15 YEARS
SAFEGUARDING AMERICA

With honor and integrity, we will safeguard the American people, our homeland, and our values.

FY 2018 AGENCY FINANCIAL REPORT

DEPARTMENT OF HOMELAND SECURITY

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In May 2018, DHS received its fifth consecutive Certificate of Excellence in Accountability Reporting (CEAR) from the Association of Government Accountants (AGA) for its FY 2017 Agency Financial Report, along with a best-in-class award for *Best Summary of Significant Accounting Policies*. The CEAR Program was established by the AGA, in conjunction with the Chief Financial Officers Council and the Office of Management and Budget, to further performance and accountability reporting.

About this Report

The Department of Homeland Security (DHS) Agency Financial Report for Fiscal Year (FY) 2018 presents the Department's detailed financial information relative to our mission and the stewardship of those resources entrusted to us. It also highlights the Department's priorities, strengths, and challenges in implementing programs to enhance the safety and security of our Nation.

For FY 2018, the Department's Performance and Accountability Reports consist of the following three reports:

- DHS Agency Financial Report | Publication date: November 15, 2018.
- DHS Annual Performance Report | Publication date: The DHS Annual Performance Report is submitted with the Department's Congressional Budget Justification.
- DHS Report to our Citizens (Summary of Performance and Financial Information) | Publication date: February 15, 2019.

When published, all three reports will be located on our website at: http://www.dhs.gov/performance-accountability.

Message from the Secretary

November 14, 2018

I am pleased to present the Department of Homeland Security's (DHS) Agency Financial Report for Fiscal Year (FY) 2018. This report provides an assessment of the Department's detailed financial status and demonstrates how the resources entrusted to us were used to support our homeland security mission.

Fifteen years ago this year, DHS opened its doors for the first time, combining the efforts of 22 legacy agencies into a single department with a common mission: to protect our country from the many threats we face. These fifteen years have not been without challenge, and we learned that we must instill a culture of relentless resilience. As a department and a nation, we must focus not only on bouncing back from incidents, but on bouncing forward, adapting and innovating even while under attack, and coming back stronger to stare down the next challenge more decisively than before.

We are championing a Resilience Agenda for DHS that focuses on:

- Leaning in against today's threats while zooming out to prepare for those on the horizon;
- Being adaptive to keep pace with our adversaries;
- Identifying and confronting systemic risk;
- Preparing at the citizen level;
- Building redundancy and resilience into everything; and
- Raising the baseline of our security across the board—and across the world.

To be a resilient organization, our business processes must be rock solid. Functions such as budgeting, financial management, internal control, and acquisition need to work seamlessly to enable our front-line operators to do their jobs. In its first fifteen years, DHS aggressively pushed forward to improve its management and operations, facing and over-coming many of the challenges of unifying so many disparate organizations.

One of those challenges was to show that the Department's financial statements are accurate and transparent. For FY 2018, DHS received a clean audit opinion on its financial statements for the **sixth consecutive year** and continues to strengthen and mature our internal control processes. DHS is the only federal agency required by law to obtain an opinion on internal controls over financial reporting. The Department's maturing internal control program and its comprehensive enterprise approach to remediation are driving continuous progress, as evidenced by the ability to reduce material weaknesses. With remaining internal control weaknesses in Financial Reporting and Information Technology Controls and Financial System Functionality, DHS is executing a multi-year strategy and plan to achieve an unmodified internal control audit opinion.

The partnerships we built since the Department was formed will be the foundation we use to continue our success. Our collaboration with other federal agencies will strengthen business processes and standards across the government. Coordination with our auditors and oversight organizations will encourage on-going improvements. We will continue to demonstrate our dedication to our mission to Congress and the American taxpayers by becoming a better, more resilient organization.

I look forward to what we will accomplish in the next fifteen years and far into the future.

Sincerely,

Kirstjen Nielsen
Secretary of Homeland Security

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Management's Discussion and Analysis

The ***Management's Discussion and Analysis*** is required supplementary information to the financial statements and provides a high-level overview of the Department of Homeland Security.

The ***Overview*** section describes the Department's organization, missions and goals, and overview of our Components.

The ***Performance Overview*** section provides a summary of each homeland security mission, selected accomplishments, key performance measures, and future initiatives to strengthen the Department's efforts in achieving a safer and more secure Nation.

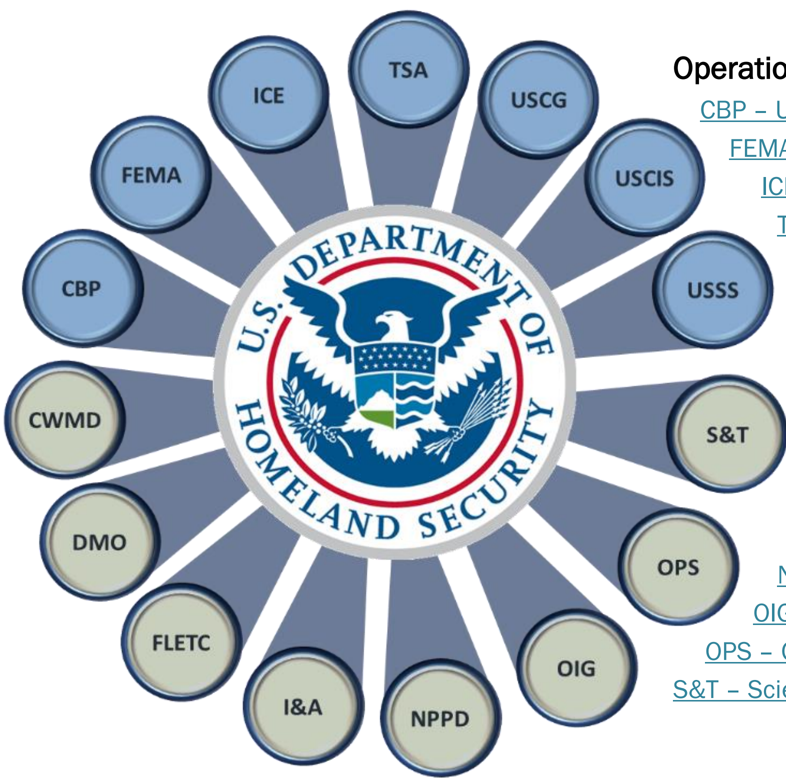
The ***Financial Overview*** section provides a summary of DHS's financial data explaining the major sources and uses of funds and provides a quick look at our Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Custodial Activities.

The ***Management Assurances*** section provides the Secretary's Assurance Statement related to the Federal Managers' Financial Integrity Act, the Federal Financial Management Improvement Act, and the Department of Homeland Security Financial Accountability Act. This section also describes the Department's efforts to address our financial management systems to ensure systems comply with applicable accounting principles, standards, requirements, and with internal control standards.

Our Organization

The Department of Homeland Security (DHS) has a fundamental duty—to secure the Nation from the many threats we face. This requires the dedication of more than 240,000 employees in jobs that range from aviation and border security to emergency response, from cybersecurity analyst to chemical facility inspector. Our duties are wide-ranging and as one team, with one mission—we are one DHS—keeping America safe.

DHS's operational Components lead the Department's frontline activities to protect our Nation (shaded in blue). The remaining DHS Components (shaded in light green) provide resources, analysis, equipment, research, policy development, and support to ensure the frontline organizations have the tools and resources to accomplish the DHS mission. For more information about the Department's structure, visit our website at http://www.dhs.gov/organization. For information on each of our Components[1], click on their respective link to the right of the figure below.



Operational Components

CBP – U.S. Customs and Border Protection
FEMA – Federal Emergency Management Agency
ICE – U.S. Immigration and Customs Enforcement
TSA – Transportation Security Administration
USCG – U.S. Coast Guard
USCIS – U.S. Citizenship and Immigration Services
USSS – U.S. Secret Service

Support Components

CWMD – Countering Weapons of Mass Destruction Office
DMO – Departmental Management and Operations
FLETC – Federal Law Enforcement Training Centers
I&A – Office of Intelligence and Analysis
NPPD – National Protection and Programs Directorate
OIG – Office of Inspector General
OPS – Office of Operations Coordination
S&T – Science and Technology Directorate

Figure 1: DHS Operational and Support Components

[1] The Countering Weapons of Mass Destruction (CWMD) Office was created in December 2017 to elevate and streamline DHS efforts to prevent terrorists and other national security threat actors from using harmful agents, such as chemical, biological, radiological, and nuclear material and devices, to harm Americans and U.S. interests. The CWMD Office consolidates the Domestic Nuclear Detection Office (DNDO), a majority of the Office of Health Affairs (OHA), and elements of the Office of Strategy, Plans, & Policy and the Office of Operations Coordination.

Performance Overview

The Performance Overview provides a summary of key performance measures, selected accomplishments, and forward-looking initiatives to strengthen the Department's efforts in achieving a safer and more secure Nation. A complete list of all performance measures and results will be published in the DHS FY 2018-2020 Annual Performance Report with the FY 2020 Congressional Budget and can be accessed at: http://www.dhs.gov/performance-accountability.

The Department created a robust performance framework that drives performance management and enables the implementation of performance initiatives. This approach also facilitates the reporting of results within the Department for a comprehensive set of measures aligned to the missions and goals of the Department. The figure below shows the linkage between our strategic plan, the Department's mission programs, and the measures we use to gauge performance. This approach to measurement ensures that the Department can assess the achievement of our missions as identified in our strategic framework.

Missions	Missions describe at the highest level what the Department aims to achieve.
Goals	Goals are the overarching structure used to group multiple sub-goals and associated program performance goals to influence achievement of the Department's missions.
Sub-goals	Sub-goals are statements in the Department's Strategic Plan that describes a targeted area of action to support achievement of the related Department Goal.
Mission Programs	A mission program is group of activities acting together to accomplish a specific high-level outcome external to DHS and include operational processes, skills, technology, human capital, and other resources.
Performance Goals	This is an outcome-oriented statement for each mission program that describes the value the program intends to deliver to its beneficiaries and the American public.
Performance Measures	This is an indicator, statistic, or metric used to gauge program performance and describe results associated with program and Departmental missions and goals.
Performance Targets	A target is a performance measure's projected level of performance to communicates at what level a program aspires to perform.
Performance Results	A result is the actual level of performance for each performance measure achieved during a fiscal year. Results are compared to targets to determine if planned performance was achieved.

