetary instruments, real property, and tangible personal property of others.

Prohibited seized property is not considered an asset of the Department and is not reported as such in the Department's financial statements. However, the Department has a stewardship responsibility until the disposition of the seized items is determined (i.e., judicially or administratively forfeited or returned to the entity from which it was seized).

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

Nonprohibited seized and forfeited property is reported by the Treasury Forfeiture Fund.

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

N. General Property, Plant, and Equipment, Net

The Department's PP&E consists of aircraft, vessels, vehicles, land, structures, facilities, leasehold improvements, software, information technology, and other equipment. PP&E is recorded at cost. The Department capitalizes PP&E acquisitions when the cost equals or exceeds an established threshold and has a useful life of two years or more.

Costs for construction projects are recorded as construction-in-progress until the asset is placed in service. Costs are valued at actual (direct) costs plus applied overhead and other indirect costs. In cases where historical cost information was not maintained, PP&E is capitalized using an estimated cost methodology consistent with Statement of Federal Financial Accounting Standards (SFFAS) No. 35, *Estimating the Historical Cost of General Property, Plant, and Equipment*. Additionally, budgetary estimates are also used as a reasonable alternative valuation method to record PP&E assets when the historical cost is unknown. Estimated cost may be based on the cost of similar assets at the time of acquisition or the current cost of similar assets discounted for inflation since the time of acquisition or budgetary estimates. For unique or uncommon assets, formal appraisals are conducted to determine acquisition cost. The Department owns some of the buildings in which Components operate. Other buildings are provided by the General Services Administration (GSA), which charges rent equivalent to the commercial rental rates for similar properties.

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

The schedule below shows a summary of the range of capitalization thresholds used by DHS Components. DHS policy allows Components to continue using legacy capitalization thresholds and Component-specific policies for assets acquired prior to October 1, 2007. For assets acquired on or after October 1, 2007, Components use the DHS capitalization policy unless adopting it would cause a material misstatement of the standalone financial statements, or it would cause the Component to be noncompliant with GAAP. Bulk purchases are subject to a \$1 million capitalization threshold, unless one of the above Component criteria is met.

The ranges of capitalization thresholds and service life used by Components, by primary asset category, are as follows:

Asset Description	Capitalization Threshold	Service Life
Land	Zero to \$200,000	Not Applicable
Improvements to land	Zero to \$200,000	3 years to 50 years
Buildings	\$50,000 to \$200,000	10 years to 50 years
Equipment	Zero to \$200,000	3 years to 76 years
Capital leases and leasehold improvements	\$50,000 to \$200,000	2 years to 30 years
Software	\$50,000 to \$750,000	3 years to 13 years

The Department begins to recognize depreciation expense once the asset has been placed in service. Depreciation is calculated on a straight-line method for all asset classes over their estimated useful lives. Land is not depreciated. Leasehold improvements are depreciated over the shorter of the term of the remaining portion of the lease or the useful life of the improvement. Buildings and equipment acquired under capital leases are amortized over the lease term. Amortization of capitalized software is calculated using the straight-line method and begins on the date of acquisition if purchased, or when the module or component has been placed in use (i.e., successfully installed and tested) if contractor or internally developed. There are no restrictions on the use or convertibility of general PP&E.

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

O. Stewardship Property, Plant, and Equipment

Stewardship PP&E includes heritage assets that generally are not included in general PP&E presented on the Balance Sheet. Heritage assets are unique due to their historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. In general, heritage assets are expected to be preserved indefinitely. The Department’s heritage assets consist primarily of historical artifacts, artwork, buildings, and structures owned by the USCG. The cost of improving, reconstructing, or renovating heritage assets is recognized as an expense in the period incurred. Similarly, the cost to acquire or construct a heritage asset is recognized as an expense in the period incurred. Due to their nature, heritage assets are not depreciated because matching costs with specific periods would not be meaningful.

Heritage assets can serve two purposes: a heritage function and a general government operational function. If a heritage asset serves both purposes, but is predominantly used for general government operations, the heritage asset is considered a multi-use heritage asset, which is included in general PP&E on the Balance Sheet. DHS depreciates its multi-use heritage assets over their useful life. The Department’s multi-use heritage assets consist of buildings and structures, memorials, and recreation areas owned by CBP, USCG, and FEMA.

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

P. Liabilities

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

Q. Contingent Liabilities

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

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

Environmental Cleanup Costs. Environmental liabilities consist of environmental remediation, cleanup, and decommissioning. The liability for environmental remediation is an estimate of costs necessary to bring a known contaminated asset into compliance with applicable environmental standards. Accruals for environmental cleanup costs are the costs of removing, containing, and/or disposing of hazardous wastes or materials that, because of quantity, concentration, or physical or chemical characteristics, may pose a substantial present or potential hazard to human health or the environment.

For all PP&E in service as of October 1, 1997, DHS recognizes the estimated total cleanup costs associated with the PP&E when the cleanup costs are probable and reasonably estimable. The estimate may be subsequently adjusted for material changes due to inflation/deflation or changes in regulations, cleanup plans, or technology. The applicable costs of decommissioning DHS's existing and future vessels are considered cleanup costs.

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

R. Liabilities for Grants and Cooperative Agreements

The Department awards grants and cooperative agreements to state and local governments, universities, nonprofit organizations, and private-sector companies to build their capacity to respond to disasters and emergencies; conduct research into preparedness; enhance and ensure the security of passenger and cargo transportation by air, land, or sea; and support other Department-related activities. The Department estimates the year-end grant and cooperative agreement accrual for unreported and unpaid recipient expenditures using historical disbursement data in compliance with Technical Release 12, *Accrual Estimates for Grant Programs*. Grants and cooperative agreement liabilities are recorded as grants payable to the public and reported as Other Liabilities in the accompanying Balance Sheets.

S. Insurance Liabilities

Insurance liabilities are primarily the result of the Department's sale or continuation-in-force of flood insurance policies within the NFIP, which is managed by FEMA. The NFIP insurance liability represents an estimate based on the loss and loss adjustment expense factors inherent to the NFIP Insurance Underwriting Operations, including trends in claim severity and frequency. These estimates are routinely reviewed, and adjustments are made as deemed necessary. Due to the high number of variables that influence projection of the ultimate payments to cover insurance liabilities, actual incurred losses and loss adjustment expenses may not conform to the assumptions inherent in the estimation of the liability. Periodically, the ultimate settlement of losses and the related loss adjustment expenses may vary substantially from the estimate reported in the financial statements.

Subsidized rates have been charged on a countrywide basis for certain classifications of the insured. These subsidized rates produce a premium less than the loss and loss adjustment expenses expected to be incurred in a historical average loss year. Subsidized rates are used to provide affordable insurance on construction or substantial improvements started on or before December 31, 1974, or before the effective date of the initial Flood Insurance Rate Map (i.e., an official map of a community on which NFIP has delineated both the special hazard areas and the nonsubsidized premium zones applicable to the community).

For additional information, see Note 18, Other Liabilities, Note 20, Insurance Liabilities, and Note 26, Permanent Indefinite Appropriations.

T. Debt and Borrowing Authority

Debt is reported within Intragovernmental Liabilities and results from Treasury loans and related interest payable to fund NFIP and Disaster Assistance Direct Loan Program (DADLP) operations of FEMA. Most of this debt is not covered by current budgetary resources. Although NFIP premium rates are generally established with the intent of generating sufficient premiums, premiums collected by FEMA for the NFIP based on subsidized rates are not sufficient to cover the debt repayments (see Note 1.S, Insurance Liabilities). Legislation will need to be enacted to provide funding to repay Treasury's Bureau of Fiscal Service (BFS) or to forgive the debt.

Borrowing authority, to the extent of existing obligations, is in budgetary status for use by FEMA for NFIP purposes, and community disaster loans (CDLs), and transfers have been made to the Fund Balance with Treasury for these purposes.

For more information, see Note 15, Debt, Note 25, Available Borrowing Authority, and Note 32, Adjustments to Beginning Balances.

U. Accrued Payroll and Benefits

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

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

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

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on actual claims paid by DOL but not yet reimbursed by the Department. The Department reimburses DOL for the amount of actual claims as funds are appropriated for this purpose. In general, there is a two- to three-year time period between payment by DOL and reimbursement to DOL by the Department. As a result, the Department recognizes an intragovernmental liability for the actual claims paid by DOL and to be reimbursed by the Department. The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a component of federal employee and veterans' benefits.

For additional information on the accrued FECA liability, accrued payroll, and accrued leave, see Note 18, Other Liabilities.

V. Federal Employee and Veterans' Benefits

The Department's federal employee and veterans' benefits consist of civilian employees' pension programs, other retirement benefits (ORB), Military Health System, and other post-employment benefits (OPEB), as well as the Military Retirement System (MRS), post-employment military travel benefits, and USSS's Uniformed Division and Special Agent Pension and the actuarial FECA liability. Civilian employees' pension programs, ORB, and OPEB are administered by the Office of Personnel Management (OPM) and do not represent a liability for the Department.

This actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL determines the actuarial FECA liability annually, as of September 30, using an actuarial method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value using the OMB economic assumptions for 10-year Treasury notes and bonds. The actuarial FECA liability is not covered by budgetary resources and will require future funding. For more information on the actuarial FECA liability, see Note 16, Federal Employee and Veterans' Benefits.

The Department recognizes liabilities and expenses for MRS, post-employment military travel benefits, and Uniformed Division and Special Agent Pension. Gains and losses from changes in long-term assumptions used to measure these liabilities are reported as a separate line item on the Statement of Net Cost, consistent with SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*.

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

Most federal employees of DHS hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which the Department contributes 7 percent of base pay for regular CSRS employees and 7.5 percent of base pay for law enforcement agents. The majority of employees hired after December 31, 1983, are covered by the Federal Employees Retirement System (FERS) and Social Security. Employees hired between January 1, 1984 and December 31, 2012 are covered by the FERS basic annuity benefit. For the FERS basic annuity benefit, the Department contributes 11.9 percent of base pay for regular FERS employees and 26.3 percent for law enforcement agents. Employees hired between January 1, 2013 and December 31, 2013 are covered by the FERS revised annuity benefit; employees hired after December 31, 2013 are covered by the FERS further revised annuity benefit. For the FERS revised annuity benefit and the further revised annuity benefit, the Department contributes 9.6 percent of base pay for regular FERS employees and 24 percent for law enforcement agents. A primary feature of FERS is that it also offers a defined contribution plan (Federal Thrift Savings Plan) to which the Department automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. The Department also contributes the employer's Social Security matching share for FERS participants.

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

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

Military Retirement System Liability. The USCG MRS is a defined benefit plan that includes pension benefits, disability benefits, and survivor benefits and covers all retired active duty and reserve military members of the USCG. The plan is a pay-as-you-go system funded through annual appropriations. The actuarial accrued liability is the portion of the present value of the future benefits expected to be paid that is attributed to past service (service by participants rendered prior to the date of determination). The remaining portion of that present value is attributed to future service (service by participants rendered on or after the date of determination) and is the present

value of the future employer normal costs. The normal cost (current period expense) and the attribution of the present value of the future benefits between past service and future service are determined using the individual entry age normal actuarial cost method.

The discount rates used to measure the actuarial liabilities for USCG are based on the seven-year average historical rates of return on marketable Treasury securities at September 30 of each year. The rates used in this average are the rates for securities that will mature on the dates on which future benefit payments are expected to be made.

Military Health System for Retirees and Beneficiaries Liability. There are two categories of the Military Healthcare liability for the USCG retirees and beneficiaries. The first category of military healthcare liability is for the Medicare-eligible USCG military retirees and beneficiaries. The U.S. Department of Defense (DOD) is the administrative entity for the Medicare-Eligible Retiree Health Care Fund (MERHCF) and, in accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, is required to recognize the liability on the MERHCF's financial statements. The USCG makes annual payments to fund benefits for the current active duty members and their spouses who will receive benefits when they reach Medicare-eligibility. The future cost and liability of the MERHCF is determined using claim factors and claims cost data developed by DOD, adjusted for USCG retiree and actual claims experience. The DOD Board of Actuaries calculates all MERHCF assumptions, and the Defense Finance and Accounting Service provides accounting and investment services for the fund. The USCG receives per-member amounts (reserve and active duty member amounts separately) to be contributed to the MERHCF from the DOD Board of Actuaries office and pays its share, depending on its demography.

The second category of military healthcare liability is for the pre-Medicare-eligible retirees and beneficiaries. The USCG is the administrative entity for its Military Health System, and in accordance with SFFAS No. 5, recognizes the liability on its financial statements. Benefits are funded on a pay-as-you-go basis from the current year USCG appropriations.

Uniformed Division and Special Agent Pension Liability. The District of Columbia Police Officers' and Firefighters' Retirement Plan (the DC Pension Plan) is a defined benefit plan that covers USSS Uniformed Division and Special Agents hired as civilians prior to January 1, 1984 and eligible for transfer to the DC Pension Plan. Uniformed Division and Special Agents hired after that date are covered as law enforcement agents by the FERS basic annuity benefit, FERS revised annuity benefit, or FERS further revised annuity benefit, as appropriate. The DC Pension Plan makes benefit payments to retirees and/or their beneficiaries. USSS receives permanent, indefinite appropriations each year to pay the excess of benefit payments over salary deductions. The DC Pension Plan is a pay-as-you-go system funded through annual appropriations. USSS calculates pension liability using the present value of future benefits in accordance with SFFAS No. 5. The unfunded accrued liability reported on the accompanying Balance Sheets is actuarially determined by subtracting the present value of future employer/employee contributions, as well as any plan assets, from the present value of future cost of benefits. The standard permits the use of actuarial cost methods other than the aggregate entry age normal actuarial cost method if the difference is not material. In FY 2014, the difference in the liability calculated is less than 0.04%.

For more information on civilian pension and OPEB, MRS liability, and Uniformed Division and Special Agent Pension liability, see Note 16, Federal Employee and Veterans' Benefits.

W. Funds from Dedicated Collections

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

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

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

X. Revenue and Financing Sources

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

Appropriations are recognized as financing sources when related expenses are incurred or assets are purchased. Revenue from reimbursable agreements is recognized when the goods or services are provided by the Department. Prices for goods and services sold to the public are based on recovery of full cost or are set at a market price. Reimbursable work between federal agencies is generally subject to the *Economy Act* (31 United States Code (USC) 1535). Prices for goods and services sold to other Federal Government agencies are generally limited to the recovery of direct cost.

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

Allocation Transfers. The Department is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. In general, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and budget apportionments are derived. Prior to FY 2014, the Department allocated funds, as the parent, to the Department of Health and Human Services. These funds were fully transferred as of September 30, 2013. OMB granted an exemption from reporting this fund as a parent. Therefore, financial activity related to these funds is not reported in the FY 2013 DHS financial statements and related footnotes. DHS receives allocation transfers, as the child, from the U.S. Department of Transportation.

Exchange and Non-exchange Revenue. Exchange revenue is recognized when earned and is derived from transactions where both the government and the other party receive value (i.e., goods have been delivered or services have been rendered). DHS exchange revenue includes, but is not limited to: immigration fees, NFIP insurance premiums, Student Exchange Visa Program fees, and aviation security fees. Reimbursable exchange revenue includes, but is not limited to: services provided to the government of Puerto Rico for the collection of duties, taxes; and fees; services for personnel; medical, housing and various types of maritime support; the Federal Protective Service Guard personnel; and oil spill cleanup costs.

The majority of DHS non-exchange revenue is derived from the custodial collections of user fees, taxes, customs duties, fines and penalties, interest on the fines and penalties, and the refund and drawbacks related to these collections. Non-exchange revenue from user fees is recognized as earned in accordance with the *Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA)* (Pub. L. 99-272), as amended. Non-exchange revenue also arises from transfers-in with and without financing sources and donations from the public. Other financing sources, such as donations and transfers of assets without reimbursements, are recognized on the Statements of Changes in Net Position during the period in which the donations and transfers occurred.

Deferred revenue is recorded when the Department receives payment for goods or services which have not been fully rendered. Deferred revenue is reported as a liability on the Balance Sheet until earned. Premiums collected by FEMA for the NFIP based on subsidized rates are not sufficient to cover the debt repayments (see Note 1.S, Insurance Liabilities). NFIP premium revenue is recognized ratably over the life of the policies. Deferred revenue relates to unearned premiums which represent the unexpired portion of policy premiums. USCIS fees are related to adjudication of applications for immigration and naturalization services that are used to provide special benefits to recipients and pay the regulatory costs from the adjudication process. USCIS requires advance payments of the fees for adjudication of applications or petitions for immigration and naturalization benefits; therefore the recognition of revenue is deferred until the application is processed or adjudicated.

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

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

CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. The custodial revenue is recorded at the time of collection. These revenue collections primarily result from current fiscal year activities. CBP records an equal and offsetting

liability due to the Treasury General Fund for amounts recognized as non-entity tax and trade receivables. Non-entity tax and trade accounts receivables are recognized when CBP is entitled to collect duties, user fees, fines and penalties, refunds and drawback overpayments, and interest associated with import/export activity on behalf of the Federal Government that have been established as a specifically identifiable, legally enforceable claim and remain uncollected as of year-end. CBP accrues an estimate of duties, taxes, and fees related to commerce released prior to year-end where receipt of payment is anticipated subsequent to year-end. The portions of the fees that are subsequently remitted to other federal agencies are recorded as custodial revenue at the time of collection.

Non-entity receivables are presented net of amounts deemed uncollectible. CBP tracks and enforces payment of estimated duties, taxes, and fees receivable by establishing a liquidated damage case that generally results in fines and penalties receivable. A fine or penalty, including interest on past-due balances, is established when a violation of import/export law is discovered. An allowance for doubtful collections is established for substantially all accrued fines and penalties and related interest. The amount is based on past experience in resolving disputed assessments, the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources (such as sureties), and an analysis of aged receivable activity. CBP regulations allow importers to dispute the assessment of duties, taxes, and fees. Receivables related to disputed assessments are not recorded until the protest period expires or a protest decision is rendered in CBP's favor.

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

An accrual adjustment is recorded on the Statements of Custodial Activity to adjust cash collections and refund disbursements with the net increase or decrease of accrued non-entity accounts receivables, net of uncollectible amounts, and refunds payable at year-end.

For additional information, see Note 7, Taxes, Duties, and Trade Receivables, Net, and Note 30, Custodial Revenue.

Y. Fiduciary Activities

Fiduciary activities are Federal Government activities that relate to the collection or receipt—and the subsequent management, protection, accounting, investment and disposition—of cash or other assets in which non-federal individuals or entities have an ownership. Federal accounting standards require the Department to distinguish the information relating to its fiduciary activities from all other activities. Fiduciary activities are not recognized on the accompanying financial statements. The Department's fiduciary activities are currently immaterial, and therefore, no additional disclosure is necessary.

Z. Taxes

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

AA. Adjustments to Beginning Balances

The FY 2013 financial statements were affected by accounting changes during that year. For additional information, see Note 32, Adjustments to Beginning Balances.

AB. Reclassifications

In FY 2014, certain FY 2013 balances were reclassified to conform to FY 2014 presentation.

2. *Non-Entity Assets*

Non-entity assets at September 30 consisted of the following (in millions):

	2014	2013
Intragovernmental:		
Fund Balance with Treasury	\$ 1,626	\$ 1,424
Accounts Receivable	2	3
Total Intragovernmental	<u>1,628</u>	<u>1,427</u>
Public:		
Cash and Other Monetary Assets	7	7
Accounts Receivable, Net	46	46
Taxes, Duties, and Trade Receivables, Net	3,049	2,682
Total Public	<u>3,102</u>	<u>2,735</u>
Total Non-Entity Assets	4,730	4,162
Total Entity Assets	89,428	87,740
Total Assets	<u>\$ 94,158</u>	<u>\$ 91,902</u>

Non-entity Fund Balance with Treasury consists of certain special and deposit funds, permanent and indefinite appropriations, and miscellaneous receipts. Non-entity assets (also discussed in Notes 3, 4, 6, and 7) are offset by corresponding liabilities at September 30, 2014 and 2013. Taxes, duties, and trade receivables from the public represent amounts due from importers for goods and merchandise imported to the United States.

3. *Fund Balance with Treasury*

A. Fund Balance with Treasury

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

	2014	2013
General Funds	\$ 50,833	\$ 51,726
Trust Funds	43	20
Revolving, Public Enterprise, and Working Capital Funds	1,815	440
Special Funds	5,038	4,695
Deposit Funds	1,312	1,121
Total Fund Balance with Treasury	<u>\$ 59,041</u>	<u>\$ 58,002</u>

General funds consist of amounts appropriated annually by Congress to fund the operations of the Department. General funds include clearing funds totaling \$(34) million and \$(4) million at September 30, 2014 and 2013, respectively, which represent reconciling differences with Treasury balances. As of September 30, 2014 and 2013, restricted non-entity fund balance with Treasury was \$1,626 million and \$1,424 million, respectively.

Trust funds include both receipt accounts and expenditure accounts that are designated by law as a trust fund. Trust fund receipts are used for specific purposes, in general to offset the cost of expanding border and port enforcement activities, oil spill related claims and activities, and administrative expenses related to the collection of the Harbor Maintenance Fee. For additional information, see Note 22, Funds from Dedicated Collections.

Revolving funds are used for continuing cycles of business-like activity, in which the fund charges for the sale of products or services and uses the proceeds to finance its spending, usually without requirement for annual appropriations. A public enterprise revolving fund is an account that is authorized by law to be credited with offsetting collections from the public and those monies are used to finance operations. Examples of Department public enterprise funds include the direct loans program and NFIP. The Working Capital Fund is a fee-for-service fund established to support operations of Department Components. Because there was minimal flood activity in FY 2014, FEMA's premium collections for flood insurance exceeded claim payments, which resulted in an increase of public enterprise funds.

Special funds are funds designated for specific purposes including the disbursement of non-entity monies received in connection with antidumping and countervailing duty orders due to qualifying Injured Domestic Industries. The Department also has special funds for immigration and naturalization user fees and CBP user fees, as well as inspection fees, flood map modernization subsidy, and off-set and refund transfers. For additional information, see Note 22, Funds from Dedicated Collections. In addition, some special funds are included in budgetary status as available for obligations. For additional information, see Note 27, Legal Arrangements Affecting the Use of Unobligated Balances.

Deposit funds represent amounts received as an advance that are not accompanied by an order and include non-entity collections that do not belong to the Federal Government.

B. Status of Fund Balance with Treasury

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

	2014	2013
Budgetary Status		
Unobligated Balances:		
Available	\$ 14,316	\$ 14,916
Unavailable	3,516	3,574
Obligated Balance Not Yet Disbursed	38,527	37,764
Total Budgetary Status	<u>56,359</u>	<u>56,254</u>
Reconciling Adjustments:		
Receipt, Clearing, and Deposit Funds	2,324	2,102
Borrowing Authority (Note 25 and Note 32)	(7)	(422)
Investments	(5,582)	(5,078)
Receivable Transfers and Imprest Fund	(274)	(305)
Receipts Unavailable for Obligation	4,224	3,608
Offsetting Collections Previously or Temporarily Precluded from Obligation	37	37
SFRBTF; OSLTF	1,392	1,439
Temporary Reduction of Budget Authority	593	367
Temporary Reduction of Specific Invested Treasury Account Symbols	(25)	-
Total Fund Balance with Treasury	<u>\$ 59,041</u>	<u>\$ 58,002</u>

Portions of the Unobligated Balances Available, Unavailable, and Obligated Balance Not Yet Disbursed contain CBP's user fees of \$105 million and \$88 million at September 30, 2014 and 2013, respectively, which are restricted by law in its use to offset costs incurred by CBP.

Portions of the Unobligated Balance Unavailable include amounts appropriated in prior fiscal years that are not available to fund new obligations, including expired funds. However, the amounts can be used for upward and downward adjustments for existing obligations in future years. The Obligated Balance Not Yet Disbursed represents amounts designated for payment of goods and services ordered but not received or goods and services received but for which payment has not yet been made.

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

- Receipt, clearing, and deposit funds represent amounts on deposit with Treasury that have no budget status at September 30, 2014 and 2013.

- Borrowing authority, to the extent of existing obligations, is in budgetary status for use by FEMA for NFIP purposes and CDLs, and transfers have been made to the Fund Balance with Treasury account for these purposes. For additional information, see Note 25, Available Borrowing Authority, and Note 32, Adjustments to Beginning Balances.
- Budgetary resources have investments included; however, the money has been moved from the Fund Balance with Treasury asset account to Investments.
- Receivable transfers of currently invested balances increase the budget authority at the time the transfer is realized; however, obligations may be incurred before the actual transfer of funds.
- Imprest funds represent funds moved from Fund Balance with Treasury to Cash and Other Monetary Assets with no change in the budgetary status.
- For receipts unavailable for obligations, authorizing legislation may specify that obligations are not available until a specified time in the future or until specific legal requirements are met.
- Offsetting collections previously or temporarily precluded from obligation are offsetting collections that become unavailable for obligation until specific legal requirements are met.
- Sport Fish Restoration Boating Trust Fund (SFRBTF) and Oil Spill Liability Trust Fund (OSLTF) are Treasury-managed funds. These funds receive revenue transferred from custodial activities of the Treasury, which are deposited in a Treasury account. For more information, see Note 22, Funds from Dedicated Collections.
- Temporary reduction of budget authority includes new budget authority or prior-year balance that have been temporarily reduced by enacted legislation in special and nonrevolving trust funds associated with receipt accounts designated by the U.S. Department of the Treasury as available.
- Temporary reduction of specific invested Treasury account symbols includes reductions of amounts appropriated from specific invested Treasury account symbols in the current year due to OMB sequestered amounts.

4. *Cash and Other Monetary Assets*

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

	2014	2013
Total Cash and Other Monetary Assets	\$ 48	\$ 45

DHS cash includes cash held by others, imprest funds, undeposited collections, and the net balances maintained by insurance companies for flood insurance activity. Restricted non-entity cash and other monetary assets were \$7 million at both September 30, 2014 and 2013 (see Note 2).

