Financial Information

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

Message from the Chief Financial Officer

November 14, 2017

I am honored to join Acting Secretary Elaine Duke in presenting the Agency Financial Report (AFR) for Fiscal Year (FY) 2017.

The AFR is our Department's principal statement of accountability to the American people, the United States Congress, and the President of the United States. Our Department's commitment to transparency and accountability continues to be absolute, as is evidenced in the Department earning its fifth consecutive unmodified (clean) audit opinion on our financial statements for FY 2017.

DHS is the only agency in the Federal Government required to obtain an opinion on internal control over financial reporting. We are continuing to mature and strengthen our internal controls, as evidenced by our progress in remediating our material weaknesses. Despite complex operational missions, diverse processes and legacy systems across the Department, we have implemented enterprise-wide strategies to standardize controls over our financial and related data. With the strategic focus of all of our Components, and notably the U.S. Coast Guard, this year DHS was successful in achieving a downgrade of our property material weakness. We will be leveraging our multi-year strategy and past successes, along with unified prioritization and collaboration across the Department, to address the two remaining material weaknesses in financial reporting and information technology in order to achieve an unmodified internal control opinion.

Whether sustaining a clean opinion on our financial statements or improving internal controls, the value of transparent and accurate financial reporting cannot be stressed enough. In fact, DHS takes very seriously its responsibility to the American people to secure their confidence that their dollars are properly accounted for in support of securing and protecting resources to protect their homeland.

We look forward to continuing our successes and rising to the challenges that the DHS financial management community is happy to accept, year after year, because we are committed to doing things better.

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

Sincerely,

Stacy Marcott
Acting 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. KPMG LLP performed the audit of the Department's principal financial statements. The Independent Auditors' Report accompanies the principal financial statements.

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

- The Consolidated **Balance Sheets** present those resources owned or managed by the Department of Homeland Security that represent future economic benefits (assets), amounts owed by DHS that will require payments from those resources or future resources (liabilities), and residual amounts retained by DHS comprising the difference (net position) as of September 30, 2017 and 2016.

- The Consolidated **Statements of Net Cost** present the net cost of DHS operations for the fiscal years that ended on September 30, 2017 and 2016. DHS net cost of operations is the gross cost incurred by DHS less any exchange revenue earned from DHS activities and any gains or losses from assumption changes on pensions, other retirement benefits (ORB), and other post-employment benefits (OPEB).

- The Consolidated **Statements of Changes in Net Position** present the change in the Department's net position resulting from the net cost of DHS operations, budgetary financing sources, and other financing sources for the fiscal years that ended on September 30, 2017 and 2016.

- The Combined **Statements of Budgetary Resources** present how and in what amounts budgetary resources were made available to the Department during fiscal years 2017 and 2016, the status of these resources at September 30, 2017 and 2016, the changes in the obligated balance, and outlays of budgetary resources for the fiscal years that ended on September 30, 2017 and 2016.

- The Consolidated **Statements of Custodial Activity** present the disposition of custodial revenue collected and disbursed by the Department on behalf of other recipient entities for the fiscal years that ended on September 30, 2017 and 2016.

- The **Notes to the Financial Statements** provide detail and clarification for amounts on the face of the financial statements as of September 30, 2017 and 2016.

Financial Statements

Department of Homeland Security
Consolidated Balance Sheets
As of September 30, 2017 and 2016
(In Millions)

	2017	2016
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$ 71,466	$ 58,997
Investments, Net (Note 5)	7,614	8,060
Accounts Receivable (Note 6)	317	290
Other (Note 13)	1,003	543
Total Intragovernmental	**$ 80,400**	**$ 67,890**
Cash and Other Monetary Assets (Note 4)	308	193
Accounts Receivable, Net (Note 6)	3,405	2,629
Taxes, Duties, and Trade Receivables, Net (Note 7)	2,980	3,042
Direct Loans, Net (Note 8)	33	29
Inventory and Related Property, Net (Note 9)	2,008	1,936
General Property, Plant, and Equipment, Net (Note 11)	21,887	21,220
Other (Note 13)	690	691
TOTAL ASSETS	**$ 111,711**	**$ 97,630**
Stewardship Property, Plant, and Equipment (Note 12)		
LIABILITIES (Note 14)		
Intragovernmental		
Accounts Payable	$ 2,018	$ 1,827
Debt (Note 15)	30,440	23,017
Other (Note 18)		
Due to the General Fund	3,020	3,098
Accrued FECA Liability	407	402
Other	507	495
Total Intragovernmental	**$ 36,392**	**$ 28,839**
Accounts Payable	2,260	2,041
Federal Employee and Veterans' Benefits (Note 16)	58,715	58,028
Environmental and Disposal Liabilities (Note 17)	437	454
Other (Notes 18, 19, 20, and 21)		
Accrued Payroll and Benefits	2,276	2,114
Deferred Revenue and Advances from Others	5,799	3,795
Insurance Liabilities	12,331	3,196
Refunds and Drawbacks	202	190
Other	3,081	2,853
Total Liabilities	**$ 121,493**	**$ 101,510**
Commitments and Contingencies (Note 21)		

(Continued)

Department of Homeland Security
Consolidated Balance Sheets
As of September 30, 2017 and 2016
(In Millions)

	2017	2016
NET POSITION		
Unexpended Appropriations		
Unexpended Appropriations-Other Funds (Combined)	$ 50,872	$ 45,027
Cumulative Results of Operations		
Cumulative Results of Operations-Funds from Dedicated Collections (Note 22) (Combined)	(25,315)	(13,840)
Cumulative Results of Operations-Other Funds (Combined)	(35,339)	(35,067)
Total Net Position	**$ (9,782)**	**$ (3,880)**
TOTAL LIABILITIES AND NET POSITION	**$ 111,711**	**$ 97,630**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statement of Net Cost
For the Years Ended September 30, 2017 and 2016
(In Millions)

Major Missions (Note 23)	**2017**	**2016**
Foster a Safe and Secure Homeland		
Gross Cost	$ 35,195	$ 35,061
Less Earned Revenue	(5,653)	(5,909)
Net Cost	**29,542**	**29,152**
Enforce and Administer Our Immigration Laws		
Gross Cost	11,601	11,133
Less Earned Revenue	(3,108)	(3,923)
Net Cost	**8,493**	**7,210**
Strengthen National Preparedness and Resilience		
Gross Cost	29,478	19,304
Less Earned Revenue	(4,434)	(4,553)
Net Cost	**25,044**	**14,751**
Mature and Strengthen Homeland Security		
Gross Cost	4,409	3,906
Less Earned Revenue	(591)	(114)
Net Cost	**3,818**	**3,792**
Total Department of Homeland Security		
Gross Cost	80,683	69,404
Less Earned Revenue	(13,786)	(14,499)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	66,897	54,905
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes (Note 16)	(494)	234
NET COST OF OPERATIONS	**$ 66,403**	**$ 55,139**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2017
(In Millions)

	2017			
	Combined Funds from Dedicated Collections	Combined All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations				
Beginning Balances	$ (13,840)	$ (35,067)	$ -	$ (48,907)
Budgetary Financing Sources				
Appropriations Used	-	49,368	-	49,368
Non-exchange Revenue	2,468	1	-	2,469
Donations and Forfeitures of Cash and Cash Equivalents	4	-	-	4
Transfers In/(Out) without Reimbursement	(3,457)	3,036	-	(421)
Other Financing Sources				
Donations and Forfeitures of Property	-	20	-	20
Transfers In/(Out) without Reimbursement	(89)	155	-	66
Imputed Financing	176	1,175	157	1,194
Other	3,334	(1,378)	-	1,956
Total Financing Sources	2,436	52,377	157	54,656
Net Cost of Operations	(13,911)	(52,649)	(157)	(66,403)
Net Change	(11,475)	(272)	-	(11,747)
Cumulative Results of Operations	**(25,315)**	**(35,339)**	**-**	**(60,654)**
Unexpended Appropriations				
Beginning Balance	-	45,027	-	45,027
Budgetary Financing Sources				
Appropriations Received	-	57,168	-	57,168
Appropriations Transferred In/(Out)	-	(9)	-	(9)
Other Adjustments	-	(1,946)	-	(1,946)
Appropriations Used	-	(49,368)	-	(49,368)
Total Budgetary Financing Sources	-	5,845	-	5,845
Total Unexpended Appropriations	**-**	**50,872**	**-**	**50,872**
NET POSITION	**$ (25,315)**	**$ 15,533**	**$ -**	**$ (9,782)**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2016
(In Millions)

	2016			
	Combined Funds from Dedicated Collections	Combined All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations				
Beginning Balances	$ (13,577)	$ (33,973)	$ -	$ (47,550)
Budgetary Financing Sources				
Appropriations Used	-	47,247	-	47,247
Non-exchange Revenue	3,293	2	-	3,295
Donations and Forfeitures of Cash and Cash Equivalents	1	-	-	1
Transfers In/(Out) without Reimbursement	(3,358)	3,457	-	99
Other Financing Sources				
Donations and Forfeitures of Property	-	1	-	1
Transfers In/(Out) without Reimbursement	(105)	104	-	(1)
Imputed Financing	175	1,340	182	1,333
Other	3,211	(1,404)	-	1,807
Total Financing Sources	3,217	50,747	182	53,782
Net Cost of Operations	(3,480)	(51,841)	(182)	(55,139)
Net Change	(263)	(1,094)	-	(1,357)
Cumulative Results of Operations	**(13,840)**	**(35,067)**	**-**	**(48,907)**
Unexpended Appropriations				
Beginning Balances	-	46,485	-	46,485
Budgetary Financing Sources				
Appropriations Received	-	48,577	-	48,577
Appropriations Transferred In/(Out)	-	(659)	-	(659)
Other Adjustments	-	(2,129)	-	(2,129)
Appropriations Used	-	(47,247)	-	(47,247)
Total Budgetary Financing Sources	-	(1,458)	-	(1,458)
Total Unexpended Appropriations	**-**	**45,027**	**-**	**(45,027)**
NET POSITION	**$ (13,840)**	**$ 9,960**	**$ -**	**$ (3,880)**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2017 and 2016
(In Millions)

	2017		2016	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES				
Unobligated Balance Brought Forward, October 1	$ 13,456	$ 22	$ 16,169	$ 53
Recoveries of Prior Year Unpaid Obligations	2,433	15	2,531	13
Other Changes in Unobligated Balance	(584)	(1)	(652)	(1)
Unobligated Balance from Prior Year Budget Authority, Net	15,305	36	18,048	65
Appropriations	68,224	-	58,644	-
Borrowing Authority (Note 25)	7,425	2	-	1
Spending Authority from Offsetting Collections	10,971	-	11,366	(11)
TOTAL BUDGETARY RESOURCES	**$ 101,925**	**$ 38**	**$ 88,058**	**$ 55**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (Note 24)	$ 81,858	$ 29	$ 74,602	$ 33
Unobligated Balance, End Of Year				
Apportioned, Unexpired	16,587	9	10,263	22
Exempt from Apportionment, Unexpired	2	-	2	-
Unapportioned, Unexpired	1,857	-	1,538	-
Unexpired Unobligated Balance, End of Year	18,446	9	11,803	22
Expired Unobligated Balance, End of Year	1,621	-	1,653	-
Total Unobligated Balance, End of Year	20,067	9	13,456	22
TOTAL BUDGETARY RESOURCES	**$ 101,925**	**$ 38**	**$ 88,058**	**$ 55**
CHANGE IN OBLIGATED BALANCE				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 46,261	$ 67	$ 43,759	$ 83
New Obligations and Upward Adjustments	81,858	29	74,602	33
Outlays, Gross	(75,160)	(25)	(69,559)	(36)
Actual Transfers, Unpaid Obligations, Net	(10)	-	(10)	-
Recoveries of Prior Year Unpaid Obligations	(2,433)	(15)	(2,531)	(13)
Unpaid Obligations, End of Year	50,516	56	46,261	67
Uncollected Payments:				
Uncollected Customer Payments From Federal Sources, Brought Forward, October 1	(2,480)	(62)	(2,707)	(76)
Change in Uncollected Customer Payments from Federal Sources	289	10	227	14
Uncollected Customer Payments from Federal Sources, End of Year	(2,191)	(52)	(2,480)	(62)

(Continued)

Department of Homeland Security
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2017 and 2016
(In Millions)

	2017		2016	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Obligated Balance, Start of Year, Net	**$ 43,781**	**$ 5**	**$ 41,052**	**$ 7**
Obligated Balance, End of Year, Net	**$ 48,325**	**$ 4**	**$ 43,781**	**$ 5**
BUDGET AUTHORITY AND OUTLAYS, NET				
Budget Authority, Gross	$ 86,620	$ 2	$ 70,010	$ (10)
Actual Offsetting Collections	(11,346)	(14)	(11,731)	(8)
Change in Uncollected Customer Payments from Federal Sources	289	10	227	14
Recoveries of Prior Year Paid Obligations	79	-	144	-
Budget Authority, Net	**$ 75,642**	**$ (2)**	**$ 58,650**	**$ (4)**
Outlays, Gross	$ 75,160	$ 25	$ 69,559	$ 36
Actual Offsetting Collections	(11,346)	(14)	(11,731)	(8)
Outlays, Net	63,814	11	57,828	28
Distributed Offsetting Receipts	(11,611)	-	(10,911)	-
Agency Outlays, Net	**$ 52,203**	**$ 11**	**$ 46,917**	**$ 28**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statements of Custodial Activity
For the Years Ended September 30, 2017 and 2016
(In Millions)

	2017	2016
Revenue Activity (Note 29)		
Sources of Cash Collections:		
Duties	$ 34,835	$ 35,142
User Fees	1,504	1,402
Excise Taxes	3,631	3,430
Fines and Penalties	97	65
Interest	23	22
Miscellaneous	186	195
Total Cash Collections	40,276	40,256
Accrual Adjustments, Net	(78)	(181)
Total Custodial Revenue	**40,198**	**40,075**
Disposition of Collections		
Transferred to Federal Entities:		
U.S. Department of Agriculture	10,681	10,733
Treasury General Fund Accounts	26,192	26,169
U.S. Army Corps of Engineers	1,388	1,310
Other Federal Agencies	44	40
Transferred to Non-Federal Entities	136	87
(Increase)/Decrease in Amounts Yet to be Transferred	(66)	(131)
Refunds and Drawbacks (Notes 18 and 29)	1,823	1,867
Total Disposition of Custodial Revenue	**40,198**	**40,075**
Net Custodial Activity	**$ -**	**$ -**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Table of Contents for Notes to the Financial Statements

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Department was established by the Homeland Security Act of 2002 (Pub. L. 107-296), dated November 25, 2002, as an executive department of the U.S. Federal Government. The Department leads efforts to achieve a safe, secure, and resilient homeland by countering terrorism and enhancing our security; securing and managing our borders; enforcing and administering our immigration laws; protecting our cybernetworks and critical infrastructure; and ensuring resilience from disasters. In addition, the Department contributes in many ways to elements of broader United States national and economic security while also working to mature and strengthen the Department and the homeland security enterprise. The Department includes the following financial reporting Components[1]:

- **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 Center (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 (OPS)
- **U.S. Secret Service (USSS)**
- **Science and Technology Directorate (S&T)**
- **Transportation Security Administration (TSA)**

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.

---

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

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.

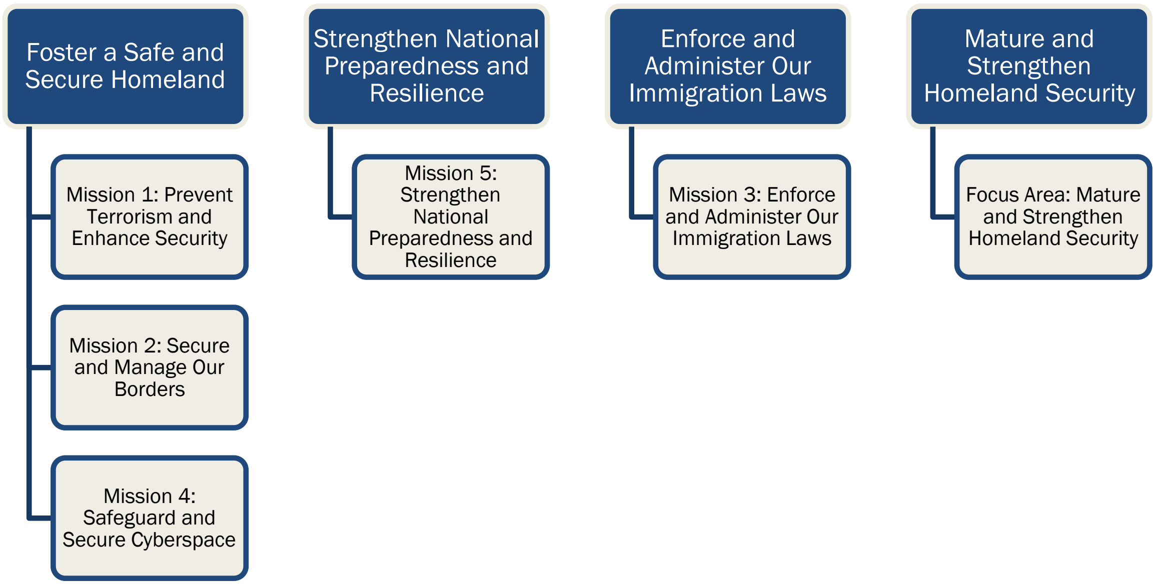
Transactions and balances among the Department's Components have been eliminated in the consolidated presentation of the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and the Statements of Custodial Activity. Intradepartmental activity reported in a fund from dedicated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

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

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

The Department presents its Statements of Net Cost by grouping the missions and focus area described in the DHS strategic plan into four major missions. The consolidation of the missions and focus area(s) 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 Department is presenting its Statements of Net Cost and related footnotes aligned to the DHS FY 2014-2018 Strategic Plan.

The following diagram shows the relationship between the Department's missions and the focus area described in the DHS FY 2014-2018 Strategic Plan and the four major missions used to present the Statements 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 recognized when earned, and expenses are recognized when a liability is incurred, regardless of when cash is exchanged. Budgetary accounting facilitates compliance with legal constraints and the controls over the use of federal funds. The balances and activity of budgetary accounts are used to prepare the Statements of Budgetary Resources. The Statements of Custodial Activity are reported using the modified cash basis. With this 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, claims and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include: the year-end accruals of accounts and grants payable; environmental liabilities; deferred revenue; National Flood Insurance Program (NFIP) insurance liability; actuarial liabilities related to workers' compensation; and actuarial liabilities related to military and other pension, retirement, and post-retirement benefits.

E. Entity and Non-Entity Assets

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

Non-entity assets are assets held by the Department but not available for use by the Department. An example of a non-entity asset is the portion of Fund Balance with Treasury

that consists of special and deposit funds, permanent appropriations, and miscellaneous receipts. Non-entity assets are offset by corresponding liabilities.

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

F. Fund Balance with Treasury

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

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

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

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

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

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

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

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

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

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

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

M. Seized and Forfeited Property

Seized property falls into two categories: nonprohibited and prohibited.

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

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

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

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

N. General Property, Plant, and Equipment, Net

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

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

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

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

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

The Department begins to recognize depreciation expense once the asset has been placed in service. Depreciation is calculated on a straight-line method for all asset classes over their estimated useful lives. 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 are maintained by the USCG, CBP, USCIS, TSA, FEMA, S&T, USSS, FLETC, and ICE.

These heritage assets consist of documents, historical artifacts, immigration and naturalization files, artwork, buildings, and structures. The cost of improving, reconstructing, or renovating heritage assets is recognized as an expense in the period incurred. Similarly, the cost to acquire or construct a heritage asset is recognized as an expense in the period incurred. 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 depreciated and included in general PP&E on the Balance Sheet. The Department depreciates its multi-use heritage assets over their useful life. The Department's multi-use heritage assets consist of buildings and structures, memorials, and recreation areas owned by CBP, USCG, FEMA, and ICE.

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 or other instances where its sovereign immunity has been waived (e.g., refund statutes).

Q. Contingent Liabilities

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

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

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

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

costs of decommissioning the Department's existing and future vessels are considered cleanup costs.