Figure 2: DHS Performance Framework

Mission 1: Prevent Terrorism and Enhance Security

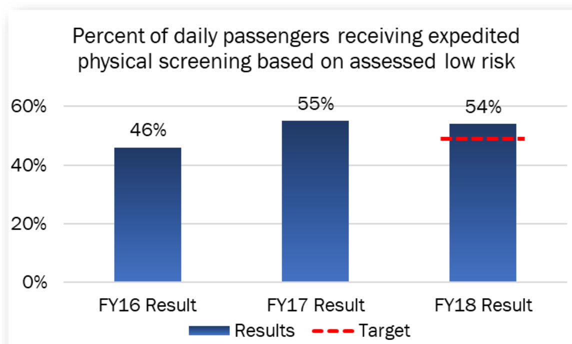
Preventing a terrorist attack in the United States remains the cornerstone of homeland security. Our vision is a secure and resilient Nation that effectively prevents terrorism in ways that preserve our freedom and prosperity. The focus for this mission is to prevent terrorist attacks, protect against the unauthorized acquisition/use of chemical, biological, radiological, and nuclear materials/capabilities, and reduce risk to the nation's critical infrastructure, key leaders, and events.

Improved Intelligence Sharing with Modest Resources

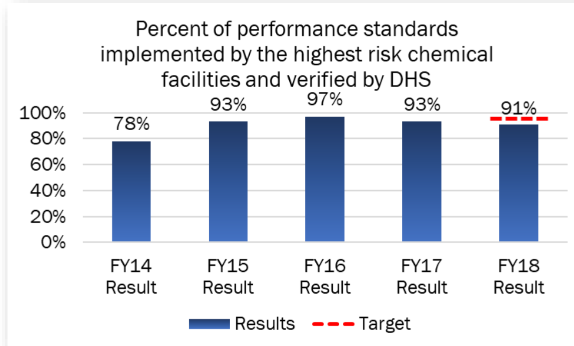
With two new positions within the Aviation Domain Intelligence Integration and Analysis Cell (ADIAC), TSA is improving their intelligence-driven operations and positively impacting TSA's information-sharing/partnering strategic objectives.

TSA's Intelligence & Analysis (I&A)-led ADIAC team formed a new TSA institution relevant to aviation private sector partners with the development of a full-time aviation industry-government threat intelligence sharing capability that has materially enhanced partner sharing and collaboration. ADIAC industry members are noticing the increased aviation threat domain awareness since ADIAC began formally accepting members in late 2017. As of this publication, there are 147 individual participants from 45 industry member organizations and 15 agencies who have been granted full membership by the joint Aviation Government and Aviation Security Coordinating Councils. The ADIAC hosts daily collaborative forums to provide value-added analytic input to stakeholders. TSA's commitment to two-way government-industry threat intelligence and information sharing has provided a trusted partnering forum that contributes directly to the TSA strategic priorities. The growing number of full members and participation in the recurring ADIAC "Industry Day" clearly demonstrate the relevance and value provided by this TSA team, providing evidence that even small fiscal outlays can make a big impact with stakeholders.

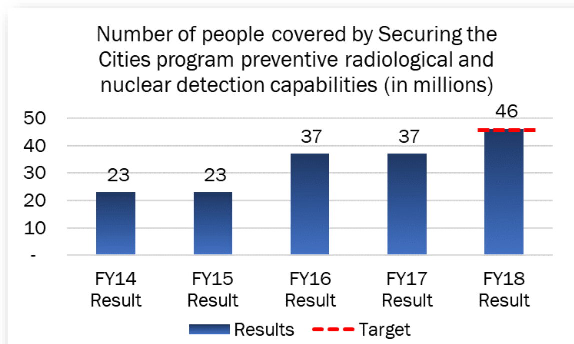
The following highlighted measures gauge our efforts to prevent terrorism and enhance security. Up to five years of data is presented if available.



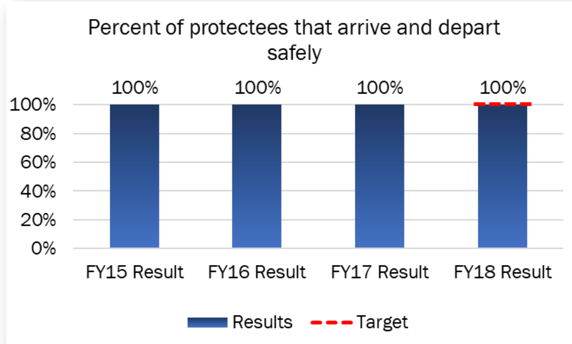
Percent of daily passengers receiving expedited physical screening based on assessed low risk (TSA): This measure gauges the percent of daily passengers who received expedited physical screening because they meet low risk protocols or have been otherwise assessed at the checkpoint as low-risk. TSA Pre√® incorporates modified screening protocols for eligible participants who have enrolled in the TSA Pre√® program as well as other known populations such as known crew members, active duty service members, and other trusted populations. In an effort to strengthen aviation security while enhancing the passenger experience, TSA is focusing on multi-layered, risk-based, intelligence-driven security procedures and enhancing its use of technology in order to focus its resources on the unknown traveler. In FY 2018, TSA achieved 54 percent expedited physical screening based on assessed low risk, exceeding the 50 percent target.



Percent of performance standards implemented by the highest risk chemical facilities and verified by DHS (NPPD): The Chemical Facility Anti-Terrorism Standards (CFATS) program is an important part of our Nation's counterterrorism efforts as the Department works with our industry stakeholders to keep dangerous chemicals out of the hands of those who wish to do us harm. In FY 2018, DHS delivered guidance and requirements to the highest risk chemical facilities, prompting these facilities to include 4,028 security improvements in their security plans to satisfy the risk-based performance standards, of which 3,685 security measures have been implemented for a 91 percent result for the year. This result is primarily affected by the DHS roll-out of the Chemical Security Assessment Tool (CSAT) 2.0 system in FY 2017 which significantly increased the number of Chemical facilities required to comply with these standards. In order to improve performance, DHS will continue to prioritize the authorization, inspection, and approval of the highest risk facilities and expects to complete these in a timely fashion. As the facility count stabilizes in FY 2019, DHS expects a higher percentage of risk-based performance standards will be implemented.



Number of people covered by Securing the Cities program preventive radiological and nuclear detection capabilities (in millions) (CWMD): The Securing the Cities (STC) program provides financial assistance to state, local, and tribal organizations to develop a robust regional radiological/nuclear detection program. For the STC program to count the population as covered by a robust radiological/nuclear detection capability, the region must demonstrate that 10% or more of its standing law enforcement are trained and equipped to conduct primary screening and patrolling as part of their daily routine duties and there are equipped and trained personnel to conduct secondary screening and alarm adjudication. In addition, the region must conduct at least one multi-jurisdictional exercise a year and allow the exchange of information among regional partners and with federal agencies, and mutually assist each other in performing the radiological/nuclear detection mission. If the measure is met, the entire population from the statistical area is counted as covered. In FY 2018, the program met its target of covering 46 million people by adding the National Capital Region. Trends in this measure occur in step increases due to the nature of equipping an entire region with these capabilities.



Percent of protectees that arrive and depart safely (USSS): This measure gauges the percent of travel stops where the U.S Secret Service (USSS) protectees arrive and depart safely. The performance target is always 100 percent. Using advanced countermeasures, USSS executes security operations that deter, minimize, and decisively respond to identified threats and vulnerabilities. The protective environment is enhanced by specialized resources within the USSS, including: the Airspace Security Branch; the Counter Sniper Team; the Emergency Response Team; the Counter Surveillance Unit; the Counter Assault Team; the Hazardous Agent Mitigation and Medical Emergency Response Team; and the Magnetometer Operations Unit. Other specialized resources also serve to provide protection from threats, including chemical, biological, radiological, and nuclear materials and explosive devices. USSS has maintained a 100 percent performance record for the past four years.

Security at the Historic Singapore Summit

The USSS secured the historic bi-lateral meeting in June 2018 between President Donald J. Trump and Chairman Kim Jung-un (DPRK). The meeting took place in the Republic of Singapore and required extensive planning and coordination to ensure the safety of both delegations. The successful completion and execution of the meeting was the result of the meticulously planned efforts by the USSS, host country personnel, DOD and other federal agencies, and security personnel from the DPRK.

USSS event coordinators were involved in direct negotiations with both the Singapore government and the DPRK staff and security to oversee the development of a comprehensive operational security and safety plan that thoroughly addressed the current threat environment and vulnerabilities posed in today's world. This included conducting multiple daily meetings and walkthroughs of the event venue, as well as participating in scenario-based training to ensure all entities were well-versed in the proposed responses in the event of an emergency. In addition, the USSS, through continued involvement and successful engagement, was able to alleviate DPRK's initial apprehension regarding security and ensure the overall success of the visit.

Looking Forward

The United States has made significant progress in securing the Nation from terrorism. Nevertheless, the evolving and continuing threat from terrorists remains, as witnessed by events around the globe. The Department and its many partners at all levels of the public and private sectors, and around the world, have strengthened the homeland security enterprise to better mitigate and defend against these dynamic threats. Below are a few areas that advance our efforts to achieve the Department's mission of preventing terrorism and enhancing security.

TSA National Explosives Detection Canine Team Program: Canine teams are a key component in a balanced counter-terrorism program and are proven and reliable resources in the detection of explosives offering unique capabilities throughout diverse operating environments. TSA procures, trains, and deploys both TSA-led passenger screening canines (PSC) and explosive detection canines (EDC) led by state and local law enforcement agencies to secure our Nation's transportation systems through effective explosives detection, visible deterrence, and timely, mobile response to support aviation, mass transit, and maritime sectors. TSA plans to continue to strategically expand the use of canines to address gaps in the security posture.