5. Investments, Net

Investments at September 30, 2014, consisted of the following (in millions):

Type of Investment:	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental Securities:						
OSLTF	Effective interest method	\$ 3,702	\$ 36	\$ 10	\$ 3,748	N/A
SFRBTF	Effective interest method	1,886	-	1	1,887	N/A
General Gift Fund	Effective interest method	1	-	-	1	N/A
Total Nonmarketable, Par Value		5,589	36	11	5,636	N/A
Total Investments, Net		\$ 5,589	\$ 36	\$ 11	\$ 5,636	N/A

Investments at September 30, 2013, consisted of the following (in millions):

Type of Investment:	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental Securities:						
OSLTF	Effective interest method	\$ 3,213	\$ 54	\$ 10	\$ 3,277	N/A
SFRBTF	Effective interest method	1,867	1	1	1,869	N/A
General Gift Fund	Effective interest method	1	-	-	1	N/A
Total Nonmarketable, Par Value		5,081	55	11	5,147	N/A
Total Investments, Net		\$ 5,081	\$ 55	\$ 11	\$ 5,147	N/A

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections (OSLTF, SFRBTF, and General Gift Fund) for the USCG. The cash receipts collected from the public for a fund from dedicated collections are deposited in the Treasury, which uses the cash for general Federal Government purposes. Treasury securities are issued to the USCG as evidence of its receipts. Treasury securities associated with funds from dedicated collections are an asset to the USCG and a liability to the Treasury.

Treasury securities provide the USCG with authority to draw upon the Treasury to make future benefit payments or other expenditures. For additional information, see Note 22, Funds from Dedicated Collections.

6. *Accounts Receivable, Net*

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

	2014	2013
Intragovernmental	<u>\$ 333</u>	<u>\$ 271</u>
With the Public:		
Accounts Receivable	1,914	2,431
Allowance for Doubtful Accounts	<u>(338)</u>	<u>(517)</u>
Total With the Public	<u>1,576</u>	<u>1,914</u>
Accounts Receivable, Net	<u>\$ 1,909</u>	<u>\$ 2,185</u>

As of September 30, 2014 and 2013, total restricted non-entity accounts receivable were \$48 million and \$49 million, respectively (see Note 2).

In FY 2013, two significant judgments were assessed against British Petroleum (BP) and Transocean for the Deepwater Horizon oil spill. These judgments are reflected as accounts receivable due from the public. In addition, in September 2014, the U.S. District Court ruled that BP was grossly negligent in regards to the Deepwater Horizon oil spill. The ruling may result in significant civil penalties assessed against BP, and an increase in accounts receivable due from the public in future fiscal years.

7. Taxes, Duties, and Trade Receivables, Net

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

As of September 30, 2014:

Receivables Category	Gross		Total Net Receivables
	Receivables	Allowance	
Duties	\$ 2,753	\$ (130)	\$ 2,623
Excise Taxes	168	(10)	158
User Fees	72	-	72
Fines/Penalties	1,029	(944)	85
Antidumping and Countervailing Duties	1,555	(1,444)	111
Total Taxes, Duties, and Trade Receivables, Net	\$ 5,577	\$ (2,528)	\$ 3,049

As of September 30, 2013:

Receivables Category	Gross		Total Net Receivables
	Receivables	Allowance	
Duties	\$ 2,478	\$ (133)	\$ 2,345
Excise Taxes	149	(9)	140
User Fees	68	(1)	67
Fines/Penalties	887	(815)	72
Antidumping and Countervailing Duties	1,370	(1,312)	58
Total Taxes, Duties, and Trade Receivables, Net	\$ 4,952	\$ (2,270)	\$ 2,682

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

When a violation of import/export law is discovered, a fine or penalty is established. CBP assesses a liquidated damage or penalty for these cases to the maximum extent of the law. After receiving the notice of assessment, the importer or surety has 60 days to either file a petition requesting a review of the assessment or pay the assessed amount. Once a petition is received, CBP investigates the circumstances as required by its mitigation guidelines and directives. Until this process has been completed, the Department records an allowance, net of interest, on fines and penalties, based on historical experience of fines and penalties mitigation and collection. The allowance was approximately 92 percent at each September 30, 2014 and 2013. Duties and taxes receivables are non-entity assets for which there is an offsetting liability Due to the General Fund (see Note 18).

8. *Direct Loans, Net*

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

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

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

The CDLs are established at the current Treasury rate for a term of five years. A CDL has a maximum amount of \$5 million. The CDL amount cannot exceed 25 percent of the annual operating budget of the local government for the fiscal year in which the major disaster occurred, unless the loss of tax and other revenue for the local government is at least 75 percent of the annual operating budget. In this case, the CDL amount cannot exceed 50 percent of the annual operating budget. These CDLs can be cancelled by FEMA upon request from local government.

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

The *Consolidated and Furthering Appropriations Act, 2013* (Pub. L. 113-6) loosened the restrictions used in calculating the operating deficit to determine if a local government qualifies for additional cancellations. In addition, the law allows FEMA to reimburse those local governments who have repaid all, or a portion of, their loans, and who have received additional cancellations.

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

	2014	2013
	Loans Receivable, Net	Loans Receivable, Net
Community Disaster Loans	\$ 10	\$ 73

In FY 2014, legislation loosening restrictions for cancellations impacted the re-estimate for the subsidy resulting in a decrease in loans receivable.

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

B. Direct Loans Obligated After FY 1991 (in millions):

As of September 30, 2014:	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Community Disaster Loans	\$ 121	\$ 4	\$ (115)	\$ 10

As of September 30, 2013:	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Community Disaster Loans	\$ 316	\$ 47	\$ (290)	\$ 73

C. Total Amount of Direct Loans Disbursed, Post-1991 (in millions):

	2014	2013
Community Disaster Loans	\$ 57	\$ 46

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

Subsidy Expense for New Direct Loans Disbursed as of September 30

Community Disaster Loans	Interest Differential	Defaults and Other	Total
2014	\$ 4	\$ 48	\$ 52
2013	\$ 3	\$ 39	\$ 42

Direct Loan Modifications and Re-estimates

Community Disaster Loans	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
2014	\$ -	\$ -	\$ 78	\$ 78
2013	\$ 257	\$ -	\$ (1)	\$ 256

Total Direct Loan Subsidy Expense

	2014	2013
Community Disaster Loans	\$ 130	\$ 298

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

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

	2014	2013
	Community Disaster Loans	Community Disaster Loans
Interest Subsidy Cost	1.40%	7.17%
Default Costs	0.03%	N/A
Other	93.82%	84.46%

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

Default costs include the projected default amounts based on Moody's default curve for years 6 to 10.

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

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

	2014	2013
Beginning balance of the subsidy cost allowance	\$ 290	\$ 77
Add subsidy expense for direct loans disbursed during the reporting years by component:		
Interest rate differential costs	4	3
Other subsidy costs	48	39
Adjustments:		
Loan modifications	-	257
Loans written off	(306)	(83)
Subsidy allowance amortization	1	(2)
Ending balance of the subsidy cost allowance before re-estimates	37	291
Add subsidy re-estimate by Component		
Technical/default re-estimate	78	(1)
Ending balance of the subsidy cost allowance	\$ 115	\$ 290

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

	2014	2013
Community Disaster Loans	\$ 1	\$ 2

9. Inventory and Related Property, Net

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

	2014	2013
OM&S		
Items Held for Use	\$ 1,336	\$ 1,272
Items Held for Future Use	41	42
Items Held for Repair	669	773
Excess, Obsolete and Unserviceable Items	21	16
Less: Allowance for Losses	(238)	(251)
Total OM&S, Net	<u>1,829</u>	<u>1,852</u>
Inventory		
Inventory Purchased for Resale	76	75
Less: Allowance for Losses	(9)	(9)
Total Inventory, Net	<u>67</u>	<u>66</u>
Stockpile Materials Held in Reserve	<u>97</u>	<u>108</u>
Total Inventory and Related Property, Net	\$ <u>1,993</u>	\$ <u>2,026</u>

10. Seized and Forfeited Property

Prohibited seized property item counts as of September 30 and seizure and forfeiture activity for FY 2014 and 2013 are as follows:

Fiscal Year Ended September 30, 2014:

Seized Property:	Beginning Balance	New Seizures	Remissions	New Forfeitures	Adjustments	Ending Balance
Illegal Drugs (in kilograms):						
Marijuana	3,104	1,039,151	-	(1,043,877)	4,635	3,013
Cocaine	211	21,975	-	(21,889)	6	303
Heroin	9	2,402	-	(2,383)	21	49
Ecstasy	17	298	-	(298)	-	17
Steroids	264	689	-	(555)	(2)	396
Methamphetamine	11	11,676	-	(11,633)	(21)	33
Khat	45	66,902	-	(66,910)	(37)	-
Firearms and Explosives (in number of items)	3,668	4,589	(361)	(1,528)	(765)	5,603
Counterfeit Currency (US/Foreign, in number of items)	5,114,837	1,974,137	(1,112,482)	-	141,058	6,117,550
Counterfeit Goods (in number of items)	31,473	55,768	(818)	(51,755)	(1,348)	33,320
Forfeited Property:						
	Beginning Balance	New Forfeitures	Transfers	Destroyed	Adjustments	Ending Balance
Illegal Drugs (in kilograms):						
Marijuana	143,319	1,043,877	(270)	(353,443)	(698,891)	134,592
Cocaine	19,850	21,889	(130)	(19,354)	(954)	21,301
Heroin	3,247	2,383	(20)	(1,897)	(208)	3,505
Ecstasy	1,077	298	(46)	(474)	(25)	830
Steroids	335	555	-	(836)	9	63
Methamphetamine	11,480	11,633	(9)	(8,094)	(1,736)	13,274
Khat	3,658	66,910	-	(68,165)	(161)	2,242
Firearms and Explosives (in number of items)	1,160	1,528	(1,668)	-	390	1,410
Counterfeit Goods (in number of items)	22,905	51,755	(275)	(48,323)	521	26,583

Fiscal Year Ended September 30, 2013:

Seized Property:	Beginning Balance	New Seizures	Remissions	New Forfeitures	Adjustments	Ending Balance
Illegal Drugs (in kilograms):						
Marijuana	2,051	1,224,988	-	(1,231,308)	7,373	3,104
Cocaine	83	20,528	-	(20,373)	(27)	211
Heroin	4	2,396	-	(2,392)	1	9
Ecstasy	18	720	-	(724)	3	17
Steroids	147	734	-	(613)	(4)	264
Methamphetamine	5	11,035	-	(11,054)	25	11
Khat	48	82,786	-	(82,741)	(48)	45
Firearms and Explosives (in number of items)	3,112	4,600	(564)	(3,290)	(190)	3,668
Counterfeit Currency (US/Foreign, in number of items)	4,679,797	1,933,320	(1,508,067)	-	9,787	5,114,837
Counterfeit Goods (in number of items)	39,248	56,207	(637)	(60,127)	(3,218)	31,473
Forfeited Property:	Beginning Balance	New Forfeitures	Transfers	Destroyed	Adjustments	Ending Balance
Illegal Drugs (in kilograms):						
Marijuana	141,235	1,231,308	(152)	(395,939)	(833,133)	143,319
Cocaine	24,821	20,373	(193)	(22,924)	(2,227)	19,850
Heroin	2,768	2,392	(38)	(1,818)	(57)	3,247
Ecstasy	921	724	(40)	(496)	(32)	1,077
Steroids	340	613	(1)	(596)	(21)	335
Methamphetamine	7,039	11,054	(77)	(6,210)	(326)	11,480
Khat	3,339	82,741	-	(1,021)	(81,401)	3,658
Firearms and Explosives (in number of items)	1,025	3,290	(3,285)	(3)	133	1,160
Counterfeit Goods (in number of items)	15,764	60,127	(246)	(54,438)	1,698	22,905

This schedule is presented for prohibited (nonvalued) seized and forfeited property. These items are retained and ultimately destroyed by CBP and USSS and are not transferred to the U.S. Departments of Treasury or Justice Asset Forfeiture Funds or other federal agencies. Illegal drugs are presented in kilograms, and a portion of the weight includes packaging, which often cannot be reasonably separated from the weight of the drugs since the packaging must be maintained for evidentiary purposes. Khat seizures have increased in recent years and are therefore now included in the list of illegal drugs seized and forfeited. CBP also seizes insignificant quantities of other types drugs not included in the schedule above. These drugs are in CBP possession at year-end but are insignificant, and therefore are not itemized in the financial statements of the Department.

The ending balance for firearms includes only those seized items that can actually be used as firearms. Counterfeit goods are seized by CBP and ICE and are presented in number of seized items, and include clothing, footwear, jewelry, electronic equipment, movies music and media, identification documents and other items. USCG and ICE also seize and take temporary possession of small boats, equipment, general property, firearms, contraband, and illegal drugs. CBP maintains the seized property on behalf of USCG and ICE, and transfers nonprohibited seized property to the Treasury Forfeiture Fund. Seized property in USCG and ICE possession at year-end is not considered significant and therefore is not itemized and is not reported in the financial statements of the Department.

Adjustments are caused by changes during the year to the beginning balances due to changes in legal status of property type, or discontinuance of cases. Also, a prior year case can change legal status or property type. For example, a case considered forfeited could be re-opened and changed to seized status or a drug property type may change on a case.

11. General Property, Plant, and Equipment, Net

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

As of September 30, 2014:	Service Life	Cost	Accumulated Depreciation/Amortization	Total Net Book Value
Land and Land Rights	N/A	\$ 264	N/A	\$ 264
Improvements to Land	3-50 yrs	2,256	611	1,645
Construction in Progress	N/A	2,711	N/A	2,711
Buildings, Other Structures and Facilities	10-50 yrs	7,563	3,520	4,043
Equipment:				
Automated Data Processing Equipment	3-5 yrs	1,043	825	218
Aircraft	12-40 yrs	5,767	2,595	3,172
Vessels	5-76 yrs	7,227	3,424	3,803
Vehicles	4-8 yrs	1,003	843	160
Other Equipment	5-30 yrs	6,979	4,439	2,540
Assets Under Capital Lease	2-20 yrs	79	50	29
Leasehold Improvements	2-30 yrs	1,851	828	1,023
Internal Use Software	3-13 yrs	3,491	2,848	643
Internal Use Software - in Development	N/A	532	N/A	532
Total General Property, Plant, and Equipment, Net		\$ 40,766	\$ 19,983	\$ 20,783

As of September 30, 2013:	Service Life	Cost	Accumulated Depreciation/Amortization	Total Net Book Value
Land and Land Rights	N/A	\$ 233	N/A	\$ 233
Improvements to Land	3-50 yrs	2,225	494	1,731
Construction in Progress	N/A	2,880	N/A	2,880
Buildings, Other Structures and Facilities	10-50 yrs	6,901	3,129	3,772
Equipment:				
Automated Data Processing Equipment	3-5 yrs	1,089	860	229
Aircraft	12-40 yrs	5,224	2,627	2,597
Vessels	5-76 yrs	6,606	3,326	3,280
Vehicles	4-8 yrs	999	797	202
Other Equipment	5-30 yrs	6,822	4,172	2,650
Assets Under Capital Lease	2-20 yrs	79	47	32
Leasehold Improvements	2-30 yrs	1,659	645	1,014
Internal Use Software	3-13 yrs	3,103	2,342	761
Internal Use Software - in Development	N/A	497	N/A	497
Total General Property, Plant, and Equipment, Net		\$ 38,317	\$ 18,439	\$ 19,878

12. Stewardship Property, Plant, and Equipment

DHS's Stewardship PP&E is comprised of items held by USCG, CBP, USCIS, TSA, FEMA, S&T, and USSS. These heritage assets are located in the United States, and the Commonwealth of Puerto Rico. Physical unit information related to heritage assets as of September 30 consisted of the following (in number of units):

2014	Beginning Balance	Additions	Withdrawals	Total
Collection-type Assets				
USCG	9	-	-	9
CBP	2	-	-	2
USCIS	5	-	-	5
TSA	11	-	-	11
S&T	1	-	-	1
USSS	-	1	-	1
Noncollection-type Assets				
USCG	113	13	(47)	79
S&T	1	-	-	1
Multi-use Heritage Assets				
USCG	537	46	(418)	165
CBP	4	-	-	4
FEMA	1	-	-	1
Total Stewardship Property, Plant and Equipment	684	60	(465)	279
2013	Beginning Balance	Additions	Withdrawals	Total
Collection-type Assets				
USCG	9	-	-	9
CBP	2	-	-	2
USCIS	5	-	-	5
TSA	11	-	-	11
S&T	1	-	-	1
Noncollection-type Assets				
USCG	177	11	(75)	113
S&T	1	-	-	1
Multi-use Heritage Assets				
USCG	740	46	(249)	537
CBP	4	-	-	4
FEMA	1	-	-	1
Total Stewardship Property, Plant and Equipment	951	57	(324)	684

The Department's Stewardship PP&E primarily consists of USCG's heritage assets, which are unique due to historical, cultural, artistic, or architectural significance. These assets are used to preserve and to provide education on USCG history and tradition.

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

The USCG possesses a wide range of heritage assets, such as ship equipment, lighthouse and other aids-to-navigation, communication items, military uniforms, ordnance, artwork, and display models. Items added to historical collection are derived from many sources, including gifts from current or former USCG personnel or the general public, bequests, and transfers from other federal agencies. As assessments are made of heritage assets, individual items are withdrawn from a collection when they have deteriorated through damage due to moving and transportation, storage or display, or environmental degradation. Individual items are also withdrawn when the USCG curatorial staff, in conjunction with the USCG historian, determines that an artifact does not meet the needs of the collection.

USCG collectible heritage assets can be categorized as artifacts, artwork, and display models. For each of these categories, the USCG has collections located at the USCG Headquarters, the USCG Academy, and field units.

- Artifacts include ships' equipment (sextants, bells, binnacles, etc.); decommissioned aids-to-navigation and communication equipment (buoy bells, lighthouse lenses, lanterns, etc.); personal-use items (uniforms and related accessories); and ordnance (cannons, rifles, and Lyle guns).
- Artwork consists of the USCG's collection of World War II combat art, as well as modern art depicting both historical and modern USCG activities.
- Display models are mostly of USCG vessels and aircraft. These are often builders' models acquired by the USCG as part of the contracts with the ship or aircraft builders.

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

sea, to prevent the unauthorized handling of explosives or ordnance that may be aboard, and to preserve culturally valuable artifacts of the USCG.

CBP possesses documents and artifacts that are unique due to historical, cultural, artistic, or architectural significance. CBP aggregates its personal property heritage assets as documents and artifacts and reflects its real property as a number of physical units. These assets are used to preserve and to educate about CBP's history and tradition. Documents consist of dated port records, CBP regulations, and ledgers of Collectors of Customs. Artifacts include antique scales, dated pictures of Customs inspectors, aged tools used to sample imported commodities such as wood bales and bulk grain, and dated Customs uniforms, badges, and stamps. In addition, CBP has four multi-use heritage assets located in Puerto Rico, which consist of customs houses that facilitate the collection of revenue for the Department.

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

TSA heritage assets include six architectural or building artifacts, and five aviation security technology items. The architectural or building artifacts include concrete pieces that belonged to the western wall of the Pentagon, subway rails from the Port Authority Trans-Hudson subway station located below the World Trade Center, and four artifacts related to the steel structure and facade of the World Trade Center Towers that were destroyed by the terrorist attacks of September 11, 2001. The five aviation security technology items include two walk through metal detectors, two X-ray machines, and an explosives trace detection portal machine. These items are preserved as important examples of aviation security technology that were deployed to airports across the country after the September 11, 2001 terrorist attacks to keep the traveling public safe. As the lead agency protecting the Nation's transportation systems to ensure freedom of movement for people and commerce, TSA uses this property for the purpose of educating individuals about its history, mission, values, and culture.

FEMA has one multi-use heritage asset, the National Emergency Training Center, which is used by the Emergency Management Institute and the U.S. Fire Administration's National Fire Academy for training in Emmitsburg, Maryland. The Emergency Management Institute and the National Fire Academy develop, deliver, and manage educational and training programs to support FEMA's and U.S. Fire Administration's goals to help state and local response agencies prevent, mitigate, prepare for, and respond to local, regional, and national emergencies.

S&T provides operational management support for the Plum Island Animal Disease Center, which is located adjacent to Orient Point, New York. This facility houses the historic Plum Island Lighthouse, which is designated on the National Register of Historic Places. The fourth-order Fresnel lens from the lighthouse is on loan for display at the East End Seaport Museum in Greenport, New York.

USSS maintains and preserves a collection of historical records, photographs, documents and artifacts pertaining to the history of the USSS. The items are maintained, stored, or displayed in the USSS archives and in the Secret Service Exhibit Hall. These items are used to educate employees and their guests about the USSS's dual missions of investigations and protection.

13. Other Assets

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

	2014	2013
Intragovernmental:		
Advances and Prepayments	\$ 1,009	\$ 1,207
Total Intragovernmental	<u>1,009</u>	<u>1,207</u>
Public:		
Advances and Prepayments	680	657
Total Public	<u>680</u>	<u>657</u>
Total Other Assets	<u>\$ 1,689</u>	<u>\$ 1,864</u>

14. Liabilities Not Covered by Budgetary Resources

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

	2014	2013
Intragovernmental:		
Debt (Note 15)	\$ 24,000	\$ 24,000
Due to the General Fund (Note 18)	3,110	2,709
Accrued FECA Liability (Note 18)	365	358
Other	130	123
Total Intragovernmental	<u>27,605</u>	<u>27,190</u>
Public:		
Federal Employee and Veterans' Benefits:		
Actuarial FECA Liability (Note 16)	2,540	2,507
Military Service and Other Retirement Benefits (Note 16)	48,160	48,716
Environmental and Disposal Liabilities (Note 17)	655	753
Other:		
Accrued Payroll and Benefits (Note 18)	1,333	1,239
Contingent Legal Liabilities (Note 21)	462	541
Capital Lease Liability (Note 19)	39	42
Other	17	46
Total Public	<u>53,206</u>	<u>53,844</u>
Total Liabilities Not Covered by Budgetary Resources	80,811	81,034
Liabilities Covered by Budgetary Resources	11,005	10,719
Total Liabilities	<u>\$ 91,816</u>	<u>\$ 91,753</u>

The Department anticipates that the portion of the liabilities listed above will be funded from future budgetary resources when required, except for Due to the General Fund, which is funded by future custodial collections. The remaining liabilities are covered by current budgetary resources.

15. Debt

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

As of September 30, 2014:	Beginning Balance	Net Borrowing	Ending Balance
Debt to the Treasury General Fund:			
Debt for the NFIP	\$ 24,000	\$ -	\$ 24,000
Debt for Credit Reform	76	5	81
Total Debt to the Treasury General Fund	\$ 24,076	\$ 5	\$ 24,081
Total Debt	\$ 24,076	\$ 5	\$ 24,081
<hr/>			
As of September 30, 2013:	Beginning Balance	Net Borrowing	Ending Balance
Debt to the Treasury General Fund:			
Debt for the NFIP	\$ 17,750	\$ 6,250	\$ 24,000
Debt for Credit Reform	322	(246)	76
Total Debt to the Treasury General Fund	\$ 18,072	\$ 6,004	\$ 24,076
Total Debt	\$ 18,072	\$ 6,004	\$ 24,076

DHS's intragovernmental debt is owed to BFS and consists of borrowings to finance claims under NFIP and borrowings to finance FEMA's Disaster Assistance Direct Loan Program.

NFIP loans can have up to a 10-year term. Interest rates are obtained from BFS and range by cohort year from 0.375 percent to 0.5 percent as of September 30, 2014, and from 0.125 percent to 0.5 percent as of September 30, 2013. Interest is paid semi-annually on March 31 and September 30. The total interest paid was \$111 million and \$103 million as of September 30, 2014 and 2013, respectively. Interest is accrued based on the loan balances reported. Principal repayments are required only at maturity but are permitted any time during the term of the loan. The loan and interest payments are financed by the flood premiums from policyholders. Given the current rate structure, FEMA will not be able to pay its debt from the premium revenue alone; therefore, legislation will need to be enacted to provide funding to repay BFS or to forgive the debt.

Under Credit Reform, the unsubsidized portion of direct loans is borrowed from BFS. The repayment terms of FEMA's borrowing are based on the life of each cohort of direct loans. Proceeds from collections of principal and interest from the borrowers are used to repay BFS. In addition, an annual re-estimate is performed to determine any change from the original subsidy rate. If an upward re-estimate is determined to be necessary, these funds are available through permanent indefinite authority, which is to be approved by OMB. Once these funds are appropriated, the original borrowings are repaid to BFS. The weighted average interest rates for FY 2014 and FY 2013 were 1.81 percent and 1.96 percent, respectively.

16. Federal Employee and Veterans' Benefits

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

	2014	2013
USCG Military Retirement and Healthcare Benefits	\$ 43,116	\$ 44,796
USSS DC Pension Plan Benefits	5,044	3,920
Actuarial FECA Liability	2,540	2,507
Total Federal Employee and Veterans' Benefits	\$ 50,700	\$ 51,223

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

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

As of September 30, 2014:	USCG Defined Benefit Plan	USCG Post- Retirement Healthcare	USSS Defined Benefit Plan	Total
Beginning Liability Balance:	\$ 38,905	\$ 5,891	\$ 3,920	\$ 48,716
Expenses:				
Normal Cost	1,135	276	-	1,411
Interest on the Liability Balance	1,498	219	138	1,855
Actuarial Losses/(Gains):				
From Experience	(566)	(18)	(182)	(766)
From Assumption Changes	(2,113)	(636)	1,414	(1,335)
Other	-	-	-	-
Total Expense	(46)	(159)	1,370	1,165
Less Amounts Paid	1,273	202	246	1,721
Ending Liability Balance	\$ 37,586	\$ 5,530	\$ 5,044	\$ 48,160

As of September 30, 2013:	USCG Defined Benefit Plan	USCG Post- Retirement Healthcare	USSS Defined Benefit Plan	Total
Beginning Liability Balance:	\$ 39,896	\$ 6,071	\$ 3,757	\$ 49,724
Expenses:				
Normal Cost	1,274	314	246	1,834
Interest on the Liability Balance	1,494	226	-	1,720
Actuarial Losses/(Gains):				
From Experience	(324)	(33)	(128)	(485)
From Assumption Changes	(2,209)	(496)	294	(2,411)
Other	-	-	(23)	(23)
Total Expense	235	11	389	635
Less Amounts Paid	1,226	191	226	1,643
Ending Liability Balance	\$ 38,905	\$ 5,891	\$ 3,920	\$ 48,716

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

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

The unfunded accrued liability, presented as a component of the liability for military service and other retirement benefits in the accompanying Balance Sheet, represents both retired pay for retirees and health care benefits for non-Medicare eligible retirees/survivors. The present value of future benefits is the actuarial present value of the future payments that are expected to be paid under the retirement plan’s provisions. Credited service is the years of service from active duty base date (or constructive date in the case of active duty reservists) to date of retirement measured in years and completed months. The present value of future benefits is then converted to an accrued liability by subtracting the present value of future employer/employee normal contributions. USCG plan participants may retire after 20 years of active service at any age with annual benefits equal to 2.5 percent of retired base pay for each year of creditable active service. The retired pay base depends upon the date of initial entry into military service (DIEMS). For DIEMS of

September 8, 1980, or later, the retired pay base would be the mean of the highest 36 months of basic pay earned (or would have earned if on active duty). For DIEMS of September 7, 1980, or earlier, the retired pay base would be the basic pay rate in effect on the first day of retirement (if a commissioned officer or an enlisted member) or the basic pay rate in effect on the last day of active duty before retirement (if a warrant officer). Personnel who became members after August 1, 1986, may elect to receive a \$30,000 Career Status Bonus after 15 years of service in return for reductions in retired pay.