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

R. Liabilities for Grants and Cooperative Agreements

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

S. Insurance Liabilities

Insurance liabilities are primarily the result of the Department's sale or continuation-in-force of flood insurance policies within the NFIP, which is managed by FEMA. The NFIP insurance liability represents an estimate based on the loss and loss adjustment expense factors inherent to the NFIP Insurance Underwriting Operations, including trends in claim severity and frequency. These estimates are routinely reviewed, and adjustments are made as deemed necessary. The estimate is driven primarily by flooding activity in the U.S. and can vary significantly year over year depending on timing and severity of flooding activity.

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

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

For additional information, see Note 18, Other Liabilities, and Note 20, Insurance Liabilities.

T. Debt and Borrowing Authority

Debt is reported within Intragovernmental Liabilities and results from Treasury loans and related interest payable to fund NFIP and Disaster Assistance Direct Loan Program (DADLP) operations of FEMA. Most of this debt is not covered by current budgetary resources. Premiums collected by FEMA for the NFIP based on subsidized rates are not sufficient to cover the debt repayments (see Note 1.S, Insurance Liabilities); therefore, FEMA does not anticipate repaying the debt.

Borrowing authority, to the extent of existing obligations, is in budgetary status for use by FEMA for insurance claims and community disaster loans (CDLs). Borrowing authority is converted to cash and transferred to the Fund Balance with Treasury when needed for these purposes.

For more information, see Note 15, Debt, and Note 25, Available Borrowing Authority.

U. Accrued Payroll and Benefits

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

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

***Federal Employees Compensation Act*.** The *Federal Employees Compensation Act* (FECA) (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 Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

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

The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a component of federal employee and veterans' benefits. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL determines the actuarial FECA liability annually, as of September 30, using an actuarial method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value using the OMB

economic assumptions for 10-year Treasury notes and bonds. The actuarial FECA liability is not covered by budgetary resources and will require future funding.

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

V. Federal Employee and Veterans' Benefits

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

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

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

Under the National Defense Authorization Act for FY 2016 (Pub. L. 114-92), members entering service after December 31, 2017 will be enrolled in the new modernized retirement system, also referred to as the Blended Retirement System (BRS). BRS changes the pension formula by reducing the percentage per year of service, and entitles members to Thrift Savings Plan contributions, as well as additional compensation in exchange for a commitment for additional years of service (after serving for 12 years). Members who joined USCG after January 1, 2006, and reservists with fewer than 4,320 points on December 31, 2017, may choose either BRS or the legacy retirement system.

Military Health System. There are two categories of military healthcare benefits, but only one generates a liability for the USCG retirees and beneficiaries. The first category of military healthcare liability is for the Medicare-eligible USCG military retirees and beneficiaries. The Department of Defense (DOD) is the administrative entity for the Medicare-Eligible Retiree

Health Care Fund (MERHCF) and, in accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, is required to recognize the liability on the MERHCF's financial statements. The USCG makes annual payments to fund benefits for the current active duty members and their spouses who will receive benefits when they reach Medicare-eligibility. The USCG receives per-member amounts (reserve and active duty member amounts separately) to be contributed to the MERHCF from the DOD Board of Actuaries office and pays its share, depending on its demography. Because the DOD reports the entire liability for MERHCF, USCG is only responsible for the annual per-member amounts.

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

The discount rates used to measure the MRS and MHS actuarial liabilities for USCG are based on the 10-year average historical rates of return on marketable Treasury securities at September 30. 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.

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

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

Civilian Pension, Other Retirement Benefits, and Other Post-Employment Benefits. The Department recognizes the full annual cost of its civilian employees' pension benefits; however, the assets of the plan and liability associated with pension costs are recognized by OPM rather than the Department. Accordingly, the Department does not display gains and

losses from changes in long-term assumptions used to measure these liabilities on the Statement of Net Cost.

Most DHS employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which the Department contributes 7 percent of base pay for regular CSRS employees and 7.5 percent of base pay for law enforcement agents. FERS and Social Security cover the majority of employees hired after December 31, 1983. Employees hired between January 1, 1984 and December 31, 2012 are covered by the FERS basic annuity benefit. For the FERS basic annuity benefit, the Department contributes 13.7 percent of base pay for regular FERS employees and 30.1 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 11.9 percent of base pay for regular FERS employees and 28.4 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.

W. Funds from Dedicated Collections

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

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

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

X. Revenue and Financing Sources

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

The Department also has permanent indefinite appropriations that result from permanent public laws, which authorize the Department to retain certain receipts. The amount appropriated depends upon the amount of the receipts rather than on a specific amount.

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. Prior to FY 2016, the Department received allocation transfers from the U.S. Department of Transportation. 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 Treasury as a subset of the parent (transferring) 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 (receiving) 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 statutory authority, appropriations, and budget apportionments are derived.

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

results from the government's sovereign power to demand revenue and is recognized as earned. Examples of non-exchange revenue from user fees include the collection of fees by CBP on incoming private vessels, private aircraft, and commercial vehicles. Non-exchange revenue also arises from transfers-in with and without financing sources and donations from the public. Other financing sources, such as donations and transfers of assets without reimbursements, are recognized on the Statements of Changes in Net Position during the period in which the donations and transfers occurred.

Deferred revenue is recorded when the Department receives payment for goods or services which have not been fully rendered. Deferred revenue is reported as a liability on the Balance Sheet until earned. 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.

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

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

CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. The custodial revenue is recorded at the time of collection. These revenue collections primarily result from current fiscal year activities. CBP records an equal and offsetting liability due to the Treasury general fund for amounts recognized as non-entity tax and trade receivables. Non-entity tax and trade accounts receivables consist of duties, user fees, fines and penalties, refunds and drawbacks overpayments, and interest associated with import/export activity, that have been established as specifically identifiable, legally enforceable claims that remain uncollected as of year-end. CBP accrues an estimate of duties, taxes, and fees related to 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. Generally, a permanent, indefinite appropriation is used to fund the disbursement of refunds and drawbacks. Disbursements are recorded as a decrease in the amount transferred to federal entities as reported on the Statements of Custodial Activity. The liability for refunds and drawbacks consists of amounts owed for refunds of duty and other trade related activity and drawback claims. CBP accrues a monthly liability for refunds and drawback claims approved at month-end, but paid subsequent to month-end.

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

For additional information, see Note 7, Taxes, Duties, and Trade Receivables, Net, and Note 29, Custodial Revenue.

Y. Taxes

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

Z. Reclassifications

In FY 2017, certain FY 2016 balances were reclassified to conform to FY 2017 presentation for the following: Note 7, Taxes, Duties, and Trade Receivables.

2. Non-Entity Assets

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

	2017	2016
Intragovernmental:		
Fund Balance with Treasury	$ 2,075	$ 1,851
Accounts Receivable	1	1
Total Intragovernmental	2,076	1,852
Public:		
Cash and Other Monetary Assets	5	9
Accounts Receivable, Net	35	37
Taxes, Duties, and Trade Receivables, Net	2,980	3,042
Total Public	3,020	3,088
Total Non-Entity Assets	5,096	4,940
Total Entity Assets	106,615	92,690
Total Assets	**$ 111,711**	**$ 97,630**

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, 2017 and 2016. 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):

	2017	2016
General Funds	$ 55,928	$ 50,331
Trust Funds	233	256
Revolving, Public Enterprise, and Working Capital Funds	6,940	1,066
Special Funds	6,589	5,784
Deposit Funds	1,776	1,560
Total Fund Balance with Treasury	**$ 71,466**	**$ 58,997**

General funds consist of amounts appropriated annually by Congress to fund the operations of the Department. General funds include clearing funds totaling $(22) million and $(38) million at September 30, 2017 and 2016, respectively, which represent reconciling differences with Treasury balances. As of September 30, 2017 and 2016, restricted non-entity fund balance with Treasury was $2,075 million and $1,851 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. In addition, the Working Capital Fund is a fee-for-service fund established to support operations of Department Components.

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, National Flood Insurance Reserve Fund fees, 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 26, 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):

	2017	2016
Budgetary Status		
Unobligated Balances:		
Available	$ 16,598	$ 10,287
Unavailable	3,478	3,191
Obligated Balance Not Yet Disbursed	48,329	43,786
Total Budgetary Status	68,405	57,264
Reconciling Adjustments:		
Receipt, Clearing, and Deposit Funds	2,826	2,575
Borrowing Authority (Note 25)	(4)	(5)
Investments	(7,568)	(7,886)
Receivable Transfers and Imprest Fund	(308)	(289)
Authority Unavailable for Obligation	6,175	5,459
Offsetting Collections Previously or Temporarily Precluded from Obligation	33	35
SFRBTF; OSLTF	1,443	1,425
Temporary Reduction of Budget Authority	479	434
Temporary Reduction of Specific Invested Treasury Account Symbols	(15)	(15)
Total Fund Balance with Treasury	**$ 71,466**	**$ 58,997**

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

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

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, 2017 and 2016.

- 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.
- 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 statute may specify that obligations are not available until a specified time in the future or until specific legal requirements are met.
- Offsetting collections previously or temporarily precluded from obligation are offsetting collections that become unavailable for obligation until specific legal requirements are met.
- Sport Fish Restoration Boating Trust Fund (SFRBTF) and Oil Spill Liability Trust Fund (OSLTF) are Treasury-managed funds. These funds receive revenue transferred from custodial activities of the Treasury, which are deposited in a Treasury account. For more information, see Note 22, Funds from Dedicated Collections.
- Temporary reduction of budget authority includes new budget authority or prior-year balance that have been temporarily reduced by statute in special and nonrevolving trust funds associated with receipt accounts designated by the Treasury as available.
- Temporary reduction of specific invested Treasury account symbols includes reductions of amounts appropriated from specific invested Treasury account symbols in the current year due to OMB sequestered amounts.

4. Cash and Other Monetary Assets

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

	2017	2016
Total Cash and Other Monetary Assets	**$ 308**	**$ 193**

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 $5 million and $9 million at September 30, 2017 and 2016, respectively (see Note 2).

5. Investments, Net

Investments at September 30, 2017, 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	$ 5,672	$ (2)	$ 13	$ 5,683	N/A
SFRBTF	Effective interest method	1,922	1	5	1,928	N/A
General Gift Fund	Effective interest method	1	-	-	1	N/A
Total Nonmarketable, Par Value		7,595	(1)	18	7,612	N/A
Gifts and Donations Fund	Effective interest method	2	-	-	2	2
Total Nonmarketable, Market-Based		2	-	-	2	2
Total Investments, Net		**$ 7,597**	**$ (1)**	**$ 18**	**$ 7,614**	

Investments at September 30, 2016, 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	$ 4,950	$ 15	$ 8	$ 4,973	N/A
SFRBTF	Effective interest method	1,911	(2)	2	1,911	N/A
General Gift Fund	Effective interest method	1	-	-	1	N/A
Total Nonmarketable, Par Value		6,862	13	10	6,885	N/A
National Flood Insurance Reserve Fund	Effective interest method	1,039	120	16	1,175	1,162
Total Nonmarketable, Market-Based		1,039	120	16	1,175	1,162
Total Investments, Net		**$ 7,901**	**$ 133**	**$ 26**	**$ 8,060**	

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

The National Flood Insurance Reserve Fund was established by the Biggert-Waters Flood Insurance Reform Act of 2012 (Pub. L. 112-141) to meet the expected future obligations of the NFIP. Investments in the National Flood Insurance Reserve Fund were liquidated in December 2016 to pay for losses related to Hurricane Matthew. Additional funds were invested in June 2017, and then liquidated in September 2017 to pay for losses as a result of Hurricanes Harvey, Irma, and Maria.

The Gifts and Donations Fund at FEMA was established to help provide for disaster-related needs that have not or will not be met by governmental agencies or any other organization. Cora C. Brown of Kansas City, Missouri died in 1977, leaving a portion of her estate to the United States to be used as a special fund solely for the relief of human suffering caused by natural disasters.

Treasury securities provide the USCG and FEMA 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):

	2017	2016
Intragovernmental	$ 317	$ 290
With the Public:		
Accounts Receivable	3,484	2,713
Allowance for Doubtful Accounts	(79)	(84)
Total With the Public	3,405	2,629
Accounts Receivable, Net	**$ 3,722**	**$ 2,919**

As of September 30, 2017 and 2016, total restricted non-entity accounts receivable were $36 million and $38 million, respectively (see Note 2). Accounts receivable with the public at September 30, 2017 includes $1,042 million of anticipated collections based on FEMA's reinsurance agreements.

7. Taxes, Duties, and Trade Receivables, Net

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

As of September 30, 2017:	Gross Receivables	Allowance	Total Net Receivables
Duties	$ 2,702	$ (172)	$ 2,530
Excise Taxes	209	(10)	199
User Fees	78	(1)	77
Fines/Penalties	489	(446)	43
Antidumping and Countervailing Duties	2,629	(2,499)	130
Interest Receivable	1,187	(1,186)	1
Total Taxes, Duties, and Trade Receivables, Net	**$ 7,294**	**$ (4,314)**	**$ 2,980**

As of September 30, 2016:	Gross Receivables	Allowance	Total Net Receivables
Duties	$ 2,690	$ (134)	$ 2,556
Excise Taxes	197	(8)	189
User Fees	76	-	76
Fines/Penalties	545	(444)	101
Antidumping and Countervailing Duties	1,965	(1,848)	117
Interest Receivable	834	(831)	3
Total Taxes, Duties, and Trade Receivables, Net	**$ 6,307**	**$ (3,265)**	**$ 3,042**

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

When a violation of import/export law is discovered, a fine or penalty may be imposed. CBP assesses a liquidated damage or penalty for these cases to the maximum extent of the law. After receiving the notice of assessment, the importer, surety or other party has 60 days to either file a petition requesting a review of the assessment or pay the assessed amount. Once a petition is received, CBP investigates the circumstances as required by its mitigation guidelines and directives. Until this process has been completed, the Department records an allowance, net of interest, on fines and penalties, based on historical experience of fines and penalties mitigation and collection. The allowance was approximately 91 percent and 81 percent at September 30, 2017 and 2016, respectively. Duties and taxes receivables are non-entity assets for which there is an offsetting liability due to the general fund (see Note 18).

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

8. Direct Loans, Net

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

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

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

The CDLs are established at the current Treasury rate for a term of five years. A CDL has a maximum amount of $5 million. The CDL amount cannot exceed 25 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, if the local government meets the eligibility requirements in 44 CFR section 206.366, *Emergency and Management Assistance, Loan Cancellation*.

The exception is the special CDL for Hurricanes Katrina and Rita, where the interest rate on the loan is less than the Treasury rate, and the amount of the loan cannot exceed 50 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):

	2017	2016
	Loans Receivable, Net	Loans Receivable, Net
Community Disaster Loans	$ 33	$ 29

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):

Community Disaster Loans	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
2017	$ 117	$ 7	$ (91)	$ 33
2016	$ 133	$ 6	$ (110)	$ 29

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

	2017	2016
Community Disaster Loans	$ 10	$ 4

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

Subsidy Expense for New Direct Loans Disbursed as of September 30

Community Disaster Loans	Interest Differential	Other	Total
2017	$ -	$ 9	$ 9
2016	$ -	$ 3	$ 3

Direct Loan Modifications and Re-estimates

Community Disaster Loans	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
2017	$ -	$ -	$ (5)	$ (5)
2016	$ -	$ -	$ (14)	$ (14)

Total Direct Loan Subsidy Expense

	2017	2016
Community Disaster Loans	$ 4	$ (11)

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

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

	2017	2016
	Community Disaster Loans	Community Disaster Loans
Interest Subsidy Cost	2.62%	2.50%
Default Costs	0.17%	0.15%
Other	88.24%	88.40%

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):

	2017	2016
Beginning balance of the subsidy cost allowance	$ 110	$ 120
Add subsidy expense for direct loans disbursed during the reporting years by component:		
Other subsidy costs	9	3
Adjustments:		
Loans written off	(24)	-
Subsidy allowance amortization	1	1
Ending balance of the subsidy cost allowance before re-estimates	96	124
Add subsidy re-estimate by Component		
Technical/default re-estimate	(5)	(14)
Ending balance of the subsidy cost allowance	**$ 91**	**$ 110**

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

	2017	2016
Community Disaster Loans	**$ 1**	**$ -**

9. Inventory and Related Property, Net

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

	2017	2016
OM&S		
Items Held for Use	$ 1,333	$ 1,309
Items Held for Future Use	47	42
Items Held for Repair	856	775
Less: Allowance for Losses	(334)	(309)
Total OM&S, Net	1,902	1,817
Inventory		
Inventory Purchased for Resale	39	37
Less: Allowance for Losses	(7)	(7)
Total Inventory, Net	32	30
Stockpile Materials Held in Reserve	74	89
Total Inventory and Related Property, Net	**$ 2,008**	**$ 1,936**

10. Seized and Forfeited Property

Prohibited seized property item counts as of September 30 and seizure and forfeiture activity for FY 2017 and 2016 are as follows:

For the fiscal year Ended September 30, 2017:

Seized Property:	Beginning Balance	New Seizures	Remissions and Adjustments	New Forfeitures	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	219	508,557	262	(508,690)	348
Cocaine	102	36,392	(17)	(35,866)	611
Heroin	23	2,337	(20)	(2,317)	23
Methamphetamine	234	25,095	(27)	(25,063)	239
Khat	-	62,562	-	(62,562)	-
Synthetic Marijuana	9	13,150	1	(13,150)	10
Other Drugs	1,347	16,571	(2,949)	(12,392)	2,577
Firearms and Explosives (in number of case line items)	4,490	1,380	(3,689)	(1,058)	1,123
Counterfeit Currency (US/Foreign, in number of items)	7,670,139	2,401,790	(5,691,302)	-	4,380,627
Counterfeit Goods (in number of case line items)	33,110	71,840	(3,916)	(70,905)	30,129

Forfeited Property:	Beginning Balance	New Forfeitures	Transfers and Adjustments	Destroyed	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	140,599	508,690	(293,140)	(267,115)	89,034
Cocaine	31,551	35,866	(347)	(33,202)	33,868
Heroin	3,287	2,317	(90)	(2,091)	3,423
Methamphetamine	19,202	25,063	(1,674)	(16,428)	26,163
Khat	3,614	62,562	(30)	(63,890)	2,256
Synthetic Marijuana	10,004	13,150	(64)	(9,115)	13,975
Other Drugs	6,665	12,392	(3,300)	(9,066)	6,691
Firearms and Explosives (in number of case line items)	1,307	1,058	(1,123)	(2)	1,240
Counterfeit Goods (in number of case line items)	30,626	70,905	98	(75,482)	26,147

For the fiscal year Ended September 30, 2016:

Seized Property:	Beginning Balance	New Seizures	Remissions and Adjustments	New Forfeitures	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	1,316	772,329	1,011	(774,437)	219
Cocaine	412	30,701	(381)	(30,630)	102
Heroin	21	2,426	1	(2,425)	23
Methamphetamine	210	18,863	(8)	(18,831)	234
Khat	-	70,277	-	(70,277)	-
Synthetic Marijuana	269	719	(264)	(715)	9
Other Drugs	1,285	11,965	(94)	(11,809)	1,347
Firearms and Explosives (in number of case line items)	4,217	1,951	(360)	(1,318)	4,490
Counterfeit Currency (US/Foreign, in number of items)	7,125,874	3,009,701	(2,465,436)	-	7,670,139
Counterfeit Goods (in number of case line items)	33,212	66,879	(3,265)	(63,716)	33,110

Forfeited Property:	Beginning Balance	New Forfeitures	Transfers and Adjustments	Destroyed	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	145,112	774,437	(460,331)	(318,619)	140,599
Cocaine	25,037	30,630	(3,717)	(20,399)	31,551
Heroin	3,757	2,425	(466)	(2,429)	3,287
Methamphetamine	14,580	18,831	(1,004)	(13,205)	19,202
Khat	3,000	70,277	24	(69,687)	3,614
Synthetic Marijuana	10,273	715	99	(1,083)	10,004
Other Drugs	4,220	11,809	(550)	(8,814)	6,665
Firearms and Explosives (in number of case line items)	2,504	1,318	(2,507)	(8)	1,307
Counterfeit Goods (in number of case line items)	38,089	63,716	558	(71,737)	30,626

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 Treasury's forfeiture fund or other federal agencies.