USSS Human Capital Planning and Budget Implications: As USSS continues to hire personnel in accordance with their Human Capital Plan, meeting their target two years in a row, they will continue to experience resourcing challenges as an increasingly larger portion of their budget is devoted to hiring and maintenance of agency staffing. USSS is moving forward with improvements in human capital modeling capabilities to manage the diverse operations and surge capacity needed for special events and for those years where campaign support is required. In addition, USSS will increase analytic capability and capacity to support the balancing of operational and maintenance cost as resource allocations are determined.

Federal Protective Service: The Federal Protective Service (FPS) is a law enforcement and security agency with a long history of protecting U.S. Government facilities and safeguarding the millions of employees, contractors, and visitors who pass through them every day. Its history dates back to 1790 when six "night watchmen" were hired to protect government buildings in the newly designated nation's capital that became Washington, D.C. FPS is a fee funded operation with contributions from the agencies using FPS services. As the locations and mobility of the workforce change, and the landscape of the facilities being used is fluctuating, FPS is faced with funding uncertainties that are driving proposed future changes in how to fund FPS. As such, FPS is investing in modeling and analytic capabilities to provide rigor in future budget scenarios so they can have the appropriate resources they need to accomplish their role in protecting federal facilities.

Countering Weapons of Mass Destruction: The Countering Weapons of Mass Destruction (CWMD) Office was created in December 2017 to elevate and streamline DHS efforts to prevent terrorists and other national security threat actors from using harmful agents, such as chemical, biological, radiological, and nuclear material and devices, to harm Americans and U.S. interests. The CWMD Office consolidates the Domestic Nuclear Detection Office (DNDO), a majority of the Office of Health Affairs (OHA), and elements of the Office of Strategy, Plans, & Policy and the Office of Operations Coordination. Moving forward, CWMD will finalize and integrate the multiple systems and processes to realize the full benefit of this merger.

Mission 2: Secure and Manage Our Borders

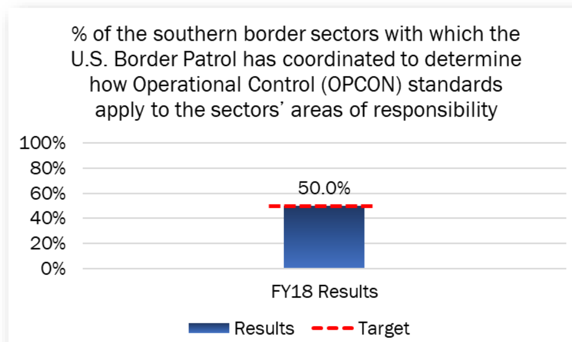
DHS secures the Nation's air, land, and sea borders to prevent illegal activity while facilitating lawful travel and trade. The focus for this mission is to secure the U.S. air, land, and sea borders and approaches, safeguard and expedite lawful trade and travel, and disrupt and dismantle Transnational Criminal Organizations and other illicit actors.

Border Wall Construction

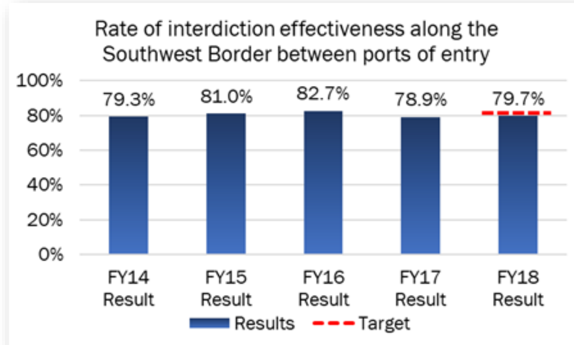
On January 25, 2017, the President issued Executive Order 13767 which directed DHS to "construct a physical wall." The impedance and denial capability that the border wall provides has been an operational requirement for the Border Patrol for many years. The border wall is part of an integrated system that will deter and prevent illegal entries, a requirement all along the Southwest border. The FY 2017 enacted budget included $341 million to construct approximately 40 miles of replacement wall and close approximately 35 gaps in existing barrier with gates. CBP received its FY 2017 funding in late-May 2017 and immediately started planning for the new infrastructure. In partnership with the U.S. Army Corps of Engineers, the first contract for design and construction was awarded for approximately two miles of primary border wall in Calexico, California in November 2017 and construction started in February 2018. As of September 30, 2018, approximately 29 of the 40 miles of replacement border wall were completed. Two of the four wall replacement projects have been completed to include approximately 20 miles of wall in Santa Teresa, New Mexico and approximately two miles in Calexico. The remaining projects are well underway to include construction of approximately 14 miles in San Diego, California (estimated for completion in May 2019) and four miles in El Paso, Texas (estimated for completion in April 2019). Construction of the first of the Rio Grande Valley gates is estimated to commence in November 2018. Concurrently, CBP is also planning and executing the FY 2018 program funded at approximately $1.375 billion as well as the FY 2019 President's budget request of $1.6 billion.

The following highlighted measures gauge our efforts to secure and manage our borders. Up to five years of data is presented if available.

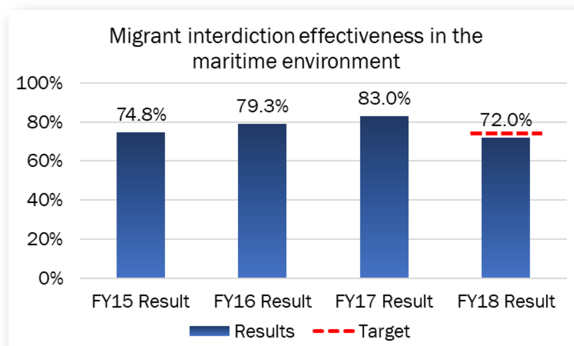
Percent of the southern border sectors with which the U.S. Border Patrol has coordinated to determine how Operational Control (OPCON) standards apply to the sectors' areas of responsibility (CBP)



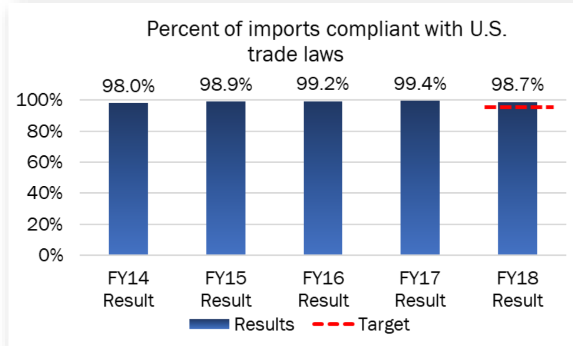
As an FY18-19 Agency Priority Goal, the Department is working to improve security along the southwest border of the U.S. between ports of entry. Implementation of the OPCON framework will enable U.S. Border Patrol's ability to impede or deny illegal border crossings, maintain situational awareness, and apply the appropriate, time-bound, law-enforcement response between the ports of entry as its contribution to DHS's overall border-security mission. Preliminary groundwork was conducted in FY 2018 to facilitate rapid deployment of the OPCON framework in FY 2019. The second half of the progress for this measure will occur in FY 2019, when U.S. Border Patrol will coordinate with each southern border sector on how the OPCON framework will apply to their area of responsibility. U.S. Border Patrol's Planning Division will travel to each of the southern border sectors to brief personnel on the measures in the OPCON framework and foster understanding about its purpose. For full reporting information on this priority goal, please visit Performance.gov or go directly to this link: https://www.performance.gov/homeland_security/APG_dhs_1.html.



Rate of interdiction effectiveness along the Southwest Border between ports of entry (CBP): Together with other law enforcement officers, the Border Patrol helps secure our borders between the ports of entry by detecting, tracking, and interdicting illegal flows of people and contraband. This measure reports the percent of detected entrants who were apprehended, or turned back after illegally entering the United States between the ports of entry on the southwest border. In FY 2018, this measure achieved 79.7 percent which is below target and slightly up compared to last year's result. A combination of increased situational awareness and a shortfall of staff to respond to this information influences the interdiction rate effectiveness. Border Patrol staffing was slightly below the 19,758 funding level. The National Guard deployment, Operation Guardian Support, has served to improve situational awareness with surveillance technology and maintenance functions, and given the Border Patrol flexibility to re-task and reprioritize response capabilities. Looking forward, the U.S. Border Patrol will continue to advocate for the necessary levels of personnel, surveillance technology and infrastructure, such as wall and access roads, required to be optimally successful in detecting and interdicting illicit cross-border activity in the overall pursuit of Operational Control.



Migrant interdiction effectiveness in the maritime environment (USCG): This measure reports the percent of detected undocumented migrants of all nationalities who were interdicted by the U.S. Coast Guard (USCG) and partners via maritime routes. Thousands of people try to enter this country illegally every year using maritime routes. USCG conducts patrols and coordinates with other federal agencies and foreign countries to interdict undocumented migrants at sea, denying them entry via maritime routes to the United States, its territories and possessions. Interdicting migrants at sea means they can be quickly returned to their countries of origin without the costly processes required if they successfully enter the United States. In FY 2018, the USCG achieved a 72.0 percent migrant interdiction effectiveness which is significantly down from last year. The result is due to changes in the collection of reported immigrant data within the intelligence community. The new procedures are more reliable; however, these changes have resulted in an increase in the number of reported flow while the interdictions did not increase in proportion to historical trends.