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

The significant actuarial assumptions used to compute the accrued pension and healthcare liability are as follows:

1. DOD decrement tables are only used for mortality. Disability, withdrawal, and retirement tables reflecting actual USCG experience were developed based on an USCG experience study dated September 30, 2009;
2. Cost of living increases are 2.15 percent, calculated based on the historical average of cost of living adjustments over the past seven years (only for the retirement plan);
3. Healthcare cost increase assumptions are based on the annual liability report provided by DOD and vary, depending on the year and type of care;
4. The discount rate percent is determined in accordance with SFFAS No. 33 and is calculated independently for pensions and healthcare. The current discount rate is 4.08 percent for the retirement system and 4.04 percent for the health system.

USSS. Special agents and other USSS personnel in certain job series hired as civilians before January 1, 1984, are eligible to transfer to the District of Columbia Police Officers' and Firefighters' Retirement Plan (DC Pension Plan) after completion of 10 years of Secret Service employment and 10 years of protection-related experience. All uniformed USSS officers who were hired before January 1, 1984, are automatically covered under this retirement system. Participants in the DC Pension Plan make contributions of 7 percent of base pay with no matching contribution made by USSS. Annuitants of this plan receive benefit payments directly from the DC Pension Plan. USSS reimburses the District of Columbia for the difference between benefits provided to the annuitants and payroll contributions received from current employees. This liability is presented as a component of the liability for military service and other retirement benefits in the accompanying Balance Sheet. SFFAS No. 5 requires the administrative entity (administrator) to report the actuarial liability. However, USSS records a liability because the administrator (the DC Pension Plan) is not a federal entity and as such the liability for future funding would not otherwise be recorded in the government-wide consolidated financial statements.

The primary actuarial assumptions used to determine the liability at September 30, 2014, are:

1. Life expectancy is based upon the RP 2000 Combined Healthy Mortality Table;
2. Rates of salary increases are 2.5 percent annually;
3. The discount rate calculated in accordance with SFFAS No. 33 is 2.75 percent; and
4. Rates of withdrawal for active service by gender and age.

B. Actuarial FECA Liability

The actuarial FECA liability represents the estimated liability for future workers' compensation and includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. Future workers' compensation estimates for the future cost of approved compensation cases, which are generated from an application of actuarial procedures developed by DOL, were approximately \$2,540 million and \$2,507 million at September 30, 2014 and 2013, respectively.

17. Environmental and Disposal Liabilities

Environmental and disposal liabilities at September 30, 2014 and 2013 are \$656 million and \$755 million, respectively. The Department is responsible for remediating its sites with environmental contamination and is party to various administrative proceedings, legal actions, and tort claims that may result in settlements or decisions adverse to the Federal Government. The source of remediation requirements to determine the environmental liability is based on compliance with federal, state, or local environmental laws and regulations. The major federal laws covering environmental response, cleanup, and monitoring are the *Comprehensive Environmental Response, Compensation and Liability Act* (Pub. L. 96-510) and the *Resource Conservation and Recovery Act* (Pub. L. 94-580).

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

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

18. Other Liabilities

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

As of September 30, 2014:	Current	Non- Current	Total
Intragovernmental:			
Due to the General Fund (Note 14)	\$ 3,110	\$ -	\$ 3,110
Accrued FECA Liability (Note 14)	137	228	365
Advances from Others	75	-	75
Employer Benefits Contributions and Payroll Taxes	127	-	127
Other Intragovernmental Liabilities	140	9	149
Total Intragovernmental Other Liabilities	\$ 3,589	\$ 237	\$ 3,826
Public:			
Accrued Payroll and Benefits (See B. below)	\$ 2,053	\$ -	\$ 2,053
Deferred Revenue and Advances from Others (See B. below)	2,424	939	3,363
Insurance Liabilities (Note 20)	468	128	596
Refunds and Drawbacks	150	-	150
Contingent Legal Liabilities (Note 21)	133	375	508
Capital Lease Liability (Note 19)	4	35	39
Other	1,793	32	1,825
Total Other Liabilities with the Public	\$ 7,025	\$ 1,509	\$ 8,534
Total Other Liabilities	\$ 10,614	\$ 1,746	\$ 12,360

As of September 30, 2013:	Current	Non- Current	Total
Intragovernmental:			
Due to the General Fund	\$ 2,709	\$ -	\$ 2,709
Accrued FECA Liability	128	230	358
Advances from Others	102	-	102
Employer Benefits Contributions and Payroll Taxes	209	-	209
Other Intragovernmental Liabilities	170	10	180
Total Intragovernmental Other Liabilities	\$ 3,318	\$ 240	\$ 3,558
Public:			
Accrued Payroll and Benefits (See B. below)	\$ 1,807	\$ -	\$ 1,807
Deferred Revenue and Advances from Others (See B. below)	2,241	939	3,180
Insurance Liabilities (Note 20)	640	57	697
Refunds and Drawbacks	168	-	168
Contingent Legal Liabilities (Note 21)	204	357	561
Capital Lease Liability (Note 19)	3	39	42
Other	1,717	46	1,763
Total Other Liabilities with the Public	\$ 6,780	\$ 1,438	\$ 8,218
Total Other Liabilities	\$ 10,098	\$ 1,678	\$ 11,776

A. Intragovernmental Other Liabilities

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

Workers' Compensation. Claims incurred for the benefit of Department employees under FECA are administered by DOL and are ultimately paid by the Department. The accrued FECA liability represents money owed for current claims. Reimbursement to DOL for payments made occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intragovernmental liability are made available to the Department as part of its annual appropriation from Congress in the year in which the reimbursement takes place. Workers' compensation expense was \$181 million and \$184 million, respectively, for the fiscal years ended September 30, 2014 and 2013.

B. Other Liabilities with the Public

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

	2014	2013
Accrued Funded Payroll and Benefits	\$ 619	\$ 472
Accrued Unfunded Leave	1,329	1,234
Unfunded Employment Related Liabilities	4	5
Other	101	96
Total Accrued Payroll and Benefits	\$ 2,053	\$ 1,807

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

	2014	2013
USCIS Application Fees	\$ 941	\$ 942
FEMA Unearned NFIP Premium	2,306	2,134
Advances from Others	116	104
Total Deferred Revenue	\$ 3,363	\$ 3,180

USCIS requires payments of fees for applications or petitions for immigration and naturalization benefits at the time of filing. FEMA's deferred revenue relates to unearned NFIP premiums recognized over the term of the period of insurance coverage.

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

19. Leases

A. Operating Leases

The Department leases various facilities and equipment accounted for as operating leases. Leased items consist of offices, warehouses, vehicles, and other equipment. The majority of office space occupied by the Department is either owned by the Federal Government or is leased by GSA from commercial sources. The estimated future lease payments for noncancellable operating leases are based on lease contract terms, considering payments made during the year ended September 30, 2014.

As of September 30, 2014, estimated future minimum lease commitments for noncancellable operating leases were as follows (in millions):

	Land and Buildings
FY 2015	\$ 404
FY 2016	368
FY 2017	345
FY 2018	301
FY 2019	236
After FY 2019	1,578
Total Future Minimum Lease Payments	\$ 3,232

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

B. Capital Leases

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

Certain license agreements are cancellable depending on future funding. Substantially all of the net present value of capital lease obligations and software license agreements will be funded from future sources. As of September 30, the summary of assets under capital lease was as follows (in millions):

	2014	2013
Land and Buildings	\$ 68	\$ 68
Software	11	11
Accumulated Amortization	(50)	(47)
Assets under Capital Lease, Net	\$ 29	\$ 32

The estimated future lease payments for capital leases are based on lease contract terms. As of September 30, 2014, estimated future minimum lease payments under capital leases, were as follows (in millions):

	Land and Buildings
FY 2015	\$ 6
FY 2016	6
FY 2017	6
FY 2018	6
FY 2019	6
After FY 2019	21
Total Future Minimum Lease Payments	51
Less: Imputed Interest and Executory Costs	(12)
Total Capital Lease Liability	\$ 39

20. Insurance Liabilities

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

	2014	2013
Beginning Balance	\$ 697	\$ 833
Change in Incurred Losses		
Change from Events of the Current Year	836	9,190
Change from Events of Prior Years	84	(195)
Less: Amounts Paid During Current Period		
Paid for Events of the Current Year	(502)	(8,569)
Paid for Events of Prior Years	(519)	(562)
Total Insurance Liability	\$ 596	\$ 697

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

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

The amount of incurred losses and amounts paid decreased in the current year because there were fewer major flooding events in FY 2014.

21. Commitments and Contingent Liabilities

A. Legal Contingent Liabilities

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

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

	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
FY 2014			
Probable	\$ 508	\$ 508	\$ 1,420
Reasonably Possible		\$ 424	\$ 1,105

The claims above generally relate to the *Federal Tort Claims Act* (Pub. L. 79-601), OSLTF, and various customs laws and regulations. The estimated contingent liability recorded in the accompanying financial statements included with other liabilities for all probable and reasonably estimable litigation-related claims at September 30, 2014, was \$508 million, of which \$46 million was funded.

Asserted and pending legal claims for which loss was reasonably possible is estimated to range from \$424 million to \$1,105 million at September 30, 2014.

As of September 30, 2014, legal claims exist for which the potential range of loss could not be determined; however, the total amount claimed is not material to the financial statements. In addition, other claims exist for which the amount claimed and the potential range of loss could not be determined.

B. Duty and Trade Refunds

There are various trade-related matters that fall under the jurisdiction of other federal agencies, such as the Department of Commerce, which may result in refunds of duties, taxes, and fees from CBP refunds and drawbacks. Until a decision is reached by the other federal agencies, CBP does not have sufficient information to estimate a contingent liability amount. All known duty and trade refunds as of September 30, 2014 and 2013 have been recorded.

C. Loaned Aircraft and Equipment

The Department is generally liable to DOD for damage or loss to aircraft on loan to CBP and vessels on loan to the USCG. As of September 30, 2014 and 2013, CBP had 16 aircraft, loaned from DOD with a replacement value of up to \$23 million per aircraft. As of September 30, 2014, the USCG had four vessels on loan from DOD with a total replacement value of \$48 million.

D. Other Contractual Arrangements

In addition to future lease commitments disclosed in Note 19, the Department is committed under contractual agreements for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all Department activities are disclosed in Note 29. In accordance with the *National Defense Authorization Act for Fiscal Year 1991* (Pub. L. 101-510), the Department is required to automatically cancel obligated and unobligated balances of appropriated funds five years after a fund expires. Obligations that have not been paid at the time an appropriation is cancelled may be paid from an unexpired appropriation that is available for the same general purpose. As of September 30, 2014, DHS estimates total payments related to cancelled appropriations to be \$283 million, of which \$104 million for contractual arrangements may require future funding.

TSA maintains 12 letters of intent (LOIs) for modifications to airport facilities with 11 major airports in which TSA uses cost-sharing agreements with the airports to modify the facilities for checked baggage screening projects. An LOI, though not a binding commitment of federal funding, represents TSA's intent to provide the agreed-upon funds in future years if the agency receives sufficient appropriations to cover the agreement. TSA received \$200 million in each FY 2014 and FY 2013 to fund LOIs. These funds are available for payment to the airports upon approval by TSA of an invoice for the modification costs incurred. As of September 30, 2014, TSA has received invoices or documentation for costs incurred totaling \$86 million for the invoices that have not yet been paid.

22. Funds from Dedicated Collections

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

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

There are no transactions between funds from dedicated collections that require elimination in consolidation.

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

	Customs User Fees	Sport Fish Restoration Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Balance Sheet as of September 30, 2014								
ASSETS								
Fund Balance with Treasury	\$ 139	\$ 11	\$ 2,135	\$ 1,756	\$ 27	\$ 1,447	\$ 871	\$ 6,386
Investments, Net	-	1,887	-	-	3,748	-	1	5,636
Accounts Receivable	311	104	3	1	1,065	-	77	1,561
Other	-	-	299	603	-	9	20	931
Total Assets	\$ 450	\$ 2,002	\$ 2,437	\$ 2,360	\$ 4,840	\$ 1,456	\$ 969	\$ 14,514
LIABILITIES								
Other Liabilities	\$ 11	\$ 1,223	\$ 1,301	\$ 27,038	\$ 211	\$ 170	\$ 97	\$ 30,051
Total Liabilities	\$ 11	\$ 1,223	\$ 1,301	\$ 27,038	\$ 211	\$ 170	\$ 97	\$ 30,051
NET POSITION								
Cumulative Results of Operations	\$ 439	\$ 779	\$ 1,136	\$ (24,678)	\$ 4,629	\$ 1,286	\$ 872	\$ (15,537)
Total Liabilities and Net Position	\$ 450	\$ 2,002	\$ 2,437	\$ 2,360	\$ 4,840	\$ 1,456	\$ 969	\$ 14,514
Statement of Net Cost for the Year Ended September 30, 2014								
Gross Program Costs	\$ 609	\$ 113	\$ 2,931	\$ 2,456	\$ 329	\$ 86	\$ 1,220	\$ 7,744
Less: Earned Revenue	-	-	(2,825)	(3,706)	(146)	(250)	(658)	(7,585)
Net Cost of Operations	\$ 609	\$ 113	\$ 106	\$ (1,250)	\$ 183	\$ (164)	\$ 562	\$ 159
Statement of Changes in Net Position for the Year Ended September 30, 2014								
Net Position Beginning of Period	\$ 380	\$ 746	\$ 1,106	\$ (25,920)	\$ 4,387	\$ 1,178	\$ 860	\$ (17,263)
Net Cost of Operations	(609)	(113)	(106)	1,250	(183)	164	(562)	(159)
Non-exchange Revenue	649	623	-	1	434	-	224	1,931
Other	19	(477)	136	(9)	(9)	(56)	350	(46)
Change in Net Position	59	33	30	1,242	242	108	12	1,726
Net Position, End of Period	\$ 439	\$ 779	\$ 1,136	\$ (24,678)	\$ 4,629	\$ 1,286	\$ 872	\$ (15,537)

	Customs User Fees	Sport Fish Restoration Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Balance Sheet as of September 30, 2013								
ASSETS								
Fund Balance with Treasury	\$ 111	\$ 7	\$ 2,114	\$ 350	\$ 9	\$ 1,397	\$ 817	\$ 4,805
Investments, Net	-	1,869	-	-	3,277	-	1	5,147
Accounts Receivable	292	111	11	2	1,346	-	69	1,831
Other	-	-	247	604	7	-	39	897
Total Assets	\$ 403	\$ 1,987	\$ 2,372	\$ 956	\$ 4,639	\$ 1,397	\$ 926	\$ 12,680
LIABILITIES								
Other Liabilities	\$ 23	\$ 1,241	\$ 1,266	\$ 26,876	\$ 252	\$ 219	\$ 66	\$ 29,943
Total Liabilities	\$ 23	\$ 1,241	\$ 1,266	\$ 26,876	\$ 252	\$ 219	\$ 66	\$ 29,943
NET POSITION								
Cumulative Results of Operations	\$ 380	\$ 746	\$ 1,106	\$ (25,920)	\$ 4,387	\$ 1,178	\$ 860	\$ (17,263)
Total Liabilities and Net Position	\$ 403	\$ 1,987	\$ 2,372	\$ 956	\$ 4,639	\$ 1,397	\$ 926	\$ 12,680

Statement of Net Cost for the Year Ended September 30, 2013

Gross Program Costs	\$ 406	\$ 131	\$ 2,798	\$ 10,471	\$ 252	\$ 262	\$ 1,289	\$ 15,609
Less: Earned Revenue	-	-	(2,694)	(3,632)	(137)	(250)	(604)	(7,317)
Net Cost of Operations	\$ 406	\$ 131	\$ 104	\$ 6,839	\$ 115	\$ 12	\$ 685	\$ 8,292

Statement of Changes in Net Position for the Year Ended September 30, 2013

Net Position Beginning of Period	\$ 181	\$ 805	\$ 1,083	\$ (19,074)	\$ 2,777	\$ 1,213	\$ 960	\$ (12,055)
Net Cost of Operations	(406)	(131)	(104)	(6,839)	(115)	(12)	(685)	(8,292)
Non-exchange Revenue	448	591	-	1	1,765	-	210	3,015
Other	157	(519)	127	(8)	(40)	(23)	375	69
Change in Net Position	199	(59)	23	(6,846)	1,610	(35)	(100)	(5,208)
Net Position, End of Period	\$ 380	\$ 746	\$ 1,106	\$ (25,920)	\$ 4,387	\$ 1,178	\$ 860	\$ (17,263)

Customs User Fees

When signed in April 1986, COBRA (Pub. L. 99-272) authorized CBP to collect user fees for certain services. The law initially established processing fees for air and sea passengers, commercial trucks, rail cars, private vessels and aircraft, commercial vessels, dutiable mail packages, and CBP broker permits. An additional fee category, contained in tax reform legislation, for processing barges and bulk carriers for Canada and Mexico, was added later that year. These fees are deposited into Customs User Fees accounts (Treasury Account Fund Symbol (TAFS) 705695.30 and 70X5695).

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

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

Sport Fish Restoration and Boating Trust Fund

The SFRBTF, previously known as the Aquatic Resources Trust Fund, was created by Section 1016 of the *Deficit Reduction Act of 1984* (Pub. L. 98-369). Two funds were created under this Act, the Boating Safety Account and the Sport Fish Restoration Account. The SFRBTF has been the source of budget authority for the boat safety program for many years through the transfer of appropriated funds. The SFRBTF is a Treasury-managed fund and provides funding to states and other entities to promote boating safety and conservation of U.S. recreational waters.

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

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

Immigration Examination Fees

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

The primary sources of revenue are the application and petition fees that are collected during the course of the fiscal year and deposited into the IEFA (TAFS 70X5088). In addition, USCIS provides specific services to other federal agencies, such as production of border crossing cards for the U.S. Department of State, that result in the collection of other revenue arising from intragovernmental activities.

National Flood Insurance Program

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

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

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

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

The *Biggert-Waters Flood Insurance Reform Act of 2012* (Pub. L. 112-141) and the *Homeowner Flood Insurance Affordability Act* (Pub. L. 113-89) amend the *National Flood Insurance Act of 1968* to extend the NFIP, and the financing for it, through FY 2017, and establishes a National Flood Insurance Reserve Fund to meet the expected future obligations of the NFIP.

The NFIP is an insurance program for which the Department pays claims to policyholders that experience flood damage due to flooding within the NFIP rules and regulations. The Write Your Own (WYO) companies that participate in the program have authority to use Departmental funds (revenue and other financing sources) to respond to the obligations to the policyholders. Congress

has mandated that the NFIP funds be used only to pay claims and claims-related loss adjustment expenses caused by flooding.

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

The NFIP's primary source of revenue comes from premiums collected to insure policyholders' property. These resources are inflows to the Government and are not the result of intragovernmental flows. When claims exceed revenue, FEMA has borrowing authority that can be accessed to satisfy outstanding claims. The following TAFS are part of the NFIP: 70_0717, 70_4236, 70X4236, and 70X5701.

Oil Spill Liability Trust Fund

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

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

The OSLTF has four major funds: the Principal Fund (TAFS 70X8185), Oil Spill Restoration (TAFS 70X8349), OSLTF Payment of Claims (TAFS 70X8312) and Trust Fund Share of Expenses (TAFS 70_8314) appropriated annually to the USCG. All revenue is deposited directly into the Principal Fund. The recurring and nonrecurring revenue are derived from a number of sources, including barrel tax, interest from U.S. Treasury investments, cost recoveries, and fines and penalties. The Oil Spill Restoration is available for federal on-scene coordinators (FOSCs) to respond to discharges and for federal trustees to initiate natural resource damage assessments. The Oil Spill Restoration is a recurring \$50 million appropriation available to the President annually. The fund remains available until expended. Claimants may file oil spill related claims against the Payment of Claims if the responsible party is not identified or denies the claims. The maximum amount that can be expended from the OSLTF with respect to any single incident shall not exceed \$1 billion. Once the maximum payout has been reached for the incident, no additional funds can be disbursed from the OSLTF for that specific incident. Trust Fund Share of Expenses is funded by annual congressional appropriations from the OSLTF that are then distributed to the USCG Operating Expenses; Acquisition, Construction and Improvements; and Research, Development, Test and Evaluation appropriations.

Deepwater Horizon Oil Spill. On April 20, 2010, the offshore drilling platform, Deepwater Horizon, exploded and sank 52 miles southeast of Venice, Louisiana. An estimated 4.9 million barrels of oil leaked from the sunken platform's undersea ruptured pipe. The states of Louisiana, Mississippi, Alabama, Florida, and Texas were affected by the spill.

Liability for the spill is joint and severable under the OPA, 33 USC 2701 *et seq.* The OPA and the *Clean Water Act*, 33 USC 1321 *et. seq.*, direct the responsible parties to conduct cleanup operations and pay claims for damages specified by the OPA. Under the OPA, the responsible party is liable for costs associated with the containment or cleanup of the spill, property damage, loss of government revenue, loss of profits or earning capacity, loss of subsistence use of natural resources, increased state and local public service costs, and damages to natural resources resulting from the spill. Currently, the Federal Government is in litigation with the responsible parties to recover natural resource damages and civil penalties due to the government under the *Clean Water Act*.

In addition, the OPA and applicable federal legislation and regulations provide the USCG with broad responsibilities and authorities regarding oil spill response oversight on the navigable waters of the United States. The USCG was designated as the FOSC to respond to this disaster. As FOSC, the USCG directs and coordinates the response activities of all federal agencies. The USCG has entered into various reimbursable agreements with other federal agencies.

In responding to the Deepwater Horizon oil spill, BP, a responsible party, established a process designed to pay individual, business, and governmental claims for compensable costs under OPA. BP transferred responsibility for administration and payment of individual and business claims to the Gulf Coast Claims Facility (GCCF) in August 2010. In June 2012 the GCCF transitioned to a court-supervised settlement program.

The OSLTF provides emergency funding resources to the FOSC for oil removal, and to federal trustees for initial natural resource damage assessment activities, up to amounts specified under OPA Section 6002(b) (33 USC 2752(b)). In June 2010, the President of the United States signed into law an amendment to Section 6002(b) allowing multiple budgetary authority advances from the OSLTF for the Deepwater Horizon oil spill response and federal natural resource damage assessment activities limited only by the statutory per-incident cap set forth in 26 USC 9509(c)(2). The status of OSLTF available funds, costs incurred by the Federal Government, and billings to the responsible parties as of September 30, 2014, is described below.

Status of OSLTF Funds and Costs Incurred and Billed. Through September 30, 2014, the total amount of Deepwater Horizon costs incurred was \$1,240 million, of which \$889 million is incurred against OSLTF, and \$351 million is incurred against the USCG. The remaining amount that can be expended against the OSLTF and not exceed the per-incident statutory cap is \$111 million. USCG has billed the responsible parties for \$1,048 million. As of September 30, 2014, BP had paid \$817 million.

In FY 2013, two significant judgments were assessed for the Deepwater Horizon oil spill. BP was assessed \$1 billion, to be paid over the next five years. Transocean was assessed a total of \$300 million, to be paid over the next three years. In addition, in September 2014, the U.S. District Court ruled that BP was grossly negligent in regards to the Deepwater Horizon oil spill. The ruling may result in significant civil penalties assessed against BP in future fiscal years.

Contingent Liabilities. The OSLTF, which is administered by the USCG National Pollution Funds Center (NPFCC), may be available to pay claims for OPA specified costs and damages, not paid by BP, or another responsible party. Under OPA, claimants are required to present their claims first to the responsible parties (or the GCCF for Deepwater Horizon costs); if not compensated, they may then file an action in court or file a claim against the OSLTF through the NPFCC.