Illegal drugs consist of tested and verified controlled substances as defined per the Controlled Substances Act. Illegal drugs are presented in kilograms, and a portion of the weight includes packaging, which often cannot be reasonably separated from the weight of the drugs since the

packaging must be maintained for evidentiary purposes. Other drugs include insignificant amounts of controlled substances that do not warrant being isolated to an individual category.

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

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

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

11. General Property, Plant, and Equipment, Net

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

As of September 30, 2017:	Useful Life	Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	$ 302	N/A	$ 302
Improvements to Land	2-50 yrs	2,340	956	1,384
Construction in Progress	N/A	3,076	N/A	3,076
Buildings, Other Structures and Facilities	10-50 yrs	8,407	4,210	4,197
Equipment:				
Information Technology Equipment	5 yrs	984	740	244
Aircraft	20 yrs	5,799	2,818	2,981
Vessels	5-30 yrs	9,063	3,898	5,165
Vehicles	5-15 yrs	1,020	864	156
Other Equipment	5 yrs	7,222	5,014	2,208
Assets Under Capital Lease	2-20 yrs	80	61	19
Leasehold Improvements	2-50 yrs	2,261	1,368	893
Internal Use Software	2-13 yrs	4,352	3,391	961
Internal Use Software - in Development	N/A	301	N/A	301
Total General Property, Plant, and Equipment, Net		**$ 45,207**	**$ 23,320**	**$ 21,887**

As of September 30, 2016:	Useful Life	Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	$ 295	N/A	$ 295
Improvements to Land	2-50 yrs	2,285	841	1,444
Construction in Progress	N/A	2,907	N/A	2,907
Buildings, Other Structures and Facilities	10-50 yrs	8,319	4,074	4,245
Equipment:				
Information Technology Equipment	5 yrs	1,027	756	271
Aircraft	20 yrs	5,623	2,680	2,943
Vessels	5-30 yrs	8,261	3,737	4,524
Vehicles	5-15 yrs	1,042	883	159
Other Equipment	5 yrs	7,185	4,871	2,314
Assets Under Capital Lease	2-20 yrs	80	57	23
Leasehold Improvements	2-50 yrs	2,104	1,162	942
Internal Use Software	2-13 yrs	4,281	3,262	1,019
Internal Use Software - in Development	N/A	134	N/A	134
Total General Property, Plant, and Equipment, Net		**$ 43,543**	**$ 22,323**	**$ 21,220**

12. Stewardship Property, Plant, and Equipment

DHS's Stewardship PP&E is comprised of items held by USCG, CBP, USCIS, TSA, FEMA, S&T, USSS, FLETC, and ICE. These heritage assets are located in the United States, and the Commonwealth of Puerto Rico. Collection-type heritage assets are presented in either number of collections or number of individual items, while non collection-type and multi-use heritage assets are presented in number of individual units. Heritage assets as of September 30 consisted of the following:

2017	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	2	-	-	2
Non Collection-type Assets				
USCG	73	-	(2)	71
S&T	1	-	-	1
FLETC	1	-	-	1
Multi-use Heritage Assets				
USCG	113	-	(8)	105
CBP	4	-	-	4
FEMA	1	-	-	1
ICE	-	1	-	1
Total Stewardship PP&E	**223**	**1**	**(10)**	**214**

2016	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	2	-	-	2
Non Collection-type Assets				
USCG	73	-	-	73
S&T	1	-	-	1
FLETC	-	1	-	1
Multi-use Heritage Assets				
USCG	117	-	(4)	113
CBP	4	-	-	4
FEMA	1	-	-	1
Total Stewardship PP&E	**226**	**1**	**(4)**	**223**

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

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

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

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

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

TSA collection-type heritage assets include six architectural or building artifacts, and five aviation security technology items. The architectural or building artifacts include a collection of concrete pieces that belonged to the western wall of the Pentagon, a collection of subway rails

from the Port Authority Trans-Hudson subway station located below the World Trade Center, and four individual 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 aviation security technology equipment that was used to screen the individuals who carried out the September 11, 2001 terrorist attacks. As the lead agency protecting the Nation's transportation systems to ensure freedom of movement for people and commerce, TSA uses this property for the purpose of educating individuals about its history, mission, values, and culture.

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

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

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

USCG non collection-type heritage assets include buildings, structures, sunken vessels, and aircraft. Buildings and structures such as lighthouses and monuments are classified as non collection-type heritage assets in accordance with SFFAS No. 29, *Heritage Assets and Stewardship Land*. Sunken vessels and aircraft are classified as 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.

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

FLETC non collection-type heritage assets consist of a memorial associated with the World Trade Center located in Glynco, Georgia. The memorial integrates a piece of steel from the World Trade Center's steel structure into the overall design. The memorial is the primary site

for student graduations from the FLETC, and also a venue for various special events, linking the FLETC mission and training efforts to this past tragedy.

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

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

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

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

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

13. Other Assets

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

	2017	2016
Intragovernmental:		
Advances and Prepayments	$ 1,003	$ 543
Total Intragovernmental	**1,003**	**543**
Public:		
Advances and Prepayments	688	690
Other Assets	2	1
Total Public	**690**	**691**
Total Other Assets	**$ 1,693**	**$ 1,234**

14. Liabilities Not Covered by Budgetary Resources

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

	2017	2016
Intragovernmental:		
Debt (Note 15)	$ 30,425	$ 23,000
Due to the General Fund (Note 18)	2,951	3,027
Accrued FECA Liability (Note 18)	407	402
Other	188	183
Total Intragovernmental	33,971	26,612
Public:		
Federal Employee and Veterans' Benefits:		
Actuarial FECA Liability (Note 16)	2,882	2,752
Military Service and Other Retirement Benefits (Note 16)	55,833	55,276
Environmental and Disposal Liabilities (Note 17)	435	452
Other:		
Accrued Payroll and Benefits (Note 18)	1,412	1,374
Contingent Legal Liabilities (Note 21)	471	365
Capital Lease Liability (Note 19)	27	31
Other	45	69
Total Public	61,105	60,319
Total Liabilities Not Covered by Budgetary Resources	95,076	86,931
Liabilities Covered by Budgetary Resources	26,417	14,579
Total Liabilities	**$ 121,493**	**$ 101,510**

The Department anticipates that the portion of the liabilities listed above will be funded from future budgetary resources when required, except for amounts 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 and activity for fiscal years ended FY 2017 and 2016 consisted of the following (in millions):

Debt to the Treasury General Fund:	2017	2016
NFIP:		
Beginning Balance	$ 23,000	$ 23,000
New Borrowing	7,425	-
Ending Balance	30,425	23,000
Credit Reform:		
Beginning Balance	17	20
New Borrowing	2	1
Repayments	(4)	(4)
Ending Balance	15	17
Total Debt	**$ 30,440**	**$ 23,017**

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

NFIP loans can have up to a 10-year term. Interest rates are obtained from Treasury and range by cohort year from 0.625 percent to 2.5 percent as of September 30, 2017, and from 0.375 percent to 2.5 percent as of September 30, 2016. Interest is paid semi-annually on March 31 and September 30. The total interest paid for the year was $394 million and $345 million as of September 30, 2017 and 2016, 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, FEMA does not anticipate repaying the debt. As a result of Hurricanes Harvey, Irma, and Maria, Congress enacted a supplemental appropriation for disaster relief on October 26, 2017. The Act directs Treasury to cancel $16,000 million of the $30,425 million debt of NFIP to Treasury. For additional information, see Note 31, Subsequent Events.

In accordance with the requirements established by the Biggert-Waters Flood Insurance Reform Act of 2012, FEMA reports on the status of the debt; interest paid since 2005, and principal repayments to OMB and Congress on a quarterly basis.

Under Credit Reform, the unsubsidized portion of direct loans is borrowed from Treasury. 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 Treasury. In addition, an annual re-estimate is performed to determine any change from the original subsidy rate. If an upward re-estimate is determined to be necessary, these funds are available through permanent indefinite authority, which is to be approved by OMB. Once these

funds are appropriated, the original borrowings are repaid to Treasury. The weighted average interest rates for FY 2017 and FY 2016 were 1.89 percent and 2.37 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):

	2017	2016
USCG Military Retirement and Healthcare Benefits	$ 50,741	$ 49,778
USSS DC Pension Plan Benefits	5,092	5,498
Actuarial FECA Liability	2,882	2,752
Total Federal Employee and Veterans' Benefits	**$ 58,715**	**$ 58,028**

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

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

For the Year Ended September 30, 2017:	USCG Military Retirement System	USCG Military Health System	USSS Uniformed Division and Special Agent Pension	Total
Beginning Liability Balance:	$ 44,472	$ 5,306	$ 5,498	$ 55,276
Expenses:				
Normal Cost	1,216	256	-	1,472
Interest on the Liability Balance	1,670	229	127	2,026
Actuarial Losses/(Gains):				
From Experience	(599)	26	(54)	(627)
From Assumption Changes	(801)	575	(268)	(494)
Total Expense	1,486	1,086	(195)	2,377
Less Amounts Paid	1,375	234	211	1,820
Ending Liability Balance	**$ 44,583**	**$ 6,158**	**$ 5,092**	**$ 55,833**

For the Year Ended September 30, 2016:	USCG Military Retirement System	USCG Military Health System	USSS Uniformed Division and Special Agent Pension	Total
Beginning Liability Balance:	$ 42,452	$ 5,717	$ 5,624	$ 53,793
Expenses:				
Normal Cost	1,289	224	-	1,513
Interest on the Liability Balance	1,753	208	137	2,098
Actuarial Losses/(Gains):				
From Experience	(554)	(22)	(54)	(630)
From Assumption Changes	813	(622)	43	234
Other	69	11	-	80
Total Expense	3,370	(201)	126	3,295
Less Amounts Paid	1,350	210	252	1,812
Ending Liability Balance	**$ 44,472**	**$ 5,306**	**$ 5,498**	**$ 55,276**

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

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

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

formula is 2.0 percent for those covered under BRS. The retired pay base depends upon the date of initial entry into military service (DIEMS). For DIEMS of September 8, 1980, or later, the retired pay base would be the mean of the highest 36 months of basic pay earned (or would have earned if on active duty). For DIEMS of September 7, 1980, or earlier, the retired pay base would be the basic pay rate in effect on the first day of retirement (if a commissioned officer or an enlisted member) or the basic pay rate in effect on the last day of active duty before retirement (if a warrant officer). 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. The career status bonus election cannot be made after December 31, 2017.

If a USCG member is disabled, the member is entitled to disability benefits, provided (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 (2.0 percent for members covered under BRS).

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

1. DOD decrement tables are used only for mortality. These mortality rates are then adjusted in future years, in accordance with the MP-2016 Mortality Improvement Scale developed by the Society of Actuaries. Disability, withdrawal, and retirement tables reflecting actual USCG experience were developed based on an USCG experience study dated February 25, 2015.
2. Cost of living increases for the retirement plan are 2.38 percent, based on a ten-year average of the Treasury Breakeven Inflation yield curve, which combines other Treasury rates to estimate the rate of inflation.
3. Healthcare cost increase assumptions are based on the annual liability report provided by DOD and vary, depending on the year and type of care.
4. The discount rate percent is determined in accordance with SFFAS No. 33 and is calculated independently for pensions and healthcare. The current discount rate is 3.83 percent for the retirement system and 3.79 percent for the health system.
5. Rates of salary increases are 2.10 percent annually, based on a ten-year average of past increases. This is in addition to assumed Merit Pay increases that reflect longevity increases, promotions, and advancements. The Merit Pay Table was modified in 2017, using actual USCG experience over the past six years.
6. Medical claims costs only affect the healthcare valuation and are the primary component of the per capita, age-based costs that are used—in combination with the healthcare cost increase assumptions—to project future retiree medical claims.

USSS Uniformed Division and Special Agent Pension. Special agents and other USSS personnel in certain job series hired as civilians before January 1, 1984, are eligible to transfer to the District of Columbia Police Officers' and Firefighters' Retirement Plan (DC Pension Plan) after completion of 10 years of U.S. 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, 2017, are as follows:

1. Life expectancy is based upon the RP-2014 Mortality Table, with the projection using the MP-2016 Mortality Improvement Scale.
2. Rates of salary increases are 0 percent annually because the vast majority of plan participants have already retired.
3. The discount rate calculated in accordance with SFFAS No. 33 is 2.5 percent.
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 $2,882 million and $2,752 million at September 30, 2017 and 2016, respectively.

17. Environmental and Disposal Liabilities

Environmental and disposal liabilities at September 30, 2017 and 2016 are $437 million and $454 million, respectively. The Department is responsible for remediating its sites with environmental contamination and is party to various administrative proceedings, legal actions, and tort claims that may result in settlements or decisions adverse to the Federal Government. The source of remediation requirements to determine the environmental liability is based on compliance with federal, state, or local environmental laws and regulations. The major federal laws covering environmental response, cleanup, and monitoring are the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (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 consisted of the following (in millions):

As of September 30, 2017:	Current	Non-Current	Total
Intragovernmental:			
Due to the General Fund (Note 14)	$ 3,020	$ -	$ 3,020
Accrued FECA Liability (Note 14)	148	259	407
Advances from Others	37	-	37
Employer Benefits Contributions and Payroll Taxes	241	-	241
Other Intragovernmental Liabilities	222	7	229
Total Intragovernmental Other Liabilities	**$ 3,668**	**$ 266**	**$ 3,934**
Public:			
Accrued Payroll and Benefits (See B. below)	$ 2,276	$ -	$ 2,276
Deferred Revenue and Advances from Others (See B. below)	5,589	210	5,799
Insurance Liabilities (Note 20)	11,826	505	12,331
Refunds and Drawbacks	202	-	202
Contingent Legal Liabilities (Note 21)	87	386	473
Capital Lease Liability (Note 19)	5	23	28
Other	2,569	11	2,580
Total Other Liabilities with the Public	**$ 22,554**	**$ 1,135**	**$ 23,689**
Total Other Liabilities	**$ 26,222**	**$ 1,401**	**$ 27,623**

As of September 30, 2016:	Current	Non-Current	Total
Intragovernmental:			
Due to the General Fund	$ 3,098	$ -	$ 3,098
Accrued FECA Liability	133	269	402
Advances from Others	65	-	65
Employer Benefits Contributions and Payroll Taxes	223	-	223
Other Intragovernmental Liabilities	199	8	207
Total Intragovernmental Other Liabilities	**$ 3,718**	**$ 277**	**$ 3,995**
Public:			
Accrued Payroll and Benefits (See B. below)	$ 2,114	$ -	$ 2,114
Deferred Revenue and Advances from Others (See B. below)	2,568	1,227	3,795
Insurance Liabilities (Note 20)	3,068	128	3,196
Refunds and Drawbacks	190	-	190
Contingent Legal Liabilities (Note 21)	77	292	369
Capital Lease Liability (Note 19)	5	27	32
Other	2,432	20	2,452
Total Other Liabilities with the Public	**$ 10,454**	**$ 1,694**	**$ 12,148**
Total Other Liabilities	**$ 14,172**	**$ 1,971**	**$ 16,143**

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 $207 million and $217 million, respectively, for the fiscal years ended September 30, 2017 and 2016.

B. Other Liabilities with the Public

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

	2017	2016
Accrued Funded Payroll and Benefits	$ 753	$ 640
Accrued Unfunded Leave	1,412	1,372
Unfunded Employment Related Liabilities	-	2
Other	111	100
Total Accrued Payroll and Benefits	**$ 2,276**	**$ 2,114**

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

	2017	2016
USCIS Application Fees	$ 2,166	$ 1,230
FEMA Unearned NFIP Premium	3,604	2,549
Advances from Others	29	16
Total Deferred Revenue	**$ 5,799**	**$ 3,795**

USCIS' deferred revenue relates to fees received at the time of filing for applications or petitions for immigration and naturalization benefits that are recognized when the application or petition is adjudicated. In FY 2017, USCIS prospectively changed its methodology for allocating application fee deferred revenue between current and non-current liabilities to be based on processing time data for average adjudication times. As a result, a significant portion of the fees deferred revenue is classified as current rather than non-current liabilities, based on processing times of less than 12 months.

FEMA's deferred revenue relates to 1) unearned NFIP premiums recognized over the life of the insurance policy, which can be either one-year or three-years, and 2) deferred revenue for reinsurance agreements. Under the Biggert-Waters Flood Insurance Reform Act of 2012 and the Homeowners Flood Insurance Affordability Act of 2014, FEMA gained the authority to secure reinsurance from the private reinsurance and capital markets. In January 2017, FEMA expanded its September 2016 placement and executed the 2017 reinsurance agreement with a consortium of 25 reinsurers representing some of the largest insurance and reinsurance groups around the globe. A combined total of $1,042 million of the NFIP's flood risk was transferred to the private reinsurance market through this agreement. Due to the size and scope of the 2017 hurricane-related flood disasters, FEMA is projected to meet the loss thresholds and has accordingly recorded a receivable and deferred revenue for the full $1,042 million as of September 30, 2017.

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, 2017.

As of September 30, 2017, estimated future minimum lease commitments for noncancellable operating leases were as follows (in millions):

	Land and Buildings
FY 2018	$ 480
FY 2019	423
FY 2020	401
FY 2021	365
FY 2022	326
After FY 2022	2,534
Total Future Minimum Lease Payments	**$ 4,529**

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

B. Capital Leases

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

Certain license agreements are cancellable depending on future funding. Substantially all of the net present value of capital lease obligations and software license agreements will be funded from future sources.

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

	2017	2016
Land and Buildings	$ 68	$ 68
Software	11	11
Vehicles and Equipment	1	1
Accumulated Amortization	(61)	(57)
Assets under Capital Lease, Net	**$ 19**	**$ 23**

The estimated future lease payments for capital leases are based on lease contract terms. As of September 30, 2017, estimated future minimum lease payments under capital leases, were as follows (in millions):

	Land and Buildings
FY 2018	$ 6
FY 2019	6
FY 2020	6
FY 2021	6
FY 2022	6
After FY 2022	3
Total Future Minimum Lease Payments	33
Less: Imputed Interest and Executory Costs	(5)
Total Capital Lease Liability	**$ 28**

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):

	2017	2016
Beginning Balance	$ 3,196	$ 743
Change in Incurred Losses		
Change from Events of the Current Year	13,443	4,758
Change from Events of Prior Years	487	212
Less: Amounts Paid During Current Period		
Paid for Events of the Current Year	(1,391)	(1,942)
Paid for Events of Prior Years	(3,404)	(575)
Total Insurance Liability	**$ 12,331**	**$ 3,196**

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

Insurance liabilities are covered by a permanent and indefinite appropriation, which is available to pay all valid claims after adjudication. Accordingly, these insurance liabilities are covered by budgetary resources. As a result of the major Hurricanes Harvey, Irma, and Maria in August and September 2017, and the related flooding, there was a significant increase in insurance liabilities.

21. Commitments and Contingent Liabilities

A. Contingent Legal Liabilities

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

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

	Accrued Liabilities	Estimated Range of Loss Lower End	Upper End
FY 2017			
Probable	$ 473	$ 473	$ 584
Reasonably Possible		$ 457	$ 1,217
FY 2016			
Probable	$ 369	$ 369	$ 551
Reasonably Possible		$ 521	$ 1,075

The claims above generally relate to the Federal Tort Claims Act (Pub. L. 79-601), OSLTF, personnel grievances, and various customs laws and regulations. The estimated contingent liability recorded in the accompanying financial statements as of September 30, 2017, and 2016, was $473 million and $369 million, respectively, of which $2 million and $4 million, respectively, was funded.

As of September 30, 2017, and 2016, 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, 2017 and 2016 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, 2017 and 2016, CBP had 16 aircraft on loan from DOD with a total replacement value of up to $23 million per aircraft. As of September 30, 2017, and 2016 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 28. 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, 2017 and 2016, the Department estimates total payments related to cancelled appropriations to be $213 million and $194 million, respectively, of which $162 million and $112 million, respectively, may require future funding.