Percent of imports compliant with U.S. trade laws (CBP): Ensuring that all imports are compliant and free from major discrepancies allows for lawful trade into the United States and both CBP and the importing/exporting community have a shared responsibility to maximize compliance with laws and regulations. CBP works with our international trade partners through several trade programs to build—and improve upon—a solid and efficient trade relationship to accomplish safer, faster, and more compliant trade. This measure reports the percent of imports that are compliant with U.S. trade laws including customs revenue laws. In FY 2018, 98.7 percent of imports were found to be compliant with U.S. trade laws, meeting this year's target. This year's successful outcome is consistent with previous results. The small percent of non-compliance included misclassification of flat-rolled steel from Canada and undervaluation of Chinese knitted blouses. Various enforcement methods such as audits, targeting, and random sampling will continue to be incorporated.

An Unlikely Success: Sea Cucumbers

Related to the Department's goals to Safeguard and Expedite Lawful Trade and Travel and to Disrupt and Dismantle Transnational Criminal Organizations and Other Illicit Actors, U.S. Immigration and Customs Enforcement (ICE) in coordination with National Oceanic and Atmospheric Administration Office of Law Enforcement, and the U.S. Fish and Wildlife Service Office of Law Enforcement investigated a Sea Cucumber smuggling operation that resulted in a successful prosecution.

On April 11, 2018, a father and son pleaded guilty to charges related to their smuggling illegally harvested Sea Cucumbers worth over $17 million into the United States and selling the Chinese delicacy and folk medicine ingredient on Asian markets. Ramon Torres Mayorquin pleaded guilty to Importation Contrary to Law and his son, David Mayorquin, pleaded guilty to violating the Lacey Act. Their company, Blessing Seafood, Inc. of Tucson, pleaded guilty to conspiring to export merchandise contrary to law. David Mayorquin, on behalf of Blessings, contacted suppliers of Sea Cucumbers in Mexico and agreed to purchase approximately $13 million worth, knowing they had been illegally harvested. Ramon Mayorquin received the shipments from poachers off the Yucatan Peninsula and created invoices to be submitted to U.S. Customs officials, which falsely stated the value of the product. The company then illegally exported the product from the U.S. without filing the proper export declaration with the U.S. Fish and Wildlife Service. As part of the scheme, they made payments to bank accounts held under false names to conceal the illegal sales, and they also made payments to Mexican officials to ensure that they did not interfere.

Looking Forward

The protection of the Nation's borders—land, air, and sea—from the illegal entry of people, weapons, drugs, and other contraband while facilitating lawful travel and trade is vital to homeland security, as well as the Nation's economic prosperity. The global economy is increasingly a seamless economic environment connected by systems and networks that transcend national boundaries. The United States is deeply linked to other countries through the flow of goods and services, capital and labor, and information and technology across our borders. As much as these global systems and networks are critical to the United States and our prosperity, they are also targets for exploitation by our adversaries, terrorists, and criminals. Below are a few initiatives that advance our efforts to secure and manage our borders.

Border Security Operations - Operational Control Framework: The Border Security Operations program charged with securing America's Southwest, Northern, and certain Coastal borders. As mentioned above, an Agency Priority Goal is being implemented to improve security along the southwest border between ports of entry using the Operational Control (OPCON) framework to: 1) impede or deny illegal border crossings; 2) maintain situational awareness; and 3) apply the appropriate, time-bound, law-enforcement response between the ports of entry. Implementation of the OPCON framework will help to identify and fill capability gaps along the southwest border and result in field sectors developing operation plans based on their unique terrain, threats, flow, and resources to indicate, and record steps taken to achieve OPCON and show progress in the overall border security along the southwest border. Once OPCON is deployed along the southern border, U.S. Border Patrol plans to expand the OPCON framework to the Northern Border and Coastal sectors.

U.S. Coast Guard Recapitalization: As the Nation's maritime first responder, the U.S. Coast Guard ensures the safety, security, and stewardship of the Nation's waters by protecting those on the sea, protecting the Nation against threats delivered by sea, and protecting the sea itself. To meet the challenges of the dynamic maritime environment, the U.S. Coast Guard executes a layered, security-in-depth concept of operations, built upon a multidimensional framework of authorities, capabilities, competencies, and partnerships to apply its core operational concept of Prevention--Response. To that end, recent additions to the U.S. Coast Guard Cutter fleet have seen significant improvements in effectiveness. Examples include an increase in cocaine interdiction with the new National Security Cutter achieving 200 percent greater effectiveness than legacy cutters in kilogram interdiction per operation hour. Moving forward, the U.S. Coast Guard has an aggressive capital improvement plan to modernize the air and maritime fleet. Key elements of the plan include the 11th National Security Cutter expected in FY 2019, obtaining the first Polar Security Cutter expected to be delivered in 2023, and operating the C-27J fleet.

Transnational Criminal Organizations: U.S. Immigration and Customs Enforcement (ICE) recognizes that transnational criminals and organizations represent a significant threat to public safety and economic security throughout the United States. ICE's focus on prioritizing efforts to disrupt and dismantle Transnational Criminal Organizations (TCO) has seen a better than 20 percent success rate in the recent past. Moving forward, a comprehensive strategy and framework for the integration of all Component information and assets will enable decisions to position the Department to target TCOs in a manner to fully disrupt operations and dismantle their networks. This holistic approach to combating TCOs will make our Nation safer while maximizing the impact of the resources.

Mission 3: Enforce and Administer Our Immigration Laws

A fair and effective immigration system enriches American society, unifies families, and promotes our security. Our Nation's immigration policy plays a critical role in advancing homeland security. The focus for this mission is to strengthen and effectively administer the immigration system and prevent unlawful immigration.

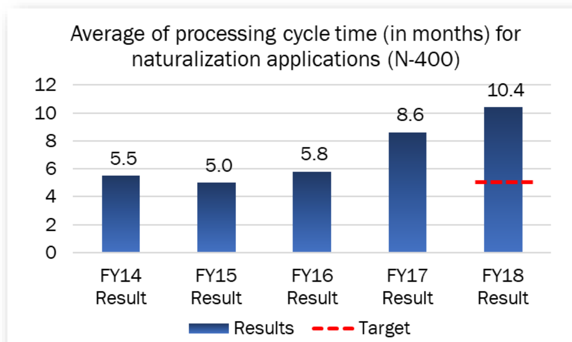
USCIS Targets H-1B Visa Fraud and Abuse

Protecting American workers by combating fraud and abuse in our employment-based immigration programs is a priority for U.S. Citizenship and Immigration Services (USCIS). Through 2018, USCIS continued its targeted approach to further detect and deter H-1B visa fraud and abuse by focusing on:

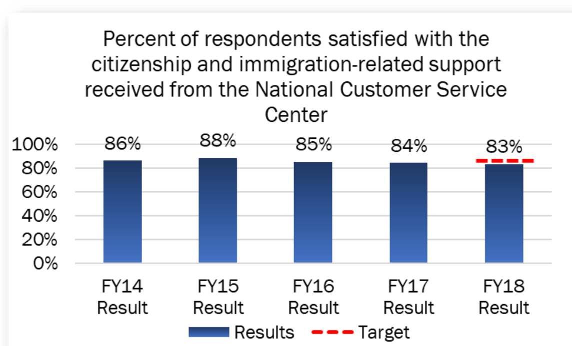
- Cases where USCIS cannot validate the employer's basic business information through commercially available data, which may be an indicator that the employer is an illegitimate organization;
- H-1B-dependent employers (those who have a high ratio of H-1B workers as compared to U.S. workers); and
- Employers petitioning for H-1B workers who work off-site at another company or organization's location.

USCIS uses targeted site visits to focus resources where fraud and abuse of the H-1B program may be more likely to occur. Additionally, the site visits help to determine whether H-1B dependent employers are evading their obligation to make a good faith effort to recruit U.S. workers. These site visits are essential to identifying employers who are abusing the system. Since the program began in FY 2017, USCIS has conducted 585 H-1B targeted site visits, of which 40 percent resulted in a finding of fraud.

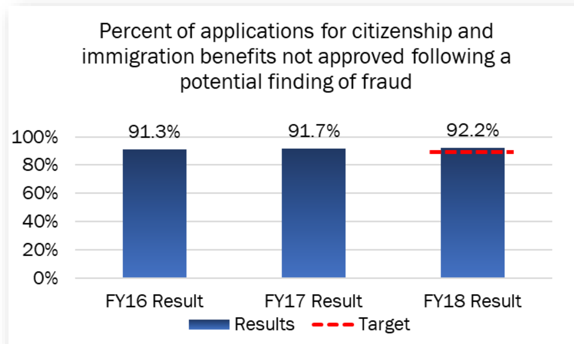
The following highlighted measures gauge our efforts to enforce and administer our immigration laws. Up to five years of data is presented if available.



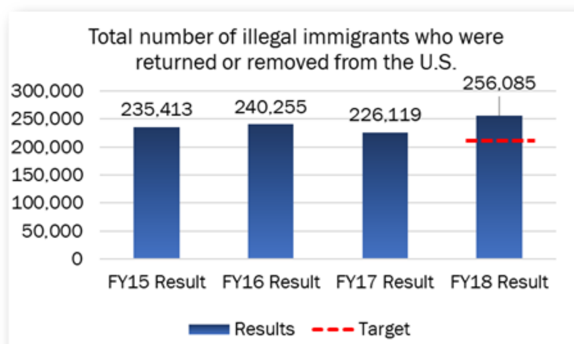
Average of processing cycle time (in months) for naturalization applications (N-400) (USCIS): This measure assesses the program's ability to meet its published processing time goals for N-400, Application for Naturalization which is filed by foreign nationals to attain U.S. citizenship. Naturalization applications have been higher than projected over the past three years which has contributed to the increased backlog and time to adjudicate. USCIS is continuing to shift resources and prioritize workload in order to handle its case volume. FY 2018 cycle time was 10.4 months, significantly above the target; however, USCIS has maintained the accuracy of N-400 decisions as validated through random sampling. USCIS continues to face capacity challenges which, combined with higher workload demands, will continue to negatively impact our cycle time. USCIS is developing a 6-year plan to rebalance the workforce and improve efficiency to effectively address cycle times and backlog while ensuring cycle time parity across each of its 88 field offices.