Aviation Security Capital Fund

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

All Other Funds from Dedicated Collections

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

- 70_0715: Radiological Emergency Preparedness Program, Federal Emergency Management Agency, Department of Homeland Security; 117 Stat. 516
- 70X0715: Radiological Emergency Preparedness Program, Federal Emergency Management Agency, Department of Homeland Security; 117 Stat. 516
- 70X5089: U.S. Customs and Border Protection, Land Border Inspection Fees, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70_5087: U.S. Customs and Border Protection, Immigration User Fees, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5087: U.S. Customs and Border Protection, Immigration User Fees, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5126: Breach Bond/Detention Fund, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5378: Student and Exchange Visitor Program, Border and Transportation Security, Department of Homeland Security; 110 Stat. 3009-706, Sec. (e)(4)(B)
- 70X5382: Immigration User Fee Account, BICE, Department of Homeland Security; 116 Stat. 2135
- 70_5389: H-1B and L Fraud Prevention and Detection Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 118 Stat. 3357, Sec. 426(b)(1)
- 70X5389: H-1B and L Fraud Prevention and Detection Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 118 Stat. 3357, Sec. 426(b)(1)
- 70X5390: Unclaimed Checkpoint Money, Transportation Security Administration, Department of Homeland Security; 118 Stat. 1317-1318, Sec. 515(a)
- 70X5398: H-1B and L Fraud Prevention and Detection, U.S. Immigration and Customs Enforcement, Department of Homeland Security; Pub. L. 108-447, 118 Stat. 3357, Sec. 426(b)(1)
- 70X5451: Immigration Enforcement Account, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5542: Detention and Removal Operations, U.S. Immigration and Customs Enforcement, Department of Homeland Security; 8 USC 1356(m)-(n); Pub. L. 107-296, Sec. 476c

- 70X5545: Airport Checkpoint Screening Fund, Transportation Security Administration, Department of Homeland Security; Pub. L. 110-161
- 70X5595: Electronic System for Travel Authorization (ESTA) Fees, U.S. Customs and Border Protection, Department of Homeland Security; Pub. L. 110-53, 121 Stat. 344; Pub. L. 111-145, 124 Stat. 56
- 70_5694: User Fees, Small Airports, U.S. Customs Service, Department of Homeland Security; 116 Stat. 2135
- 70X5694: User Fees, Small Airports, U.S. Customs Service, Department of Homeland Security; 116 Stat. 2135
- 70X8244: Gifts and Donations, Department Management, Department of Homeland Security; 116 Stat. 2135
- 70X8533: General Gift Fund, U.S. Coast Guard, Department of Homeland Security; 116 Stat. 2135
- 70X8870: Harbor Maintenance Fee Collection, U.S. Customs Service, Department of Homeland Security; 116 Stat. 2135
- 70_5106: H-1 B Nonimmigrant Petitioner Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 116 Stat. 2135
- 70X5106: H-1 B Nonimmigrant Petitioner Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 116 Stat. 2135
- 70X8360: Gifts and Bequests, Federal Law Enforcement Training Centers, Department of Homeland Security; 116 Stat. 2135
- 70X8428: Coast Guard Cadet Fund, U.S. Coast Guard, Department of Homeland Security; 116 Stat. 2135
- 70X5543: International Registered Traveler Program Fund, U.S. Customs and Border Protection, Department of Homeland Security; 121 Stat. 2091-2092
- 70X0603: Coast Guard Housing Fund, U.S. Coast Guard, Department of Homeland Security, 14 USC § 687(c)
- 70_5710: Coast Guard Housing Fund, U.S. Coast Guard, Department of Homeland Security, 14 USC § 687(c)
- 70X5710: Coast Guard Housing Fund, U.S. Coast Guard, Department of Homeland Security, 14 USC § 687(c)
- 70X5569: Asia-Pacific Economic Cooperation Business Travel Cards, U.S. Customs and Border Protection, Department of Homeland Security, 125 Stat. 551
- 70X4363: Enhanced Inspectional Services, U.S. Customs and Border Protection, Department of Homeland Security, 127 Stat. 378

23. Net Costs by Sub-Organization and Major Missions

The Department's Statement of Net Cost displays DHS costs and revenue and groups the five missions and two focus areas described in the DHS [FY 2012-2016 Strategic Plan](#) into four major missions:

- *Fostering a Safe and Secure Homeland*, includes Missions 1, 2, and 4;
- *Enforcing and Administering Our Immigration Laws* includes Mission 3;
- *Ensuring Resilience to Disasters* includes Mission 5; and
- *Providing Essential Support to National, Economic, and Homeland Security* consists of the two focus areas.

Net cost of operations is the gross (i.e., total) cost incurred by the Department, excluding any gains and losses from changes in long-term assumptions used to measure federal civilian and military employee pensions, ORB, and OPEB, including veterans' compensation, less any exchange (i.e., earned) revenue. Gains and losses from changes in long-term assumptions used to measure federal civilian and military employee pensions, ORB, and OPEB are reported on a separate line item in accordance with SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*.

Intragovernmental costs represent exchange transactions made between two reporting entities within the Federal Government and are presented separately from costs with the public (exchange transactions made between the reporting entity and a non-federal entity). Intragovernmental exchange revenue is disclosed separately from exchange revenue with the public. The criteria used for this classification requires that the intragovernmental expenses relate to the source of goods and services purchased by the reporting entity and not to the classification of related revenue. For example, with "exchange revenue with the public," the buyer of the goods or services is a non-federal entity. With "intragovernmental costs," the buyer and seller are both federal entities. If a federal entity purchases goods or services from another federal entity and sells them to the public, the exchange revenue would be classified as "with the public," but the related costs would be classified as "intragovernmental." The purpose of this classification is to enable the Federal Government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

To more accurately reflect the actual costs incurred by each of the major missions, the Department is presenting the net costs by Component and major missions, net of eliminations.

The "All Other" column reports net costs for the following Components: DNDO, FLETC, NPPD, OHA, OIG, S&T, USSS, I&A, and OPS.

For the year ended September 30, 2014 (in millions) (page 1 of 2)

Major Missions	FEMA	CBP	USCG	ICE	TSA	USCIS	MGMT	All Other	Total
<i>Fostering a Safe & Secure Homeland</i>									
Intragovernmental Gross Cost	\$ -	\$ 3,025	\$ 690	\$ 590	\$ 1,737	\$ -	\$ -	\$ 1,314	\$ 7,356
Public Gross Cost	-	7,427	3,745	1,250	5,825	-	-	3,735	21,982
Gross Cost	-	10,452	4,435	1,840	7,562	-	-	5,049	29,338
Intragovernmental Revenue	-	(30)	(74)	(38)	(1)	-	-	(1,052)	(1,195)
Public Revenue Earned	-	(121)	(100)	(106)	(2,580)	-	-	(16)	(2,923)
Less Revenue Earned	-	(151)	(174)	(144)	(2,581)	-	-	(1,068)	(4,118)
Net Cost	-	10,301	4,261	1,696	4,981	-	-	3,981	25,220
<i>Enforcing and Administering Our Immigration Laws</i>									
Intragovernmental Gross Cost	\$ -	\$ 551	\$ -	\$ 827	\$ -	\$ 918	\$ -	\$ 9	\$ 2,305
Public Gross Cost	-	1,173	-	3,139	-	2,055	-	76	6,443
Gross Cost	-	1,724	-	3,966	-	2,973	-	85	8,748
Intragovernmental Revenue	-	(6)	-	(16)	-	(8)	-	(1)	(31)
Public Revenue Earned	-	(23)	-	(33)	-	(3,373)	-	-	(3,429)
Less Revenue Earned	-	(29)	-	(49)	-	(3,381)	-	(1)	(3,460)
Net Cost	-	1,695	-	3,917	-	(408)	-	84	5,288
<i>Ensuring Resilience to Disasters</i>									
Intragovernmental Gross Cost	\$ 1,081	\$ -	\$ 4	\$ 2	\$ -	\$ -	\$ -	\$ 81	\$ 1,168
Public Gross Cost	12,551	-	15	4	-	-	-	197	12,767
Gross Cost	13,632	-	19	6	-	-	-	278	13,935
Intragovernmental Revenue	(52)	-	(1)	-	-	-	-	(3)	(56)
Public Revenue Earned	(3,749)	-	-	-	-	-	-	(4)	(3,753)
Less Revenue Earned	(3,801)	-	(1)	-	-	-	-	(7)	(3,809)
Net Cost	9,831	-	18	6	-	-	-	271	10,126

For the year ended September 30, 2014 (in millions) (page 2 of 2)

Major Missions	FEMA	CBP	USCG	ICE	TSA	USCIS	MGMT	All Other	Total
<i>Providing Essential Support to National, Economic, and Homeland Security</i>									
Intragovernmental Gross Cost	\$ -	\$ 195	\$ 915	\$ 28	\$ -	\$ -	\$ 451	\$ 76	\$ 1,665
Public Gross Cost	-	453	5,193	58	-	-	1,032	288	7,024
Gross Cost	-	648	6,108	86	-	-	1,483	364	8,689
Intragovernmental Revenue	-	(2)	(93)	(2)	-	-	(20)	(14)	(131)
Public Revenue Earned	-	(7)	(149)	(5)	-	-	-	(1)	(162)
Less Revenue Earned	-	(9)	(242)	(7)	-	-	(20)	(15)	(293)
Net Cost	-	639	5,866	79	-	-	1,463	349	8,396
<i>Total Department of Homeland Security</i>									
Intragovernmental Gross Cost	\$ 1,081	\$ 3,771	\$ 1,609	\$ 1,447	\$ 1,737	\$ 918	\$ 451	\$ 1,480	\$ 12,494
Public Gross Cost	12,551	9,053	8,953	4,451	5,825	2,055	1,032	4,296	48,216
Gross Cost	13,632	12,824	10,562	5,898	7,562	2,973	1,483	5,776	60,710
Intragovernmental Revenue	(52)	(38)	(168)	(56)	(1)	(8)	(20)	(1,070)	(1,413)
Public Revenue Earned	(3,749)	(151)	(249)	(144)	(2,580)	(3,373)	-	(21)	(10,267)
Less Revenue Earned	(3,801)	(189)	(417)	(200)	(2,581)	(3,381)	(20)	(1,091)	(11,680)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	9,831	12,635	10,145	5,698	4,981	(408)	1,463	4,685	49,030
(Gain)/Loss on Pension, ORB, or OPEB Assumption	-	-	(2,749)	-	-	-	-	1,414	(1,335)
NET COST OF OPERATIONS	\$ 9,831	\$ 12,635	\$ 7,396	\$ 5,698	\$ 4,981	\$ (408)	\$ 1,463	\$ 6,099	\$ 47,695

For the year ended September 30, 2013 (in millions) (page 1 of 2)

Major Missions	FEMA	CBP	USCG	ICE	TSA	USCIS	MGMT	All Other	Total
<i>Fostering a Safe & Secure Homeland</i>									
Intragovernmental Gross Cost	\$ -	\$ 2,904	\$ 710	\$ 588	\$ 1,723	\$ -	\$ 2	\$ 1,258	\$ 7,185
Public Gross Cost	-	7,179	4,586	1,268	6,138	-	-	3,715	22,886
Gross Cost	-	10,083	5,296	1,856	7,861	-	2	4,973	30,071
Intragovernmental Revenue	-	(31)	(77)	(30)	-	-	-	(1,031)	(1,169)
Public Revenue Earned	-	(96)	(110)	(95)	(2,332)	-	-	(5)	(2,638)
Less Revenue Earned	-	(127)	(187)	(125)	(2,332)	-	-	(1,036)	(3,807)
Net Cost	-	9,956	5,109	1,731	5,529	-	2	3,937	26,264
<i>Enforcing and Administering Our Immigration Laws</i>									
Intragovernmental Gross Cost	\$ -	\$ 515	\$ -	\$ 830	\$ -	\$ 896	\$ -	\$ 18	\$ 2,259
Public Gross Cost	-	1,174	-	3,016	-	2,020	-	103	6,313
Gross Cost	-	1,689	-	3,846	-	2,916	-	121	8,572
Intragovernmental Revenue	-	(7)	-	(10)	-	(8)	-	(1)	(26)
Public Revenue Earned	-	(26)	-	(38)	-	(3,205)	-	-	(3,269)
Less Revenue Earned	-	(33)	-	(48)	-	(3,213)	-	(1)	(3,295)
Net Cost	-	1,656	-	3,798	-	(297)	-	120	5,277
<i>Ensuring Resilience to Disasters</i>									
Intragovernmental Gross Cost	\$ 1,465	\$ -	\$ 8	\$ 6	\$ -	\$ -	\$ -	\$ 120	\$ 1,599
Public Gross Cost	24,455	-	142	27	-	-	-	240	24,864
Gross Cost	25,920	-	150	33	-	-	-	360	26,463
Intragovernmental Revenue	(82)	-	(2)	-	-	-	-	(3)	(87)
Public Revenue Earned	(3,693)	-	-	-	-	-	-	(1)	(3,694)
Less Revenue Earned	(3,775)	-	(2)	-	-	-	-	(4)	(3,781)
Net Cost	22,145	-	148	33	-	-	-	356	22,682

For the year ended September 30, 2013 (in millions) (page 2 of 2)

Major Missions	FEMA	CBP	USCG	ICE	TSA	USCIS	MGMT	All Other	Total
<i>Providing Essential Support to National, Economic, and Homeland Security</i>									
Intragovernmental Gross Cost	\$ -	\$ 226	\$ 937	\$ 15	\$ -	\$ -	\$ 507	\$ 71	\$ 1,756
Public Gross Cost	-	509	5,577	32	-	-	873	285	7,276
Gross Cost	-	735	6,514	47	-	-	1,380	356	9,032
Intragovernmental Revenue	-	(7)	(93)	-	-	-	(19)	(13)	(132)
Public Revenue Earned	-	(17)	(151)	(3)	-	-	-	(1)	(172)
Less Revenue Earned	-	(24)	(244)	(3)	-	-	(19)	(14)	(304)
Net Cost	-	711	6,270	44	-	-	1,361	342	8,728
<i>Total Department of Homeland Security</i>									
Intragovernmental Gross Cost	\$ 1,465	\$ 3,645	\$ 1,655	\$ 1,439	\$ 1,723	\$ 896	\$ 509	\$ 1,467	\$ 12,799
Public Gross Cost	24,455	8,862	10,305	4,343	6,138	2,020	873	4,343	61,339
Gross Cost	25,920	12,507	11,960	5,782	7,861	2,916	1,382	5,810	74,138
Intragovernmental Revenue	(82)	(45)	(172)	(40)	-	(8)	(19)	(1,048)	(1,414)
Public Revenue Earned	(3,693)	(139)	(261)	(136)	(2,332)	(3,205)	-	(7)	(9,773)
Less Revenue Earned	(3,775)	(184)	(433)	(176)	(2,332)	(3,213)	(19)	(1,055)	(11,187)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	22,145	12,323	11,527	5,606	5,529	(297)	1,363	4,755	62,951
(Gain)/Loss on Pension, ORB, or OPEB Assumption	-	-	(2,705)	-	-	-	-	294	(2,411)
NET COST OF OPERATIONS	\$ 22,145	\$ 12,323	\$ 8,822	\$ 5,606	\$ 5,529	\$ (297)	\$ 1,363	\$ 5,049	\$ 60,540

24. Apportionment Categories of Obligations Incurred: Direct versus Reimbursable Obligations

Apportionment categories are determined in accordance with the guidance provided in OMB Circular A-11, *Preparation, Submission and Execution of the Budget*. Category A represents resources apportioned for calendar quarters. Category B represents resources apportioned for other time periods; for activities, projects, or objectives; or for any combination thereof (in millions).

Year Ended September 30, 2014:	Apportionment Category A	Apportionment Category B	Exempt from Apportionment	Total
Obligations Incurred – Direct	\$ 39,277	\$ 21,591	\$ 1,548	\$ 62,416
Obligations Incurred – Reimbursable	2,940	2,132	-	5,072
Total Obligations Incurred	\$ 42,217	\$ 23,723	\$ 1,548	\$ 67,488

Year Ended September 30, 2013:	Apportionment Category A	Apportionment Category B	Exempt from Apportionment	Total
Obligations Incurred – Direct	\$ 37,589	\$ 32,798	\$ 1,387	\$ 71,774
Obligations Incurred – Reimbursable	2,784	2,004	3	4,791
Total Obligations Incurred	\$ 40,373	\$ 34,802	\$ 1,390	\$ 76,565

25. Available Borrowing Authority

	2014	2013
Beginning Borrowing Authority	\$ 422	\$ 1,078
Adjustments to Beginning Borrowing Authority	-	(1,077)
Current Year Borrowing Authority Realized	6,072	12,730
Borrowing Authority Used	(37)	(6,284)
Decrease in Borrowing Authority	(6,450)	(6,025)
Ending Borrowing Authority	\$ 7	\$ 422

FEMA has borrowing authority to pay insurance claims as part of the NFIP and to finance CDLs as part of the DADLP. Borrowing authority is budget authority enacted by law to permit an agency to borrow money and then obligate against amounts borrowed for a specified purpose.

FEMA annually requests borrowing authority to cover the principal amount of direct loans not to exceed \$400 million less the subsidy due from the DADLP account. The available borrowing authority of \$7 million is to cover current obligations for CDLs still disbursing.

FEMA is also authorized to borrow from Treasury up to \$30.4 billion to fund the payment of flood insurance claims and claims-related expenses of NFIP. While the authorizing legislation does provide a cap for amounts that can be borrowed without further authorization, the amounts borrowed at any time are not predetermined, and authority is used only as needed to pay existing obligations for claims and expenses. Insurance premiums collected are used to pay insurance claims and to repay

borrowings. As of September 30, 2014, \$24 billion has been drawn from Treasury, leaving \$6.4 billion available to be borrowed.

Borrowing authority, to the extent of existing obligations, is in budgetary status for use by FEMA for NFIP purposes, and CDLs and transfers have been made to the Fund Balance with Treasury for these purposes.

26. Permanent Indefinite Appropriations

Permanent indefinite appropriations are appropriations that result from permanent public laws, which authorize the Department to retain certain receipts. The amount appropriated depends upon the amount of the receipts rather than on a specific amount. The Department has seven permanent indefinite appropriations, which are not subject to budgetary ceilings established by Congress:

- CBP has a permanent and indefinite appropriation that is used to disburse tax and duty refunds and duty drawbacks. Although funded through appropriations, refund and drawback activity is, in most instances, reported as custodial activity of the Department. Refunds are custodial revenue-related activity in that refunds are a direct result of overpayments of taxes, duties, and fees. CBP's refunds payable at year-end are not subject to funding restrictions. Federal tax revenue received from taxpayers is not available for use in the operation of the Department and is not reported on the Statement of Net Cost. Likewise, the refunds of overpayments are not available for use by the Department in its operations.
- USSS has a permanent and indefinite appropriation that is used to reimburse the DC Pension Plan for the difference between benefits to participants in the DC Pension Plan (see Note 16) and payroll contributions received from current employees.
- USCIS has permanent authority to use immigration and naturalization application fees to pay costs of providing adjudication and naturalization services, including the costs of providing services without charge to asylum applicants and other immigrants and costs associated with the collection, safeguarding, and accounting for fees.
- USCIS also has the authority to transfer certain fees to other federal agencies, including the Department of Labor, the Department of State, and the National Science Foundation. The transferred funds, and a portion of the same fees that USCIS retains, are dedicated for immigration fraud prevention and domestic training programs intended to reduce the need for foreign workers under the H-1B visa program.
- FEMA has a permanent and indefinite appropriation that is used to pay flood claims and claims-related expenses to flood insurance policyholders as a result of flood disasters. This appropriation has indefinite borrowing authority to fulfill its commitments in the event premiums collected are insufficient to liquidate obligations. For additional information, see Note 32, Adjustments to Beginning Balances.
- The USCG has a permanent and indefinite appropriation that is used to cover costs associated with retired members' healthcare. The MERHCF is a DOD special fund that provides benefits for a Medicare-eligible member of a participating military service or other

uniformed service entitled to retired or retainer pay and such member's Medicare-eligible dependents and survivors. The DOD office of the actuary determines the amount of the annual USCG contribution to the MERHCF. A Treasury warrant in a permanent indefinite appropriation is provided for the amount of the USCG payment to MERHCF each year.

- The USCG also has a permanent and indefinite appropriation, OSLTF Payment of Claims, which receives its authority from the *Oil Pollution Act of 1990* (Pub. L. 101-380). The Oil Pollution Act establishes limitations on liability for damages resulting from oil pollution, establishes a fund for the payment of compensation for such damages, and for other purposes.

27. Legal Arrangements Affecting the Use of Unobligated Balances

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

Included in the cumulative results of operations and Fund Balance with Treasury are special funds of \$657 million and \$594 million at September 30, 2014, and 2013, respectively, that represents the Department's authority to assess and collect user fees relating to merchandise and passenger processing; to assess and collect fees associated with services performed at certain small airports or other facilities; to retain amounts needed to offset costs associated with collecting duties; and taxes and fees for the Government of Puerto Rico. These special fund balances are restricted by law in their use to offset specific costs incurred by the Department. Part of the passenger fees in the COBRA User Fees Account, totaling approximately \$166 million and \$135 million at September 30, 2014 and 2013, respectively, is restricted by law in its use to offset specific costs incurred by the Department.

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

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

The table below documents the material differences between the FY 2013 Statement of Budgetary Resources and the actual amounts reported for FY 2013 in the Budget of the Federal Government. Since the FY 2014 financial statements will be reported prior to the release of the Budget of the Federal Government, DHS is reporting for FY 2013 only. Typically, the Budget of the Federal Government with the FY 2014 actual data is published in February of the subsequent year. Once published, the FY 2014 actual data will be available on the OMB website at:

www.whitehouse.gov/omb.

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
FY 2013 Actual Balances per the FY 2014 Budget of the U.S. Government (in millions)	\$ 91,191	\$ 75,486	\$ 7,518	\$ 64,272
Reconciling Items:				
Accounts that are expired that are not included in Budget of the United States	1,957	-	-	-
Distributed Offsetting Receipts not included in the Budget of the United States, Net Outlays	-	-	-	(7,518)
Refunds and drawbacks not included in the Budget of the United States	1,298	1,298	-	1,304
Byrd Program (Continued Dumping and Subsidy Offset) not included in the Budget of the United States	308	127	-	127
Biodefense Countermeasure Program not included in the Budget of the United States	-	-	-	50
Miscellaneous Differences	301	(346)	-	2
Per the 2013 Statement of Budgetary Resources	\$ 95,055	\$ 76,565	\$ 7,518	\$ 58,237

The Miscellaneous Differences amount includes adjustments to obligations reported on the Statement of Budgetary Resources but not included in the President's Budget.

29. Undelivered Orders, Unpaid, End of Period

An unpaid undelivered order exists when a valid obligation has occurred and funds have been reserved but the goods or services have not been received by the Department. Undelivered orders for the periods ended September 30, 2014 and 2013, were \$35,896 million and \$35,159 million, respectively.

30. Custodial Revenue

The Department collects revenue from a variety of duties, excise taxes, and various other fees. Collection activity primarily relates to current-year activity. Non-entity revenue reported on the Department’s Statement of Custodial Activity includes duties, excise taxes, and various non-exchange fees collected by CBP. CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. For additional information, see Note 1.X., Exchange and Non-exchange Revenue.

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

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

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

Tax disbursements from the refunds and drawbacks account, broken out by revenue type and by tax year, were as follows for the fiscal years ended September 30, 2014 and 2013 (in millions):

2014 Tax Disbursements	Tax Year			
	2014	2013	2012	Prior Years
Total tax refunds and drawbacks disbursed	\$ 925	\$ 321	\$ 101	\$ 189

2013 Tax Disbursements	Tax Year			
	2013	2012	2011	Prior Years
Total tax refunds and drawbacks disbursed	\$ 825	\$ 289	\$ 96	\$ 288

Total tax refunds and drawbacks disbursed consist of non-exchange customs duties revenue refunded. The disbursements include interest payments of \$17 million and \$32.5 million for the fiscal years ended September 30, 2014 and 2013, respectively.

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

31. Reconciliation of Net Cost of Operations (Proprietary) to Budget

The Reconciliation of Net Cost of Operations to Budget reconciles the Department's Resources Used to Finance Activities (first section), which consists of the budgetary basis of accounting Net Obligations plus the proprietary basis of accounting Other Resources, to the proprietary basis of accounting Net Cost of Operations. The second section, Resources Used to Finance Items Not Part of the Net Cost of Operations, reverses out items included in the first section that are not included in Net Cost of Operations. The third section, Components of Net Cost of Operations that Will Not Require or Generate Resources in the current period, adds items included in the Net Cost of Operations that are not included in the first section.

The third section's subsection, Components Requiring or Generating Resources in future periods, includes costs reported in the current period that are included in the Liabilities Not Covered by Budgetary Resources reported in Note 14. This subsection does not include costs reported in prior fiscal years that are also included in Liabilities Not Covered by Budgetary Resources.

The reconciliations of net cost of operations to budget for FY 2014 and FY 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred (Note 24)	\$ 67,488	\$ 76,565
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(13,875)</u>	<u>(14,161)</u>
Obligations Net of Offsetting Collections and Recoveries	53,613	62,404
Less: Offsetting Receipts	<u>(7,823)</u>	<u>(7,518)</u>
Net Obligations	<u>45,790</u>	<u>54,886</u>
Other Resources		
Transfers In (Out) without Reimbursement	390	92
Imputed Financing from Costs Absorbed by Others	1,504	1,337
Other	<u>2,576</u>	<u>3,084</u>
Net Other Resources Used to Finance Activities	<u>4,470</u>	<u>4,513</u>
Total Resources Used to Finance Activities	<u>\$ 50,260</u>	<u>\$ 59,399</u>

	2014	2013
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided	\$ 860	\$ (2,739)
Resources that Fund Expenses Recognized in Prior Periods	2,642	989
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:		
Credit Program Collections that Increase Liabilities for Loan Guarantees or Allowances for Subsidies	47	-
Other	(1,231)	(951)
Resources that Finance the Acquisition of Assets	3,683	2,640
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	1,454	1,358
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	7,455	1,297
TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS	\$ 42,805	\$ 58,102
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	\$ 101	\$ 17
Increase in Environmental and Disposal Liability	-	87
Increase in Exchange Revenue Receivable from the Public	31	7
Upward/Downward Re-estimates of Credit Subsidy Expense	(14)	3
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	118	114
Components not Requiring or Generating Resources		
Depreciation and Amortization	2,277	1,894
Revaluation of Assets or Liabilities	2,206	91
Other	289	339
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	4,772	2,324
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	4,890	2,438
NET COST OF OPERATIONS	\$ 47,695	\$ 60,540

32. Adjustments to Beginning Balances

In FY 2013, Congress approved a substantial increase in borrowing authority for FEMA to pay claims related to Hurricane Sandy. Due to the significance of this new borrowing authority, FEMA management obtained further guidance on the availability of unobligated budgetary resources at year-end for funding of this nature, and determined that NFIP has indefinite borrowing authority to pay flood claims and claims-related expenses to flood insurance policyholders as a result of flood disasters. Accordingly, in FY 2013, FEMA recorded borrowing authority as a budgetary resource for an amount equal to obligations incurred to pay flood insurance claims and expenses. Prior to FY 2013, FEMA presented the total unused borrowing authority as a budgetary resource regardless of the value of flood claims-related obligations. DHS reduced unobligated balances, brought forward, October 1, 2012, as presented on the Statement of Budgetary Resources, by \$1,077 million to reflect this change in treatment of NFIP borrowing authority from definite to indefinite. This downward adjustment to unobligated balances was recorded in accordance with instructions issued by Treasury and OMB in June 2013, *Reduction of Prior Year Unobligated Indefinite Borrowing Authority*.

Required Supplementary Stewardship Information

Unaudited, see accompanying Independent Auditors' Report

Stewardship Investments

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 to highlight the extent of investments that are made for long-term benefit. The Department's expenditures (including carryover funds expended in FY 2014) in human capital, research and development, and non-federal physical property are shown below.