TSA maintains five letters of intent (LOIs) for modifications to airport facilities in which TSA uses cost-sharing agreements with the airports to modify the facilities for checked baggage screening projects. An LOI, though not a binding commitment of federal funding, represents TSA's intent to provide the agreed-upon funds in future years if the agency receives sufficient appropriations to cover the agreement. TSA received $200 million to fund LOIs in each of FY 2017 and FY 2016. 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, 2017 and 2016, TSA received invoices or documentation for costs incurred totaling $40 million and $85 million, respectively, for unpaid invoices.

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 critieria for determining a fund from dedicated collections: 1) a statute committing the Federal Government to use specifically identifed revenue and/or other financing sources that are originally provided to the Federal Government by a non-federal source only for designated activities, benefits, or purposes; 2) explicit authority for the fund to retain revenue and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and 3) a requirement to account for and report on the receipt, use, and retention of the revenue and/or other financing sources that distinguished the fund from the Federal Government's general revenue.

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

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

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

Funds from Dedicated Collections (in millions) (page 1 of 2)

	Customs User Fees	Sport Fish Restoration Boating Trust Fund	Immigration Examinatio n Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Combined Funds from Dedicated Collections
Balance Sheet as of September 30, 2017								
ASSETS								
Fund Balance with Treasury	$ 423	$ 9	$ 2,628	$ 7,539	$ 49	$ 1,407	$ 1,525	$ 13,580
Investments, Net	-	1,928	-	-	5,683	-	3	7,614
Accounts Receivable	346	109	7	1,043	1,588	-	124	3,217
Other	-	-	595	861	2	11	42	1,511
Total Assets	**$ 769**	**$ 2,046**	**$ 3,230**	**$ 9,443**	**$ 7,322**	**$ 1,418**	**$ 1,694**	**$ 25,922**
LIABILITIES								
Other Liabilities	$ 17	$ 1,244	$ 2,663	$ 46,796	$ 199	$ 244	$ 74	$ 51,237
Total Liabilities	**$ 17**	**$ 1,244**	**$ 2,663**	**$ 46,796**	**$ 199**	**$ 244**	**$ 74**	**$ 51,237**
NET POSITION								
Cumulative Results of Operations	$ 752	$ 802	$ 567	$ (37,353)	$ 7,123	$ 1,174	$ 1,620	$ (25,315)
Total Liabilities and Net Position	**$ 769**	**$ 2,046**	**$ 3,230**	**$ 9,443**	**$ 7,322**	**$ 1,418**	**$ 1,694**	**$ 25,922**
Statement of Net Cost for the Year Ended September 30, 2017								
Gross Program Costs	$ 716	$ 111	$ 3,794	$ 15,857	$ 52	$ 199	$ 1,428	$ 22,157
Less: Earned Revenue	-	-	(2,945)	(4,326)	(31)	(250)	(694)	(8,246)
Net Cost of Operations	**$ 716**	**$ 111**	**$ 849**	**$ 11,531**	**$ 21**	**$ (51)**	**$ 734**	**$ 13,911**
Statement of Changes in Net Position for the Year Ended September 30, 2017								
Net Position Beginning of Period	$ 647	$ 792	$ 1,248	$ (25,827)	$ 6,615	$ 1,193	$ 1,492	$ (13,840)
Net Cost of Operations	(716)	(111)	(849)	(11,531)	(21)	51	(734)	(13,911)
Non-exchange Revenue	806	636	-	2	642	-	382	2,468
Other	15	(515)	168	3	(113)	(70)	480	(32)
Change in Net Position	105	10	(681)	(11,526)	508	(19)	128	(11,475)
Net Position, End of Period	**$ 752**	**$ 802**	**$ 567**	**$ (37,353)**	**$ 7,123**	**$ 1,174**	**$ 1,620**	**$ (25,315)**

Funds from Dedicated Collections (in millions) (page 2 of 2)

	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	Combined Funds from Dedicated Collections
Balance Sheet as of September 30, 2016								
ASSETS								
Fund Balance with Treasury	$ 330	$ 15	$ 2,381	$ 1,280	$ 25	$ 1,430	$ 1,448	$ 6,909
Investments, Net	-	1,911	-	1,175	4,973	-	1	8,060
Accounts Receivable	332	109	9	1	1,804	-	95	2,350
Other	-	-	489	701	2	8	26	1,226
Total Assets	**$ 662**	**$ 2,035**	**$ 2,879**	**$ 3,157**	**$ 6,804**	**$ 1,438**	**$ 1,570**	**$ 18,545**
LIABILITIES								
Other Liabilities	$ 15	$ 1,243	$ 1,631	$ 28,984	$ 189	$ 245	$ 78	$ 32,385
Total Liabilities	**$ 15**	**$ 1,243**	**$ 1,631**	**$ 28,984**	**$ 189**	**$ 245**	**$ 78**	**$ 32,385**
NET POSITION								
Cumulative Results of Operations	$ 647	$ 792	$ 1,248	$ (25,827)	$ 6,615	$ 1,193	$ 1,492	$ (13,840)
Total Liabilities and Net Position	**$ 662**	**$ 2,035**	**$ 2,879**	**$ 3,157**	**$ 6,804**	**$ 1,438**	**$ 1,570**	**$ 18,545**
Statement of Net Cost for the Year Ended September 30, 2016								
Gross Program Costs	$ 677	$ 116	$ 3,375	$ 6,777	$ (25)	$ 181	$ 1,366	$ 12,467
Less: Earned Revenue	-	-	(3,256)	(4,411)	(356)	(250)	(714)	(8,987)
Net Cost of Operations	**$ 677**	**$ 116**	**$ 119**	**$ 2,366**	**$ (381)**	**$ (69)**	**$ 652**	**$ 3,480**
Statement of Changes in Net Position for the Year Ended September 30, 2016								
Net Position Beginning of Period	$ 549	$ 801	$ 1,200	$ (23,463)	$ 4,782	$ 1,216	$ 1,338	$ (13,577)
Net Cost of Operations	(677)	(116)	(119)	(2,366)	381	69	(652)	(3,480)
Non-exchange Revenue	763	630	-	-	1,511	-	389	3,293
Other	12	(523)	167	2	(59)	(92)	417	(76)
Change in Net Position	98	(9)	48	(2,364)	1,833	(23)	154	(263)
Net Position, End of Period	**$ 647**	**$ 792**	**$ 1,248**	**$ (25,827)**	**$ 6,615**	**$ 1,193**	**$ 1,492**	**$ (13,840)**

Customs User Fees

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

Effective November 5, 2011, section 601 of the United States-Colombia Trade Promotion Agreement Implementation Act of 2011 (Pub. L. 112-42) lifted the exemption that excluded air and sea passengers from Canada, Mexico, the Caribbean, and adjacent islands, from having to pay the COBRA air, sea, and cruise vessel passenger fees. COBRA Free Trade Agreement fees are deposited in the Customs User Fee accounts, and are available only to the extent provided in annual appropriations acts.

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 Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (Pub. L. 109-59) later amended the Deficit Reduction Act of 1984 by combining the Boating Safety and the Sport Fish Restoration accounts into the SFRBTF. The SFRBTF has been the source of budget authority for the boat safety program for many years through the transfer of appropriated funds. The SFRBTF is a Treasury-managed fund and provides funding to states and other entities to promote boating safety and conservation of U.S. recreational waters.

This fund receives revenue transferred from custodial activities of the Treasury, which is deposited in a Treasury account. The revenue is derived from a number of sources, including 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 Department of Interior (TAFS 14X8151); the U.S. Army Corps of Engineers (TAFS 96X8333); and the USCG (TAFS 70X8149 and TAFS 70X8147).

The most recent reauthorizations of SFRBTF and expenditure of Boating Safety funds for the National Recreational Boating Safety Program were enacted in 2015 in the Fixing America's Surface Transportation Act (Pub. L 114-94), 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 F 2017, USCIS updated the fees charged for many applications in accordance with our authority, 8 USC 1356 (m) "That fees for providing adjudication and naturalization services may be set at a level that will ensure recovery of the full costs of providing all such services…" In addition, USCIS provides specific services to other federal agencies, such as the provision of immigration status information under the Systematic Alien Verification for Entitlements program for use in adjudicating individuals' eligibility for public benefits, that results in the collection of revenue arising from intragovernmental activities.

National Flood Insurance Program

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

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 premium collections 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: 70X4236, and 70X5701.

Oil Spill Liability Trust Fund

The OSLTF was originally established under section 9509 of the Internal Revenue Code of 1986. The Oil Pollution Act of 1990 (OPA) (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 includes two major funds managed by the USCG: the Principal Fund (TAFS 70X8185), and Payment of Claims (TAFS 70X8312). All revenue is deposited directly into the Principal Fund. The recurring and nonrecurring revenue is derived from a number of sources, including barrel tax, interest from U.S. Treasury investments, cost recoveries, and fines and penalties. Additionally, two of the six expenditure accounts are managed by the

USCG. These include Oil Spill Recovery (TAFS 70X8349) and Trust Fund Share of Expenses (TAFS 70_8314). Oil Spill Recovery funds the activities overseen by federal on-scene coordinators in response to covered discharges and the activities of federal trustees to initiate natural resource damage assessments. This account annually receives a $50 million appropriation that remains available until expended. Trust Fund Share of Expenses receives annual appropriations from the OSLTF that are then distributed to the USCG Operating Expenses; Acquisition, Construction and Improvements; and Research, Development, Test and Evaluation appropriations. By statute, the maximum amount that can be expended from the OSLTF with respect to any single incident shall not exceed $1,000 million, of which no more than $500 million may be spent on natural resource damage. The maximum amount expended with respect to a single incident is net of amounts expended and amounts recovered.

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

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

Aviation Security Capital Fund

Vision 100--Century of Aviation Reauthorization Act (Pub. L. 108-176) established the Aviation Security Capital Fund (TAFS 70X5385). The fund's revenue is derived from security service fees in accordance with 49 USC 44940. Annually, the first $250 million derived from Aviation Security fees are deposited into this fund. TSA provides funding to airport sponsors for projects to (1) replace baggage 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)
- 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 Center, Department of Homeland Security; 116 Stat. 2135
- 70X5543: International Registered Traveler Program Fund, U.S. Customs and Border Protection, Department of Homeland Security; 121 Stat. 2091-2092
- 70_5710: Coast Guard Housing Fund, U.S. Coast Guard, Department of Homeland Security, 14 USC 687(c)
- 70X5710: Coast Guard Housing Fund, U.S. Coast Guard, Department of Homeland Security, 14 USC 687(c)
- 70X5569: Asia-Pacific Economic Cooperation Business Travel Cards, U.S. Customs and Border Protection, Department of Homeland Security, 125 Stat. 551
- 70X4363: Enhanced Inspectional Services, U.S. Customs and Border Protection, Department of Homeland Security, 127 Stat. 378
- 70X5702: 9-11 Response and Biometric Exit Account, U.S. Customs and Border Protection, Department of Homeland Security, Pub. L. 114-113, Sec. 402(g)
- 70_5677: Abandoned Seafarers Fund, U.S. Coast Guard, Department of Homeland Security, 128 Stat. 3051
- 70X5677: Abandoned Seafarers Fund, U.S. Coast Guard, Department of Homeland Security, 128 Stat. 3051
- 70X1910: Citizenship Gift and Bequest Account, U.S. Citizenship and Immigration Services, Department of Homeland Security, 131 Stat. 422

23. Net Costs by Sub-Organization and Major Missions

The Department's Statement of Net Cost displays DHS costs and revenue and groups the missions and the focus area described in the DHS FY 2014-2018 Strategic Plan into four major missions:

- *Foster a Safe and Secure Homeland*, includes Missions 1, 2, and 4;
- *Enforce and Administer Our Immigration Laws* includes Mission 3;
- *Strengthen National Preparedness and Resilience* includes Mission 5; and
- *Mature and Strengthen Homeland Security* consists of the focus area.

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.

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.

Net Costs by Sub-Organization and Major Missions
For the Year Ended September 30, 2017 (in millions) (page 1 of 2)

Major Missions	FEMA	CBP	USCG	ICE	TSA	USCIS	MGMT	All Other	Total
Foster a Safe and Secure Homeland									
Intragovernmental Gross Cost	$ -	$ 3,341	$ 1,101	$ 596	$ 1,815	$ -	$ -	$ 1,552	$ 8,405
Public Gross Cost	-	8,458	6,553	1,340	6,097	-	-	4,342	26,790
Gross Cost	-	11,799	7,654	1,936	7,912	-	-	5,894	35,195
Intragovernmental Revenue	-	(60)	(107)	(8)	-	-	-	(1,125)	(1,300)
Public Revenue Earned	-	(126)	(73)	(105)	(4,046)	-	-	(3)	(4,353)
Less Revenue Earned	-	(186)	(180)	(113)	(4,046)	-	-	(1,128)	(5,653)
Net Cost	**-**	**11,613**	**7,474**	**1,823**	**3,866**	**-**	**-**	**4,766**	**29,542**
Enforce and Administer Our Immigration Laws									
Intragovernmental Gross Cost	$ -	$ 693	$ 142	$ 987	$ -	$ 1,118	$ 2	$ 16	$ 2,958
Public Gross Cost	-	1,560	856	3,821	-	2,219	6	181	8,643
Gross Cost	-	2,253	998	4,808	-	3,337	8	197	11,601
Intragovernmental Revenue	-	(10)	(14)	(45)	-	(12)	-	(5)	(86)
Public Revenue Earned	-	(35)	(9)	(25)	-	(2,953)	-	-	(3,022)
Less Revenue Earned	-	(45)	(23)	(70)	-	(2,965)	-	(5)	(3,108)
Net Cost	**-**	**2,208**	**975**	**4,738**	**-**	**372**	**8**	**192**	**8,493**
Strengthen National Preparedness and Resilience									
Intragovernmental Gross Cost	$ 1,711	$ -	$ 157	$ 1	$ -	$ -	$ -	$ 169	$ 2,038
Public Gross Cost	26,316	-	939	3	-	-	-	182	27,440
Gross Cost	28,027	-	1,096	4	-	-	-	351	29,478
Intragovernmental Revenue	(35)	-	(14)	-	-	-	-	(3)	(52)
Public Revenue Earned	(4,368)	-	(13)	-	-	-	-	(1)	(4,382)
Less Revenue Earned	(4,403)	-	(27)	-	-	-	-	(4)	(4,434)
Net Cost	**23,624**	**-**	**1,069**	**4**	**-**	**-**	**-**	**347**	**25,044**

Net Costs by Sub-Organization and Major Missions
For the Year Ended September 30, 2017 (in millions) (page 2 of 2)

Major Missions	FEMA	CBP	USCG	ICE	TSA	USCIS	MGMT	All Other	Total
Mature and Strengthen Homeland Security									
Intragovernmental Gross Cost	$ -	$ -	$ 228	$ 46	$ -	$ 170	$ 541	$ 200	$ 1,185
Public Gross Cost	-	-	1,294	128	-	327	946	529	3,224
Gross Cost	-	-	1,522	174	-	497	1,487	729	4,409
Intragovernmental Revenue	-	-	(7)	(2)	-	(1)	(2)	(19)	(31)
Public Revenue Earned	-	-	(46)	(4)	-	(509)	-	(1)	(560)
Less Revenue Earned	-	-	(53)	(6)	-	(510)	(2)	(20)	(591)
Net Cost	**-**	**-**	**1,469**	**168**	**-**	**(13)**	**1,485**	**709**	**3,818**
Total Department of Homeland Security									
Intragovernmental Gross Cost	$ 1,711	$ 4,034	$ 1,628	$ 1,630	$ 1,815	$ 1,288	$ 543	$ 1,937	$ 14,586
Public Gross Cost	26,316	10,018	9,642	5,292	6,097	2,546	952	5,234	66,097
Gross Cost	28,027	14,052	11,270	6,922	7,912	3,834	1,495	7,171	80,683
Intragovernmental Revenue	(35)	(70)	(142)	(55)	-	(13)	(2)	(1,152)	(1,469)
Public Revenue Earned	(4,368)	(161)	(141)	(134)	(4,046)	(3,462)	-	(5)	(12,317)
Less Revenue Earned	(4,403)	(231)	(283)	(189)	(4,046)	(3,475)	(2)	(1,157)	(13,786)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	**23,624**	**13,821**	**10,987**	**6,733**	**3,866**	**359**	**1,493**	**6,014**	**66,897**
(Gain)/Loss on Pension, ORB, or OPEB Assumption	-	-	(226)	-	-	-	-	(268)	(494)
NET COST OF OPERATIONS	$ 23,624	$ 13,821	$ 10,761	$ 6,733	$ 3,866	$ 359	$ 1,493	$ 5,746	$ 66,403

Net Costs by Sub-Organization and Major Missions
For the Year Ended September 30, 2016 (in millions) (page 1 of 2)

Major Missions	FEMA	CBP	USCG	ICE	TSA	USCIS	MGMT	All Other	Total
Foster a Safe & Secure Homeland									
Intragovernmental Gross Cost	$ -	$ 3,466	$ 1,165	$ 648	$ 1,840	$ -	$ -	$ 1,303	$ 8,422
Public Gross Cost	-	8,539	6,585	1,377	6,131	-	-	4,007	26,639
Gross Cost	-	12,005	7,750	2,025	7,971	-	-	5,310	35,061
Intragovernmental Revenue	-	(49)	(116)	(32)	-	-	-	(1,067)	(1,264)
Public Revenue Earned	-	(148)	(334)	(115)	(4,044)	-	-	(4)	(4,645)
Less Revenue Earned	-	(197)	(450)	(147)	(4,044)	-	-	(1,071)	(5,909)
Net Cost	**-**	**11,808**	**7,300**	**1,878**	**3,927**	**-**	**-**	**4,239**	**29,152**
Enforce and Administer Our Immigration Laws									
Intragovernmental Gross Cost	$ -	$ 596	$ 172	$ 903	$ -	$ 1,133	$ 1	$ 13	$ 2,818
Public Gross Cost	-	1,254	979	3,691	-	2,239	4	148	8,315
Gross Cost	-	1,850	1,151	4,594	-	3,372	5	161	11,133
Intragovernmental Revenue	-	(9)	(17)	(15)	-	(10)	-	(5)	(56)
Public Revenue Earned	-	(28)	(49)	(34)	-	(3,756)	-	-	(3,867)
Less Revenue Earned	-	(37)	(66)	(49)	-	(3,766)	-	(5)	(3,923)
Net Cost	**-**	**1,813**	**1,085**	**4,545**	**-**	**(394)**	**5**	**156**	**7,210**
Strengthen National Preparedness and Resilience									
Intragovernmental Gross Cost	$ 1,201	$ -	$ 163	$ 1	$ -	$ -	$ -	$ 149	$ 1,514
Public Gross Cost	16,677	-	931	3	-	-	-	179	17,790
Gross Cost	17,878	-	1,094	4	-	-	-	328	19,304
Intragovernmental Revenue	(47)	-	(15)	-	-	-	-	(3)	(65)
Public Revenue Earned	(4,443)	-	(44)	-	-	-	-	(1)	(4,488)
Less Revenue Earned	(4,490)	-	(59)	-	-	-	-	(4)	(4,553)
Net Cost	**13,388**	**-**	**1,035**	**4**	**-**	**-**	**-**	**324**	**14,751**

Net Costs by Sub-Organization and Major Missions
For the Year Ended September 30, 2016 (in millions) (page 2 of 2)