Percent of respondents satisfied with the citizenship and immigration-related support received from the U.S. Citizenship and Immigration Services Contact Center (USCIS): This measure gauges the overall rating of the immigration process and is based on the results from the following areas: 1) accuracy of information; 2) responsiveness to applicant inquiries; 3) accessibility to information; and 4) applicant satisfaction. The FY 2018 result of 83 percent for this measure is consistent with historical results; however, there has been a slight decline the past four years. USCIS' service-rating is well above the Citizen satisfaction with U.S. Federal Government services of 69.7 percent as reported by the American Customer Satisfaction Index in their latest report. The most recent decrease in respondent satisfaction percentage can primarily be attributed to a transition of vendors for Tier 1 support that occurred during the fourth quarter of FY 2018. With the contract transition and system training completed, along with improved quality of information at Tier 1, USCIS expects respondent satisfaction scores to improve in FY 2019.



Percent of applications for citizenship and immigration benefits not approved following a potential finding of fraud (USCIS): This measure reflects the Department's capacity to prevent fraud, abuse, and exploitation of the immigration system, and helps identify systemic vulnerabilities that threaten its integrity. By not approving benefits to individuals potentially attempting to commit fraud, and who were not eligible for a waiver or exemption, USCIS is actively eliminating vulnerabilities, and identifying ways to continue to deter and prevent fraud in the future. This measure has shown improvement year-over-year since its inception. Initial findings of fraud were upheld 92.2 percent of the time. Initial findings of fraud are reviewed by USCIS' Fraud Detection and National Security Directorate (FDNS) before final adjudication is rendered. USCIS continues to improve communication between fraud officers and adjudicators with the assistance of improved reporting tools and investments in new technologies.



Total number of illegal immigrants who were returned or removed from the U.S. (ICE): This measure describes the total number of illegal immigrants returned and/or removed from the United States by ICE Enforcement and Removal Operations (ERO). This measure includes both immigrants who have entered the country illegally, but do not already have a prior criminal conviction, along with those who have had a prior criminal conviction—providing a complete picture of all the returns and removals accomplished by the program to ensure illegal immigrants do not remain in the United States. ICE exceeded this year's target by nearly 22 percent and is a 13 percent increase over FY 2017. The largest improvement was an increase of interior removals, removing 95,357, which is a 17 percent increase over 2017 and a 46 percent increase over FY 2016.

Enforcement and Removal Operations (ERO)

ERO enforces the Nation's immigration laws in a fair and effective manner. It identifies and apprehends removable aliens, detains these individuals when necessary and removes illegal aliens from the United States. In FY 2018, the following are two high-profile cases successfully executed by ERO.

In February 2018, the ICE ERO Los Angeles Field Office contacted the Pacific Enforcement Response Center (PERC) requesting social media analytical support in preparation for Operation KEEP SAFE 1. PERC analysts conducted open source and social media analysis and provided information on 25 fugitive aliens, resulting in a total of 21 arrests.

On December 27, 2017, ICE ERO, in coordination with Salvadoran law enforcement authorities, successfully removed Leandro Cruz to El Salvador. Cruz was the 100th arrest, through the SAFE program, who was extradited to the El Salvador Policia Nacional and who was also listed on their 100 Most Wanted fugitives list. Cruz had been convicted and sentenced in Massachusetts for assault and battery as an MS-13 Gang member.

Looking Forward

The success of our Nation's immigration policy plays a critical role in advancing homeland security. The Department is focused on smart and effective enforcement of U.S. immigration laws while streamlining and facilitating the legal immigration process. Effective administration of the immigration system depends on ensuring that immigration decisions are impartial, lawful, and sound; that the immigration system is interactive and user friendly; that policy and procedural gaps are systematically identified and corrected; and that those vulnerabilities which would allow persons to exploit the system are eliminated. Below are a few initiatives that advance our efforts to achieve the Department's immigration enforcement and administration goals.

USCIS' Improvement Plans: USCIS administers the nation's lawful immigration system, safeguarding its integrity and promise by efficiently and fairly adjudicating requests for immigration benefits while protecting Americans, securing the homeland, and honoring our values. Similar to previous years, the number of applications for benefits and benefit changes continues to increase and is now more than 8 million transactions per year creating a challenge to process applications in a timely fashion. The good news is that the United States is still a beacon to the world; however, our resources to process the requests are limited. USCIS will be taking the following steps to address some of the significant challenges identified during the FY18 Strategic Review: 1) Using a six-year forecasting model, increase the number of adjudications officers in the near term, and achieving sustained officer productivity over the six-year period to manage increasing workloads; 2) Finalize infrastructure improvements that will support improved efficiencies; 3) Address the Immigration Examinations Fee Account fee schedule to fund increased staffing; 4) Deploy Refugee Affairs Division staff to border sites for credible and reasonable fear cases; and 5) Develop target processing times to meet planned throughput.

Immigration Enforcement - Enhancing Public Safety in the Interior of the United States: Enhancing public safety in the interior of the United States is another key element to the Department's immigration enforcement mandate. ICE's Enforcement and Removal Operations removes aliens from the U.S. who are subject to a final order of removal issued by an immigration court or following an administrative removability review. ERO facilitates the processing of illegal aliens through the immigration court system and coordinates their departure from the U.S. Progress has been made over the past two years with interior apprehensions and removals increasing. Local law enforcement participation in the 287(g) program is increasing and administrative arrests are also increasing. Moving forward, ICE will continue to prioritize efforts to maximize the discharge of who are subject to a final order of removal. To accomplish this, ICE will continue its efforts to staff and retain key officer and support staff consistent with EO 13768, Enhancing Public Safety in the Interior of the United States.

Mission 4: Safeguard and Secure Cyberspace

Our economic vitality and national security depend on a vast array of interdependent and critical cyber networks, systems, services, and resources. By statute and Presidential Directive: DHS is the lead for the Federal Government to secure civilian government computer systems; works with industry to defend privately owned and operated critical infrastructure; prevents, detects, and investigates cybercrime; and works with state, local, tribal, and territorial governments to secure their information systems. The focus for this mission is to strengthen the security and resilience of critical infrastructure against cyber-attacks and other hazards, secure the federal civilian government information technology enterprise, advance cyber law enforcement, incident response, and reporting capabilities, and strengthen the cyber ecosystem.

US-CERT
UNITED STATES COMPUTER EMERGENCY READINESS TEAM

National Level Campaigns Address Nation State Cyber Threats

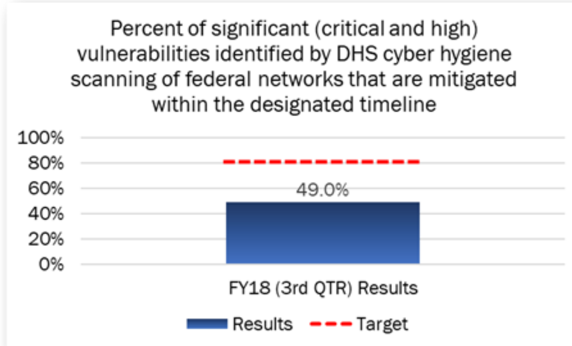
The National Protection and Programs Directorate's (NPPD) National Cybersecurity and Communications Integration Center (NCCIC) participated in interagency National Level Campaigns addressing cyber-activity and threats from four nation states during 2018.

- NPPD contributed to the development and execution of National Security Council campaign operations for each nation state, bringing NCCIC capabilities and expertise to counter the cyber-activity and mitigate the threats.
- The NCCIC coordinated with and provided advance notification of upcoming products to United States corporations, Information Sharing and Analysis Centers, and international partners.
- In coordination with the Federal Bureau of Investigation (FBI), NPPD's NCCIC published multiple joint Technical Alerts and Malware Analysis Reports that publicly attributed the malicious cyber activity to specific nation states. These products provided threat actors' tactics, techniques, and procedures and indicators of compromise which enabled cyber defenders world-wide to identify and mitigate the malicious activity.

From the whole-of-government perspective, these activities improved DHS's ability to collaborate and address challenging issues associated with cyber threats. Cyber defenders in the United States took actions which improved our national security posture while cyber defenders' actions world-wide countered our adversary's activities and abilities to conduct malicious cyber-activity undetected.

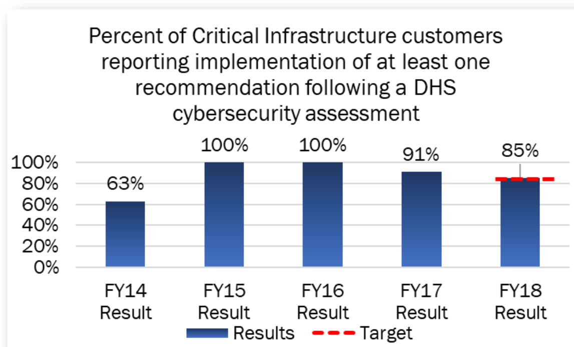
The following highlighted measures gauge our efforts to safeguard and secure cyberspace. Up to five years of data is presented if available.

Percent of significant (critical and high) vulnerabilities identified by DHS cyber hygiene scanning of federal networks that are mitigated within the designated timeline (NPPD)



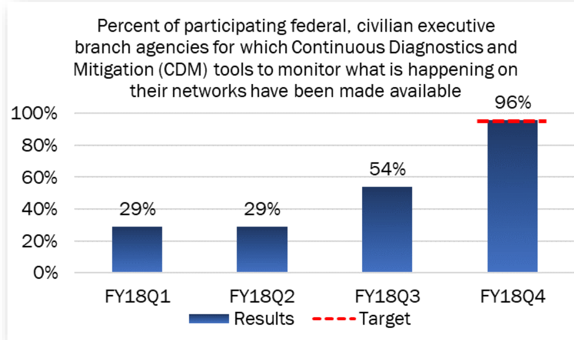
As an FY18-19 Agency Priority Goal, the Department seeks to strengthen the defense of the federal network through the increased dissemination of cyber threat and vulnerability information in near real time to federal agencies. Continuous scanning, intrusion prevention, and vulnerability assessments allow DHS to provide agencies with the necessary tools and information to take timely and appropriate risk-based actions to defend their networks. Agencies continue to work to increase their capacity to address the most serious vulnerabilities identified by the enhanced visibility from Cyber Hygiene Scanning; however, results (as of 3rd quarter)[2] of 49 percent are significantly below the target. Federal Agencies continue to expand and improve their capabilities to identify and mitigate vulnerabilities on their networks, and results are expected to improve over the life of the APG. DHS continues to work with agencies, by issuing or updating direction and guidance when appropriate, to support mitigation actions. For full reporting information on this priority goal please visit Performance.gov or go directly to this link: https://www.performance.gov/homeland_security/APG_dhs_2.html.