1. Investments in Research and Development

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

	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010
S&T	\$ 654	\$ 485	\$ 684	\$ 821	\$ 815
DNDO	74	66	74	104	92
USCG	25	21	23	21	16
TSA	1	1	2	1	1
Total Research & Development	\$ 754	\$ 573	\$ 783	\$ 947	\$ 924

S&T

S&T has a research portfolio investment integrated through its divisions. For example, S&T conducts research in many areas to support the Department's missions to defend against chemical and biological threats, including protecting infrastructure and transportation systems from explosives, to determine the motivations and intents behind terrorist attacks, to prepare the Nation to respond to large and small scale events, and to protect the critical systems that run our financial and electrical power systems to name a few. S&T also develops new standards, educates the next-generation workforce, and conducts testing and evaluation activities to further increase the security of the Nation.

Significant accomplishments in development include:

- APEX Border Enforcement Analytics Project (BEAP) Project.* APEX BEAP will improve ICE investigation capabilities and improve ICE's ability to interdict illegal exports. BEAP Project partners with ICE to formulate and deploy strategic solutions for counter-trafficking utilizing emerging Big Data Analytics technology. It provides a scalable and efficient information analytics system that can assimilate authorized data sets to improve lead development and law enforcement operations using the best of breed commercially open source technology. In FY 2014, S&T delivered the BEAP export enforcement prototype to ICE Homeland Security Investigations.

- *APEX Air Entry/Exit Re-Engineering (AEER) Project.* APEX AEER is a partnership between S&T and CBP to increase CBP's ability to confirm the identity of persons entering and departing the United States, fulfill CBP's obligation to implement a biometric air exit solution, and ensure that processes are efficient and keep pace with growth in international air travel. In FY2014, S&T and CBP established operational pilots of airport Entry and Exit solutions identified by AEER analysis for the assessment of performance and impact in selected airport environments.
- *Standard Unified Modeling Mapping Integrated Toolkit Spiral 2 (SUMMIT SP2) Project.* SUMMIT SP2 improves the national preparedness for analysts, emergency planners, responders, and decision makers using affordable, repeatable, and agile exercise and training activities by providing a new modeling and simulation platform in line with Presidential Policy Directive 8 objectives. SUMMIT enables its users to seamlessly access integrated suites of modeling tools and data sources for planning, exercise, or operational response. In FY 2014, S&T conducted three short-term test and evaluation pilots in three FEMA regions to validate SP2 performance.
- *Homemade Explosives (HME) Characterization Project.* The HME project improves DHS's ability to detect and identify HME threats across a range of venues. The project determines the explosives properties of HME materials, conducts sensitivity tests such as impact, friction, and electrostatic-discharge, and characterizes chemical and physical properties to support development of advanced detection systems. In FY 2014, S&T delivered X-ray detection signatures on four additional home-made explosives threats to TSA.
- *Canine Explosives Detection Project.* The Canine Explosives Detection project will deliver field tested nonhazardous canine training aids for peroxide-based HMEs to allow explosive detection canine teams to improve overall detection proficiency by allowing for more frequent training in the operational environment. In FY 2014, S&T delivered a database of canine behavioral indicators to TSA.
- *Foreign Animal Disease (FAD) Vaccines, Diagnostics & Countermeasures Project.* FAD Vaccine and Diagnostics project strengthens the defense of the U.S. agricultural infrastructure by developing new and next generation countermeasures (vaccines and diagnostics) to protect the livestock industry against foot and mouth disease and other high-consequence FADs. Efforts from this project will provide data to support the regulatory licensing and/or use of new countermeasures by USDA in the event of a high-consequence FAD outbreak in the United States.
- *Software Quality Assurance Project.* The Software Quality Assurance project improves the ability to detect security weaknesses in the software used by our Nation's critical infrastructure (energy, transportation, telecommunications, banking and finance, and others) and networks by developing enhanced tools and techniques for evaluating, analyzing, and testing software. This project addresses the presence of internal flaws and weaknesses in software and deals with the root of the problem by improving software security. In FY 2014, S&T transitioned Software Quality Assurance technology to commercial products.
- *Small Dark Vessels Project.* This project improves the ability of DHS components to detect, track, identify, and interdict self-propelled semisubmersible and fully submersible vessels transporting illicit cargo into the United States. In FY 2014, S&T integrated multiple sensors and fusion system capabilities for joint maritime interdiction operations.
- *Process Control Systems Security Project.* This project improves the security of critical infrastructure Process Control Systems, used to monitor sensitive functions from oil and gas pipelines to the power grid, by partnering with private industry and establishing a model in

which government agencies can work with each other and private industry to develop appropriate cybersecurity technologies to meet critical needs through technology projects and pilot deployments. In FY 2014 S&T transitioned technologies to the electric sector, including utilities and the North American Electric Reliability Corporation.

DNDO

DNDO invests in basic, applied and developmental R&D activities to identify, explore, develop, and demonstrate scientific and technological approaches that address gaps in the implemented Global Nuclear Detection Architecture and dramatically improve the performance of radiological and nuclear detection and technical nuclear forensic technologies.

Significant accomplishments in development include:

- *Materials Development and Supporting Technology*. Completed the technology transfer of strontium iodide scintillator material to industry and conducted two feasibility evaluations demonstrating advanced concepts for light readout from scintillation crystals using the latest solid-state technology.
- *Forensics Data Collection and Analysis Project*. Translated uranium aging process development results and findings into database to increase signature discrimination of material age, storage, and formation history.
- *Aerial Radiological Enhanced-sensor System Project*. Completed advanced technology demonstration characterization readiness review for the detector development and critical design reviews for the algorithm development projects under the Aerial Radiological Enhanced-sensor System.
- *Radiation Awareness and Interdiction Network Project*. Completed development of research solicitation requirements, goals, and objectives, incorporating feedback from New York Police Department and results from trade studies and operational modeling.
- *Neutron Detection Including 3He Alternatives Project*. Demonstrated proof-of-concept of the Gas Avalanche Neutron Detector and proof-of-concept of high performance neutron detector.
- *Small Vessel Stand-off Detection Program*. Approved for deployment to detect radiation in vessels less than 300 gross tons at a stand-off distance from a USCG or CBP vessel.
- *Radiation Portal Monitor Improvement and Replacement Program*. Completed trade study of poly-vinyl toluene improvement alternatives, developed a near-term service life extension plan and completed replacement approach analysis and studies.

USCG

The USCG R&D program invests in the application of R&D projects. The following are some of the major ongoing developmental projects:

- *Marine Safety*. Enhance USCG's ability to eliminate deaths, injuries, and property damage associated with maritime transportation, fishing, and recreational boating.
- *Maritime Mobility*. Enhance USCG's ability to perform the aids to navigation and ice operations missions; to enhance safe navigation combined with capabilities contributing to maritime domain awareness. Development of the Automatic Identification System is a high priority for the USCG and provides an example of a system which serves both safety and

security purposes. Another investment area within this program is the intelligent waterways research, encompassing both aids to navigation and vessel traffic.

- *Environmental Protection.* Focuses on elimination of the influx of aquatic nuisance species and prevention and response strategies to major oil and hazardous substance discharges.
- *Homeland Security.* Enhance USCG's enforcement of laws and treaties and security of the Nation's ports, waterways, and coastal zone. The two major investment areas within this R&D program are: detect, identify and classify maritime threats, and improve interdiction capabilities.
- *Technology Investment.* Support USCG's Management Effectiveness goal. The primary purpose of this research is to increase performance capabilities and to free resources to perform other high priority functions.

Significant accomplishments in R&D:

- Completed engineering analysis of potential small unmanned aerial systems (UAS) installation on National Security Cutter (NSC). Executed expanded small UAS demonstration from NSC to investigate potential operational impacts and investigate various sensor payloads. Completed analysis of demonstration and provided results.
- Completed laboratory testing of potential alternatives to pyrotechnic visual distress signals. Completed field evaluations and initiated analysis of field results.
- Completed evaluation of prototype heavy oil recovery systems. Provided decision support information which can be used by federal on-scene commander. Continued development of prototype detection systems for oil in the water column.
- Completed initial assessment of throwable object and vessel marking device prototype and initiated detailed field evaluation of vessel marking prototype.

The following major new applications in R&D are ongoing:

- Develop and evaluate the most promising capabilities and techniques for recovering heavy viscous oil on the ocean floor and in the water column; integrate those capabilities and techniques with heavy oil detection systems.
- Develop equipment and a detailed and accepted group of methodologies that can be used successfully to detect, track and recover oil in ice filled waters in all conditions in order to minimize the damage to the environment caused by spilled oil in extreme cold either in the Arctic Region or the Northern states in the United States.
- Investigate technologies and concepts to effectively execute USCG missions in harsh cold-weather environments.
- Evaluate potential implementation of small UAS technology on USCG cutters and boats to support execution of USCG missions.
- Investigate the potential to use autonomous unmanned marine vehicles to support execution of USCG missions.
- Investigate the use of game theory to support optimization of USCG asset utilization.
- Investigate alternatives to pyrotechnic distress signals.
- Conduct testing of the use of alternative fuels in USCG boats.

TSA

TSA has invested in four categories of applied research projects. These applied research projects include:

- Human factors research intended to enhance screener capabilities, improve person machine performance, and increase human system effectiveness.
- Ongoing certification/qualification testing of screening technologies for aviation and intermodal security operations.
- Development of advanced transportation security equipment for screening of passengers, baggage and cargo.
- Development of new tools and enhanced training methods for improved canine detection capabilities.

2. Investments in Human Capital

Investments in human capital include expenses incurred for programs to educate and train first responders. These programs are intended to increase or maintain national productive capacity as evidenced by outputs and outcomes. Based on a review of the Department’s programs, FEMA and S&T have made significant investments in human capital.

	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010
FEMA	\$ 101	\$ 97	\$ 98	\$ 101	\$ 99
S&T	7	9	9	14	10
Total Human Capital	\$ 108	\$ 106	\$ 107	\$ 115	\$ 109

FEMA

FEMA has invested resources in educational, training, and professional development in the following areas:

- *National Fire Academy.* Developed by FEMA to promote the professional development of the fire and emergency response community and its allied professionals. To supplement and support state and local fire service training programs, the National Fire Academy develops and delivers educational and training courses with a national focus that increases the capacity of the Nation’s fire and emergency services and the public to prevent, mitigate, prepare for, and respond to local, regional, and national emergencies.
- *Emergency Management Institute.* Serves as the national focal point for the development and delivery of emergency management training to enhance the capabilities of federal, state, local, and tribal government officials, volunteer organizations, FEMA’s disaster workforce, other federal agencies, and the public and private sectors to minimize the impact of disasters on the American public. EMI curricula are structured to meet the needs of this diverse audience with an emphasis on separate organizations working together in all-hazards emergencies to save lives and protect property.
- *National Training and Education Division (NTED).* NTED serves the Nation's first responder community, offering more than 150 courses to help build the critical skills required to function effectively in mass consequence events. NTED primarily serves state, local, and tribal entities in six professional disciplines from hazardous materials and

weapons of mass destruction; cybersecurity; countering violent extremism; maturing public-private partnerships; medical readiness/immediate victim care at mass casualty events; to rural training. Training is delivered at no cost to course attendees.

- *Center for Domestic Preparedness (CDP)*. The CDP became a part of FEMA in 2007. The CDP is a federal training center that specializes in providing advanced hands-on, all-hazards training for emergency responders. Its purpose is the “preparation of first responders by building, sustaining, and improving their capability to respond to all hazards.” The CDP offers training to America’s federal, state, local, tribal, parish, and private emergency responders—to include responders working in rural jurisdictions—in their mission to prevent, deter, respond to, and recover from terrorist acts, especially those involving weapons of mass destruction or hazardous materials. The CDP is the only congressionally chartered weapons of mass destruction training center for civilians.

S&T

S&T provides grants to institutions, colleges and universities through its Homeland Security Science, Technology, Engineering and Mathematics (HS-STEM) Career Development Grants Program. Funding can be used to award scholarships and fellowships to students in HS-STEM disciplines. Awards are also granted for Minority Serving Institute, Scientific Leadership Awards, and institutional awards to support the development of HS-STEM teaching initiatives, curriculum development and scholarships in HS-STEM fields.

3. Investments in Non-Federal Physical Property

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

	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010
TSA	\$ 215	\$ 421	\$ 226	\$ 229	\$ 286
FEMA ¹	109	48	76	99	92
DNDO	6	4	-	-	-
Total Non-federal Physical Property	\$ 330	\$ 473	\$ 302	\$ 328	\$ 378

TSA

- *Airport Improvement Program*. To help facilitate Explosive Detection System (EDS) installations, TSA purchases and installs in-line EDS equipment through a variety of funding mechanisms, including congressionally authorized LOI. The LOI is used to reimburse airports for the United States Government’s share of allowable costs for the modifications. TSA maintains 12 LOIs with 11 airports to provide for the facility modifications necessary to accommodate in-line EDS screening solutions.
- *Airport Renovation Program*. Under this program, TSA employs other transaction agreements (OTAs) to fund the installation of integrated and non-integrated EDS and

¹ Historical amounts were updated to reflect corrections made since the last report.

explosive trace detection equipment as well as improvements to be made to the existing systems in the baggage handling area. These OTAs establish the respective cost-sharing obligations and other responsibilities of TSA and the specific entity (board, port, or authority) conducting the installations or improvements. All work will be completed in order to achieve compliance with the *Aviation and Transportation Security Act* (ATSA), Pub. L. 107-71, November 19, 2001.

- *American Recovery and Reinvestment Act*. Using American Recovery and Reinvestment Act funds, TSA entered into Other Transaction Agreements with 36 airports in FY 2009 and FY 2010 for checked baggage inspection systems and/or closed circuit television cameras. As of September 30, 2014, TSA obligated \$583.2 million: \$522.9 million for checked baggage inspection systems OTAs and \$60.3 million for closed circuit television cameras.

FEMA

Assistance to Firefighters Grant (AFG). The goal is to provide grants to state and local governments to meet the firefighting and emergency response needs of fire departments and nonaffiliated emergency medical service organizations. Since 2001, AFG helps firefighters and other first responders to obtain critically needed equipment, protective gear, emergency vehicles, training, and other resources needed to protect the public and emergency personnel from fire and related hazards. AFG provides grants for new firefighting vehicles; used fire apparatuses originally designed for firefighting; or refurbished apparatuses originally designed for firefighting. Funds may also be used to refurbish a vehicle the department currently owns, but only if it is a vehicle originally designed for firefighting. New vehicles purchased with AFG funds must be compliant with NFPA 1901 or 1906 standards. Used apparatuses must be compliant with NFPA 1901 or 1906 standards for the year the vehicle was manufactured. Refurbished apparatuses must meet NFPA 1912 standards.

DNDO

Radiation Detection Equipment. As a result of the conclusion of the Advanced Spectroscopic Portal (ASP) L and ASP C radiation detection equipment programs, DNDO transferred the remaining ASP L trucks to the State of Virginia, and one ASP C portal to the State of New Mexico. In FY 2014, DNDO transferred two ASP C portals to the State of Missouri and the University of Tennessee, respectively.

Required Supplementary Information

Unaudited, see accompanying Independent Auditors' Report

1. Deferred Maintenance

The Department Components use condition assessment to determine the deferred maintenance for each class of asset. The procedure includes reviewing equipment, building, and other structure logistic reports. Component logistic personnel identify maintenance not performed as scheduled and establish future performance dates. Logistic personnel use a condition assessment survey to determine the status of referenced assets according to the range of conditions shown below.

Good. Facility/equipment condition meets established maintenance standards, operates efficiently, and has a normal life expectancy. Scheduled maintenance should be sufficient to maintain the current condition. There is no deferred maintenance on buildings or equipment in good condition.

Fair. Facility/equipment condition meets minimum standards but requires additional maintenance or repair to prevent further deterioration, to increase operating efficiency, and to achieve normal life expectancy.

Poor. Facility/equipment does not meet most maintenance standards and requires frequent repairs to prevent accelerated deterioration and to provide a minimal level of operating function. In some cases, this includes condemned or failed facilities.

Based on periodic condition assessments, an indicator of condition is the percentage of facilities and items of equipment in each of the good, fair, or poor categories.

Deferred maintenance on general PP&E and heritage assets as of September 30, 2014, and 2013, was estimated to range from \$989 million to \$1,103 million, and \$1,090 million to \$1,188 million, respectively. The condition of these assets ranges from good to poor. These amounts represent maintenance on vehicles, vessels, and buildings and structures owned by the Department that was not performed when it should have been, or was scheduled to be performed but was delayed for a future period.

A summary of deferred maintenance, by asset class, at September 30, 2014, follows (in millions):

	Low estimate	High estimate
Building & Structures	\$ 840	\$ 951
Equipment (vehicles and vessels)	68	68
Equipment (Other)	43	43
Heritage assets	38	41
Total	\$ 989	\$ 1,103

2. Statement of Budgetary Resources

The principal Statement of Budgetary Resources combines the availability, status, and outlays of the Department's budgetary resources during FY 2014 and FY 2013. The following table provides the Statement of Budgetary Resources disaggregated by DHS Components rather than by major budget account because DHS manages its budget at the Component level.

Schedule of FY 2014 Budgetary Resources Disaggregated by Sub-Organization Accounts (in millions) (page 1 of 2)

	CBP	USCG	USCIS	FEMA	FLETC	ICE	OHA	DeptOps	NPPD	USSS	S&T	TSA	TOTAL
BUDGETARY RESOURCES													
Unobligated Balance Brought Forward, October 1	\$ 1,323	\$ 2,149	\$ 1,404	\$ 10,159	\$ 105	\$ 708	\$ 40	\$ 308	\$ 653	\$ 99	\$ 275	\$ 1,267	\$ 18,490
Adjustment to Unobligated Balance, Brought Forward, October 1	-	-	-	-	-	-	-	-	-	-	-	-	-
Unobligated Balance Brought Forward, October 1, As Adjusted	1,323	2,149	1,404	10,159	105	708	40	308	653	99	275	1,267	18,490
Recoveries of Prior Year Unpaid Obligations	344	164	84	1,522	5	121	10	127	111	25	38	268	2,819
Other Changes in Unobligated Balance	(115)	(116)	(5)	(516)	(8)	112	(7)	(50)	(43)	(17)	(3)	(107)	(875)
Unobligated Balance from Prior Year Budget Authority, Net	1,552	2,197	1,483	11,165	102	941	43	385	721	107	310	1,428	20,434
Appropriations	13,978	10,295	2,891	9,809	259	5,676	127	1,455	1,468	1,837	1,220	5,370	54,385
Borrowing Authority (Note 25)	-	-	-	(378)	-	-	-	-	-	-	-	-	(378)
Spending Authority from Offsetting Collections	1,754	467	36	3,763	118	192	41	1,123	1,271	38	81	1,995	10,879
TOTAL BUDGETARY RESOURCES	\$ 17,284	\$ 12,959	\$ 4,410	\$ 24,359	\$ 479	\$ 6,809	\$ 211	\$ 2,963	\$ 3,460	\$ 1,982	\$ 1,611	\$ 8,793	\$ 85,320
STATUS OF BUDGETARY RESOURCES													
Obligations Incurred (Note 24)	\$ 15,682	\$ 11,385	\$ 3,228	\$ 14,866	\$ 390	\$ 6,309	\$ 181	\$ 2,573	\$ 2,826	\$ 1,892	\$ 962	\$ 7,194	\$ 67,488
Unobligated Balance, End Of Year													
Apportioned	1,017	1,126	270	9,017	73	244	2	252	485	30	640	1,158	14,314
Exempt from Apportionment	-	2	-	-	-	-	-	-	-	-	-	-	2
Unapportioned (Note 3)	585	446	912	476	16	256	28	138	149	60	9	441	3,516
Total Unobligated Balance, End of Year	1,602	1,574	1,182	9,493	89	500	30	390	634	90	649	1,599	17,832
TOTAL BUDGETARY RESOURCES	\$ 17,284	\$ 12,959	\$ 4,410	\$ 24,359	\$ 479	\$ 6,809	\$ 211	\$ 2,963	\$ 3,460	\$ 1,982	\$ 1,611	\$ 8,793	\$ 85,320

Schedule of FY 2014 Budgetary Resources Disaggregated by Sub-Organization Accounts (in millions) (page 2 of 2)

	CBP	USCG	USCIS	FEMA	FLETC	ICE	OHA	DeptOps	NPPD	USSS	S&T	TSA	TOTAL
CHANGE IN OBLIGATED BALANCE													
Unpaid Obligations:													
Unpaid Obligations, Brought Forward, October 1	\$ 3,491	\$ 4,791	\$ 833	\$ 20,493	\$ 155	\$ 1,287	\$ 133	\$ 1,757	\$ 1,237	\$ 404	\$ 887	\$ 4,142	\$ 39,610
Obligations Incurred	15,682	11,385	3,228	14,866	390	6,309	181	2,573	2,826	1,892	962	7,194	67,488
Outlays, Gross	(15,219)	(10,864)	(2,975)	(13,529)	(374)	(5,812)	(182)	(2,465)	(2,429)	(1,857)	(888)	(7,384)	(63,978)
Actual Transfers, Unpaid Obligations, Net	-	-	-	(10)	-	-	-	-	-	-	-	-	(10)
Recoveries of Prior Year Unpaid Obligations	(344)	(164)	(84)	(1,522)	(5)	(121)	(10)	(127)	(111)	(25)	(38)	(268)	(2,819)
Unpaid Obligations, End of Year	3,610	5,148	1,002	20,298	166	1,663	122	1,738	1,523	414	923	3,684	40,291
Uncollected Payments:													
Uncollected Customer Payments From Federal Sources, Brought Forward, October 1	(152)	(147)	(21)	(157)	(174)	(105)	(33)	(740)	(123)	(21)	(171)	(2)	(1,846)
Change in Uncollected Customer Payments from Federal Sources	6	25	11	69	15	(28)	20	(70)	(9)	(10)	52	1	82
Uncollected Customer Payments from Federal Sources, End of Year	(146)	(122)	(10)	(88)	(159)	(133)	(13)	(810)	(132)	(31)	(119)	(1)	(1,764)
Obligated Balance, Start of Year, Net	\$ 3,339	\$ 4,644	\$ 812	\$ 20,336	\$ (19)	\$ 1,182	\$ 100	\$ 1,017	\$ 1,114	\$ 383	\$ 716	\$ 4,140	\$ 37,764
Obligated Balance, End of Year, Net	\$ 3,464	\$ 5,026	\$ 992	\$ 20,210	\$ 7	\$ 1,530	\$ 109	\$ 928	\$ 1,391	\$ 383	\$ 804	\$ 3,683	\$ 38,527
BUDGET AUTHORITY AND OUTLAYS, NET													
Budget Authority , Gross	\$ 15,732	\$ 10,762	\$ 2,927	\$ 13,194	\$ 377	\$ 5,868	\$ 168	\$ 2,578	\$ 2,739	\$ 1,875	\$ 1,301	\$ 7,365	\$ 64,886
Actual Offsetting Collections	(1,760)	(492)	(47)	(4,013)	(132)	(164)	(61)	(1,054)	(1,262)	(27)	(132)	(1,993)	(11,137)
Change in Uncollected Customer Payments from Federal Sources	6	25	11	69	15	(28)	20	(70)	(9)	(10)	52	1	82
Budget Authority, Net	\$ 13,978	\$ 10,295	\$ 2,891	\$ 9,250	\$ 260	\$ 5,676	\$ 127	\$ 1,454	\$ 1,468	\$ 1,838	\$ 1,221	\$ 5,373	\$ 53,831
Outlays	\$ 15,219	\$ 10,864	\$ 2,975	\$ 13,529	\$ 374	\$ 5,812	\$ 182	\$ 2,465	\$ 2,429	\$ 1,857	\$ 888	\$ 7,384	\$ 63,978
Actual Offsetting Collections	(1,760)	(492)	(47)	(4,013)	(132)	(164)	(61)	(1,054)	(1,262)	(27)	(132)	(1,993)	(11,137)
Outlays, Net	13,459	10,372	2,928	9,516	242	5,648	121	1,411	1,167	1,830	756	5,391	52,841
Distributed Offsetting Receipts	(3,920)	(57)	(3,251)	(148)	2	(201)	-	-	(1)	-	-	(247)	(7,823)
Agency Outlays, Net	\$ 9,539	\$ 10,315	\$ (323)	\$ 9,368	\$ 244	\$ 5,447	\$ 121	\$ 1,411	\$ 1,166	\$ 1,830	\$ 756	\$ 5,144	\$ 45,018

Schedule of FY 2013 Budgetary Resources Disaggregated by Sub-Organization Accounts (in millions) (page 1 of 2)

	CBP	USCG	USCIS	FEMA	FLETC	ICE	OHA	DeptOps	NPPD	USSS	S&T	TSA	TOTAL
BUDGETARY RESOURCES													
Unobligated Balance Brought Forward, October 1	\$ 1,311	\$ 2,101	\$ 1,327	\$ 3,842	\$ 71	\$ 779	\$ 36	\$ 508	\$ 311	\$ 79	\$ 116	\$ 1,849	\$ 12,330
Adjustment to Unobligated Balance, Brought Forward, October 1 (Note 32)	-	-	-	(1,077)	-	-	-	-	-	-	-	-	(1,077)
Unobligated Balance Brought Forward, October 1, As Adjusted	1,311	2,101	1,327	2,765	71	779	36	508	311	79	116	1,849	11,253
Recoveries of Prior Year Unpaid Obligations	389	193	110	1,288	7	210	123	148	97	42	37	231	2,875
Other Changes in Unobligated Balance	(96)	(73)	(4)	(214)	(5)	(138)	(127)	(39)	(28)	(17)	(5)	(131)	(877)
Unobligated Balance from Prior Year Budget Authority, Net	1,604	2,221	1,433	3,839	73	851	32	617	380	104	148	1,949	13,251
Appropriations	12,953	10,449	2,778	21,633	243	5,489	126	1,455	1,334	1,803	797	5,185	64,245
Borrowing Authority (Note 25)	-	-	-	6,705	-	-	-	-	-	-	-	-	6,705
Spending Authority from Offsetting Collections	1,598	461	41	4,035	202	153	43	956	1,187	16	165	1,997	10,854
TOTAL BUDGETARY RESOURCES	\$ 16,155	\$ 13,131	\$ 4,252	\$ 36,212	\$ 518	\$ 6,493	\$ 201	\$ 3,028	\$ 2,901	\$ 1,923	\$ 1,110	\$ 9,131	\$ 95,055
STATUS OF BUDGETARY RESOURCES													
Obligations Incurred (Note 24)	\$ 14,832	\$ 10,982	\$ 2,848	\$ 26,053	\$ 413	\$ 5,785	\$ 161	\$ 2,720	\$ 2,248	\$ 1,824	\$ 835	\$ 7,864	\$ 76,565
Unobligated Balance, End Of Year													
Apportioned	718	1,735	577	9,555	65	346	22	188	530	37	267	874	14,914
Exempt from Apportionment	-	2	-	-	-	-	-	-	-	-	-	-	2
Unapportioned (Note 3)	605	412	827	604	40	362	18	120	123	62	8	393	3,574
Total Unobligated Balance, End of Year	1,323	2,149	1,404	10,159	105	708	40	308	653	99	275	1,267	18,490
TOTAL BUDGETARY RESOURCES	\$ 16,155	\$ 13,131	\$ 4,252	\$ 36,212	\$ 518	\$ 6,493	\$ 201	\$ 3,028	\$ 2,901	\$ 1,923	\$ 1,110	\$ 9,131	\$ 95,055