Major Missions	FEMA	CBP	USCG	ICE	TSA	USCIS	MGMT	All Other	Total
Mature and Strengthen Homeland Security									
Intragovernmental Gross Cost	$ -	$ -	$ 232	$ 8	$ -	$ 10	$ 542	$ 207	$ 999
Public Gross Cost	-	-	1,338	31	-	19	1,062	457	2,907
Gross Cost	-	-	1,570	39	-	29	1,604	664	3,906
Intragovernmental Revenue	-	-	(5)	-	-	-	(2)	(22)	(29)
Public Revenue Earned	-	-	(46)	-	-	(38)	-	(1)	(85)
Less Revenue Earned	-	-	(51)	-	-	(38)	(2)	(23)	(114)
Net Cost	**-**	**-**	**1,519**	**39**	**-**	**(9)**	**1,602**	**641**	**3,792**
Total Department of Homeland Security									
Intragovernmental Gross Cost	$ 1,201	$ 4,062	$ 1,732	$ 1,560	$ 1,840	$ 1,143	$ 543	$ 1,672	$ 13,753
Public Gross Cost	16,677	9,793	9,833	5,102	6,131	2,258	1,066	4,791	55,651
Gross Cost	17,878	13,855	11,565	6,662	7,971	3,401	1,609	6,463	69,404
Intragovernmental Revenue	(47)	(58)	(153)	(47)	-	(10)	(2)	(1,097)	(1,414)
Public Revenue Earned	(4,443)	(176)	(473)	(149)	(4,044)	(3,794)	-	(6)	(13,085)
Less Revenue Earned	(4,490)	(234)	(626)	(196)	(4,044)	(3,804)	(2)	(1,103)	(14,499)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	**13,388**	**13,621**	**10,939**	**6,466**	**3,927**	**(403)**	**1,607**	**5,360**	**54,905**
(Gain)/Loss on Pension, ORB, or OPEB Assumption	-	-	191	-	-	-	-	43	234
NET COST OF OPERATIONS	**$ 13,388**	**$ 13,621**	**$ 11,130**	**$ 6,466**	**$ 3,927**	**$ (403)**	**$ 1,607**	**$ 5,403**	**$ 55,139**

24. *Apportionment Categories of New Obligations and Upward Adjustments: 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, 2017:	Apportionment Category A	Apportionment Category B	Exempt from Apportionment	Total
New Obligations and Upward Adjustments – Direct	$ 46,627	$ 28,275	$ 1,926	$ 76,828
New Obligations and Upward Adjustments – Reimbursable	2,386	2,673	-	5,059
Total New Obligations and Upward Adjustments	**$ 49,013**	**$ 30,948**	**$ 1,926**	**$ 81,887**

Year Ended September 30, 2016:	Apportionment Category A	Apportionment Category B	Exempt from Apportionment	Total
New Obligations and Upward Adjustments – Direct	$ 42,387	$ 25,070	$ 1,932	$ 69,389
New Obligations and Upward Adjustments – Reimbursable	2,811	2,435	-	5,246
Total New Obligations and Upward Adjustments	**$ 45,198**	**$ 27,505**	**$ 1,932**	**$ 74,635**

25. *Available Borrowing Authority*

For the Years Ended September 30:	2017	2016
Beginning Borrowing Authority	$ 5	$ 7
Current Year Borrowing Authority Realized	7,454	7,469
Decrease in Current Year Borrowing Authority Realized	(27)	(7,468)
Net Current Year Borrowing Authority Realized	7,427	1
Less: Borrowing Authority Converted to Cash	(7,427)	(1)
Less: Borrowing Authority Withdrawn	(1)	(2)
Ending Borrowing Authority	**$ 4**	**$ 5**

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

purpose. As of September 30, 2017, and 2016, net current year borrowing authority realized presented in the SBR totaled $7,427 million and $1 million, respectively.

FEMA is authorized to borrow from Treasury up to $30,425 million to fund the payment of flood insurance claims and claims-related expenses of the NFIP. Amounts borrowed at any time are not predetermined, and authority is used only as needed to pay existing obligations for claims and expenses. Insurance premiums collected are used to pay insurance claims and to repay borrowings. As of September 30, 2017, and 2016, FEMA had drawn from Treasury $30,425 million and $23,000 million, respectively, leaving $0 and $7,425 million, respectively, available to be borrowed. As a result of Hurricanes Harvey, Irma, and Maria, Congress enacted a supplemental appropriation for disaster relief on October 26, 2017. The Act directs Treasury to cancel $16,000 million of the $30,425 million debt of NFIP to Treasury; increasing FEMA's borrowing authority to cover flood insurance claims. For additional information, see Note 31, Subsequent Events.

FEMA also requests borrowing authority annually to cover the principal amount of direct loans during the fiscal year, not to exceed $400 million less the subsidy due from the DADLP account. The ending available borrowing authority of $4 million is to cover current obligations for CDLs still disbursing.

26. Legal Arrangements Affecting the Use of Unobligated Balances

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

Included in the cumulative results of operations and Fund Balance with Treasury are special funds of $1,450 million and $1,095 million at September 30, 2017, and 2016, 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 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.

27. 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 2016 Statement of Budgetary Resources and the actual amounts reported for FY 2016 in the Budget of the Federal Government. Since the FY 2017 financial statements will be reported prior to the release of the Budget of the Federal Government, DHS is reporting for FY 2016 only. Typically, the Budget of the Federal Government with the FY 2017 actual data is published in February of the subsequent year. Once published, the FY 2017 actual data will be available on the OMB website.

	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
FY 2016 Actual Balances per the FY 2018 Budget of the U.S. Government (in millions)	**$ 83,817**	**$ 72,849**	**$ 10,911**	**$ 56,112**
Reconciling Items:				
Accounts that are expired that are not included in Budget of the United States	1,805	-	-	-
Distributed Offsetting Receipts not included in the Budget of the United States, Net Outlays	-	-	-	(10,911)
Refunds and drawbacks not included in the Budget of the United States	1,670	1,670	-	1,630
Byrd Program (Continued Dumping and Subsidy Offset) not included in the Budget of the United States	257	116	-	116
Miscellaneous Differences	564	-	-	(2)
Per the 2016 Statement of Budgetary Resources	**$ 88,113**	**$ 74,635**	**$ 10,911**	**$ 46,945**

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

28. 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, 2017 and 2016, were $45,436 million and $41,756 million, respectively.

29. Custodial Revenue

The Department collects revenue from a variety of duties, excise taxes, and various other fees. Revenue collections primarily result from current fiscal year activity. Current Taxes, Duties, Trade Receivables, Net are collected within 90 days of the assessment. 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, 2017 and 2016 (in millions):

2017 Tax Disbursements	Tax Year			
	2017	2016	2015	Prior Years
Total tax refunds and drawbacks disbursed	$ 1,155	$ 298	$ 126	$ 244

2016 Tax Disbursements	Tax Year			
	2016	2015	2014	Prior Years
Total tax refunds and drawbacks disbursed	$ 1,020	$ 343	$ 149	$ 355

Total tax refunds and drawbacks disbursed consist of non-exchange customs duties revenue refunded. The disbursements include interest payments of $35 million and $31 million for the fiscal years ended September 30, 2017 and 2016, 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.

30. 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, includes items such as undelivered orders, unfilled customer orders, and capitalized assets. These transactions are reversed out because they affect budgetary obligations, but not the proprietary net cost of operations.

The third section, Components of Net Cost of Operations that Will Not Require or Generate Resources in the current period, includes items such as increases in environmental liability and depreciation. These transactions are added because they affect proprietary net cost of operations, but not the budgetary obligations. 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.

The reconciliations of net cost of operations to budget for FY 2017 and FY 2016 are as follows:

	2017	2016
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments (Note 24)	$ 81,887	$ 74,635
Less: Spending Authority from Offsetting Collections and Recoveries	(13,509)	(14,041)
Obligations Net of Offsetting Collections and Recoveries	68,378	60,594
Less: Offsetting Receipts	(11,611)	(10,911)
Net Obligations	56,767	49,683
Other Resources		
Donations and Forfeiture of Property	20	1
Transfers In (Out) without Reimbursement	66	(1)
Imputed Financing from Costs Absorbed by Others	1,194	1,333
Other	1,956	1,807
Net Other Resources Used to Finance Activities	3,236	3,140
Total Resources Used to Finance Activities	$ 60,003	$ 52,823

	2017	2016
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	$ 4,463	$ 2,234
Resources that Fund Expenses Recognized in Prior Periods	312	426
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	(4)	(4)
Other	(3,479)	(2,813)
Resources that Finance the Acquisition of Assets	2,350	2,241
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	1,826	2,035
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	5,468	4,119
TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS	**$ 54,535**	**$ 48,704**
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	$ 40	$ 56
Increase in Exchange Revenue Receivable from the Public	82	(55)
Increase in Insurance Liability	9,135	2,453
Increase in Actuarial Pension Liability	-	1,894
Increase in Actuarial Health Insurance Liability	852	-
Increase in Other	231	203
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	10,340	4,551
Components not Requiring or Generating Resources		
Depreciation and Amortization	1,896	2,147
Revaluation of Assets or Liabilities	66	209
Other	(434)	(472)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	1,528	1,884
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	11,868	6,435
NET COST OF OPERATIONS	**$ 66,403**	**$ 55,139**

31. Subsequent Events

As a result of Hurricanes Harvey, Irma, and Maria, Congress enacted the Additional Supplemental Appropriations for Disaster Relief Requirements Act of 2017 (Pub. L. 115-72) on October 26, 2017. The Act provides FEMA's Disaster Relief Fund with an additional $13,760 million for response and recovery activity, and FEMA's DADLP $4,900 million for direct loans to assist local governments in providing essential services. The act also provides debt relief and additional borrowing authority for the NFIP by cancelling $16,000 million of the NFIP's debt to Treasury.

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 2017) in human capital, research and development, and non-federal physical property are shown below.

A. Investments in Research and Development

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

	FY 2017	*FY 2016*	*FY 2015*	*FY 2014*	*FY 2013*
S&T	$ 962	$ 878	$ 785	$ 654	$ 485
DNDO[1]	63	29	76	74	66
USCG	22	21	25	25	21
TSA	-	-	-	1	1
Total Research & Development	$ 1,047	$ 928	$ 886	$ 754	$ 573

S&T conducts research in many areas to support the Department's missions to defend against chemical and biological threats, protect infrastructure and transportation systems from explosives, determine the motivations and intents behind terrorist attacks, prepare the Nation to respond to large and small scale events, and protect the critical systems that run our financial and electrical power systems to name a few. Projects in development include:

- *Apex Programs; Screening at Speed*. Continuously evolving threats at checkpoints, necessitates a program that provides technological innovation while allowing for changing operational needs. The solutions will improve passenger experience and enhance threat detection capabilities at low cost.
- *Cyber Security/Information Analytics; Internet Measurement and Attack Modeling*. As the Internet continues to grow organically and exponentially, the protection of cyber infrastructure depends on the ability to identify critical Internet resources that are subject to attack. S&T plans to develop new tools and techniques for mapping several layers of the Internet to detect and mitigate malicious behavior.
- *Border Security; People Screening*. S&T continues efforts to introduce process and technology improvements to CBP traveler inspection operations in order to strengthen

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

traveler vetting and facilitate lawful and legitimate travel in support of the President's National Travel and Tourism Strategy.

DNDO is responsible for conducting an aggressive, evolutionary, and transformational research and development program to generate and improve technologies to detect nuclear and other radioactive materials. DNDO's research efforts seek to achieve dramatic advancements in technologies to enhance our national detection and forensics capabilities and include:

- Funded 45 research efforts at 29 universities to address long-term, high-risk challenges in Radiation/Nuclear Detection and Forensics by completing investigation of new materials and approaches.
- Discovered and documented root cause of plastic degradation in portal plastics due to long term exposure to environmental conditions such as varying temperature and moisture, and found alternate non-degrading formulation solutions for plastics; Completed baseline study of personal and mobile detection assets used for current monitoring mission, and, provided assessments to critical areas for performance improvement; Enhanced interagency coordination through leadership of National Technical Nuclear Forensics Steering Committee and led the development of the joint interagency annual Review of National Strategic Five-Year Plan.
- Continued to improve: Detection capabilities by using Aerial Detection; Radiological and Nuclear identification algorithm; and, Long-Range Radiation Detection.

The USCG research and development program allows the USCG to sustain critical mission capabilities through basic and applied research, development, test and evaluation of ideas, applications, products and processes. It also contributes to the Coast Guard forming partnerships with DHS, DOD, as well as other Federal and private research organizations. The purpose of the R&D Program is to help identify and examine existing or impending problems in the Coast Guard's operational, regulatory, and support programs and make improvements through solutions based on scientific and technological advances. Significant accomplishments in research and development included:

- Developing innovative interdiction patrol tactics using a game-theoretical approach to Maritime Interdiction Operations in South Florida which showed how alternative deployment strategies could be used with various CG platform mixes. The simulation based analysis showed possible improvements in mission effectiveness against migrant transit attempts and provided deployment strategies for consideration.
- Analysis of the test data from the recently conducted airborne oil spill remote sensing and reporting field evaluations with fixed wing aircraft, informing tactics, techniques, and procedures and identified potential improvements for inclusion in future upgrades to the sensors and/or mission systems specific to the maritime oil spill response mission.
- Analysis for a summary of the Oil in Ice research demonstrations and tests supporting development of a guide for the federal on-scene coordinator that can be used to determine best response options to address detection and surveillance, containment and recovery, and in-situ burning in broken ice and ice-edge conditions.
- Continued research in the potential Coast Guard use of diesel outboard engines in various response boats including a larger research initiative to assess the operational feasibility of outboard diesel engines in the Coast Guard fleet.
- Conducted six experimental burns to test technology that could make it possible to burn-off spilled oil quickly while producing relatively low levels of air pollutants in

partnership with Bureau of Safety and Environmental Enforcement, Naval Research Laboratory, and Worcester Polytechnic Institute.
- Completed an evaluation of the available technologies for possible improvements to navigation, communications, and detection capabilities for ice rescue teams in harsh cold weather environments.

B. 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. FEMA and S&T have made significant investments in human capital (in millions):

	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013
FEMA	$ 104	$ 101	$ 101	$ 101	$ 97
S&T	3	4	3	7	9
Total Human Capital	$ 107	$ 105	$ 104	$ 108	$ 106

FEMA's educational, training, and professional development included:
- *National Fire Academy (NFA).* Promotes the professional development of the fire and emergency response community and its allied professionals and delivers educational and training courses with a national focus to supplement and support state and local fire service training programs. In FY 2017, NFA provided training to 95,015 state and local emergency responders.
- *Emergency Management Institute (EMI).* Develops and delivers emergency management training to enhance the capabilities of federal, state, local, and tribal government officials, volunteer organizations, and the public and private sectors to minimize the impact of disasters on the American public, Training emphasizes the National Response Framework, National Incident Management System, and the National Preparedness Guidelines. In FY 2017, EMI provided training to 1,041,661 state and local emergency responders.
- *Center for Domestic Preparedness (CDP).* Specializes in providing advanced hands-on, all-hazards training for emergency responders at the state, local, tribal, and territorial level to prevent, deter, respond to, and recover from terrorist acts, especially those involving weapons of mass destruction or hazardous materials. In FY 2017, CDP provided training to 51,509 state, local, tribal, and territorial emergency responders.

S&T issues grants to Minority Serving Institutions, scientific leadership awards, and institutional awards to support the development of Homeland Security Science, Technology, Engineering and Mathematics (HS-STEM) teaching initiatives, and curriculum development. Minority Serving Institutions students will enter HS-STEM related careers or obtain admission to graduate school to continue HS-STEM related research, increasing diversity and representation within the future homeland security science and engineering workforce.

C. Investments in Non-Federal Physical Property

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

	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013
TSA	$ 227	$ 271	$ 311	$ 215	$ 421
FEMA[2]	13	54	52	42	86
DNDO	-	-	-	6	4
Total Non-Federal Physical Property	$ 240	$ 325	$ 363	$ 263	$ 511

TSA purchases and installs in-line Explosive Detention Systems (EDS) equipment through a variety of funding mechanisms, including congressionally authorized Letters of Intent (LOI), as part of the airport improvement program. LOIs are used to reimburse airports for the Federal Government's share of allowable costs for the modifications. TSA maintains five LOIs to provide for the facility modifications necessary to accommodate in-line EDS screening solutions. In addition, under the airport renovation program, TSA employs other transaction agreements (OTAs) to fund the installation of integrated and non-integrated EDS and 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.

FEMA provides grants to state and local governments to meet the firefighting and emergency response needs (equipment, protective gear, training and other resources) of fire departments and nonaffiliated emergency medical service organizations as part of the assistance to firefighters grant program.

DNDO transferred two radiation portal monitors to the State of California and one radiation portal monitor to the State of Mississippi as a result of the conclusion of the Advanced Spectroscopic Portal C radiation detection equipment programs in 2013 and 2014.

[2] *Historical amounts were updated to reflect corrections made since the last report.*

Required Supplementary Information

Unaudited, see accompanying Independent Auditors' Report

1. Deferred Maintenance and Repairs

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

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

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

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

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

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

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

<u>Significant Changes from Prior Year.</u> As of September 30, 2017, $1,297 million in deferred maintenance and repairs for active assets was estimated to return active real property assets to acceptable operating condition. This is an overall increase of $128 million.

Deferred maintenance and repairs for FY 2017, by asset class, consisted of (in millions):

	Ending	Beginning
Active:		
Buildings, Structures, and Facilities	$ 1,153	$ 1,042
Furniture, Fixtures, and Equipment	93	75
Other General PP&E	14	15
Heritage assets[3]	32	34
Total Active	**$ 1,292**	**$ 1,166**
Inactive and Excess:		
Buildings, Structures, and Facilities	$ 3	$ 1
Heritage assets	2	2
Total Inactive and Excess	**$ 5**	**$ 3**
Total Deferred Maintenance	**$ 1,297**	**$ 1,169**

2. Combining Statement of Budgetary Resources

The principal Statement of Budgetary Resources combines the availability, status, and outlays of the Department's budgetary resources during FY 2017. The following table provides the Statement of Budgetary Resources disaggregated by DHS Components rather than by major budget account because the Department manages its budget at the Component level.

[3] Some multi-use heritage assets were damaged as a result of Hurricanes Irma and Maria. The Department is currently assessing the costs of repairs. Any necessary costs of repairs will be recognized in a future period.