Percent of Critical Infrastructure customers reporting implementation of at least one recommendation following a DHS cybersecurity assessment (NPPD): This measure demonstrates the percent of assessed asset owners and operators of critical infrastructure that are not only developing a better understanding of their cybersecurity posture, but are also taking action to improve that posture. In FY 2018, 85 percent of organizations who received an assessment also implemented at least one cybersecurity enhancement. While the result is down from last year's, the program met the target. Making enhancements is at the discretion of the customer and may not be implemented for a number of reasons to include funding, internal policies and priorities, organizational maturity, and internal expertise.

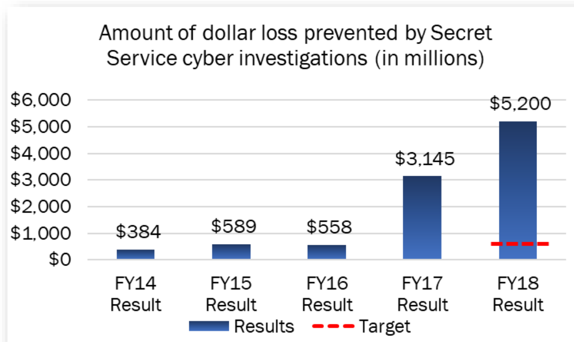


[2] 4th quarter data for this measure is not available at this time due to an issue with a reevaluation of a vulnerability rating in Quarter 4, which has been mitigated, and the results are being reviewed and updated. 4th quarter data for this measure will be available in the FY 2018-2020 Annual Performance Report published in February 2019 and will also be available on Performance.gov.

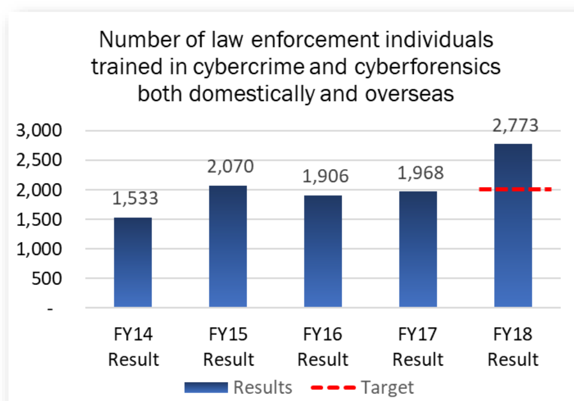
Percent of participating federal, civilian executive branch agencies for which Continuous Diagnostics and Mitigation (CDM) tools to monitor what is happening on their networks have been made available (NPPD): This measure assesses the extent to which DHS has contractually made CDM tools available to participating federal civilian executive branch agencies to monitor events on their networks. Once DHS has made the tools available through contract award, agencies must still take action to deploy and operate CDM on their networks. By making CDM tools available to agencies, they will be able to more effectively manage coordinated threats to their network. As of the end of FY 2018, 96 percent of civilian executive branch agencies had received CDM tools and were available for deployment. Significant progress and momentum for the deployment of this critical tool has been accomplished.



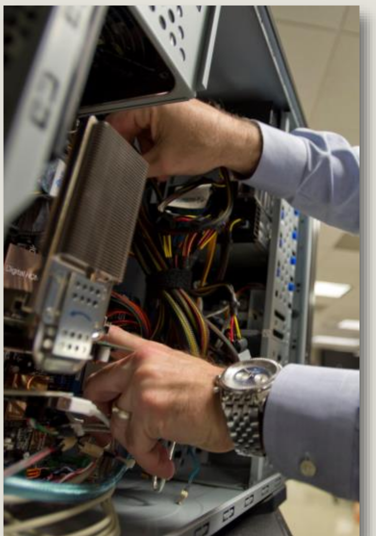
Amount of dollar loss prevented by Secret Service cyber investigations (in millions) (USSS): The USSS maintains Electronic Crimes Task Forces that focus on identifying and locating domestic and transnational cybercriminals connected to cyber-intrusions, bank fraud, data breaches, and other computer-related crimes. This measure reflects USSS' efforts to reduce financial losses to the public from cybercrimes. The USSS closed two very large cases in the first quarter of FY 2018 which greatly impacted the results of the measure (one relating to tax fraud and the other a significant network intrusion into a major retailer). This year's result of $5.2 billion is the largest reported for this measure, greatly exceeding the target of $650 million. The year-to-year results for this performance measure are highly variable based upon the cases closed in a particular reporting period.



Number of law enforcement individuals trained in cybercrime and cyberforensics both domestically and overseas (USSS): This measure represents the efforts of the USSS to strengthen our partners' ability, both domestically and overseas, to fight cybercrime. Today's high-tech environment presents new challenges to law enforcement and the justice system as cyber-criminals exploit computers, mobile devices, and the Internet to threaten our banking, financial, and critical infrastructures. Digital technology is used to commit any and every type of crime. Therefore, it is imperative to address the changes in technology by providing training on cyber-



investigative techniques and by sharing current expertise. The USSS has trained a total of 2,773 law enforcement individuals both internal to the Service and externally. The majority of external law enforcement partners are trained at the National Computer Forensics Institute's (NCFI) innovative facility. The total number individuals trained measure is directly tied to the NCFI appropriation and these numbers will continue to increase and decrease in proportion to that budget. In FY 2018, NCFI trained 43% more people than in FY 2017 which explains the dramatic increase between fiscal years (budget increased from $13.9 Mil to $18.8 Mil).



Cashed Out Investigation – Cybercrime and an Old-Fashioned Gambling Scam

In July, 2018, the Cleveland Field Office coordinated a large scale operation entitled "Cashed Out." The Internal Revenue Service (IRS), U.S. Food & Drug Administration – Office of Criminal Investigations, and the Ohio Casino Control Commission initiated an investigation into numerous illegal gambling businesses in the Northern District of Ohio. The businesses in question were suspected of using illegal gambling slot machines, laundering illegal monetary proceeds, and evading federal taxes. A total of 33 search warrants were successfully executed (16 with USSS lead and 17 with IRS lead with USSS assistance). This expansive operation required the use of an HSI TFO and their K9 partner at 7 different locations, 10 Secret Service Investigative Analysts to process evidence, and multiple ECSAP agents to analyze electronic devices seized for successful case prosecution.

The main subject of the investigation was arrested and multiple items were seized including more than $1 million in US dollars (€373 EUR, £9,255 English Pounds, and other foreign currencies), approximately 100 pounds in silver bars and collectible coins, with various electronic devices (servers, hard drives, mobile phones, and tablets).

Looking Forward

As information technology becomes increasingly integrated with physical infrastructure operations, there is increased risk for wide-scale or high-consequence events that could cause harm or disrupt services upon which our economy and the daily lives of millions of Americans depend. In light of the risk and potential consequences of cyber-events, strengthening the security and resilience of cyberspace has become an important homeland security mission.

Information Security: As DHS has moved forward in implementing the CDM program, there are some systemic issues that are driving risk to full implementation. With the goal of federal agencies being able to mitigate 80% of significant (critical and high) vulnerabilities identified through DHS scanning of their networks, there is a need to have strong and persistent Information Technology governance structures across the Federal Government. Federal Chief Information Security Officers, and the institutional knowledge they bring, provide the pathway to success; however, they are often constrained by internal governance issues and lack of knowledge transfer in a high-turnover field. NPPD supports the implementation of a formalized federal cybersecurity governance structure to direct the full implementation of NPPD Cybersecurity programs and directives to improve threat information sharing, by increased visibility into risks to federal networks, establish a standardized approach for developing guidance, technical assistance, and awareness materials.

Election Infrastructure Security: In recent years, American citizens have become increasingly uneasy concerning potential threats to the Nation's election infrastructure. Cyber-intrusions to voting machines and voter registration systems diminish the overall public confidence that elected officials need to perform their public duties and undermine the integrity of the Nation's democratic process. If left unaddressed, system vulnerabilities will continue to threaten the stability of our Nation's democratic system. In January 2017, following confirmation of the September 2016 election system hacks, the Secretary of the Department of Homeland Security designated election systems as critical infrastructure (CI). This designation is given to "systems and assets, whether physical or virtual, so vital to the United States that the incapacity or destruction of such systems and assets would have a debilitating impact on security, national economic security, national public health or safety, or any combination of those matters." To begin the process of mitigating this risk, NPPD published the *Election Infrastructure Security Resource Guide.* DHS has also built formal, trusted relationships with election officials from all 50 states, over 1,300 local jurisdictions, and a range of private sector partners; prioritized delivery of no-cost cybersecurity services and the sharing of actionable information to election officials and network security stakeholders; and deployed sensors to state and local election networks that help detect intrusions by malicious actors, quadrupling the number of sensors deployed since 2016. However, there is more to be accomplished. Moving forward, NPPD will continue to expand election infrastructure stakeholder engagement and provide needed resources and support to ensure our election processes and infrastructure are secure from cyber threats.

Mission 5: Strengthen National Preparedness and Resilience

Despite ongoing vigilance and efforts to protect this country and its citizens, major accidents and disasters, as well as attacks, may occur. The challenge is to build the capacity of American communities to be resilient in the face of disasters and other threats. Our vision of a resilient Nation is one with the capabilities required across the whole community to prevent, protect against, mitigate, respond to, and recover from the threats and hazards that pose the greatest risk. The focus for this mission is to enhance national preparedness, mitigate hazards and vulnerabilities, ensure effective emergency response, and enable rapid recovery.