Schedule of FY 2013 Budgetary Resources Disaggregated by Sub-Organization Accounts (in millions) (page 2 of 2)

	CBP	USCG	USCIS	FEMA	FLETC	ICE	OHA	DeptOps	NPPD	USSS	S&T	TSA	TOTAL
CHANGE IN OBLIGATED BALANCE													
Unpaid Obligations:													
Unpaid Obligations, Brought Forward, October 1	\$ 4,157	\$ 4,830	\$ 966	\$ 22,163	\$ 110	\$ 1,626	\$ 332	\$ 1,820	\$ 1,389	\$ 470	\$ 842	\$ 4,120	\$ 42,825
Obligations Incurred	14,832	10,982	2,848	26,053	413	5,785	161	2,720	2,248	1,824	835	7,864	76,565
Outlays, Gross	(15,109)	(10,828)	(2,871)	(26,426)	(361)	(5,914)	(237)	(2,635)	(2,303)	(1,848)	(753)	(7,611)	(76,896)
Actual Transfers, Unpaid Obligations, Net	-	-	-	(9)	-	-	-	-	-	-	-	-	(9)
Recoveries of Prior Year Unpaid Obligations	(389)	(193)	(110)	(1,288)	(7)	(210)	(123)	(148)	(97)	(42)	(37)	(231)	(2,875)
Unpaid Obligations, End of Year	3,491	4,791	833	20,493	155	1,287	133	1,757	1,237	404	887	4,142	39,610
Uncollected Payments:													
Uncollected Customer Payments From Federal Sources, Brought Forward, October 1	(163)	(186)	(15)	(110)	(47)	(105)	(8)	(717)	(138)	(43)	(167)	(3)	(1,702)
Change in Uncollected Customer Payments from Federal Sources	11	39	(6)	(47)	(127)	-	(25)	(23)	15	22	(4)	1	(144)
Uncollected Customer Payments from Federal Sources, End of Year	(152)	(147)	(21)	(157)	(174)	(105)	(33)	(740)	(123)	(21)	(171)	(2)	(1,846)
Obligated Balance, Start of Year, Net	\$ 3,994	\$ 4,644	\$ 951	\$ 22,053	\$ 63	\$ 1,521	\$ 324	\$ 1,103	\$ 1,251	\$ 427	\$ 675	\$ 4,117	\$ 41,123
Obligated Balance, End of Year, Net	\$ 3,339	\$ 4,644	\$ 812	\$ 20,336	\$ (19)	\$ 1,182	\$ 100	\$ 1,017	\$ 1,114	\$ 383	\$ 716	\$ 4,140	\$ 37,764
BUDGET AUTHORITY AND OUTLAYS, NET													
Budget Authority, Gross	\$ 14,551	\$ 10,910	\$ 2,819	\$ 32,373	\$ 445	\$ 5,642	\$ 169	\$ 2,411	\$ 2,521	\$ 1,819	\$ 962	\$ 7,182	\$ 81,804
Actual Offsetting Collections	(1,608)	(500)	(36)	(4,312)	(73)	(152)	(19)	(934)	(1,202)	(39)	(161)	(2,105)	(11,141)
Change in Uncollected Customer Payments from Federal Sources	11	39	(6)	(47)	(127)	-	(25)	(23)	15	22	(4)	1	(144)
Budget Authority, Net	\$ 12,954	\$ 10,449	\$ 2,777	\$ 28,014	\$ 245	\$ 5,490	\$ 125	\$ 1,454	\$ 1,334	\$ 1,802	\$ 797	\$ 5,078	\$ 70,519
Outlays	\$ 15,109	\$ 10,828	\$ 2,871	\$ 26,426	\$ 361	\$ 5,914	\$ 237	\$ 2,635	\$ 2,303	\$ 1,848	\$ 753	\$ 7,611	\$ 76,896
Actual Offsetting Collections	(1,608)	(500)	(36)	(4,312)	(73)	(152)	(19)	(934)	(1,202)	(39)	(161)	(2,105)	(11,141)
Outlays, Net	13,501	10,328	2,835	22,114	288	5,762	218	1,701	1,101	1,809	592	5,506	65,755
Distributed Offsetting Receipts	(3,690)	(134)	(3,203)	(43)	-	(196)	-	-	1	(1)	-	(252)	(7,518)
Agency Outlays, Net	\$ 9,811	\$ 10,194	\$ (368)	\$ 22,071	\$ 288	\$ 5,566	\$ 218	\$ 1,701	\$ 1,102	\$ 1,808	\$ 592	\$ 5,254	\$ 58,237

3. Statement of Custodial Activity

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

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

For FY 2014 and FY 2013, CBP had the legal right to collect \$3 billion and \$2.7 billion of receivables, respectively. In addition, there were \$2.8 billion and \$2.3 billion representing records still in the protest phase for FY 2014 and FY 2013, respectively. CBP recognized as write-offs \$47 million and \$288 million, respectively, of assessments that the Department had statutory authority to collect at September 30, 2014 and 2013, but have no future collection potential. Most of this amount represents duties, taxes, and fees.

4. Risk Assumed Information

The Department has performed an analysis of the contingencies associated with the unearned premium reserve for the NFIP. This FY 2014 estimate represents losses that might occur in FY 2015 on policies that were in-force as of September 30, 2014. The calculation utilizes the current estimate of the long-term average loss year, which includes an estimate of a rare but catastrophic loss year. A large portion of the long-term average loss year is derived from those catastrophic years.

The NFIP subsidizes rates for some classes of policyholders. These subsidized rates produce a premium less than the loss and loss adjustment expenses expected to be incurred during the long-term average loss year described above. Accordingly, there is a risk that paid flood losses during the remainder of the term for those subsidized policies will exceed the unearned premium liability.

The underlying calculation estimates the amount of subsidy in the total rates, removes the expense load, and applies the results to the unearned premium reserve. A range is developed and applied to

the results of the calculation of unpaid expected losses by \$425 to \$475 million. Actual flood losses are highly variable from year to year. For the majority of years, the unearned premium reserve for the NFIP is adequate to pay the losses and expenses associated with the unearned premium. In those years with catastrophic flooding, the reserve and the average across all years will be inadequate because of the subsidies in premium levels.

Independent Auditors' Report



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security
Washington, DC 20528 / www.oig.dhs.gov

NOV 14 2014

TO: The Honorable Jeh Johnson
Secretary

FROM: John Roth 
Inspector General

SUBJECT: Independent Auditors' Report on DHS' FY 2014 Financial
Statements and Internal Control over Financial Reporting

The attached report presents the results of an integrated audit of the Department of Homeland Security's (DHS) fiscal year (FY) 2014 financial statements and internal control over financial reporting. This is a mandatory audit required by the *Chief Financial Officers Act of 1990*, as amended by the *Department of Homeland Security Financial Accountability Act of 2004*. The report is incorporated in the Department's FY 2014 *Agency Financial Report*. We contracted with the independent public accounting firm KPMG LLP (KPMG) to conduct the audit.

The Department continued to improve financial management in FY 2014 and achieved an unmodified (clean) opinion on all financial statements. However, KPMG issued an adverse opinion on DHS' internal control over financial reporting because of material weaknesses in internal control.

Summary

KPMG identified seven significant deficiencies in internal control, of which four are considered material weaknesses. DHS identified the same material weaknesses in the *Secretary's Assurance Statement*.

The following are the four significant deficiencies in internal control considered to be material weaknesses, the three other significant deficiencies in internal control, and the four laws and regulations with which KPMG identified instances of DHS' noncompliance.

Significant Deficiencies Considered To Be Material Weaknesses

- Financial Reporting
- Information Technology Controls and Financial System Functionality
- Property, Plant, and Equipment
- Budgetary Accounting

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Department of Homeland Security

Other Significant Deficiencies

- Entity-level Controls
- Grants Management
- Custodial Revenue and Drawback

Laws and Regulations with Identified Instances of Noncompliance

- *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*
- *Single Audit Act Amendments of 1996*
- *Anti-deficiency Act (ADA)*
- *Federal Financial Management Improvement Act of 1996 (FFMIA)*

Moving DHS' Financial Management Forward

The Department continued to remediate conditions contributing to the material weaknesses identified by the auditors in FY 2013. In FY 2013, the independent auditors identified four material weaknesses in financial reporting; information technology controls; property, plan, and equipment; and budgetary accounting. All these material weaknesses were also identified in FY 2014.

In an effort to remediate a material weakness in property, plant, and equipment (PP&E) the U.S. Coast Guard completed several phases of a multi-year remediation plan to address deficiencies in the PP&E process and control. However, certain efforts were not completed until late FY 2014 and additional remediation activities are scheduled for FY 2015.

In FY 2015 and beyond, DHS' continuing challenge will be to sustain its progress in achieving an unmodified opinion on its financial statements and avoid slipping backward. To sustain its clean opinion on financial statements and obtain an unqualified (clean) opinion on its internal control over financial reporting, the Department must continue remediation efforts and stay focused.

KPMG is responsible for the attached *Independent Auditors' Report* dated November 13, 2014, and the conclusions expressed in the report. To ensure the quality of the audit work, we evaluated KPMG's qualifications and independence, reviewed the audit approach and planning, monitored



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

the audit's progress at key points, reviewed and accepted KPMG's report, and performed other procedures we deemed necessary. Additionally, we provided oversight of the audit of financial statements and certain accounts and activities conducted at key components in the Department. Our review, as differentiated from an audit conducted in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or internal control or provide conclusions on compliance with laws and regulations. Our review disclosed no instances in which KPMG did not comply, in all material respects, with generally accepted government auditing standards.

Consistent with our responsibility under the *Inspector General Act of 1978*, as amended, we are providing copies of this report to appropriate congressional committees with oversight and appropriation responsibilities over the Department. In addition, we will post a copy of the report on our public website.

We request that the Office of the Chief Financial Officer provide us with a corrective action plan that demonstrates progress in addressing the report's recommendations.

Please call me with any questions, or your staff may contact Anne L. Richards, Assistant Inspector General for Audits, at 202-254-4100.

Attachment

OFFICE OF INSPECTOR GENERAL

**Independent Auditors' Report on DHS'
FY 2014 Financial Statements and
Internal Control over Financial
Reporting**



**Homeland
Security**

**November 14, 2014
OIG-15-10**



HIGHLIGHTS

Independent Auditors' Report on DHS' FY 2014 Financial Statements and Internal Control over Financial Reporting

November 14, 2014

Why We Did This

Sound financial practices and related management operations, reliable financial systems, and effective internal control are essential for reliable, timely financial information that supports management decision making needed to achieve the DHS mission.

What We Recommend

KPMG LLP made 68 recommendations to help improve internal control over financial reporting and increase the reliability of financial systems and operations. These recommendations address significant deficiencies, including issues related to financial reporting; information technology controls and financial systems functionality; property, plant, and equipment; and budgetary accounting.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-IG.OfficePublicAffairs@oig.dhs.gov

www.oig.dhs.gov

What We Found

The independent public accounting firm, KPMG LLP, has issued an unmodified (clean) opinion on the Department of Homeland Security's (DHS) consolidated financial statements. In the independent auditors' opinion, the financial statements present fairly, in all material respects, the financial position of DHS as of September 30, 2014.

KPMG LLP also issued an adverse opinion on the Department's internal control over financial reporting of its financial statements as of September 30, 2014. The report identifies seven significant deficiencies in internal control, four of which are material weaknesses. The material weaknesses are in financial reporting; information technology controls and financial systems functionality; property, plant, and equipment; and budgetary accounting. The report also identifies instances of noncompliance with four laws and regulations.

Management's Response

The Department concurred with the independent auditors' conclusions and indicated that management will continue to implement corrective actions to improve financial management and internal control.

OIG-15-10



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of Homeland Security (DHS or Department), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02, require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.



Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Homeland Security as of September 30, 2014 and 2013, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Notes 1T and 15 of the consolidated financial statements, the Department has intragovernmental debt of approximately \$24 billion used to finance the *National Flood Insurance Program* (NFIP) as of September 30, 2014. Due to the subsidized nature of the NFIP, the Department has determined that future insurance premiums, and other anticipated sources of revenue, may not be sufficient to repay this debt. Legislation will need to be enacted to provide funding to repay or forgive the debt. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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



Report on Internal Control over Financial Reporting

We have audited DHS' internal control over financial reporting as of September 30, 2014, based on criteria established in OMB Circular No. A-123, *Management's Responsibility for Internal Control* (OMB Circular A-123), Appendix A. DHS management is responsible for maintaining effective internal control over financial reporting, and for its assertion on the effectiveness of internal control over financial reporting, included in the accompanying *Secretary's Assurance Statement* in the Department's *Agency Financial Report*. Our responsibility is to express an opinion on DHS' internal control over financial reporting based on our audit.

We conducted our audit in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. The following material weaknesses described in the accompanying Exhibit I have been identified and included in the *Secretary's Assurance Statement*.

- A. Financial Reporting
- B. Information Technology Controls and Financial Systems Functionality
- C. Property, Plant, and Equipment
- D. Budgetary Accounting

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, DHS has not maintained effective internal control over financial reporting as of September 30, 2014, based on the criteria established in OMB Circular No. A-123, *Management's Responsibility for Internal Control*, (OMB Circular A-123), Appendix A. We do not express an opinion or any other form of assurance on management's evaluation and assurances made in the *Secretary's Assurance Statement*.



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

- E. Entity-Level Controls
- F. Grants Management
- G. Custodial Revenue and Drawback

The Report on Internal Control Over Financial Reporting is intended solely for the information and use of DHS management, the DHS Office of Inspector General, the U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by *Government Auditing Standards*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DHS' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02, and which are described in the accompanying Exhibit III.

- H. *Federal Managers' Financial Integrity Act of 1982*
- I. *Single Audit Act Amendments of 1996*
- J. *Anti-deficiency Act*

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

Purpose of the Other Reporting Required by Government Auditing Standards

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



DHS' Responses to Findings

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

KPMG LLP

November 13, 2014

Independent Auditors' Report
Introduction to Exhibits on Internal Control and Compliance and Other Matters

Our report on internal control over financial reporting and compliance and other matters is presented in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The internal control weaknesses in financial reporting, and findings related to compliance with certain laws, regulations, contracts, and grant agreements presented herein were identified during our audit of the U.S. Department of Homeland Security (Department or DHS)'s financial statements as of September 30, 2014, and our engagement to audit internal control over financial reporting of those financial statements. Our findings are presented in three exhibits:

- Exhibit I** Findings that individually or in aggregate that are considered material weaknesses in internal control over financial reporting affecting the DHS consolidated financial statements.
- Exhibit II** Findings that individually or in aggregate are considered significant deficiencies that are not material weaknesses, however, should be brought to the attention of DHS management and others in positions of DHS oversight.
- Exhibit III** Instances of noncompliance with certain laws, regulations, contracts, and grant agreements that are required to be reported under *Government Auditing Standards* or Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.
- Criteria** *Index of Financial Reporting and Internal Control Criteria*

Attachment Management's response to our findings

The determination of which findings rise to the level of a material weakness is based on an evaluation of how deficiencies identified in all components, considered in aggregate, may affect the DHS financial statements as of September 30, 2014.

We have also performed follow-up procedures on findings identified in previous audits of the financial statements and internal control over financial reporting. To provide trend information for the DHS components, Exhibits I and II contain trend tables next to the heading of each finding. The trend tables in Exhibits I and II depict the severity by color (red boxes where component findings are more severe, and yellow boxes where component findings are less severe), and current status of findings, by component that has contributed to that finding from FY 2012 through FY 2014. The DHS components that contributed to the finding in FY 2014 are listed in the title of each material weakness and significant deficiency included in Exhibits I and II.

The criteria supporting our findings, such as references from technical accounting standards, various rules and regulations, including requirements issued by the OMB and the U.S. Treasury, and internal Departmental and component directives, are presented in the *Index of Financial Reporting and Internal Control Criteria* behind Exhibit III.

A summary of our findings in FY 2014 and FY 2013 are presented in the Tables below:

- Table 1** Presents a summary of our internal control findings, by component, for FY 2014.
- Table 2** Presents a summary of our internal control findings, by component, for FY 2013.

We have reported four material weaknesses and three significant deficiencies at the Department level in FY 2014, shown in Table 1.

Independent Auditors' Report
Introduction to Exhibits on Internal Control and Compliance and Other Matters

TABLE 1 – SUMMARIZED DHS FY 2014 INTERNAL CONTROL FINDINGS
 (Full-Scope Financial Statement Audit)

Comments / Financial Statement Area	DHS Consol.	CG	CBP	FEMA	ICE	MGMT	NPPD	USSS
Material Weaknesses:								
Exhibit I								
A Financial Reporting	MW							
B IT Controls and System Functionality	MW							
C Property, Plant, and Equipment	MW							
D Budgetary Accounting	MW							
Significant Deficiencies:								
Exhibit II								
E Entity-Level Controls – Department-wide	SD							
F Grants Management	SD							
G Custodial Revenue and Drawback	SD							

TABLE 2 – SUMMARIZED DHS FY 2013 INTERNAL CONTROL FINDINGS
 (Full-Scope Financial Statement Audit)

Comments / Financial Statement Area	DHS Consol.	CG	CBP	USCIS	FEMA	ICE	MGMT	NPPD	USSS	OFM
Material Weaknesses:										
Exhibit I										
A Financial Reporting	MW									
B IT Controls and System Functionality	MW									
C Property, Plant, and Equipment	MW									
D Budgetary Accounting	MW									
Significant Deficiencies:										
Exhibit II										
E Entity-Level Controls – Department-wide	SD									
F Liabilities	SD									
G Grants Management	SD									
H Custodial Revenue and Drawback	SD									

All components of DHS, as defined in Note 1A – *Reporting Entity*, to the financial statements, were included in the scope of our audit of the DHS financial statements as of September 30, 2014, and our engagement to audit internal control over financial reporting of those financial statements. Accordingly, our financial statement audit and engagement to audit internal control considered significant account balances, transactions, and accounting processes of other DHS components not listed above. Control deficiencies identified in other DHS components that are not identified in the table above did not individually, or when combined with other component findings, contribute to a material weakness or significant deficiency at the DHS consolidated financial statement level.

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

I-A Financial Reporting (USCG, ICE, MGMT, NPPD, USSS)

Background: During fiscal year (FY) 2014 the Department of Homeland Security (DHS/Department) components continued to implement corrective action plans to address internal control weaknesses and strengthen internal control. Although the Department made progress, deficiencies remain. Specifically, during FY 2014, the U.S. Coast Guard (Coast Guard or USCG) continued efforts to remediate long-standing internal control deficiencies and strengthen financial reporting controls. However, we noted that deficiencies remain in some financial reporting areas and additional remediation, associated with real property balances, is scheduled to continue in FY 2015.

Other DHS components, including U.S. Immigration and Customs Enforcement (ICE), Management Directorate (MGMT), National Protection and Programs Directorate (NPPD), and U.S. Secret Service (USSS) experienced challenges in financial reporting, resulting in deficiencies in multiple processes.

Conditions: We noted the following internal control weaknesses related to financial reporting at Coast Guard, ICE, MGMT, NPPD, and USSS.

1. Coast Guard:

- Lacked adequate processes to ensure that non-standard adjustments (i.e., journal entries and top side adjustments) impacting the general ledger were adequately researched, supported, and reviewed prior to their recording in the general ledger. Continued property, plant, and equipment remediation efforts required the recordation of multiple adjustments. Many of these adjustments required corrections as the level of precision of review was not adequate.
- Did not adhere to existing policies and procedures to update, maintain, and review schedules tracking environmental liabilities. Policies and procedures were not designed and implemented to ensure the completeness and accuracy of all underlying data elements used to record environmental liabilities.
- Lacked effective controls over the review of accrual decisions and/or calculations as well as prior year accrual validation related to accounts payable.
- Was not able to completely support certain beginning balance and year-end close-out related activity in its three general ledgers.
- Was not able to identify and reconcile intra-governmental activities and balances or ensure that transactions were coded to the correct trading partner. Additionally, internal controls associated with the periodic confirmation and reconciliation of intergovernmental activity were not properly designed or fully implemented to ensure identified differences, especially with agencies outside DHS, were resolved in a timely manner.
- Controls over the preparation and review of periodic financial information were not designed and implemented and/or operating effectively at an appropriate level of precision in various processes. These processes included, but were not limited to, fund balance with Treasury, operating expenses, accounts receivable, contingent liabilities, property, plant, and equipment, operating materials and supplies, accounts payable, and budgetary accounts.

Trend Table			
	2014	2013	2012
USCG			
ICE			
MGMT			N/A
NPPD			N/A
USSS			N/A
OFM	C		N/A
TSA	C	C	

Key – Trend Table	
C	Deficiencies are corrected
N/A	No deficiencies reported
	Deficiencies are less severe*
	Deficiencies are more severe*
* See Introduction.	

Independent Auditors' Report
Exhibit I – Material Weaknesses

- Did not always maintain general ledger activity in compliance with the United States Standard General Ledger (USSGL) at the transaction level.
2. ICE:
- Controls over preparation and review of journal entries were not designed and fully implemented to ensure proper posting. Further, supporting documentation for certain journal entries did not clearly and fully explain the purpose of the entry; this also impacts journal entries posted on behalf of the serviced components NPPD and MGMT.
 - Did not always adhere to or reinforce compliance with existing expense and fund balance with Treasury policies and procedures including review of invoices prior to disbursement and clearing of suspense balances.
 - Controls over the calculation of imputed costs for pension and health benefits were not fully effective to ensure the proper factors were used in the calculation to properly report the balance in the financial statements.
 - Internal controls over the presentation of the statement of net cost and property, plant, and equipment footnote disclosures were not fully effective to ensure gross costs and revenues were properly aligned to the correct major program and construction in progress costs were appropriately disclosed.
3. MGMT:
- Did not fully establish a financial management infrastructure, including defined roles and responsibilities that ensure consistently reliable, accurate, and timely financial reporting for all significant processes. For example, we noted:
 - Controls were not operating effectively to ensure that capital projects were properly monitored, reviewed, and costs were appropriately recorded and disclosed in the proper period; construction in process costs were recorded to the proper standard general ledger account and appropriate supporting documentation was available to evidence dates assets were placed into service; and
 - Controls were not fully effective over expenses, including review of employee set-up and certain payroll transactions, review of invoices prior to disbursement, coding of expenses to the proper trading partner and timely recording of expense.
 - Internal control over financial reporting was not operating effectively, which impaired MGMT's ability to respond to audit inquiries and provide auditable transaction populations with accurate information without reliance on the general ledger service provider.
4. NPPD:
- Did not fully design internal controls to ensure accurate execution of processes and recording of transactions by the service provider. For example we noted:
 - Controls were not operating effectively to ensure that capital assets were recorded timely and accurately in the asset sub-ledger and general ledger in the proper period;
 - Controls were not designed appropriately to ensure gross costs and revenues were properly presented in the statement of net cost; and
 - Controls were not fully effective to ensure processes performed by the service provider related to recording of closing entries, timely liquidation of advances and revenue accruals were in accordance with existing policies and procedures.
 - Controls were not fully effective to ensure transactions were appropriately recorded to the proper vendor and trading partner.

Independent Auditors' Report
Exhibit I – Material Weaknesses

5. USSS:

- Internal controls over the review of assumptions used in the actuarially derived pension liability were not operating effectively, resulting in a change in the calculation of the discount rate in order to comply with Federal accounting standards.

Cause/Effect: The Coast Guard devoted considerable attention to substantially completing remediation over property, plant, and equipment. These remediation efforts, coupled with an inadequate number of skilled resources, have hindered progress over the development and implementation of robust internal control over financial reporting. Coast Guard also lacks specific standard operating procedures detailing internal controls in certain process areas. Additionally, the Coast Guard's three legacy general ledger systems, developed over a decade ago, have severe functional limitations contributing to the Coast Guard's inability to address pervasive internal control weaknesses in financial reporting, strengthen the control environment, and comply with relevant Federal financial system requirements and guidelines, notably Comment III-J, *Federal Financial Management Improvement Act of 1996 (FFMIA)*. Also see information technology (IT) system functionality issues described at Comment I-B, *Information Technology Controls and Financial Systems Functionality*.

ICE faced challenges in maintaining communications that affect financial reporting functions performed at different program offices and finance centers.

NPPD and MGMT used ICE as a general ledger service provider, and for several years relied on ICE to ensure financial statement integrity. In recent years, NPPD and MGMT have continued to define and enhance their roles and responsibilities as they assumed more financial management functions. The intra-agency agreement between ICE and NPPD and MGMT defines these roles and responsibilities, however a control gap continued to exist between the services provided by ICE and the procedures and processes established by NPPD and MGT. NPPD enhanced its financial management structure; however, NPPD has not established or implemented all necessary procedures to perform service provider oversight. MGMT's resources are limited and some operational functions, including the Working Capital Fund, were complex and diverse.

The USSS did not properly review key assumptions used by the actuary in the calculation of the pension liability, resulting in a change to the discount rate in order to comply with Federal accounting standards.

Because of the conditions noted above, and described throughout Exhibits I and II, the Department was unable to provide full assurance that internal controls over financial reporting were operating effectively at September 30, 2014. Management has acknowledged in the *Secretary's Assurance Statement*, presented in *Management's Discussion and Analysis* section of the FY 2014 *Agency Financial Report*, that material weaknesses and other internal control deficiencies continue to exist in some key financial processes. Also see Comment III-H, *Federal Managers' Financial Integrity Act of 1982*.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria*, after Exhibit III.