Combining Statement of Budgetary Resources by Sub-Organization Accounts
For the Year Ended September 30, 2017 (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	$ 1,543	$ 2,173	$ 1,151	$ 4,823	$ 142	$ 724	$ 29	$ 732	$ 753	$ 161	$ 284	$ 963	**$ 13,478**
Recoveries of Prior Year Unpaid Obligations	311	240	136	1,052	7	118	4	188	141	32	66	153	**2,448**
Other Changes in Unobligated Balance	(31)	(93)	(7)	(173)	(2)	(11)	(7)	(31)	(69)	(39)	(16)	(106)	**(585)**
Unobligated Balance from Prior Year Budget Authority, Net	1,823	2,320	1,280	5,702	147	831	26	889	825	154	334	1,010	**15,341**
Appropriations	16,060	10,546	3,983	18,922	242	6,745	123	1,598	1,819	2,303	775	5,108	**68,224**
Borrowing Authority	-	-	-	7,427	-	-	-	-	-	-	-	-	**7,427**
Spending Authority from Offsetting Collections	2,197	467	48	3,296	104	143	44	630	1,357	16	38	2,631	**10,971**
TOTAL BUDGETARY RESOURCES	$ 20,080	$ 13,333	$ 5,311	$ 35,347	$ 493	$ 7,719	$ 193	$ 3,117	$ 4,001	$ 2,473	$ 1,147	$ 8,749	$ 101,963
STATUS OF BUDGETARY RESOURCES													
New Obligations and Upward Adjustments	$ 18,225	$ 11,449	$ 3,912	$ 24,352	$ 363	$ 7,165	$ 166	$ 2,314	$ 3,164	$ 2,278	$ 816	$ 7,683	**$ 81,887**
Unobligated Balance, End Of Year													
Apportioned, Unexpired	1,266	1,544	258	10,596	110	386	4	637	609	119	282	785	**16,596**
Exempt from Apportionment, Unexpired	-	2	-	-	-	-	-	-	-	-	-	-	**2**
Unapportioned, Unexpired	422	-	1,126	214	2	1	-	17	4	34	10	27	**1,857**
Unexpired Unobligated Balance, End of Year	1,688	1,546	1,384	10,810	112	387	4	654	613	153	292	812	**18,455**
Expired Unobligated Balance, End of Year	167	338	15	185	18	167	23	149	224	42	39	254	**1,621**
Total Unobligated Balance, End of Year	1,855	1,884	1,399	10,995	130	554	27	803	837	195	331	1,066	20,076
TOTAL BUDGETARY RESOURCES	$ 20,080	$ 13,333	$ 5,311	$ 35,347	$ 493	$ 7,719	$ 193	$ 3,117	$ 4,001	$ 2,473	$ 1,147	$ 8,749	$ 101,963

Combining Statement of Budgetary Resources by Sub-Organization Accounts
For the Year Ended September 30, 2017 (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	$ 3,900	$ 4,609	$ 1,208	$ 24,923	$ 886	$ 1,439	$ 128	$ 1,907	$ 1,759	$ 563	$ 1,671	$ 3,335	$ 46,328
New Obligations and Upward Adjustments	18,225	11,449	3,912	24,352	363	7,165	166	2,314	3,164	2,278	816	7,683	81,887
Outlays, Gross	(17,263)	(10,961)	(3,816)	(18,929)	(588)	(6,946)	(169)	(2,496)	(3,076)	(2,190)	(1,014)	(7,737)	(75,185)
Actual Transfers, Unpaid Obligations, Net	-	-	-	(10)	-	-	-	-	-	-	-	-	(10)
Recoveries of Prior Year Unpaid Obligations	(311)	(240)	(136)	(1,052)	(7)	(118)	(4)	(188)	(141)	(32)	(66)	(153)	(2,448)
Unpaid Obligations, End of Year	4,551	4,857	1,168	29,284	654	1,540	121	1,537	1,706	619	1,407	3,128	50,572
Uncollected Payments:													
Uncollected Customer Payments From Federal Sources, Brought Forward, October 1	(176)	(137)	(20)	(98)	(933)	(102)	(15)	(717)	(199)	(22)	(111)	(12)	(2,542)
Change in Uncollected Customer Payments from Federal Sources	(20)	(47)	(4)	(6)	233	16	(3)	173	(10)	-	1	(34)	299
Uncollected Customer Payments from Federal Sources, End of Year	(196)	(184)	(24)	(104)	(700)	(86)	(18)	(544)	(209)	(22)	(110)	(46)	(2,243)
Obligated Balance, Start of Year, Net	$ 3,724	$ 4,472	$ 1,188	$ 24,825	$ (47)	$ 1,337	$ 113	$ 1,190	$ 1,560	$ 541	$ 1,560	$ 3,323	$ 43,786
Obligated Balance, End of Year, Net	$ 4,355	$ 4,673	$ 1,144	$ 29,180	$ (46)	$ 1,454	$ 103	$ 993	$ 1,497	$ 597	$ 1,297	$ 3,082	$ 48,329
BUDGET AUTHORITY AND OUTLAYS, NET													
Budget Authority , Gross	$ 18,257	$ 11,013	$ 4,031	$ 29,645	$ 346	$ 6,888	$ 167	$ 2,228	$ 3,176	$ 2,319	$ 813	$ 7,739	$ 86,622
Actual Offsetting Collections	(2,178)	(435)	(52)	(3,311)	(337)	(180)	(41)	(814)	(1,350)	(17)	(38)	(2,607)	(11,360)
Change in Uncollected Customer Payments from Federal Sources	(20)	(47)	(4)	(6)	233	16	(3)	173	(10)	-	1	(34)	299
Recoveries of Prior Year Paid Obligations													
Anticipated Offsetting Collections	1	15	5	13	-	22	-	11	2	1	-	9	79
Budget Authority, Net	$ 16,060	$ 10,546	$ 3,980	$ 26,341	$ 242	$ 6,746	$ 123	$ 1,598	$ 1,818	$ 2,303	$ 776	$ 5,107	$ 75,640
Outlays	$ 17,263	$ 10,961	$ 3,816	$ 18,929	$ 588	$ 6,946	$ 169	$ 2,496	$ 3,076	$ 2,190	$ 1,014	$ 7,737	$ 75,185
Actual Offsetting Collections	(2,178)	(435)	(52)	(3,311)	(337)	(180)	(41)	(814)	(1,350)	(17)	(38)	(2,607)	(11,360)
Outlays, Net	15,085	10,526	3,764	15,618	251	6,766	128	1,682	1,726	2,173	976	5,130	63,825
Distributed Offsetting Receipts	(4,422)	(61)	(4,351)	(1,017)	-	(187)	-	(34)	1	-	-	(1,540)	(11,611)
Agency Outlays, Net	$ 10,663	$ 10,465	$ (587)	$ 14,601	$ 251	$ 6,579	$ 128	$ 1,648	$ 1,727	$ 2,173	$ 976	$ 3,590	$ 52,214

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 transfers the remaining revenue (generally less than one percent of revenue collected) directly to either other federal or non-federal agencies. Refunds of revenue collected from import/export activities are recorded in separate accounts established for this purpose and are funded through permanent indefinite appropriations. These activities reflect the non-entity, or custodial, responsibilities that CBP, as an agency of the Federal Government, has been authorized by law to enforce.

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

For FY 2017 and FY 2016, CBP had the legal right to collect $2,980 million and $3,042 million of receivables, respectively. In addition, there were $1,830 million and $3,297 million representing records still in the protest phase for FY 2017 and FY 2016, respectively. CBP recognized as write-offs $14 million and $38 million, respectively, of assessments that the Department had statutory authority to collect at September 30, 2017 and 2016, 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. 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. Any projected deficiency from the unearned premium reserves is offset by the amounts of unearned reserve fund assessments and the unearned Homeowner Flood Insurance Affordability Act surcharge. The risk assumed liability as of September 30, 2017 is $0. This positive outcome is because the deficiency in the unearned premium due to subsidized premium – which has been declining due to the large increases in subsidized premiums mandated by Biggert-Waters Flood Insurance Modernization Act of 2012—is now more than offset by the unearned Reserve Fund Assessment and the unearned Homeowner Flood Insurance Affordability Act of 2014 surcharge.

Actual flood losses are highly variable from year to year. For the majority of years, the unearned premium reserve is adequate to pay the losses and expenses associated with the unearned premium. In those years with catastrophic flooding, the reserve will prove inadequate. However, now, with the improved financial position of the NFIP, the average, on a long-term basis, across all years is the positive cash flow from favorable loss years is expected to balance out the negative cash flow during heavy and catastrophic loss years.

Independent Auditors' Report

OFFICE OF INSPECTOR GENERAL

Independent Auditors' Report on DHS' FY 2017 Financial Statements and Internal Control over Financial Reporting

Homeland Security

November 15, 2017

OIG-18-16

DHS OIG HIGHLIGHTS

Independent Auditors' Report on DHS' FY 2017 Financial Statements and Internal Control over Financial Reporting

November 15, 2017

Why We Did This Audit

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

What We Recommend

KPMG LLP made 56 recommendations that, when implemented, would help improve the Department's internal control.

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

What We Found

The independent public accounting firm KPMG LLP (KPMG) has issued an unmodified (clean) opinion on DHS' consolidated financial statements. KPMG noted that the financial statements present fairly, in all material respects, DHS' financial position as of September 30, 2017.

KPMG issued an adverse opinion on DHS' internal control over financial reporting as of September 30, 2017. The report identifies the following six significant deficiencies in internal control, the first two of which are considered material weaknesses, and four instances where DHS did not comply with four laws and regulations:

Significant Deficiencies

1. Information Technology Controls and Financial System Functionality
2. Financial Reporting
3. Entity-Level Controls
4. Property, Plant, and Equipment
5. Custodial Activities
6. Grants Management

Laws and Regulations with Instances of Noncompliance

1. Federal Managers' Financial Integrity Act of 1982
2. Single Audit Act Amendments of 1996
3. Anti-deficiency Act
4. Federal Financial Management Improvement Act of 1996

Management's Response

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

www.oig.dhs.gov OIG-18-16

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

NOV 15 2017

MEMORANDUM FOR: The Honorable Elaine C. Duke
Acting Secretary
Department of Homeland Security

FROM: John Roth
Inspector General

SUBJECT: *Independent Auditors' Report on DHS' FY 2017 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) 2017 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*. This report is incorporated into the Department's FY 2017 *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 2017 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 six significant deficiencies in internal control, of which two are considered material weaknesses. DHS also identified the same material weaknesses in the *Secretary's Assurance Statement*.

The following are the two significant deficiencies in internal control considered to be material weaknesses, the four 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

- Information Technology Controls and Financial System Functionality
- Financial Reporting

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Other Significant Deficiencies

- Entity-Level Controls
- Property, Plant, and Equipment
- Custodial Activities: Entry Process and Refunds and Drawback
- Grants Management

Laws and Regulations with Identified Instances of Noncompliance

- *Federal Managers' Financial Integrity Act of 1982*
- *Single Audit Act Amendments of 1996*
- *Anti-deficiency Act*
- *Federal Financial Management Improvement Act of 1996*

Moving DHS' Financial Management Forward

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

*****

KPMG is responsible for the attached Independent Auditors' Report dated November 14, 2017, and the conclusions expressed in the report. To ensure the quality of the audit work performed, we evaluated KPMG's qualifications and independence, reviewed the approach and planning of the audit, monitored the progress of the audit at key points, reviewed and accepted KPMG's audit report, and performed other procedures that we deemed necessary. Additionally, we provided oversight of the audit of financial statements and certain accounts and activities conducted at key components within the Department. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or internal control or provide conclusions on compliance with laws and regulations. Our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Consistent with our responsibility under the *Inspector General Act*, 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 Department 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 John E. McCoy II, Acting Assistant Inspector General for Audits at (202) 254-4100 or Maureen Duddy, Deputy Assistant Inspector General for Audits, at (617) 565-8723.

Attachment

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Table of Contents

Appendixes

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

Independent Auditors' Report

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

Report on the Financial Statements and Internal Control

We have audited the accompanying consolidated financial statements of the U.S. Department of Homeland Security (DHS or Department), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements. We also have audited DHS's internal control over financial reporting as of September 30, 2017, based on criteria established in the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States.

Management's Responsibility for Internal Control Over Financial Reporting

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Department's internal control over financial reporting based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17- 03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17- 03 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

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

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditors' judgment, including the assessment of the risks that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Definition and Inherent Limitations of Internal Control Over Financial Reporting

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

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

Basis for Adverse Opinion on Internal Control Over Financial Reporting

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

A. Information Technology Controls and Financial System Functionality
B. Financial Reporting

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*.

Opinions

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, 2017 and 2016, 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.

Also, in our opinion, because of the effect of the material weaknesses described in Exhibit I on the achievement of the objectives of the control criteria, DHS has not maintained effective internal control over financial reporting as of September 30, 2017, based on criteria established in the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States.

KPMG

We considered the material weaknesses described in Exhibit I in determining the nature, timing, and extent of audit tests applied in our audit of the fiscal year 2017 consolidated financial statements, and these findings do not affect our unmodified opinion on the consolidated financial statements.

Emphasis of Matter

As discussed in Notes 1T, 15, and 25 of the consolidated financial statements, the Department had intragovernmental debt of approximately $30 billion and $23 billion used to finance the *National Flood Insurance Program* (NFIP) as of September 30, 2017 and 2016, respectively. 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. As discussed in Note 31 of the consolidated financial statements, on October 26, 2017, Congress enacted the *Additional Supplemental Appropriations for Disaster Relief Requirements Act of 2017*. This act forgives $16 billion of the Department's debt that is included in the DHS consolidated balance sheet as of September 30, 2017. Further legislation will need to be enacted to provide funding to repay or forgive the remaining debt. Our opinion is not modified with respect to this matter.

Other Matters

Agency Financial Report

We do not express an opinion or any form of assurance on management's statement referring to compliance with laws and regulations in the accompanying *Agency Financial Report*.

Internal Control Over Financial Reporting

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

C. Entity-Level Controls
D. Property, Plant, and Equipment
E. Custodial Activities: Entry Process and Refunds and Drawbacks
F. Grants Management

DHS's response to the findings identified in our audits is described in Appendix A. DHS's response was not subjected to the auditing procedures applied in the audit of the FY 2017 consolidated financial statements and, accordingly, we express no opinion on the response.

Interactive Data

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, 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 of the consolidated financial statements 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 *Agency Financial Report*, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DHS's 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. However, providing an opinion on compliance with those provisions was not an objective of our audit of the FY 2017 consolidated financial statements, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed the following instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 17-03, and which are described in Exhibit III:

G. *Federal Managers' Financial Integrity Act of 1982*
H. *Single Audit Act Amendments of 1996*
I. *Antideficiency 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 of the FY 2017 consolidated financial statements, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed instances, as described in finding J of Exhibit III, where DHS's 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 results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 14, 2017

Independent Auditors' Report
Exhibit I – Material Weaknesses

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 audits of the U.S. Department of Homeland Security's (Department or DHS) financial statements as of September 30, 2017 and internal control over financial reporting. Our findings are presented in three Exhibits:

Exhibit I Findings that individually or in aggregate 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 in internal control over financial reporting, which are less severe than a material weakness, yet important enough to merit attention of DHS management and others in positions of DHS oversight.

Exhibit III Instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters that are required to be reported under *Government Auditing Standards* or Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*.

Criteria *Index of Financial Reporting and Internal Control Criteria*

The determination of which findings rise to the level of a material weakness or significant deficiency is based on an evaluation of how deficiencies identified in all Components, considered in aggregate, may affect the Department's internal control over financial reporting as of September 30, 2017.

We have reported the following two material weaknesses, four significant deficiencies, and four instances of noncompliance at the Department level for FY 2017:

Material Weaknesses (Exhibit I):

Comment	Financial Statement Area
A	Information Technology Controls and Financial System
B	Financial Reporting

Significant Deficiencies (Exhibit II):

Comment	Financial Statement Area
C	Entity-Level Controls
D	Property, Plant, and Equipment
E	Custodial Activities: Entry Process and Refunds and Drawbacks
F	Grants Management

Compliance and Other Matters (Exhibit III):

Comment	Compliance Area
G	*Federal Managers' Financial Integrity Act of 1982*
H	*Single Audit Act Amendments of 1996*
I	*Antideficiency Act*
J	*Federal Financial Management Improvement Act of 1996*

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. Department of the Treasury (Treasury), and internal Departmental and Component directives, are presented in the *Index of Financial Reporting and Internal Control Criteria* behind Exhibit III.

All Components of DHS, as defined in Note 1A – *Reporting Entity* to the financial statements, were considered in the scope of our audits of the DHS financial statements and internal control over financial reporting.

I.1

Independent Auditors' Report
Exhibit I – Material Weaknesses

I-A Information Technology Controls and Financial System Functionality

Background: Information technology controls are a critical subset of an entity's internal control. They are typically categorized as either general IT controls (GITCs) or business process application controls (application controls). GITCs operate over all or a large portion of systems and represent the foundation of an IT control structure. They are applied at the entity-wide, system, and application level and include controls over security management, access, configuration management, segregation of duties, and contingency planning. Effective GITCs are necessary to create the foundation for the effective operation of application controls. Application controls are those controls that directly relate to specific IT applications and ensure the complete and accurate processing of data.

During our FY 2017 assessment of GITCs, we noted DHS made some progress in remediating IT findings we reported in FY 2016: however, new findings were identified in FY 2017. Additionally, management did not take appropriate corrective action to address ongoing pervasive deficiencies that we identified in multiple information systems and reported to management as a material weakness for several years. We deemed the following internal control deficiencies to, collectively, be a material weakness in internal control over financial reporting.

Conditions Related to GITCs: The control deficiencies in GITCs represent an overall elevated risk of material misstatement as the Department lacks sufficient manual controls in process areas to fully mitigate these GITC deficiencies. Deficiencies indicated in this Exhibit are a cross-section of GITC deficiencies identified. We identified the following:

Access Controls/Segregation of Duties:

DHS did not:

- adequately and consistently design and implement controls over initial authorization and periodic recertification of application, database, and operating system user, service, and generic accounts (including emergency, temporary, developer, and migrator access) and ensure adherence to the principles of least privilege and segregation of duties.
- consistently implement technical controls over logical access to key financial applications and underlying system software components in accordance with DHS requirements. Technical controls included password and inactivity requirements and account and data protection security configurations.
- fully implement or consistently perform controls over the generation, review, analysis, and protection of application, database, and operating system audit logs.
- implement controls related to review and revocation of system access to ensure consistent and timely removal of access privileges from financial systems and general support systems for transferred and/or terminated employees and contractors.

Furthermore, some DHS Components use third-party systems for processing portions of human resource related transactions. We tested complementary user entity controls that DHS is responsible for implementing, and we identified access control failures across multiple Components.

Configuration Management:

DHS did not consistently or completely:

- develop and formally document policies and procedures for the configuration management process.
- maintain a complete and accurate listing of all implemented system changes.
- maintain documentation of configuration management changes in accordance with DHS policy.

Conditions Related to Financial System Functionality: During our audit, we also evaluated and considered the impact of financial system functionality on financial reporting. In recent years, we noted that limitations in the Department's financial systems' functionality inhibit its ability to implement and maintain effective internal control, and to effectively and efficiently process and report financial data. Many key DHS financial systems were not compliant with Federal financial management system requirements as defined by FFMIA and OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*.

Independent Auditors' Report
Exhibit I – Material Weaknesses

GITCs and financial process areas were implemented or supported by manual processes, decentralized systems or records management processes, or utilities with limited automated capabilities at several DHS Components. These functionality limitations introduced a high risk of error and resulted in inconsistent, incomplete, or inaccurate control execution and supporting documentation.

In addition, system limitations contributed to deficiencies identified in multiple financial process areas across the Department. For example, system configurations and posting logic deficiencies limited the effectiveness of controls to accurately record certain activity at the transaction level, identify funding variances, or prevent or detect and correct excessive drawback claims. In some cases, Components implemented manual processes to compensate for these limitations; however, these manual processes were more prone to error and increased the risk that financial data and transactions were improperly recorded in the respective systems.

Cause: The control deficiencies described in this Exhibit stem from a number of systemic root causes across the Department. In many cases, inadequately designed and implemented or ineffectively operating controls were caused by the following: resource limitations; ineffective or inadequate management oversight, awareness, and training; the complex, highly interrelated yet decentralized nature of systems and system components; a lack of communication between offices in the same organization regarding GITC ownership; a lack of continual self-review and risk assessments performed over GITCs; and/or error-prone manual processes. In some cases, cost-prohibitive options for vendor support limited system development activity to "break/fix" and sustainment activities.

Root causes related to deficient entity-level controls are further discussed in Comment **II-C**, *Entity-Level Controls.*

Effect: Deficiencies related to access controls and segregation of duties increase the risk that current employees, separated employees, or contractors may obtain unauthorized or inappropriate access to financial and support systems or data. Such access could lead to unauthorized activities or inappropriate disclosures of sensitive data. Deficiencies related to configuration management increase the risk that unauthorized or inappropriate changes to systems will be applied and go undetected by management, resulting in lower assurance that information systems will operate as intended and that data is reliable, valid, and complete.

The conditions supporting our findings collectively limit the Department's ability to process, store, and report financial data in a manner that ensures accuracy, confidentiality, integrity, and availability. The aggregate impact of the GITC deficiencies result in a pervasive risk within the consolidated financial statements that a material misstatement will not be prevented or detected and corrected in a timely manner as the process level application controls that are supported by the GITCs are rendered ineffective. Ineffective process level application controls, in turn, create a need for mitigating controls which were often not present or designed, implemented, and operating at a level of precision to prevent and/or detect a material misstatement. Additionally, mitigating controls often were more manual in nature, increasing the risk of human error that could materially affect the financial statements. We identified deficiencies related to design, implementation, operating effectiveness, and lack of manual mitigating controls, which contributed to the findings reported in Exhibits I, II, and III. Furthermore, due to these GITC deficiencies, we deemed certain key manual controls throughout the Department ineffective as they are dependent upon application controls to ensure the completeness and accuracy of information personnel produced from systems for use in the operation of those manual controls.

Until DHS addresses its legacy IT issues and implements updated IT solutions, it is reliant on compensating controls and other complex manual workarounds to support its IT environment and financial reporting processes.