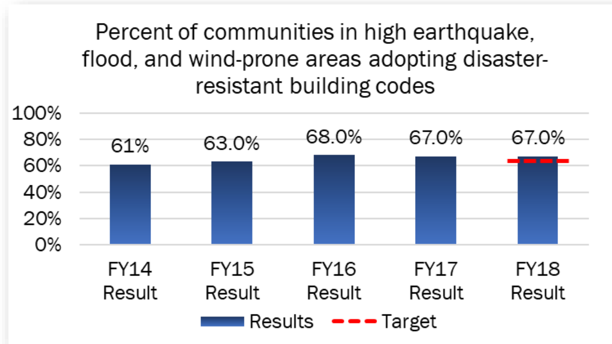
PrepTalks – New Perspectives for Emergency Managers

PrepTalks is a video series that spreads new ideas, sparks conversation, and promotes innovative leadership for the issues confronting emergency managers now and over the next 20 years. The first PrepTalk was released on February 13, 2018, and since that time, the 10 PrepTalk videos have more than 25,000 unique viewers on the PrepTalks webpage and YouTube.

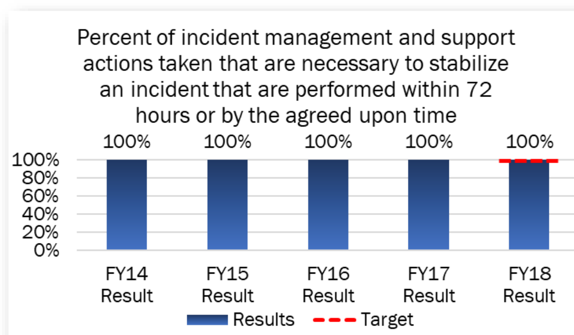
FEMA initiated a partnership to create PrepTalks with the nation's major emergency management organizations, including the International Association of Emergency Managers, National Emergency Management Association, Naval Postgraduate School Center for Homeland Defense and Security, and the National Homeland Security Consortium. Together, we attract nationally recognized experts to record high quality video presentations for the emergency management community and the public to use anytime for free.

PrepTalks benefit the nation by providing presentations from nationally recognized experts, often available only at conferences or closed-door meetings, to the entire emergency management community. PrepTalks include new views on traditional topics like, public warning and pandemic preparedness. They also promote important less traditional topics like financial literacy, social capital, and school safety. The videos are accompanied by recorded question and answer sessions and a discussion guide to help viewers put the PrepTalk knowledge into practice.

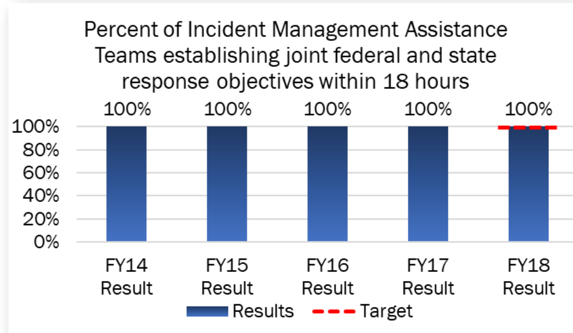
The following highlighted measures gauge our efforts to strengthen national preparedness, resilience, and our response to disasters. Up to five years of data is presented if available.



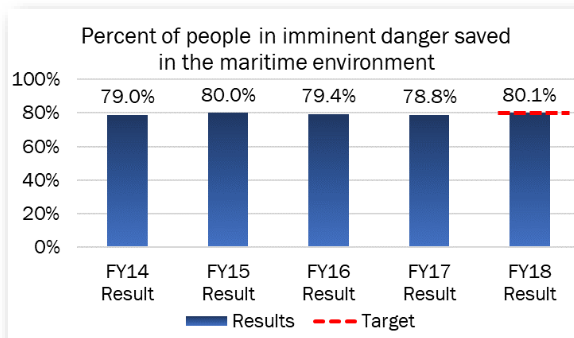
Percent of communities in high earthquake, flood, and wind-prone areas adopting disaster-resistant building codes (FEMA): This measure assesses the number of communities adopting building codes containing provisions that adequately address earthquake, flood, and wind hazards. FEMA works with code adoption and enforcement organizations to support community implementation of disaster resistant building codes, defined as being in compliance with the National Flood Insurance Program regulations, equivalent to the National Earthquake Hazards Reduction Program recommended provisions, and in compliance with the provisions of the International Codes as designated by the International Codes Council. FEMA also works with the Insurance Services Office Building Code Effectiveness Grading Schedule data to track the number of high-risk communities subject to flood, wind, earthquake, and combined perils that adopted disaster resistant building codes. FEMA continues to make progress on this measure through training, education, and outreach to communities and businesses, as evidenced by the fiscal year 2018 result of 67 percent slightly exceeding the target.



Percent of incident management and support actions taken that are necessary to stabilize an incident that are performed within 72 hours or by the agreed upon time (FEMA): FEMA's response role is to effectively respond to any disaster, threat, or hazard, with a focus on saving/sustaining lives, and to support state, local, tribal, and territorial governments. This measure evaluates FEMA's ability to perform critical response actions to stabilize an incident within the first 72 hours. These actions must be initiated immediately after an incident to ensure the best outcomes for survivors. In fiscal year 2018, FEMA responded to concurrent incidents across several regions, states, and territories, and performed 100% of critical actions during each incident. FEMA issued emergency alerts with federal and state partners and the Incident Management Assistance Teams established joint federal/state incident objectives to coordinate federal response capabilities. Also, FEMA deployed urban search and rescue resources and deployed Mobile Emergency Response Support to establish interoperable communications within required timeframes. Understanding substantial impacts to the transportation, communications, energy, and health/medical infrastructure sectors during Hurricanes Harvey, Irma and Maria, FEMA deployed all available restoration capabilities to ensure the establishment of air/sea bridges, route clearance, emergency power and communications, and other enabling efforts to deliver life-saving and life-sustaining commodities.



Percent of Incident Management Assistance Teams establishing joint federal and state response objectives within 18 hours (FEMA): FEMA's Incident Management Assistance Teams (IMATs) provide a forward federal presence to facilitate the management of the national response to catastrophic incidents. Their mission is to: rapidly deploy to an incident; identify ways federal assistance could be used to best support the response and recovery efforts; and work with partners across jurisdictions to support the affected state or territory. This performance measure evaluates the IMATs' ability to deploy to an incident and establish initial joint federal and state response objectives within 18 hours of a request from a state or jurisdiction. In fiscal year 2018, FEMA's IMATs deployed to events in American Samoa, California, Florida, Hawaii, Maine, North Carolina, Puerto Rico, South Carolina, Texas, and the US Virgin Islands and met the target of this key performance measure.



Percent of people in imminent danger saved in the maritime environment (USCG): This is a measure of the percent of people who were in imminent danger on the oceans and other waterways and whose lives were saved by USCG search and rescue teams. The number of lives lost before and after the USCG is notified and the number of persons missing at the end of search operations are factored into this percentage. Several factors hinder successful response including untimely distress notification to the USCG, incorrect distress site location reporting, severe weather conditions at the distress site, and distance to the scene. The USCG saved more than 3,900 lives in FY 2018, which was 78.0 percent of those in danger, and is consistent with long-term results and trends, although slightly missing their target. The USCG continues to plan, train, develop better technologies, and invest in capable assets to continue their exemplary performance in saving lives in the maritime environment.

FY 2018 U.S. Coast Guard Recovery Efforts for Hurricanes Harvey, Irma, and Maria

Recovery efforts continue in response to Hurricanes Harvey, Irma, and Maria and required a complex approach to managing the catastrophic impacts of several major hurricane landfalls in Texas, Florida, U.S. Virgin Islands, and Puerto Rico. The Nationally Declared Disasters were allocated $156 million for pollution response. The Coast Guard led the response and directed response teams in the affected areas to conduct rapid oil and hazardous material assessments after the storms and provided direct federal assistance to Texas, Florida, Puerto Rico, and the U.S. Virgin Islands. Using the Federal On-Scene Coordinator authority to mitigate hazards, the Coast Guard consulted with federal, state, local, tribal, and territorial governments to ensure sensitive environmental, cultural, and historical sites, as well as endangered species were protected. 4,215 vessels and related pollutants were removed from the environment over the course of eight months.

Looking Forward

The Department coordinates comprehensive federal efforts to prepare for, protect against, respond to, recover from, and mitigate a terrorist attack, natural disaster or other large-scale emergency. DHS works with individuals, communities, the private and nonprofit sectors, faith-based organizations, and federal, state, local, tribal, and territorial partners to ensure swift and effective recovery efforts after such emergencies. Hurricanes and forest fires over the past two years remind us all of the importance of preparedness and resilience in the face of disaster. Below are a couple initiatives that advance our efforts to achieve our preparedness and resilience goals.

Grants Management Modernization: Preparedness and other grant programs support our citizens and first responders to ensure that we work together as a nation to build, sustain, and improve our capability to prepare for, protect against, respond to, recover from, and mitigate all hazards. These grants support capacity development and sustainment at the state, local, tribal, and territorial levels and in our Nation's highest-risk transit systems, ports, and along our borders. In 2015, FEMA began an initiative to transform the way the agency administers grants. The Grants Management Modernization (GMM) acquisition aims to streamline grants management across the agency's 40-plus grant programs through a user-centered, business-driven approach. GMM's modernized grants management solution will establish a single grants management information technology (IT) platform for FEMA's grants operations, and where possible, a common grants management life cycle and unified business processes across the Agency. This ongoing agile development effort will improve the efficiency and effectiveness of FEMA's grant operations and enhancing FEMA's mission performance.