Recommendations: We recommend that:

1. Coast Guard:
 - a. Establish new, or improve existing, policies, procedures, and related internal controls to ensure:
 - i) All non-standard adjustments (i.e., journal entries and top side adjustments) impacting the general ledger are adequately researched, supported, and reviewed prior to their recording in the general ledger;
 - ii) Environmental liability schedules are updated, maintained, and reviewed;
 - iii) Underlying data used in the estimation of environmental liabilities is complete and accurate;
 - iv) Accrual decisions and/or calculations as well as the validation of prior year accrual amounts are properly reviewed;

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- v) The year-end close-out process, reconciliations, and financial data and account analysis procedures are supported by documentation, including evidence of effective management review and approval; and beginning balances in the following year are determined to be reliable and supported; and
 - vi) All intra-governmental activities and balances are reconciled on a timely basis, accurately reflected in the financial statements, and differences are resolved in a timely manner.
 - b. Adopt policies, procedures, and accounting treatments documented in ad hoc technical accounting research papers into official financial reporting guidance that is distributed agency wide; and refine financial reporting policies and procedures to prescribe process level internal controls at a sufficient level of detail to ensure consistent application to mitigate related financial statement risks;
 - c. Identify and employ additional skilled resources; and
 - d. Implement accounting and financial reporting processes and an integrated general ledger system that is FFMA compliant.
2. ICE:
- a. Emphasize and train employees on the critical aspects of key transactional and supervisory review controls including the precision of the review, the need for supporting documentation, and impact to the financial statements;
 - b. Reinforce compliance with existing expense and fund balance with Treasury policies and procedures including review of invoices prior to disbursement and clearing of suspense transactions;
 - c. Improve existing policies and procedures over the recording of imputed costs to ensure the appropriate cost factors are used; and
 - d. Implement additional controls over the preparation and review of financial statements and footnotes to ensure information is reported properly.
3. MGMT:
- a. Improve communications with its general ledger service provider to ensure that general ledger activity is accounted for timely, completely and accurately;
 - b. Consider changes to the financial accounting and reporting structure to improve internal control and supervisory review in key financial reporting processes; and
 - c. Improve the accessibility of reliable and complete financial data for use by management and to support the annual audit.
4. NPPD:
- a. Continue to implement changes and enhancements to the financial reporting structure, or the service level agreement with ICE, to ensure effective control in all financial reporting processes at NPPD; and
 - b. Improve controls to ensure transactions are recorded to the proper vendor and trading partner.
5. USSS:
- a. Evaluate the effectiveness of its review and understanding over the actuarial pension estimate, to ensure key assumptions are in compliance with the applicable standards.

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I-B Information Technology Controls (USCG, CBP, FEMA) and Financial System Functionality (Department-wide)

Background: During our FY 2014 assessment of general information technology (IT) controls and process-level IT application controls, we noted that the DHS Components made progress in the remediation of IT findings we reported in FY 2013. We closed approximately 35 percent of our prior year IT findings. However, new findings were noted in many DHS Components in FY 2014, many of which were either (1) related to controls that were effective in prior years, or (2) control deficiencies noted over new systems which were similar to deficiencies previously reported.

As indicated in the chart to the right, we noted improvements in the general IT control environments at USCIS and ICE. In FY 2014, as in recent years, the Components have made progress in remediating general IT control deficiencies. However, the general IT control deficiencies that continued to exist across all Components in FY 2014 represent an overall elevated IT risk to the Department, and certain deficiencies at Coast Guard, CBP, and FEMA, collectively, are considered a material weakness.

	2014	2013	2012
USCG	Green	Green	Green
CBP	Green	Green	Green
USCIS	C	Green	Green
FEMA	Green	Green	Red
ICE	C	Green	Green
See page I.1 for table explanation			

During our IT audit procedures, we also evaluated and considered the impact of financial system functionality on financial reporting. In recent years, we have noted that limitations in DHS Components' financial systems' functionality may be inhibiting the Department's ability to implement and maintain effective internal control and to effectively and efficiently process and report financial data. At many Components, key financial and feeder systems have not been substantially updated since being inherited from legacy agencies several years ago. Many key DHS financial systems were not compliant with Federal financial management system requirements as defined by FFMA and OMB Circular Number A-123, Appendix D, *Compliance with FFMA*. Our observations related to functionality issues noted across all DHS systems, including at Components which did not necessarily directly contribute to the IT material weakness but are associated with deficiencies reported elsewhere in this report, are described below.

Conditions Related to General IT Controls: We noted the following internal control weaknesses related to general IT controls at Coast Guard, CBP, and FEMA. Weaknesses indicated in this exhibit represent a cross-representation of deficiencies identified at these components. In addition, other observations noted during our audit procedures, which did not contribute to the IT material weakness at these and other Components, are described in greater detail in separate letters provided to DHS and Component management.

1. *Access Controls:*

- Did not consistently or completely develop and formally document policies and procedures for managing and monitoring access to key financial applications and underlying system software components, including those owned and operated on behalf of DHS and Components by third-party service organizations.
- Initial authorization and periodic recertification of application, database, and operating system user, service, and generic accounts (including emergency and temporary access) was inadequate, inconsistent, or in violation of the principles of least privilege and segregation of duties.
- Technical controls over logical access to key financial applications and underlying system software components, including password requirements and account security configurations, were not consistently implemented in accordance with DHS requirements.
- Controls over the generation, review, analysis, and protection of application, database, and operating system audit logs were not fully implemented or were inconsistently performed.

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- Transferred and/or terminated employees' and contractors' access privileges were not always consistently or timely removed from financial systems and general support systems, and controls related to review and revocation of system access were not always implemented or finalized.
2. *Configuration Management*
- Security patch management and configuration deficiencies were identified during the vulnerability assessments on the servers, system software, and databases supporting key financial applications and general support systems.
 - Vulnerability management activities, including performing internal scans of financial applications and system software and implementing vendor-recommended patches to address known vulnerabilities, were not consistently performed.
 - Monitoring controls to ensure the completeness and integrity of records of implemented system changes for key financial systems were not always implemented.
 - Controls to ensure that application functionality was appropriately mirrored between the test and production environments for one financial system were not effective.
 - Configuration changes to financial systems were not consistently tested before deployment to production.
3. *Segregation of Duties:*
- Implementation of segregation of duties for IT and financial management personnel with access to financial systems across several platforms and environments (including development and production) was inadequate or incomplete.

Conditions Related to Financial System Functionality:

In addition to the general IT control deficiencies noted above at Coast Guard, CBP, and FEMA, we identified many instances across all DHS components where financial system functionality limitations were inhibiting DHS' ability to implement and maintain internal control, including process-level IT application controls supporting financial data processing and reporting. Financial system functionality limitations also contributed to other control deficiencies, reported in Exhibits I and II, and compliance findings, presented in Exhibit III. We noted persistent and pervasive financial system functionality conditions in the following general areas at multiple components:

- System software supporting key financial applications, feeder systems, and general support systems either lacked the required functionality to implement effective controls or was outdated and no longer supported by the respective vendors, resulting in unmitigated vulnerabilities that exposed underlying data to potential unauthorized and undetected access and exploitation.
- General IT controls and financial process areas were implemented or supported by highly-manual processes, outdated or decentralized systems and records management processes, or utilities with limited automated capabilities. These limitations introduced a high risk of error and resulted in inconsistent, incomplete, or inaccurate control execution and supporting documentation.
- Multiple Components' financial system controls were not fully effective to efficiently provide readily auditable transaction populations without substantial manual intervention and additional supporting information.

In addition to these general areas, system limitations contributed to deficiencies noted in multiple financial process areas across the DHS Components. For example, system configurations and posting logic deficiencies limited the effectiveness of controls to properly calculate the value of certain transactions, identify funding variances, or prevent or detect and correct excessive refund claims. In some cases, while Components implemented manual processes to compensate for these limitations, these manual processes

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were prone to error and increased the risk that financial data and transactions were improperly posted to the respective systems.

Cause: The control deficiencies described in this exhibit stem from a number of systemic root causes across the affected DHS Components. In many cases, resource limitations, ineffective or inadequate management oversight, the complex, highly interrelated yet decentralized nature of systems and system components, or error-prone manual processes resulted in inadequately designed and implemented or ineffectively operating controls. In some cases, cost-prohibitive options for vendor support has limited system development activity to “break/fix” and sustainment activities.

Effect: DHS management continued to recognize the need to upgrade its financial systems. Until serious legacy IT issues are addressed and updated IT solutions are implemented, compensating controls and other complex manual workarounds must support the DHS and Components' IT environment and financial reporting processes. As a result, DHS' difficulty attesting to a strong control environment, to include effective general IT controls and reliance on key financial systems, will likely continue.

The conditions supporting our findings collectively limit DHS' ability to process, store, and report financial data in a manner to ensure accuracy, confidentiality, integrity, and availability. Some of the weaknesses may result in material errors in DHS' financial data that are not detected in a timely manner through the normal course of business. In addition, because of the presence of IT control and financial system functionality weaknesses, there is added pressure on mitigating controls to operate effectively. Because mitigating controls were often more manually focused, there was an increased risk of human error that could materially affect the financial statements.

Recommendation: We recommend that the DHS Office of the Chief Financial Officer (OCFO), in coordination with the Office of the Chief Information Officer (OCIO) and Component management, continue the *Financial Systems Modernization* initiative, and make necessary improvements to the Department's and Components' financial management systems and supporting IT security controls. Specific, more detailed recommendations were provided in individual limited distribution (For Official Use Only) Notices of Findings and Recommendations (NFRs) and separate letters provided to DHS and Component management.

I-C Property, Plant, and Equipment (USCG, CBP, MGMT)

Background: DHS property, plant, and equipment is primarily concentrated in several large components. The Coast Guard maintained approximately 50 percent of all DHS general property, plant, and equipment.

In FY 2014, the Coast Guard substantially completed remaining remediation activities that were not completed in prior years. However, due to the continued remediation in FY 2014, most of the conditions cited below have been repeated from our FY 2013 report.

CBP continued to enhance controls and to perform remediation to address deficiencies in the timely recording of capitalized costs and in the classification of property, plant, and equipment between construction in progress and “in-use.” However, several of the conditions were repeated from our FY 2013 report.

	2014	2013	2012
USCG			
CBP			
ICE	C	**	
MGMT	**	**	C
*** See Comment I-A <i>Financial Reporting</i>			
See page I.1 for table explanation			

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MGMT acquired a substantial amount of assets in recent years through the construction and development of its headquarters campus and leasehold improvements. Control deficiencies affecting property, plant, and equipment were financial reporting in nature and have been grouped with conditions cited at Comment I-A, *Financial Reporting*.

ICE remediated their property, plant, and equipment control deficiencies in FY 2014.

Conditions: We noted the following internal control weaknesses related to property, plant, and equipment at Coast Guard and CBP:

1. Coast Guard did not:
 - Design and implement controls to appropriately track asset activity at a transaction level and ensure the timely recording of asset additions, deletions, or other adjustments.
 - Implement sufficient internal controls and related processes to support interim property, plant, and equipment balances and activity, including the identification and timely recording of leasehold improvements, asset impairments, and construction in progress activity.
 - Transfer completed assets from construction in progress to in-use assets in a timely manner.
 - Adhere to established inventory policies and procedures, such as those regarding asset identification, system mapping, and tagging processes, to clearly differentiate and accurately track personal property assets in the fixed assets system.
 - Identify and evaluate all lease agreements to ensure that they were appropriately categorized as operating or capital and properly reported in the financial statements and related disclosures.
 - Fully design and implement policies and procedures to support the completeness, accuracy, and existence of all data utilized (e.g., real property multi-use assets) in developing required financial statement disclosures, and related supplementary information, for stewardship property.
2. CBP did not:
 - Consistently adhere to policies and procedures to timely account for asset purchases, construction, depreciation, or disposal of assets in a timely manner. For example, CBP did not:
 - Ensure all asset additions were recorded completely, accurately, and timely in the financial statements;
 - Transfer certain completed assets from construction in progress to in-use assets in a timely manner; and
 - Record some asset disposals timely and in accordance with policy.

Cause/Effect: The Coast Guard continued remediation over property, plant, and equipment balances in FY 2014. These remediation efforts, coupled with a deficient number of skilled resources, have hindered progress over development and implementation of robust internal control over property, plant, and equipment. Additionally, the Coast Guard did not properly assess the risk related to current year impacts of remediation when designing and executing their remediation plan. This resulted in difficulties in distinguishing remediation activity from FY 2014 activity inhibiting adequate reviews of activity for reasonableness and alignment with current year business events.

Personnel within CBP's highly dispersed operations did not consistently adhere to established policies and procedures for recording property, plant, and equipment costs. In addition, CBP did not have sufficient oversight, including monitoring controls over ongoing construction in progress projects, to ensure that all property, plant, and equipment transactions were recorded timely and accurately in the general ledger.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria*, after Exhibit III.

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Exhibit I – Material Weaknesses**

Recommendations: We recommend that:

1. Coast Guard:
 - a. Design and implement controls to appropriately track asset activity at a transaction level and ensure the timely recording of asset additions, deletions, or other adjustments;
 - b. Continue to implement controls over the transfer of completed construction in progress assets to in-use and accurately recording leasehold improvements, asset impairments, and construction in progress activity;
 - c. Fully adhere to established inventory policies and procedures;
 - d. Establish new or improve existing policies, procedures, and related internal controls to sufficiently support personal and real property balances, including electronics, internal-use software, land, buildings and other structures;
 - e. Establish new, or improve existing, processes to identify and evaluate lease agreements to ensure they are appropriately classified as operating or capital, and are properly reported in the financial statements and related disclosures;
 - f. Identify and employ additional skilled resources; and
 - g. Develop and implement procedures to support the completeness, accuracy, and existence of all data utilized (e.g., real property multi-use assets) in developing required financial statement disclosures, and related supplementary information, for stewardship property.
2. CBP:
 - a. Reinforce existing policies and procedures for recording asset additions and reclassifications;
 - b. Modify existing policies and procedures to require formal authorization and documentation of all real property retirements; and
 - c. Continue to enhance supervisory review and monitoring controls to review property, plant, and equipment transactions in a timely manner.

I-D Budgetary Accounting (USCG, FEMA, ICE, MGMT, NPPD)

Background: The Department continued to implement corrective action plans during FY 2014; however deficiencies still remain. The Coast Guard, Federal Emergency Management Agency (FEMA), and ICE continued to implement and improve policies and procedures associated with budgetary accounting processes in FY 2014; however, some control deficiencies reported in FY 2013 remain.

MGMT was responsible for the operations and financial oversight of several programs including the DHS Working Capital Fund. The Working Capital Fund provided shared services to DHS agencies. Control deficiencies affecting budgetary accounting were similar to the deficiencies noted in the overall financial reporting process cited at Comment I-A, *Financial Reporting*.

NPPD had deficiencies in budgetary accounting. The root cause of the deficiencies noted were similar to those noted at Comment I-A, *Financial Reporting*.

Conditions: We noted the following internal control weaknesses related to budgetary accounting at Coast Guard, FEMA, ICE, MGMT, and NPPD. In addition, we noted weaknesses related to budgetary accounting at other components such as untimely de-obligation of undelivered orders, and inaccurate recording of unfilled customer orders; however, these deficiencies did not warrant individual reporting.

	2014	2013	2012
USCG			
FEMA			
ICE			
MGMT			
NPPD			N/A
FLETC	C	C	
See page I.I for table explanation			

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Exhibit I – Material Weaknesses

1. Coast Guard:
 - Controls to ensure the timely de-obligation of undelivered orders were not operating effectively.
 - Controls over contract management were not operating effectively to ensure modifications to extend contract period of performance were processed timely and appropriate documentation was maintained to support activity recorded against undelivered orders.
2. FEMA:
 - Controls were not operating effectively over obligations, de-obligations, and payments.
 - Controls over the review of budgetary funding transactions recorded in the general ledger were not operating effectively.
 - Control over the monthly reconciliations of the SF-132, *Apportionment and Reapportionment Schedule*, to the SF-133, *Report on Budget Execution and Budgetary Resources* were not operating effectively.
3. ICE:
 - Controls were not operating effectively to ensure obligations, recoveries and expense transactions were timely and appropriately recorded in the general ledger.
 - Controls were not operating effectively to ensure obligation activity was supported by appropriate supporting documentation.
 - Lacked IT system controls to ensure expenditures were within budgetary limits, which also impacted internal controls of other IT system users such as NPPD and MGMT.
 - Controls over the review of open obligations were not fully effective to ensure all contracts were appropriately assessed for validity prior to period end.
4. MGMT:
 - Controls over budgetary accounting including timely recording of obligations, de-obligations and expenses were ineffective.
 - Controls were not fully effective to ensure funds were appropriately presented as either available or unavailable in the financial statements.
 - Lacked controls to properly identify and report all possible instances of non-compliance with laws and regulations.
5. NPPD:
 - Lacked controls to ensure apportionments transactions were timely and accurately recorded in the general ledger and to ensure the accurate reporting of funds as either available or unavailable in the financial statements.
 - Controls were not operating effectively to ensure budgetary transactions were supported by appropriate documentation.
 - Controls over budgetary accounting were not operating effectively, including timely recording of obligations, de-obligations, recoveries, and expenses.

Cause/Effect: The Coast Guard's decentralized structure enabled obligations to be made throughout the country by various authorized personnel and contributed to the challenge of enforcing existing policies, procedures, and internal controls surrounding budgetary accounting. Additionally, financial system functionality issues prohibited the Coast Guard from implementing and maintaining automated internal controls to supplement their existing manual controls. Also see Comment **I-B, Information Technology**

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Exhibit I – Material Weaknesses

Controls and Financial System Functionality. Weak controls in budgetary accounting increase the risk that the Coast Guard will misstate budgetary balances, and may lead to unintentional violation of the *Anti-deficiency Act* by overspending its budget authority.

FEMA's existing IT systems were not effective in facilitating a network of strong internal controls. See Comment I-B, *Information Technology Controls and Financial System Functionality*. We noted that for certain undelivered order balances, significant effort was required to coordinate and identify the responsible parties, to access certain files, locate files, or to provide information in a form that clearly supported the balances reported in the financial statements. In addition, FEMA personnel have not fully adhered to the existing procedures for the recording of funding transactions due to lack of oversight by management. As a result, FEMA's financial information submitted to DHS for financial statement purposes may contain budgetary account errors. Currently, FEMA does not have effective monitoring controls to ensure that the monthly review of the SF-132 to SF-133 reconciliation identifies and properly remediates all variances within established timeframes. These deficiencies could cause the current status of FEMA funds to be incorrectly reported.

ICE's budget processes, including obligation and funds management, were impacted by the government shutdown and continuing resolution which occurred during the first quarter of FY 2014, which made it difficult for ICE to ensure that funding existed, and was maintained through the entire period of performance, before receipt of goods and services. Without adequate funds management, ICE may unintentionally violate the *Anti-deficiency Act* by overspending its budget authority. Also see Comment I-B, *Information Technology Controls and Financial System Functionality*.

NPPD and MGMT use the same IT systems as ICE, and therefore similar IT systems functionality issues also affected NPPD and MGMT. In addition, NPPD and MGMT did not fully implement policies and procedures over obligations and funds management processes.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria*, after Exhibit III.

Recommendations: We recommend that:

1. Coast Guard:
 - a. Adhere to existing policies and procedures related to processing obligation transactions and the periodic review and validation of undelivered orders. In particular, emphasize the importance of performing effective reviews of open obligations, obtaining proper approvals, and retaining supporting documentation.
2. FEMA:
 - a. Implement proper monitoring controls to ensure the enforcement of existing policies that require timely review and approval for all undelivered order activities;
 - b. Implement improved review procedures for budgetary funding transactions recorded in the general ledger including properly training personnel, conducting regular quality control reviews, and performing reconciliations between the budgetary and general ledger systems; and
 - c. Develop and implement monitoring controls to ensure that management reviews of the monthly SF-132 to SF-133 reconciliations are completed timely and effectively.
3. ICE:
 - a. Improve processes with program offices to ensure the timely recording of obligations, expenses and recoveries;
 - b. Improve the process of recording recoveries and upward adjustments of prior year obligations, including identification and adjustment for offsetting transactions;
 - c. Improve processes over non-contract obligations to ensure sufficient supporting documentation is maintained to support transactions recorded in the general ledger; and

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- d. Improve process over the validation of obligations to ensure sufficient time is available for all contracts to be reviewed prior to period-end.
- 4. MGMT:
 - a. Develop and implement improved controls over budgetary accounting to ensure timely recording of obligations and timely de-obligations of invalid obligations;
 - b. Improve processes over recording of apportionment transactions to ensure funding is properly presented as available or unavailable in the financial statements; and
 - c. Develop and implement controls to ensure all possible instances of non-compliance with laws and regulations are reported to the appropriate individuals and investigated timely.
- 5. NPPD:
 - a. Improve the processes of recording apportionments to ensure amounts recorded in the general ledger do not exceed the approved SF-132;
 - b. Improve processes over non-contract obligations to ensure sufficient supporting documentation is maintained to support transactions recorded in the general ledger;
 - c. Improve processes with program offices to ensure the timely recording of obligations; and
 - d. Improve controls over identification and processing of contracts for close-out to ensure outstanding obligations that need to be closed out are processed timely and the funds de-obligated.

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Exhibit II – Significant Deficiencies

II-E Entity-Level Controls (Department-wide)

Background: Entity-level controls encompass the overall control environment throughout the entity. This includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance, and management concerning the entity's internal control and its importance in the entity. Entity-level controls are often categorized as environmental controls, risk assessment, monitoring and information and communications, as defined by the *Committee of Sponsoring Organizations of the Treadway Commission (COSO)* (1992 and 2013 versions), and the Government Accountability Office (GAO). These controls must be effective, to create and sustain an organizational structure that is conducive to reliable financial reporting.

The Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, (OMB Circular No. A-123) assessment is also designed to assist with management's evaluation of control effectiveness and the remediation of control deficiencies, in accordance with an OMB approved plan.

The conditions below should be read in conjunction with Comment I-A, *Financial Reporting*.

Conditions and Recommendations:

During our audit we noted certain control deficiencies, and underlying causes that were similar and pervasive throughout the Department. The resulting recommendations, to correct the deficiencies, are based on improvements in management's risk assessments, monitoring activities, and communications throughout the Department and components; including – control categories beyond process-level controls. Accordingly, the entity-level control deficiencies described below apply to the Department as a whole.

Risk Assessments: The Department and its components have not fully developed their risk assessment processes. As a result, events and transactions that have a greater likelihood of error are not always receiving an appropriate level of attention. Risk assessments should be improved at both the Department level by OCFO, and individual components annually, and updated during the year as needed.

The Department made some progress in this area in FY 2014 with the issuance of new and updated financial management policies and procedures, in addition to conducting monthly leadership meetings to address audit risks and ensure resources were committed to critical control deficiency remediation efforts. However, opportunities for improvement still exist. Examples of areas that should be addressed annually and updated periodically in the risk assessment are:

- Needs for technical and resource support to remediate severe control deficiencies and other areas where material financial statement errors could occur and not be identified and corrected timely.
- Training needs assessments for personnel to match skills with roles and responsibilities, and identify gaps that could lead to financial statement error.
- Smaller components that do not have the resources to fully support a separate financial management infrastructure should work with the Department to identify financial accounting and reporting risks, and close control deficiencies.
- Identification of financial accounts and transactions that are susceptible to error due to weaknesses in IT general controls and IT systems functionality (e.g., limitations in budgetary subsidiary IT systems). See Comment I-B, *Information Technology Controls and Financial System Functionality*.

Independent Auditors' Report
Exhibit II – Significant Deficiencies

Communications and Information: Communications between the Department and components should be improved to ensure:

- Understanding of roles and responsibilities between components and shared services providers (e.g., between ICE and NPPD and MGMT).
- Roles and responsibilities of program and field personnel that provide key financial information are fully defined and that those personnel understand and comply with policies.

Monitoring Controls: The Department and each component should design monitoring controls around its annual risk assessment to ensure transactions with higher risk of error are adequately monitored. Components with effective detective monitoring controls should look for opportunities to implement more reliable controls earlier in the process to prevent errors at the transaction source. In addition, detective controls intended to compensate or mitigate weak preventive or process-level controls (e.g., management review controls of the financial statements), are not always designed at a level of precision to identify a significant error. Consequently, errors or a combination of errors in the financial statements could go undetected.

Related to IT, controls to monitor compliance with requirements for security awareness training and role-based training for personnel with significant information security responsibilities were not always consistently implemented, and documentation of individuals subject to role-based training requirements was sometimes incomplete. Additionally, required background investigations were not consistently completed prior to granting access to key financial systems.

The Department's control environment, including executive level support for strong internal controls, continued progress in remediation of control deficiencies, and progress in resolving financial IT systems weaknesses will be critical to sustaining auditable financial statements in the future. These conditions were further evidenced through control deficiencies cited at Comment I-A, *Financial Reporting*.

Cause/Effect: Is described within the *Conditions and Recommendations* above.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria*, after Exhibit III.

II-F Grants Management (FEMA only)

Background: Within the Department, FEMA was the primary grant-making component of DHS, managing multiple Federal disaster and non-disaster grant programs.

Conditions: The following previously reported internal control weaknesses related to grants management remain in the current year.

FEMA:

- Did not compile a complete list of grantees requiring single audits to fully comply with the *Single Audit Act Amendments of 1996 (Single Audit Act)* and related OMB Circular No. A-133, *Audits of States, Local Governments, and Nonprofit Organizations* (OMB Circular A-133). See Comment IV-I, *Single Audit Act Amendments of 1996*.
- Did not issue Management Decision Letters timely for OMB Circular A-133 audit reports available in the Federal Audit Clearinghouse.
- Did not maintain accurate and timely documentation related to reviews performed of grantees' OMB Circular A-133 audit reports.

	2014	2013	2012
FEMA			
See page I.1 for table explanation			

Independent Auditors' Report
Exhibit II – Significant Deficiencies

- Did not consistently follow-up with grantees who failed to submit quarterly financial reports timely.
- Did not consistently and effectively reconcile grantee quarterly financial reports to FEMA systems.
- Did not have a consistent, entity wide, process in place to effectively monitor the amount of cash on hand at FEMA grantees.
- Did not have a process in place to create and track comprehensive lists of FEMA grants that were eligible for close-out.

Cause/Effect: FEMA had not fully implemented policies and procedures over its grant program in order to ensure compliance with the *Single Audit Act* and OMB Circular A-133. In addition, FEMA did not have a grants IT system in place to efficiently and comprehensively track grants to help ensure that all programmatic events were accurately and timely completed. Manual processes that were not always effective were used to track grants that were eligible for close-out. See Comment I-B, *Information Technology Controls and Financial System Functionality*. FEMA had not implemented effective monitoring procedures over certain grant activities. As a result, misreported grantee expenses may not be detected, which may impact the fair presentation of FEMA's grant accrual balances, undelivered orders, and expenses. Further, the diversity of grant programs and systems within FEMA caused difficulty in assembling a comprehensive status of the cash on hand at grantees and the status of grants eligible for close-out, which could result in excessive cash on hand at grantees, untimely closure of grants, and an overstatement of undelivered orders.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria*, after Exhibit III.