Criteria: We do not present relevant criteria for IT controls and financial system functionality due to the sensitive nature of the Department's systems. Relevant criteria is provided in individual limited distribution (For Official Use Only) Notices of Findings and Recommendations (NFRs) to DHS and Component management.

Recommendation:

1. 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, make the necessary improvements to the Department's supporting IT general controls. Specific, more detailed

I.3

recommendations were provided in individual limited distribution NFRs to DHS and Component management.

I-B Financial Reporting

Background: Financial reporting relates to the preparation of financial information for inclusion in the financial statements and related disclosures and includes the activities for initiation, authorization, recording, and processing transactions in the general ledger. It includes procedures related to the selection and application of accounting policies and management's oversight of the process.

The Department continued to implement corrective action plans and made progress in certain areas, such as the United States Coast Guard (USCG or Coast Guard) improving the design of management review controls over actuarial liabilities. Coast Guard management demonstrated greater understanding of the actuarial pension and healthcare valuation processes, including assumptions and sources of data used in the valuations. However, management needs to refine these controls. Additionally, deficiencies we identified in FY 2016 persisted, and we identified new deficiencies at United States Secret Service (USSS). We deemed the following internal control deficiencies to, collectively, be a material weakness in internal control over financial reporting:

Conditions pervasive across the Department:

- The Department lacked sufficient manual controls in process areas to fully mitigate the risks caused by GITC deficiencies.
- The Department did not maintain effective internal control related to service organizations, including evaluating and documenting the roles of service and sub-service organizations; performing effective reviews of service organization control (SOC) reports; considering and/or implementing complementary user entity controls identified in SOC reports; and assessing and addressing service provider risk in the absence of SOC reports.

Cause: The Department lacks robust continuous monitoring and testing of IT general controls necessary to identify weaknesses, assess the resulting risks created by IT deficiencies, and respond to those risks through compensating controls. The lack of compensating controls results in the Department's noncompliance with the requirements of FFMIA and OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996* as reported in Comment **III-J**, *Federal Financial Management Improvement Act of 1996* (FFMIA). Personnel tasked with evaluating the roles of service organizations and the controls at service organizations as well as complementary user entity controls within the Components relying on those service organizations often do not possess the required understanding of internal control or the related business process to perform an effective assessment.

Conditions related to the review and approval of journal entries:

- Coast Guard lacked effective controls:
  - over the review of manual adjusting journal entries to prevent and/or detect and correct financial reporting errors and to ensure activity aligned with actual current year business events.
  - to ensure accuracy of certain beginning balance and year-end close-out activities, at the transaction level, in its three general ledgers due to on-top adjustments for all activity only being recorded to one general ledger.
- CBP did not have effective controls related to the preparation and review of manual entries, including underlying information. Specifically:
  - Management lacked effective controls over manual journal entries related to the reporting of cash collections on the statement of custodial activity.
  - Management recorded manual budget entries in the general ledger without appropriate supporting documentation.

- USSS did not design and implement effective controls over the review and approval and related segregation of duties of manual journal entries. Specifically:
  - Management recorded several journal entries directly to DHS Treasury Information Executive Repository (the central repository for key financial management information for DHS Components), for which support did not exist and approval was not evidenced.
  - Management did not record entries related to the pension liability and expense for the proper amounts or to the proper standard general ledger accounts.

Cause: The Coast Guard's three legacy general ledger systems, developed over a decade ago, have severe functional limitations and necessitate large manual adjusting entries to compensate for the ability to record transactions correctly upon initiation. The magnitude of these entries inhibit management from performing adequate reviews of activity for reasonableness and alignment with current year business events. These system functionality limitations also hinder Coast Guard's ability to ensure accuracy of certain beginning balance and year-end close-out activities. Also refer to IT financial system functionality issues described at Comment **I-A**, *Information Technology Controls and Financial System Functionality*. Due to high turnover of key financial management personnel and the lack of well-defined policies and procedures, USSS personnel lacked sufficient knowledge to properly perform the review and approval of manual journal entries. CBP personnel also lacked sufficient knowledge to properly perform the review and approval of manual entries, primarily due to a lack of adequate training and coordination with financial reporting personnel.

Conditions related to actuarially derived estimates:

- Coast Guard did not sufficiently design, implement, or adequately document:
  - management's review of relevant assumptions, specifically related to newly developed internal experience studies, used in the valuation of the actuarial pension and healthcare liabilities.
  - management's review of the actuary-prepared valuation reports for the pension and healthcare liabilities to include sufficiently precise review thresholds in which to evaluate the impact of changes in assumptions on the valuation results and reconciling underlying report data.
  - controls to reconcile medical claims data to ensure completeness and accuracy of the underlying data prior to submission of the data to the external actuary for use in the valuation of the actuarial healthcare liability.
- USSS did not fully assess risk, design and implement sufficient controls, and document processes over its actuarial pension liability. Specifically, management did not:
  - implement sufficient controls for management review of assumptions used in the valuation of the liability.
  - implement policies and procedures to document their consideration and assessment of estimation uncertainty; contradictory evidence; continued appropriateness of assumptions and estimation methodology; and retrospective review of assumptions and normal cost associated with the plan.
  - implement controls to validate the completeness and accuracy of underlying data used in the valuation of the liability.

Cause: Coast Guard made improvements in internal control related to actuarial liabilities, yet management did not fully understand the extent of their internal control responsibilities. Management did not appropriately document and perform to a sufficient level of precision its review controls related to the estimates. USSS management did not possess a sufficient understanding of the USSS actuarial pension valuation process to fully assess the appropriateness of the assumptions due to over reliance on an external actuary. In addition, existing policies and procedures were not sufficiently specific to enable new employees to review census data changes or complete the annual review checklist.

Other financial reporting related conditions:

- Coast Guard lacked controls to reconcile intra-governmental activities and balances and ensure that transactions were recorded to the correct trading partner at the time the business event occurred.

- USSS did not establish an accrual methodology to properly recognize and record expenses and accounts payable within the period the goods or services were delivered or received.
- USSS lacked properly designed and implemented controls over the preparation and review of periodic financial information at an appropriate level of precision in various processes, including payroll and budgetary obligations and transactions (see also **Comment II-D**, *Property, Plant, and Equipment*).

Cause: Financial system functionality issues also hindered Coast Guard's ability to ensure that transactions were recorded to the correct trading partner at the time of the business event, which, in turn, impacted their ability to reconcile intra-governmental activities and comply with relevant Federal financial system requirements and guidelines as noted in Comment **III-J**, *Federal Financial Management Improvement Act of 1996* (FFMIA). Also refer to IT financial system functionality issues described at Comment **I-A**, *Information Technology Controls and Financial System Functionality*. Due to high turnover of key financial management personnel and the lack of well-defined policies and procedures, USSS personnel lacked sufficient knowledge and an effective communication structure to carry out critical financial reporting functions.

Root causes related to deficient entity-level controls are further discussed in Comment **II-C**, *Entity-Level Controls*.

Effect: The aggregate impact of the financial reporting deficiencies result in a pervasive risk across the consolidated financial statements that a material misstatement will not be prevented or detected and corrected in a timely manner.

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

Recommendations: We recommend that:

DHS:

2. develop continuous monitoring and testing of IT general controls to identify weaknesses, assess the resulting risks created by any identified IT deficiencies, and respond to those risks through implementing compensating controls.
3. align knowledgeable resources to evaluate the roles of service organizations, assess controls at those service organizations, and identify and assess complementary user entity controls within the Components relying on those service organizations.

Coast Guard:

4. improve and reinforce existing policies, procedures, and related internal controls to ensure that:
    a. management adequately researches, supports, and reviews all journal entries and adjusting entries prior to recording in the general ledger.
    b. management records approved on top adjustment entries in the correct underlying general ledger systems in order to generate accurate beginning balances.
    c. personnel record transactions to the accurate trading partner upon initiation; reconcile all intra-governmental balances with trading partners; and resolve differences in a timely manner.
    d. management enhances documentation of their actuarial liability estimate reviews and refines their review of the actuarial liabilities report, underlying data, and assumptions to include precise reconciliations and thresholds.

USSS:

5. establish new, or improve existing, policies, procedures, and related internal controls over the valuation of its pension liability to ensure:
    a. personnel adequately understand the pension estimate.
    b. management maintains oversight of assumptions used in significant estimates and routinely evaluates continued appropriateness of those assumptions.

   c. management completes the annual pension checklist.
   d. management reviews the underlying census data at least annually.

6. develop and implement policies and procedures over the review of manual journal entries.
7. develop and implement policies and procedures for an accrual methodology.
8. design and implement controls over the preparation and review of periodic financial information.

CBP:

9. provide additional training to individuals who prepare and review manual entries that emphasizes the impact of entries on the reporting of financial information.

Independent Auditors' Report
Exhibit II – Significant Deficiencies

II-C Entity-Level Controls

Background: Entity-level controls are controls that have an overarching or pervasive effect on an entity. They include the entity's culture, values, and ethics, as well as the attitudes, awareness, and actions of management and those charged with governance concerning the entity's internal control. Entity-level controls reside in all five components of internal control – control environment, risk assessment, control activities, monitoring, and information and communications – as defined by the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States. These controls must be effectively designed, implemented, and operating together in an integrated manner to create and sustain an organizational structure that is conducive to reliable financial reporting.

The conditions below should be read in conjunction with Comment **I-A**, *Information Technology Controls and Financial System Functionality*; Comment **I-B**, *Financial Reporting*; Comment **II-D**, *Property, Plant, and Equipment*; Comment **II-E**, *Custodial Activities: Entry Process and Refunds and Drawbacks*; and Comment **II-F**, *Grants Management*.

Conditions, Cause/Effect, and Recommendations: During our audit we identified certain control deficiencies for which underlying causes were similar and pervasive throughout the Department. The resulting recommendations, which we provided to correct the deficiencies, are based on improvements needed in management's control environment, risk assessment process, communication practices throughout the Department, and its monitoring activities. Without improvements in these areas, management will be unable to overcome long-standing internal control weaknesses. Accordingly, we deemed the entity-level control deficiencies described below to, collectively, merit the attention of those charged with governance.

Control Environment: The Department has established an organizational structure and assigned responsibilities in a manner to allow Components to operate efficiently and effectively to achieve their objectives. As such, internal control responsibilities are assigned to Components that are responsible for establishing an internal control system at the Component level. Individual Components have differing levels of control environment effectiveness. Additional Department-level leadership is required to address the following areas of the control environment at certain components:

10. filling needs for technical and resource personnel support to remediate severe control deficiencies or prevent deterioration of the internal control system.
11. assessing training needs for personnel and aligning skills with roles and responsibilities; and ensuring individuals in key roles with internal control responsibilities possess the appropriate competencies to perform their duties and are held accountable for their internal control responsibilities.
12. ensuring significant accounting policies and standard operating procedures are formally documented, complete, updated, and revised timely.
13. defining roles and responsibilities of program and field personnel that provide key financial information, and ensuring those personnel understand and comply with policies.
14. establishing a structure with central ownership and oversight for internal controls where responsibilities have been delegated to discrete units.
15. defining succession and contingency plans for key roles involved in internal control over financial reporting to mitigate risks due to employee turnover.

Risk Assessments: The Department has not fully matured its risk assessment processes. As a result, events and transactions that have a greater likelihood of error do not always receive an appropriate level of attention. Risk assessments should be enhanced at both the headquarters level by Departmental management, and individual Components annually, and updated during the year as needed. Examples of areas that should be analyzed and responded to accordingly to enhance the risk assessments include:

16. planned changes that could impact the internal control system, such as financial system transitions and implementation of new tools.
17. processes reliant on information from service organizations, and effectiveness of controls operating at those service organizations.

II.1

18. processes and controls in which management relies on system generated or manually prepared reports to respond to risk of incomplete or inaccurate information within those reports.
19. financial accounts and transactions that are susceptible to error due to IT systems functionality issues and inability to rely on application controls supported by IT general controls that are deficient. Refer to Comment **I-A**, *Information Technology Controls and Financial System Functionality*.

Information and Communications: Communications within Components, between headquarters and Components, and between financial and IT management, should be improved to ensure:

20. coordination between headquarters and Components with resource constraints to respond to financial accounting and reporting risks and control deficiencies.
21. the structure, process, and communication between key stakeholders is sufficient to ensure there is a complete understanding of the end-to-end flow of transactions for key business processes that impact financial reporting.
22. individuals within the financial reporting, accounting and budget departments identify and use quality information for financial reporting.
23. roles and responsibilities of program and field personnel that provide key financial information are communicated, and that those personnel understand and comply with policies.
24. individuals with key internal control responsibilities have a sufficient understanding of the implication of IT vulnerabilities and limitations, and manual compensating internal controls are designed and implemented to mitigate risk.
25. monitoring across larger Components with decentralized operations to ensure responsibilities have been properly assigned and clearly communicated, and that internal control over financial reporting and compliance with direct and material laws and regulations have been properly designed and implemented and are operating effectively across the organization.

Monitoring Controls: As a result of its monitoring activities, which included executive level support, the Department continued to make progress in identifying and remediating control deficiencies in certain areas. However, the Department did not effectively monitor the implementation of corrective actions for all reportable deficiencies identified in the prior year. Additionally, Component management did not always design detective controls (e.g., management review controls of the financial statements) to a proper level of precision to compensate or mitigate weak preventative or process level controls. Consequently, errors, or a combination of errors, in the financial statements could go undetected. These conditions also impact compliance with the *Federal Managers' Financial Integrity Act of 1982*, as cited in Comment **III-G**.

We recommend that DHS:

26. design continuous monitoring controls to ensure personnel with internal control oversight responsibilities adequately examine transactions with a higher risk of error.
27. seek opportunities to implement more reliable controls earlier in the process to prevent errors at the transaction source.
28. enhance internal testing of both financial and IT controls to identify and remediate deficiencies as they may arise in order to sustain auditable financial statements in the future.

II-D Property, Plant, and Equipment

Background: In FY 2017, the Coast Guard and the National Protection and Programs Directorate (NPPD) made significant improvements in demonstrating the design and operating effectiveness of internal controls over PP&E. Specifically related to USCG, which comprises over half of the DHS consolidated PP&E balance, we noted improvement in management's establishment of internal controls related to PP&E and alignment of these responsibilities to personnel in key roles with the appropriate expertise for performing the related control activities. NPPD implemented controls to ensure proper classification of expenditures as capital or expense and to track asset activity at a transaction level to ensure proper recording of asset activity. Though some control

Independent Auditors' Report
Exhibit II – Significant Deficiencies

deficiencies identified in FY 2016 at NPPD related to PP&E persisted, we did not deem the deficiencies warranted the attention of those charged with governance.

USSS, however, continued to experience significant issues in their design and implementation of PP&E controls. USSS property primarily consists of equipment used to protect national leaders, visiting heads of state and governments, designated sites, and national special security events. USSS property also consists of buildings and leasehold improvements related to field offices and its headquarters.

Conditions: We determined the following remaining deficiencies at USCG, considered in aggregate with the following deficiencies at USSS, to merit the attention of those charged with governance:

Coast Guard did not:

- incorporate precise thresholds in their design and implementation of controls over the management review of the construction-in-progress (CIP) rollforward schedule of activity in order to appropriately evaluate the validity of activity and ensure alignment with business events.
- effectively design and implement control procedures over management's review of the classification of CIP costs to ensure a sufficient number of cost decisions are reviewed to identify and evaluate any pervasive inaccuracies in the underlying allocation.
- effectively design and implement controls over the physical count of real property assets to ensure assets are sufficiently inventoried such that assets which are no longer functional are timely identified and impaired.
- have controls that were operating effectively over the timely recording of fixed asset addition and retirement activity in the general ledger.

USSS did not:

- design and implement controls and processes to reconcile its PP&E detailed sub-ledger to the general ledger.
- implement established inventory policies and control procedures to ensure the completeness, existence, and accuracy of real and personal property assets.
- design and implement sufficient controls to appropriately track asset activity at a transaction level, and ensure the timely recording of asset additions, deletions, or other adjustments to PP&E.
- design and implement controls and processes to identify instances of and criteria for asset impairment.

Cause: During FY 2017, Coast Guard utilized a risk based approach to remediation of control deficiencies that prioritized the refinement of the design, development, and implementation of control processes related to monitoring of PP&E. However, management lacked an appropriate level of precision to sufficiently evaluate all CIP activity and did not focus efforts on remediation of deficiencies related to real property inventories and the timely recording of asset activity.

USSS did not properly assess the risks and implement controls related to the capital property processes, including proper integration between the sub-ledger and general ledger. USSS did not have the appropriate resources to monitor and oversee the reporting and recording of capital property. Additionally, the Administrative Operations Division and the Financial Management Division did not communicate sufficiently to ensure proper accountability. As a result, USSS experienced significant difficulties in providing complete and accurate data to support operating controls and year-end PP&E balances.

Root causes related to deficient entity-level controls are further discussed in Comment **II-D**, *Entity-Level Controls*.

Effect: The aggregate impact of the PP&E deficiencies result in a risk that misstatements related to the completeness, existence, and valuation of PP&E are not prevented and/or detected and corrected in a timely manner.

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

Recommendations: We recommend that:

Coast Guard:

29. enhance controls over the management review of the CIP rollforward to ensure validity of activity within defined thresholds and accurate recording in the general ledger.
30. further develop the design of controls over the review of CIP activity cost decisions to ensure a sufficient number of review is completed.
31. refine the design of controls over the physical count of real property assets to ensure the completeness and existence of all real property assets.
32. reinforce controls over the timely recording of asset addition and retirement activity.

USSS:

33. design and implement controls and procedures to perform reconciliations between the PP&E sub-ledger to the general ledger and reconcile all significant differences.
34. adhere to established inventory policies and procedures, and design and implement controls to appropriately track asset activity at the transaction level and ensure the timely recording of asset additions, deletions, or other adjustments.
35. establish new, or improve current, communication channels and standard operating procedures within the Administrative Operations Division and Financial Management Division to ensure sufficient review of personal and real property activity and balances, including equipment, internal-use software, land, buildings and other structures, and to verify costs are appropriate and reflect USSS's business operations during the fiscal year.
36. design and implement controls and processes to identify instances and criteria for asset impairment.
37. attract and deploy additional skilled resources within the Administrative Operations Division and Financial Management Division to support the control environment and provide the necessary financial reporting oversight.

II-E Custodial Activities: Entry Process and Refunds and Drawbacks

Background: CBP comprises approximately 99% of the Department's custodial activities. The majority of CBP's custodial collections are from merchandise entering the United States from foreign ports of origin, against which CBP assesses import duties, taxes, and fees. Receipts of import duties and disbursement of refunds are presented on the statement of custodial activity. Any taxes, duties and trade receivables (TDTR) related to merchandise that has entered commerce but has not been collected is recorded on the DHS balance sheet as TDTR. TDTR also includes any fines and penalties and supplemental duty bills, including anti-dumping and countervailing duties that CBP has assessed against the trade due to non-compliance with trade laws. To ensure the subsequent collection of these unpaid duties, taxes and fees, CBP requires bonds from parties that import merchandise into the United States. The assessment of liquidated damages against a bond serves to promote compliance with laws and regulations (identified as the entry process).

Drawback claims are a remittance, in whole or in part, of duties, taxes, or fees previously paid by an importer. Drawback claims typically occur when imported goods on which duties, taxes, or fees have been previously paid are subsequently exported from the United States or destroyed prior to entering the commerce of the United States. The *Trade Facilitation and Trade Enforcement Act of 2015* (TFTEA) contained provisions for drawback modernization that simplify the rules for determining if exports are eligible for drawback refunds, expand the timeframe for drawback claims, and eliminates some of the documentation requirements.

Many of the conditions cited below have existed for several years. Management has stated that the timeframe for remediation of these conditions is dependent on successful implementation of IT system upgrades and the TFTEA legislation changes.

Independent Auditors' Report
Exhibit II – Significant Deficiencies

Conditions: We identified the following internal control deficiencies related to custodial activities at CBP that we deemed to, collectively, merit the attention of those charged with governance:

Related to the Entry Process:

- CBP did not clearly establish consistent procedures for completing and documenting the review of the entry edit and exception reports. Port personnel performed and documented their reviews inconsistently from port to port and did not consider the completeness and accuracy of the data used in the performance of the controls. Additionally, port personnel did not subject items that have been reviewed or prepared by a Center of Excellence and Expertise to the same level of review as those items that were prepared by the port.
- Port personnel did not effectively review the sufficiency of bonds used for entry by importers and brokers. Specifically, management was unable to demonstrate that port personnel reviewed Single Transaction Bonds (STBs) for sufficiency.
- The automated control designed to monitor the sufficiency of continuous bonds did not accurately capture necessary financial data to ensure the sufficiency of those bonds.
- CBP did not properly design controls to ensure the proper recording of fines, penalties and forfeitures (FP&F) related to TDTR and the associated allowance balance. Specifically, CBP did not have a consistently executed process to update receivable amounts for offers in compromise or mitigated receivables.
- CBP did not properly design controls to ensure the timely resolution of liabilities for deposit accounts, which are reported as part of other non-governmental liabilities on the balance sheet. Specifically, CBP did not have a consistently executed process to recognize prior disclosures and other deposits as custodial revenue once a specifically identifiable, legally enforceable claim to the deposit arises.

Related to Refunds and Drawbacks:

- The current refunds and drawbacks IT system lacked effective automated controls to prevent, or detect and correct, excessive drawback claims. The programming logic did not link drawback claims to imports at a sufficiently 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 was based. Further, the system had not been configured to restrict drawback claims to 99 percent of each entry summary, in accordance with regulations for applicable drawback claims.
- Manual drawback review policies did not require drawback specialists to review prior drawback claims at a sufficient level of detail 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 importers maintained support for drawback transactions for the full claim time-period and CBP maintained support for importers qualifying for accelerated filer status.
- Automated controls did not operate effectively to prevent a claimant from exceeding the continuous bond amount on file.

Cause/Effect: Policies and procedures over the review of entry edit, and exception reports were not sufficiently to ensure personnel performed the controls consistently at all ports and Centers of Excellence and Expertise during FY 2017. In addition, existing policies and procedures do not require timely coordination with all applicable parties. Failure to consistently adhere to existing policies and procedures for review and verification of reports may result in a potential misstatement to the balance of net TDTR and total cash collections on the statement of custodial activities. Inadequate controls could result in CBP's failure to identify amounts that are due to the Treasury general fund.

CBP did not consistently adhere to policies and procedures for the review of STBs; and CBP management did not develop and communicate policies and procedures to uniformly perform and document the manual review

II.5

of STBs for sufficiency. The mandated timeframe for the transition from CBP's legacy to new entry system and resource constraints prevented CBP from fully developing policies and procedures before implementing operational changes. Additionally, resource constraints inhibited management's ability to timely remediate the monitoring of continuous entry bonds.

Failure to fully establish and define control environments related to the entry process, including FP&F and liability for deposit accounts, could lead to potential misstatements of net TDTR and other non-governmental liabilities on the DHS balance sheet and total cash collections on the statement of custodial activities.

IT system functionality and outdated IT systems contribute to the weaknesses identified above. Refer to Comment **I-A**, *Information Technology Controls and Financial System Functionality*. The Automated Commercial System (ACS) does not provide the necessary functionality to prevent the overpayment of drawback claims. CBP plans to replace its drawback system in the future. However, until such implementation occurs, CBP does not currently have sufficient resources to effectively perform compensating manual controls over drawback claims. TFTEA changes the statutes that govern the drawback process and further reduces the need for manual controls. However, it does not take effect until February 2018. The length of the drawback claim lifecycle often extends beyond the documentation retention period, which is set by statute. Until effective automated and manual controls are implemented over the drawback process, CBP may be subject to financial loss due to excessive drawback claims. In addition, drawback claims are governed by the laws and regulations in effect at the time of filing. As the length of the drawback lifecycle can last several years, it will take several years for claims existing prior to the implementation of TFTEA to be completed.

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

Recommendations: We recommend that CBP:

Related to the Entry Process:

38. update and redistribute guidance to appropriate personnel regarding the relevant CBP directives to ensure consistent performance of controls across all locations and provide training to all personnel on new policies to ensure consistent implementation at decentralized locations.
39. develop policies and procedures to ensure that each STB is reviewed for sufficiency until automation occurs.
40. fully implement the automated controls over continuous transaction bond processing.
41. enhance policies and procedures over the review of FP&F and liability for deposit account balances to ensure balances are properly stated at year-end.

Related to Refunds and Drawbacks:

42. continue with the scheduled implementation of the new drawback system.
43. implement requirements of TFTEA, which will take effect beginning in February 2018.
44. continue to enhance the manual controls to prevent, or detect and correct excessive drawback claims after the implementation of TFTEA, as current claims will take several years to be processed through the drawback lifecycle.
45. implement policies and procedures to ensure supporting documentation for accelerated filer status is maintained.

II-F Grants Management

Background: The Federal Emergency Management Agency (FEMA) is the primary grantor within DHS, managing multiple Federal disaster and non-disaster grant programs.

Conditions: The majority of the following internal control deficiencies related to grants management were reported in the prior year and persisted in FY 2017. We deemed these deficiencies to, collectively, merit the attention of those charged with governance.

Independent Auditors' Report
Exhibit II – Significant Deficiencies

FEMA did not:

- effectively communicate policies and procedures to the regional offices, where the majority of day-to-day management of its grantees occurs, to ensure that internal controls over the monitoring of grantees' compliance with laws and regulations had been properly designed and implemented, and were operating effectively.
- issue Management Decision Letters timely for single audit reports available in the Federal Audit Clearinghouse.
- reconcile grantee quarterly financial reports to FEMA's systems consistently and effectively.
- consistently implement effective controls to ensure timely closeout of FEMA's grants.

Cause/Effect: FEMA did not fully implement policies and procedures over its grant program in order to ensure compliance with the *Single Audit Act*, as implemented by the Super Circular. 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 and properly recorded to the general ledger. Manual processes, which were not always effective, were used to reconcile open grants within grants systems to FEMA's general ledger system, and to track grants eligible for close-out. Refer to Comment **I-A**, *Information Technology Controls and Financial System Functionality.* Although responsibilities surrounding grants management have been assigned to discrete units within the organization, there is no overall central oversight to ensure the delegated responsibilities are being effectively carried out for all grants. Thus, FEMA cannot ensure there is effective management and administration of the grants process, as well as compliance with provisions of the *Single Audit Act.* Specifically, the lack of standardized internal controls 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 creates risk of excessive cash on hand at grantees and untimely closure of grants.

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

Recommendations: We recommend that FEMA:

46. assign the responsibility for central oversight of grants management to one program office within FEMA.
47. complete the implementation of policies and procedures to ensure full compliance with the *Single Audit Act* related to receipt and review of grantees' single audit reports.
48. implement monitoring procedures over obtaining, reviewing timely, and reconciling required quarterly grantee reports.
49. develop and implement procedures to reconcile grant award information maintained in grant IT systems to the general ledger.
50. develop and implement procedures to create and track comprehensive lists of FEMA grants that are eligible for close-out.
51. implement a continuous quality assurance and grants monitoring process to include review of corrective actions resulting from implementation of the above recommendations.

Independent Auditors' Report
Exhibit III – Compliance and Other Matters

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

FMFIA requires agencies to establish effective internal control and financial systems and to continuously evaluate and assess the effectiveness of their internal control. DHS's implementation of OMB Circular No. A-123 facilitates compliance with the FMFIA. DHS has implemented a multi-year plan to achieve full assurance on internal control. However, the DHS *Secretary's Assurance Statement* dated November 14, 2017, as presented in *Management's Discussion and Analysis* of the Department's FY 2017 *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, 2017. Management's findings were similar to the control deficiencies we have described in Exhibits I and II. However, continuous monitoring and testing of both financial and IT controls was not performed over all significant areas.

While we noted the Department progressed toward full compliance with FMFIA and OMB Circular No. A-123, the Department did not fully established effective systems, processes, policies, and testing procedures to ensure that internal controls are operating effectively throughout the Department. We also noted deficiencies related to monitoring of the internal control system as discussed in Comment **II-D**, *Entity-Level Controls*.

Recommendation: We recommend that the Department:

52. 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 2018.
53. conduct complete risk assessments to identify significant risk areas and continuously monitor and test the financial and IT controls within those areas.

III-H *Single Audit Act Amendments of 1996* (Single Audit)

FEMA is the primary grantor in DHS, managing multiple Federal disaster and non-disaster grant programs. The *Single Audit Act Amendments of 1996*, as implemented by Title 2 of the Code of Federal Regulations (CFR), Part 200 - *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Super Circular), 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 monitors grantees and their single audit findings, FEMA did not fully comply with provisions in the Super Circular in FY 2017. We noted that FEMA did not review all grantee single audit reports in a timely manner. Further, the decentralization of grants management prevents FEMA from being effectively able to monitor its grantees' compliance with applicable laws and regulations.

Recommendation: We recommend that FEMA:

54. implement the recommendations in Comment **II-F**, *Grants Management*.

III-I *Antideficiency Act* (ADA)

Various management reviews and DHS Office of Inspector General (OIG) investigations are ongoing within the Department, which have or may identify ADA violations, as follows:

- The independent investigation, at the Office of 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 the U.S. Government Accountability Office (GAO) of the violation is pending OMB clearance.
- In FY 2016, Immigration and Customs Enforcement (ICE) finalized its investigation of payments made from FY 2003 to FY 2013 exceeding statutory authority for continuing to provide medical care for detainees released from custody. The package to notify the President, Congress, and GAO of the violation is pending OMB clearance.
- In FY 2015, the Management Directorate completed the investigation of an over-obligation of funds that occurred in FY 2013. In FY 2017, DHS formally notified the President, Congress, and GAO of the violation.

III.1

- CBP is investigating a potential ADA violation related to overtime in excess of the annual cap established in the FY 2014 and FY 2015 appropriations acts. CBP is still working on corrective actions to finalize the report.
- DHS is investigating potential ADA violations related to 150 contracts and Other Transaction Agreements awarded from FY 2010 to FY 2016 (five with USCG, one with ICE, one with CBP, 36 with the Management Directorate, and 107 with the Transportation Security Administration) without the appropriate Congressional notification for awards greater than $1 million.
- USSS is investigating a potential incident related to accepting voluntary services in violation of the ADA in FY 2014.
- ICE completed its investigation of a potential ADA violation related to FY 2016 expenditures made for improvements to the ICE Director's office in excess of $5,000 without proper Congressional notification. The package to notify the President, Congress, and GAO of the violation is being prepared for routing to OMB for clearance.

Recommendation: We recommend that DHS:

55. complete the internal reviews currently planned or being performed, and properly report the results in accordance with the ADA, where necessary.

III-J *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.

Multiple Components did not fully comply with at least one of the requirements of FFMIA based on criteria set forth in OMB Circular No. A-123, Appendix D, C*ompliance with the Federal Financial Management Improvement Act of 1996*. The reasons for noncompliance are reported in Exhibits I and II. The DHS Secretary stated in the *Secretary's Assurance Statement,* dated November 14, 2017, 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 2017 AFR.

An element within FFMIA, Federal system requirements, is ensuring security over financial management information. This element is addressed further in the *Federal Information Security Modernization Act of 2014* (FISMA). 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-A**, *Information Technology Controls and Financial System Functionality*, which impact the Department's ability to fully comply with FISMA.

Recommendation: We recommend that DHS:

56. improve its financial management systems to ensure compliance with FFMIA, and implement the recommendations provided in Exhibits I and II.

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

Criteria	Reference
I-A Information Technology Controls and Financial System Functionality	
CBP *2013 Drawback Handbook*, Issued (HB 3700-01B)	Section 5.2
CBP Directive 5610-004B, *Resolving Certain ACS Exception and Error Reports*	Section 5.4, 5.6, & 5.11
CBP Directive No. 5610-004B, *Budget Clearing Account (BCA) and Suspense Item Report* (ACSR-CL-800) Attachment	Part 8
Code of Federal Regulations, Title 19	§113.13, §113.65, §191.51, & §191.92
Federal Financial Management Improvement Act of 1996	Section 803
Federal Managers' Financial Integrity Act of 1982	Section 2
GAO *Financial Management FFMIA Implementation Critical for Federal Accountability (GAO-02-29)*	Page 1, Paragraph 2
GAO *Standards for Internal Control in the Federal Government* (GAO-14-704G)	Overview Section 1 & 2 Principle 10, 11, 12, & 16
OMB Circular No. A-136, *Financial Reporting Requirements*, Revised	Section V
OMB Memorandum M-13-23, *Appendix D to Circular No. A-123, Compliances with the Federal Financial Management Improvement Act of 1996*	Section 7
Treasury Financial Manual Bulletin No. 2017-07, *USSGL Supplement Part I: FY2017 Reporting*	Section IV
Treasury Financial Manual Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*	Section1 & 2
US Code Title 31, Chapter 15	§1501
I-B Financial Reporting	
Code of Federal Regulations, Title 5	§1315
Component Requirements Guide for Financial Reporting in FY 2017, Version 1.0	Sections 7 – 9
Federal Financial Management Improvement Act of 1996	Section 803
GAO Federal Information System Controls Audit Manual (GAO-09-232G)	Section 2 & 4

Criteria.1

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

Criteria	Reference
GAO *Financial Management FFMIA Implementation Critical for Federal Accountability (GAO-02-29)*	Page 1, Paragraph 2
GAO *Standards for Internal Control in the Federal Government* (GAO-14-704G)	Overview Section 1, 2, & 4 Principles 2 - 4, 7, 9 - 14, 16, & 17
NIST Special Publication 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*	Chapter 2
OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*	Section 120, Appendix F
OMB Circular No. A-136, *Financial Reporting Requirements*, Revised	Section V
OMB Memorandum M-13-23, *Appendix D to Circular No. A-123, Compliances with the Federal Financial Management Improvement Act of 1996*	Section 7
OMB Memorandum M-16-17, *OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control*	Section III
OMB, 2 CFR Chapter I, and Chapter II, Parts 200, 215, 220, 225, and 230, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*	§ 200.513
Statement of Federal Financial Accounting Standards 5: *Accounting for Liabilities of the Federal Government*	Summary, Paragraphs 22 & 67
Statement of Federal Financial Accounting Standards 7: *Accounting for Revenue and Other Financial Sources and Concepts for Reconciling Budgetary and Financial Accounting*	Paragraph 79
Statement of Federal Financial Accounting Standards 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*	Summary, Paragraph 33
Treasury Financial Manual Bulletin No. 2017-07, *USSGL Supplement Part I: FY2017 Reporting*	Section III & IV
Treasury Financial Manual Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*	Section 1 & 2

Criteria.2

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

Criteria	Reference
US Code Title 31, Chapter 15	§1501, §1554
II-C Entity-Level Controls	
Component Requirements Guide for Financial Reporting in FY 2017, Version 1.0	Section 3 & 8
DHS Management Directive System, MD 1030, *Corrective Action Plans*	Section VI
Federal Financial Management Improvement Act of 1996	Section 803
GAO *Standards for Internal Control in the Federal Government* (GAO-14-704G)	Section 1, 2, & 4 Principle 2 - 5, 7, 9-10, 12 - 14, 16, & 17
NIST Special Publication 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*	Chapter 2
OMB Circular No. A-50, *Audit Follow Up*	Section 1 & 5
OMB Memorandum M-16-17, *OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control*	Section III
Statement of Federal Financial Accounting Standards 5: *Accounting for Liabilities of the Federal Government*	Summary, Paragraph 67
Statement of Federal Financial Accounting Standards 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*	Summary, Paragraph 33
II-D Property, Plant, and Equipment	
Federal Financial Management Improvement Act of 1996	Section 803
GAO *Standards for Internal Control in the Federal Government* (GAO-14-704G)	Section 1 Principle 3, 5, 10, 12, 13, & 16
OMB Circular No. A-136, *Financial Reporting Requirements*, Revised	Section II
Statement of Federal Financial Accounting Standards 6: *Accounting for Property, Plant, and Equipment*	Paragraph 39
USCG, Audit Remediation Division (CG-845), *Interim Standard Operating Procedure, CG-845 Construction-in-Progress Monthly Periodic Review Process*	Section 5

Criteria.3

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

Criteria	Reference
USCG, *Financial Resource Management Manual - Procedures*, COMDTINST M7100.4	Section 7 & 10
II-E Custodial Activities: Entry Process and Refunds and Drawbacks	
CBP *2013 Drawback Handbook*, Issued (HB 3700-01B)	Section 5
CBP Directive 5610-004B, *Resolving Certain ACS Exception and Error Reports*	Section 5
CBP Directive No. 5610-004B, Budget Clearing Account (BCA) and Suspense Item Report (ACSR-CL-800) Attachment	Part 8
Code of Federal Regulations, Title 19	§111.25, §113.13, §113.15, §113.65, §163.4, §191.15, §191.38, §191.51, & §191.92
GAO *Standards for Internal Control in the Federal Government* (GAO-14-704G)	Principle 10, 11, 12, & 16
Statement of Federal Financial Accounting Standards 7: *Accounting for Revenue and Other Financial Sources and Concepts for Reconciling Budgetary and Financial Accounting*	Paragraph 53

II-F Grants Management	
FEMA CF-FM, *Accounting Accrual - Grants - PARS*, Number 2600-001, Version 9.0	Step 7, Appendix B
FEMA CF-FM-AA, *Disaster Grants and FEMA/State Agreement Closeouts*, Number 2600-017, Version 4.0	Chapter 4
FEMA *Single Audits of Federal Financial Assistance*, FD 077-2 Revision Number: 01	Section A, Section D
GAO *Standards for Internal Control in the Federal Government* (GAO-14-704G)	Section 1 & 2 Principle 10, 11, & 12
OMB, 2 CFR Chapter I, and Chapter II, Parts 200, 215, 220, 225, and 230, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*	§ 200.501, § 200.513, & § 200.521

Criteria.4

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

Homeland Security

November 14, 2017

MEMORANDUM FOR: John Roth
Inspector General

FROM: Stacy Marcott
Chief Financial Officer (Acting)

SUBJECT: Fiscal Year 2017 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) 2016 and 2017. We agree with the Independent Public Accountant's conclusions. We are proud of our fifth consecutive unmodified financial statement audit opinion.

The Department has made strides to mature our organization from both an audit remediation and internal control perspective. Our highest priority is supporting the critical mission of DHS with reliable financial information, and we have implemented robust oversight to ensure the integration of controls and standard business processes across the Department. Our leadership is also focused on working with the few remaining DHS components experiencing enterprise level control challenges in terms of staffing, training or coordination.

The audit report notes that the Department's long-standing material weakness over Property, Plant, and Equipment has been reduced in severity and is now considered a significant deficiency. This improvement is the result of substantial progress across the Department, most notably at the United States Coast Guard. Over the years, the Department has demonstrated the ability to resolve material weaknesses, from 10 in 2006 to two in FY 2017. We will continue our efforts to remediate control weaknesses in FY 2018, moving forward on the path to an unmodified opinion on our internal control over financial reporting.

I look forward to working collaboratively with the Office of Inspector General and the Independent Public Accountant to further strengthen DHS financial management and internal control.

Appendix A

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B
Report Distribution

Department of Homeland Security

Secretary
Deputy Secretary
Chief of Staff
General Counsel
Executive Secretary
Director, GAO/OIG Liaison Office
Assistant Secretary for Office of Policy
Assistant Secretary for Office of Public Affairs
Assistant Secretary for Office of Legislative Affairs
DHS Chief Information Officer

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees

Additional Information and Copies

To view this and any of our other reports, please visit our website at: www.oig.dhs.gov.

For further information or questions, please contact Office of Inspector General Public Affairs at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov.
Follow us on Twitter at: @dhsoig.

OIG Hotline

To report fraud, waste, or abuse, visit our website at www.oig.dhs.gov and click on the red "Hotline" tab. If you cannot access our website, call our hotline at (800) 323-8603, fax our hotline at (202) 254-4297, or write to us at:

Department of Homeland Security
Office of Inspector General, Mail Stop 0305
Attention: Hotline
245 Murray Drive, SW
Washington, DC 20528-0305