Recommendations: We recommend that FEMA:

1. Complete the implementation of policies and procedures to ensure full compliance with the *Single Audit Act* and the related OMB Circular No. A-133 related to receipt and review of grantees' single audit reports;
2. Implement monitoring procedures over obtaining, timely reviewing, and reconciling required quarterly grantee reports;
3. Improve existing procedures to ensure cash on hand analyses are completed consistently and correctly for all FEMA grantees;
4. Develop and implement procedures to create and track comprehensive lists of FEMA grants that are eligible for close-out; and
5. Implement a continuous quality assurance and grants monitoring process to include review of corrective actions resulting from implementation of the recommendations in 1 - 4 above.

II-G Custodial Revenue and Drawback (CBP Only)

Background: The Department collected approximately \$39 billion in annual import duties, taxes, and fees on merchandise arriving in the United States from foreign countries (identified below as the Entry Process). Receipts of import duties and related refunds were presented in the statement of custodial activity in the DHS financial statements. CBP is the primary collector of these revenues within the Department.

	2014	2013	2012
CBP			
See page I.1 for table explanation			

Independent Auditors' Report
Exhibit II – Significant Deficiencies

Drawback is a remittance, in whole or in part, of duties, taxes, or fees previously paid by an importer. Drawback typically occurs when the imported goods on which duties, taxes, or fees have been previously paid, are subsequently exported from the United States or destroyed prior to entering the commerce of the United States.

Our findings over the Entry Process include conditions identified in In-bond, Bonded Warehouses (BWs) and Foreign Trade Zones (FTZs). In-bond entries occur when merchandise is transported through one port; however, the merchandise does not officially enter U.S. commerce until it reaches the intended port of destination. Bonded Warehouses are facilities, under the joint supervision of CBP and the BW Proprietor, used to store merchandise that has not made entry into the U.S. commerce. FTZs are secured areas under CBP supervision that are used to manufacture goods that are considered outside of the U.S. commerce for duty collection.

The conditions cited below have existed for several years. Management has stated that the timeframe for remediation of these conditions is dependent on funding for IT system upgrades and new system implementation.

In September of FY 2012, CBP deployed the In-Bond Compliance Module, which was intended to create a more effective in-bond monitoring system. However, during the FY 2013 and 2014 audit, we identified deficiencies in the design of controls, limitations in the functionality of the module, and inconsistencies in the ports' implementation of the processes. These deficiencies continued to limit CBP's ability to monitor the in-bond process, both at the Headquarters and port levels.

Conditions: We noted the following internal control weaknesses related to custodial activities at CBP:

Related to Drawback:

- CBP's current entry/collections system lacked the controls necessary to prevent, or detect and correct excessive drawback claims. The programming logic did not link drawback claims to imports at a detailed level. In addition, the system did not have the capability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries and export documentation upon which the drawback claim is based. Further, the system had not been configured to restrict drawback claims to 99 percent of each entry summary.
- Drawback review policies did not require drawback specialists to review all, or a statistically valid sample, of prior drawback claims against a selected import entry to determine whether, in the aggregate, an excessive amount was claimed against import entries.
- Documentation retention periods were not appropriate to ensure that support for drawback transactions were maintained for the full claim time-period.
- The automated control designed to prevent a claimant from exceeding the continuous bond amount on file does not operate effectively and no manual procedures exist to ensure the sufficiency of continuous bonds.
- Controls over the review of refunds prior to disbursement, were not operating effectively.

Related to the Entry Process:

- During the audit period, CBP modified its controls and revised policies and procedures over the In-Bond process. These modified controls did not operate effectively. Specifically, the system for tracking compliance exams and audits lacks sufficient reporting capabilities. Furthermore, personnel were unable to generate complete and accurate listings of completed in-bond compliance exams and audits. Additionally, port personnel did not have sufficient training or a clear understanding of the system, which resulted in inconsistent implementation.

Independent Auditors' Report
Exhibit II – Significant Deficiencies

- CBP did not formally analyze the rate and types of violations found to determine the effectiveness of the in-bond program. In addition, CBP did not identify a projected total amount of uncollected duties and fees on in-bond merchandise that has physically entered U.S. commerce without formal entry to ensure there was not a potentially significant loss of revenue.
- CBP headquarters had developed national databases which contain an inventory of all BWs and FTZs; however, these databases were not designed to document the assessed risk of each BW or FTZ, scheduled compliance review, or the results of compliance reviews. CBP was unable to verify the results of all compliance reviews in order to determine overall program effectiveness and deficiencies in the operating effectiveness of monitoring controls at the port level were noted.
- CBP did not have sufficient monitoring controls in place to evaluate the sufficiency of entry bonds. CBP had not developed revised policies and procedures over the monitoring of single transaction bonds. As a result, single transaction bonds were not subject to review.
- CBP did not consistently adhere to existing policies and procedures for review, and verification of Entry Edit/Exception reports.

Cause/Effect: IT system functionality and outdated IT systems contribute to the weaknesses identified above. See Comment I-B, *Information Technology Controls and Financial System Functionality*. For example, CBP could not perform a comprehensive analysis to determine the overall compliance rate of the in-bond program. For drawback, much of the process is manual until IT system functionality improvements are made, placing an added burden on limited resources. In addition CBP is pursuing changes to statutes, which govern the drawback process, to further reduce the need for manual controls.

The length of the drawback claim lifecycle often extends beyond the documentation retention period, which is set by statute. The system used to support the in-bond compliance exam and audit function lacks sufficient retention capabilities, resulting in discrepancies between reports. Further, CBP did not effectively communicate the modified control processes and did not provide sufficient training to port personnel. The inability to effectively and fully monitor the in-bond process and to verify the arrival of in-bond merchandise at the ports could lead to loss of revenue due to uncollected duties and fees on in-bond merchandise that has physically entered U.S. commerce without formal entry and increases the risk of non-compliance with Title 19, Section 18 of the Code of Federal Regulation.

Policies and procedures over the review of single transaction bonds, review of various reports, and completion of Compliance Reviews were not consistently followed.

CBP did not have the ability to perform a complete analysis over the effectiveness of the BW and FTZ programs. CBP headquarters cannot effectively monitor the BW and FTZ programs if it cannot identify a complete population of all BWs and FTZs. Further, improper monitoring of BWs or FTZs creates a risk that imported goods awaiting entry into commerce may not be secure, and could result in a loss of revenue, error to the balance taxes, duties and trade receivables, and increases the risk of non-compliance with Title 19, Section 18 of the Code of Federal Regulation.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria*, after Exhibit III.

Recommendations: We recommend that CBP:

1. *Related to Drawback:*
 - a. Continue to pursue compensating controls and measures that may ultimately identify the potential revenue loss exposure to CBP. These compensating controls over drawback claims may lead to the ability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries and export documentation for which the drawback claim is based, and identify duplicate or excessive drawback claims;

Independent Auditors' Report
Exhibit II – Significant Deficiencies

- b. Develop and implement automated controls, where feasible, to prevent overpayment of a drawback claim; and
 - c. Continue to analyze current policies and procedures performed at the Drawback Centers. Determine the benefit of current procedures and revise as necessary.
2. *Related to the Entry Process:*
- a. Redistribute guidance to necessary personnel regarding the appropriate CBP Directives that communicated the steps required for completing control procedures;
 - b. Develop policies and procedures, and provide training to port-level personnel related to the In-Bond Compliance Module;
 - c. Address limitations in reporting capabilities within the In-Bond Compliance Module;
 - d. Provide oversight and assistance at the headquarters-level to ensure that port personnel are following procedures, and monitor and review the in-bond process to ensure a high in-bond compliance rate;
 - e. Develop procedures to evaluate the completeness of the compliance review results submitted to CBP headquarters;
 - f. Continue to strengthen monitoring efforts related to bond sufficiency; and
 - g. Increase monitoring over the BW and FTZ compliance review program by developing a method to determine the program's overall effectiveness.

II.6

Independent Auditors' Report
Exhibit III – Compliance and Other Matters

All of the compliance and other matters described below are repeat conditions from FY 2013.

III-H Federal Managers' Financial Integrity Act of 1982 (FMFIA)

DHS' implementation of OMB Circular No. A-123 facilitates compliance with the FMFIA. The *DHS Financial Accountability Act* of 2004 requires DHS to obtain an annual audit opinion of internal control over financial reporting. DHS has implemented a Multi-Year Plan to achieve full assurance on internal controls. However, in some instances, DHS does not perform tests of design or tests of operating effectiveness until the fiscal year after the process area under remediation is corrected instead of during the fiscal year remediation occurs. The *DHS Secretary's Assurance Statement* dated November 13, 2014, as presented in *Management's Discussion and Analysis* of the Department's 2014 *Agency Financial Report* (AFR), acknowledged the existence of material weaknesses, and therefore provided qualified assurance that internal control over financial reporting was operating effectively as of September 30, 2014. Management's findings were similar to the control deficiencies we have described in Exhibits I and II.

While we noted the Department had taken positive steps toward full compliance with FMFIA, OMB Circular No. A-123, and the *DHS Financial Accountability Act* of 2004, the Department had not fully established effective systems, processes, policies, and procedures to ensure and test that internal controls are operating effectively throughout the Department.

Recommendation: We recommend that the Department continue its corrective actions to address internal control deficiencies, in order to ensure full compliance with FMFIA and its OMB Circular No. A-123 approved plan in FY 2015. We also recommend that the Department conduct timely validation and verification procedures to demonstrate remediation in the fiscal year in which remediation occurred.

III-I Single Audit Act Amendments of 1996 (Single Audit)

FEMA is the only DHS component that has a significant grant making operation. The *Single Audit Act Amendments of 1996*, as implemented by OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires agencies awarding grants to monitor their grantees, ensure they receive grantee reports timely, and follow-up on Single Audit findings to ensure that grantees take appropriate and timely action. Although FEMA had implemented a system to monitor grantees and their audit findings, FEMA did not fully comply with provisions in OMB Circular No. A-133 in FY 2014. We noted that FEMA's monitoring efforts were inconsistent, and FEMA did not obtain and review all grantee *Single Audit* reports in a timely manner.

Recommendation: We recommend that FEMA implement the recommendations in Comment II-G, *Grants Management*.

III-J Anti-deficiency Act (ADA)

Various management reviews and investigations are on-going within the Department and its components that may identify ADA violations, as follows:

- In response to a FY 2007 GAO report, the DHS OIG conducted a review of the NPPD legacy organization for FY 2006, and found that it violated the ADA with respect to the use of shared services. DHS formally notified the President, Congress, and GAO of the 2006 violation in FY 2014.
- Per the DHS OIG report and recommendations for the FY 2006 shared services violation, NPPD completed a review of FY 2007, FY 2008, FY 2009, and FY 2010 Management and Administration appropriation obligations for any potential shared service appropriation violations.

Independent Auditors' Report
Exhibit III – Compliance and Other Matters

NPPD is in the process of investigating a potential violation for one transaction related to shared services in FY 2007.

- The independent investigation, at Intelligence and Analysis, related to the obligation of funds in excess of its continuing resolution apportionment in FY 2012 has been completed. The package to notify the President, Congress, and GAO of the violation is under review.
- In FY 2014, investigations related to two potential ADA violations at Coast Guard were completed. One potential violation is related to the partial termination of a contract modification funded through an appropriation other than the original appropriation used to obligate the delivery order and the other potential violation is related to the potential use of an incorrect appropriation to pay for an in-scope contract modification.
- The Department is investigating a potential ADA violation related to incorrect use of funds received from components for services.
- ICE is investigating a potential ADA violation related to payments for the room, board, treatment, and medication of aliens with mental health conditions following their release from ICE custody.
- The Management Directorate is researching a potential violation related to an overobligation of funds that occurred in FY 2013.
- In FY 2013, the Department submitted notification packages related to two separate violations, at the Coast Guard, to the President. One violation related to funds that may have been used in advance of an approved apportionment from OMB, and one related to improper execution of the obligation and disbursement of funds for the lease of passenger vehicles.
- In FY 2013, the Department submitted a notification package related to an ADA violation at the Management Directorate; the violation related to rental charges at the Office of the Federal Coordinator for Gulf Coast Rebuilding incurred in FY 2009 that were not properly committed or obligated.

Recommendation: We recommend that the Department and the other components complete the internal reviews currently planned or being performed, and properly report the results in compliance with the ADA, where necessary.

III-K Federal Financial Management Improvement Act of 1996 (FFMIA)

FFMIA Section 803(a) requires that agency Federal financial management systems comply with (1) applicable Federal accounting standards; (2) Federal financial management system requirements; and (3) the United States Government Standard General Ledger (USSGL) at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability.

We noted that the Department overall has taken positive steps toward compliance with FFMIA and remediated some of the conditions identified in the prior year. However, the following components did not fully comply with at least one of the requirements of FFMIA: the Coast Guard, U.S. Customs and Border Protection, FEMA, U.S. Immigration and Customs Enforcement, and U.S. Secret Service. The reasons for noncompliance are reported in Exhibits I and II. The Secretary of DHS has stated in the Secretary's Assurance Statement dated November 13, 2014, that the Department's financial management systems do not substantially conform to government wide requirements mandated by FFMIA. The Department's remedial actions and related timeframes are also presented in the FY 2014 AFR.

Independent Auditors' Report
Exhibit III – Compliance and Other Matters

An element within FFMIA, Federal system requirements, is ensuring security over financial management information. This element is addressed further in the *Federal Information Security Management Act of 2002* (FISMA), which was enacted as part of the *E-Government Act of 2002*. FISMA requires the head of each agency to be responsible for (1) providing information security protections commensurate with the risk and magnitude of the harm resulting from unauthorized access, use, disclosure, disruption, modification, or destruction of (i) information collected or maintained and (ii) information systems used or operated; (2) complying with the requirements of the Act and related policies, procedures, standards, and guidelines, including (i) information security standards under the United States Code, Title 40, Section 11331, and (ii) information security standards and guidelines for national security systems; and (3) ensuring that information security management processes are integrated with agency strategic and operational planning processes.

We also noted weaknesses in financial systems security, reported by us in Comment **I-B**, *Information Technology Controls and Financial System Functionality*, which impact the Department's ability to fully comply with FISMA.

Recommendation: We recommend that DHS improve its financial management systems to ensure compliance with the FFMIA, and implement the recommendations provided in Exhibits I and II in FY 2014.

Independent Auditors' Report
Index of Financial Reporting and Internal Control Criteria
(Listed Alphabetically by Criteria Source)

Criteria	Reference	Report Exhibit
AU Section 342, <i>Auditing Accounting Estimates</i>	Section 342.03 Section 340.05 through 340.06	I-A
AU Section 350, <i>Audit Sampling</i>	Sections 350.23	I-A
<i>Bonded Warehouse Manual for Customs and Border Protection Officers and Bonded Warehouse Proprietors</i> (HB 3500-11, January 2012)	Part 1.1	II-G
CBP <i>2013 Drawback Handbook</i> , Issued (HB 3700-01B, February 2013)	5.2 <i>Accelerated Payment</i>	II-G
CBP <i>Business Rules and Process Documents (Internal) Version 3.3</i>	6.1 <i>Single Transaction Bonds</i>	II-G
CBP <i>Compliance Review Handbook for Bonded Warehouses</i> (HB 3500-09, December 2007)		II-G
CBP <i>Compliance Review Handbook for Foreign Trade Zones</i> (HB 3500-10, July 2008)	<i>Risk Assessments</i> (1)(2)(3)	II-G
CBP Directive 3710-004B, <i>Refund of Miscellaneous Collections</i>	Section 2.2, Section 5.7.1 Section 6.1	II-G
CBP Directive 5320-028D, <i>Commitment, Obligation, Expenditure, and Payment Procedures for Goods and Services</i>	Section 7.5.1	I-C
CBP Directive 5610-004B, <i>Resolving Certain ACS Exception and Error Reports</i>	Section 5.4.2 Section 5.5.2 Section 5.6.2 Section 5.11.2	II-G
CBP Directive 5610-006A, <i>Entry Deletion and Entry or Entry Summary Cancellation</i>	Section 1	II-G
CBP <i>Information Systems Security Policies and Procedures Handbook 1400-05D</i> , Version 4.0	Section 4.1.5.c	II-E
CBP <i>Office of Field Operations' Guide for In-Bond Cargo</i> , Version 1.0, March 31, 2006	<i>In-Bond Exams and Audits</i>	II-G
CBP's <i>Personal Property Handbook, HB 5200-13B</i>	Chapter 8	I-C
CIS HB 2100-05A, <i>Records Control Handbook</i>	Section B	II-G
Code of Federal Regulations, Title 19	§18.2, §18.6, §18.8, §19.4, §111.23, §111.25, §113.13, §113.15, §113.26, §113.65, §146.3, §163.4, §191.15, §191.38, §191.51, §191.92	II-G
Code of Federal Regulations, Title 31	§205.33	II-F
<i>Component Requirements Guide for Financial Reporting in FY 2014</i> , Version 2.0, June 2014	Section 3.1 Section 8.12 Section 8.16 Section 9.9 Section 9.10 Section 10.1	I-A
	Section 9.9	I-C
	Section 8.12 Section 8.16	I-D
<i>Debt Collection Improvement Act of 1996</i>	Section 3B	I-A
DHS Instruction 121-01-007, <i>Personnel Suitability and Security Program</i> , June 2009	- Chapter 2, Section 3.E - Appendix B	II-E

Criteria.1

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Index of Financial Reporting and Internal Control Criteria
(Listed Alphabetically by Criteria Source)

Criteria	Reference	Report Exhibit
DHS Sensitive Systems Policy Directive 4300A, Version 11.0	Section 4.1	II-E
<i>Exemption of Classes of Debts from Mandatory Referral To Treasury, Procedures and Standards</i> , January 2001	Section II	I-A
FASAB Technical Release 14: <i>Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment</i>	Paragraph 10 Paragraph A7	I-C
Federal Acquisition Regulation (FAR)	§4.801, §4.802	I-B
Federal Emergency Management Agency Directives Management System, <i>SF 132/SF 133 Reconciliation Standard Operating Procedures</i> , July 2014	VIII. Responsibilities IX. Standard Operating Procedures	I-D
<i>Federal Financial Management Improvement Act of 1996</i>	Section 803	I-A, I-B, I-C
<i>Federal Managers Financial Integrity Act of 1982</i>	Section 2	I-A, I-B, I-C, I-D, II-G
Federal Travel Regulation (FTR)	§301-2.1	I-A
FEMA Budget Planning Analysis Division's <i>Funds Loading Standard Operating Procedures</i>	Section B Section D	I-D
FEMA Corrective Actions SOP, January 2014	Section 3	I-B
FEMA Directive 112-12: <i>Policy, Directive and Doctrine Process Guidance</i>	Section III.B.3 Section IV.A.6	I-B
<i>Financial Resource Management Manual (FRMM COMDTINST M7100.3E)</i> , September 2013	Section 7.9 Section 10.2 Section 10.3	I-A, I-C
<i>FY 2011 Financial Management Codes</i> , January 27, 2011	Chapter 4, BOC 2589	I-D
GAO / President's Council on Integrity & Efficiency <i>Financial Audit Manual</i> (GAO-08-585G)	Section 480.07 Section 480.11 Section 480.16	I-A
GAO <i>FINANCIAL MANAGEMENT FFMLA Implementation Critical for Federal Accountability</i> (GAO-02-29)	Page 1, Paragraph 2	I-A, I-B, I-C
GAO <i>Framework for Federal Financial Management System Checklist Systems Reviewed Under the Federal Financial Management Improvement Act of 1996 (AIMD-98-21.2.1)</i>	Requirements Checklist Item Number 39	I-A
GAO's <i>Standards for Internal Control in the Federal Government</i>	Control Activities	I-A, I-B, I-D, II-F
	Definition and Objectives	I-A
	Examples of Control Activities (Accurate and Timely Recording of Transactions and Events)	I-A, I-D, II-F
	Examples of Control Activities (Appropriate Documentation of Transactions and Internal Control)	I-A, I-B, I-D, II-E
	Examples of Control Activities (Proper Execution of Transactions and Events)	I-D
	Presentation of the Standards	I-A
Grants Programs Directorate, <i>FY 2014 FEMA Monitoring Plan</i> , Updated December 3, 2013	Section 4.3	I-B

Criteria.2

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Criteria	Reference	Report Exhibit
Interpretation of Federal Financial Accounting Standards 7: <i>Items Held for Remanufacture</i>	Paragraphs 7 and 8	I-A, I-B
Memorandum: <i>In-Bond Compliance Module Deployment</i>		II-G
National Institute of Standards and Technology Special Publication 800-53 Revision 4, <i>Security and Privacy Controls for Federal Information Systems and Organizations</i>	Appendix F: AT-2, AT-3, AT-4, SA-3	II-E
Office of Personnel Management, Benefits Administration Letter, Number: 14-304	14-304 - Fiscal Year 2014 Cost Factors for Calculating Imputed Costs	I-A
OMB Circular No. A-11, <i>Preparation, Submission, and Execution of the Budget</i> , July 2014	Section I	I-A
	Section 20.5 Appendix F	I-A, I-D
	Appendix G	I-B, I-D
	Section I 20.50	I-D
OMB Circular No. A-123, <i>Management's Responsibility for Internal Control</i> , Revised	I. Purpose	I-G
	3. Policy	I-A, I-C, II-G
	I. Introduction	I-A, I-B, I-C, I-D, II-G
	II. Standards	I-B, I-D, II-G
	III. Integrated Internal Control Framework	I-D
	IV. Assessing Internal Control	II-G
Appendix D	I-A, I-B, I-C	
OMB Circular No. A-130, <i>Management of Federal Information Resources</i> , Revised	Appendix III, Section 3	II-E
OMB Circular No. A-133, <i>Revised to show changes published in the Federal Registers of June 27, 2003 and June 26, 2007 Audits of States, Local Governments, and Non-Profit Organizations</i>	Subparts B, D	II-F
OMB Circular No. A-136, <i>Financial Reporting Requirements</i> , Revised	Section V.2 and V.3	I-A
<i>Single Audit Act Amendments of 1996</i>	Section 7502	II-F
Statement of Federal Financial Accounting Standards 1: <i>Accounting for Selected Assets and Liabilities</i>	Paragraphs 39, 41, 45, 77	I-A
Statement of Federal Financial Accounting Standards 5: <i>Accounting for Liabilities of The Federal Government</i>	Paragraph 19	I-A
Statement of Federal Financial Accounting Standards 6: <i>Accounting for Property, Plant, and Equipment</i>	Paragraphs 17, 18, 26, 34, 35, 39, 40	I-A
	Paragraphs 17, 18, 26, 34, 35, 38, 39, 40	I-C
Statement of Federal Financial Accounting Standards 7: <i>Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting</i>	Paragraph 78	I-A
Statement of Federal Financial Accounting Standards 10: <i>Accounting for Internal Use Software</i>	Paragraphs 16, 18, 20	I-A

Criteria 3

Independent Auditors' Report
Index of Financial Reporting and Internal Control Criteria
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Criteria	Reference	Report Exhibit
Statement of Federal Financial Accounting Standards 29: <i>Heritage Assets and Stewardship Land</i>	Summary	I-A, I-C
Statement of Federal Financial Accounting Standards 35: <i>Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23</i>	SFFAS 6 - Paragraph 40 SFFAS 23 - Paragraph 16 SFFAS 23 - Paragraph 12	I-A, I-C
Statement of Federal Financial Accounting Standards 42: <i>Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32</i>	Paragraph 7	I-A, I-C
Treasury Financial Manual, Volume I	- Part 2, Chapter 4700, Section 4706.25 - Part 2, Chapter 4700, Appendix 10 - Part 2, Chapter 5100, Appendix 2 - Fund Balance With Treasury Reconciliation Procedures: A Supplement to TFM Volume I, Part 2, Chapter 5100, Section V	I-A
U.S. Department of Homeland Security Federal Emergency Management Agency Grant Programs Directorate Regional Coordination and Oversight Branch, <i>Cash Analysis Reporting SOP</i> , February 2014	Appendix C	II-F
United States Coast Guard <i>Environmental Liabilities Process Guide</i>	Section 2.5.2	I-A
United States Coast Guard <i>Finance Center Standard Operating Procedures</i>	Chapter 12, Section A	I-A
United States Coast Guard, NPFC, <i>Case Management Division Standard Operating Procedures, CM SOP Appendix</i> , NPFCINST M16451.23A	Chapter 7, Section I	I-A
United States Coast Guard <i>Procedures for Physical Inventory and Year-End Certification of Capitalized Personal Property</i>	Section 1.3 Section 5.5 through 5.7	I-A, I-C
US Code Title 31, Chapter 15	§1501, §1554	I-A, I-D
US Government Standard General Ledger <i>Chart of Accounts, Treasury Financial Manual</i> , Fiscal Year 2014 Reporting Supplement	Part 1, Section 1	I-A

Criteria 4

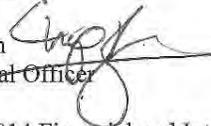
U.S. Department of Homeland Security
Washington, DC 20528



**Homeland
Security**

November 13, 2014

MEMORANDUM FOR: John Roth
Inspector General

FROM: Chip Fulghum 
Chief Financial Officer

SUBJECT: Fiscal Year 2014 Financial and Internal Controls Audit

Thank you for your audit report on the Department's financial statements and internal controls over financial reporting for fiscal years (FY) 2013 and 2014. We agree with the Independent Public Accountant's conclusions. Although the report indicates that DHS still faces financial management challenges, the auditor noted the Department's continuing progress in improving the quality and reliability of our financial reporting. During FY 2014, our Components continued to implement corrective actions to significantly improve key financial management and internal control areas, while sustaining our unmodified audit opinion on all financial statements.

We are already focusing our efforts on remediating the remaining issues in FY 2015 as we pursue our goals of obtaining an unqualified audit opinion on our internal controls over financial reporting. As we continue our steadfast progress, I look forward to working with the Office of Inspector General and the Independent Public Accountant.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix A

Management Comments to the Report

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



**Homeland
Security**

November 13, 2014

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Inspector General

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OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B

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