Improving the National Flood Insurance Program: The National Flood Insurance Program (NFIP) Pivot Program is a system to replace and modernize the aging legacy system used to process insurance transactions. Pivot will be capable of processing millions of transactions in real-time, uploading claim documents, automating NFIP processes, and securely storing and disseminating critical information. The new system is following an agile development approach and expects to be fully operational, ahead of schedule, in 2020.

Catastrophic Disaster Preparedness: The Preparedness program works to ready the Nation for disasters of all kinds. Preparedness includes the management and administrative support functions associated with training and national exercise programs. Major hurricanes and fires have recently underscored the need to improve the nation's overall preparedness posture. To that end, FEMA is preparing the Nation for catastrophic disasters, including multiple concurrent disasters, by:

- Establishing FEMA Integration Teams with participating state governments, to help local emergency responders coordinate planning, tailor assistance, and facilitate FEMA assistance when disasters strike.
- Improving logistics delivery within, and especially beyond, the 48 contiguous states.
- Improving capabilities of state, local, tribal, and territorial via the National Qualification System provides a nationwide approach to ensure that responders are prepared to work together during all threats and hazards, regardless of the incidents cause or size. This is a federally-supported, state-managed, locally-executed approach.
- Significantly increasing the number of households with flood insurance to reduce the risk and impact of flooding on private structures.

- Increasing the financial preparedness of the public through partnerships and materials, including the Emergency Financial First Aid Kit.
- Building a culture of preparedness by connecting individuals, organizations, and communities with research and tools to build and sustain capabilities to prepare for any disaster or emergency.

Mature and Strengthen Homeland Security

The objectives for maturing and strengthening the Department were designed to bolster key activities and functions that support the success of our strategic missions and goals. Ensuring a shared awareness and understanding of risks and threats, building partnerships, strengthening our international enterprise structure, enhancing the use of science and technology, with a strong service and management team underpin our broad efforts to ensure our front-line operators have the resources they need to fulfill the missions of the Department. The focus for this mission is to integrate intelligence, information sharing, and operations, enhance partnerships and outreach, strengthen the DHS international affairs enterprise in support of homeland security missions, conduct homeland security research and development, ensure readiness of frontline operators and first responders, and strengthen service delivery and manage DHS resources.

Android Team Awareness Kit (ATAK)

The DHS Science and Technology Directorate (S&T) deployed the Android Team Awareness Kit (ATAK) to support the complex communication and coordination needs of the multi-jurisdictional responders. A government-off-the-shelf app for Android smartphone, ATAK is available to all government agencies for free. The app uses GPS and maps to give the user a real-time situational awareness capabilities.

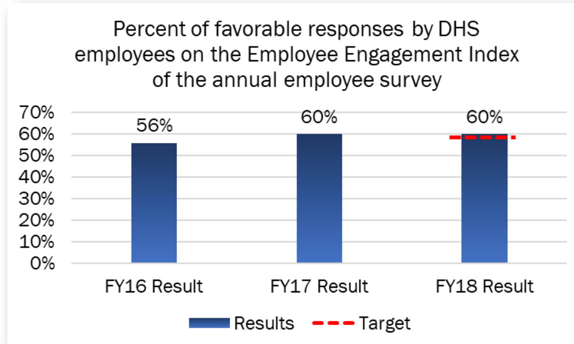
In 2018, S&T has deployed ATAK to support public safety through several multi-agency coordinated and cooperative operations in which all DHS Component and Homeland Security Enterprise participants benefited from improved situational awareness. These events included Super Bowl LII, the NBA All-Star game, U.S. Border Patrol's San Diego, California Sector field experiment, and a marijuana-growing sting operation. At each of these events, ATAK was successfully utilized to improve situational awareness through capabilities such as full-motion video dissemination, blue force tracking of law enforcement agents, and other geographic information. This information was available to various mobile and fixed operations centers, as well as operators in the field via mobile devices with the ATAK application. ATAK technology enables personnel from multiple agencies to track response assets, identify hazards, locate people needing rescue, coordinate interagency response, and share video feeds of operations while also maintaining tactical awareness of weather, critical infrastructure, and other important information. In FY 2018, the FLETC PO Liaison Officer worked with federal POs on more than 900 questions and issues, ranging from simple inquiries about FLETC procedures to complex matters that impact the full enterprise.

> **ATAK is like having the connectivity of a command center at your fingertips.**
>
> Statement by Homeland Security Intelligence (HSI) Special Agent/Special Response Team (SRT) member.

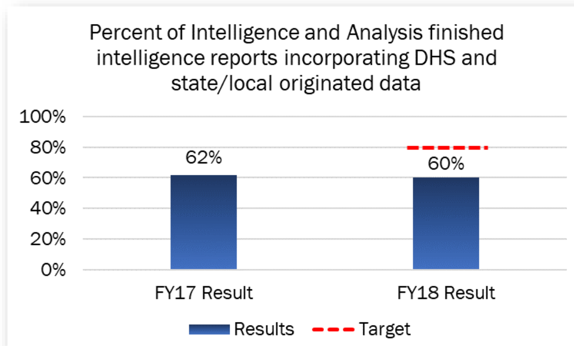
Performance measures associated with the Department's Mature and Strengthen Homeland Security focus support evaluation of the operational aspects of the headquarters offices. A small number of measures aligned to this area are displayed below, and the full set can be found in the DHS Congressional Justification Overview Chapter for the Office of the Under

Secretary for Management at https://www.dhs.gov/dhs-budget. Up to five years of data is presented if available.

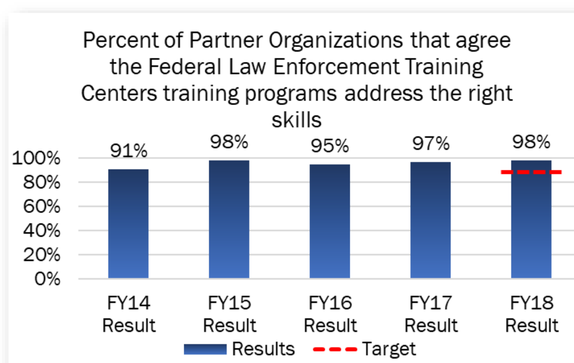
Percent of favorable responses by DHS employees on the Employee Engagement Index of the annual employee survey (MGMT): This measure is based on positive response rates by DHS employees to the Employee Engagement Index (EEI) of the annual Federal Employee Viewpoint Survey (FEVS) administered by the Office of Personnel Management. The EEI is comprised of three sub-indices—Leaders Lead, Supervisors, and Intrinsic Work Experiences. Based upon the 2018 FEVS data, the percent of favorable responses on EEI held stable at 60% positive in 2018, slightly above the 58% target.



Percent of Intelligence and Analysis finished intelligence reports incorporating DHS and state/local originated data (I&A): This measure gauges the impact that DHS provides to the intelligence community by disseminating, in finished intelligence reports, information harnessing DHS and state, local, tribal, and territorial data that is unique. In FY 2018, 60 percent of the disseminated intelligence produced by the Office of Intelligence & Analysis (I&A) incorporated information originating from DHS collected intelligence or information directly attributable to state and local governments. While I&A did not meet its annual target, it demonstrates I&A's commitment to using DHS and state and local information in its disseminated intelligence. The results also indicate that DHS and state and local information remains relevant to I&A's analysis when communicating its assessments to its customers nationwide. I&A evaluates its collection requirements for relevancy to intelligence priorities and I&A field officers continue to seek out sources of information that can provide relevant intelligence.



Percent of Partner Organizations that agree the Federal Law Enforcement Training Centers (FLETC) training programs address the right skills (e.g., critical knowledge, key skills and techniques, attitudes/behaviors) needed for their officers/agents to perform their law enforcement duties (FLETC): FLETC is the Nation's largest provider of law enforcement training. As such, FLETC bears responsibility to ensure its training meets the needs of more than 90 federal Partner Organizations and thousands of state, local, tribal, and



international law enforcement officers and agents operating in the dynamic environment of the law enforcement profession. This measure gauges FLETC's success in anticipating, developing, and delivering the most current, relevant, and accurate law enforcement training possible to produce agents and officers proficient in the techniques required to perform their law enforcement duties in their operating environments. The FY 2018 results are in line with historical performance and significantly above the target of 90 percent.

FLETC Partner Organization Liaison Officer

FLETC, through strategic partnerships, prepares the federal law enforcement community to safeguard the American people, our homeland, and our values. Effective partnerships are critical to FLETC's ability to meet this mission, and to realize its vision to be America's enterprise resource for federal law enforcement training.

During FY 2018, FLETC fully implemented an effort to integrate partner relations into a single point-of-contact charged with ensuring its federal Partner Organizations (POs) have access to the information they need to achieve their training goals in support of their operational missions. Through this focused approach, the PO Liaison Officer facilitated improvement to communication mechanisms through efforts such as enhancing the FLETC PO website and orientation program, facilitating monthly meetings among PO and FLETC leadership, and instituting monthly open-dialogue sessions among small groups of partners to share information and discuss topics of mutual interest. In FY 2018, the FLETC PO Liaison Officer worked with federal POs on more than 900 questions and issues, ranging from simple inquiries about FLETC procedures to complex matters that impact the full enterprise.

Looking Forward

Maturing and strengthening the Department and the entire homeland security enterprise—the collective efforts and shared responsibilities of federal, state, local, tribal and territorial, nongovernmental and private-sector partners, as well as individuals, families, and communities—is critical to the Department's success in carrying out its core missions and operational objectives.

Financial Stewardship: DHS is expending resources to improve our planning, programming, budgeting, and execution systems to develop the One Number System. Through our One Number System, which is currently in development, the Department will have clear line-of-sight from proposed changes to budget line items, the decision processes used to adjudicate those changes, and then the information on how those funds were expended. In addition, our financial system modernization (FSM) efforts are moving forward which will continue demonstrating strong financial stewardship, while executing a multi-year strategy to remediate our remaining material weaknesses in Financial Reporting and Information Technology controls and achieve a clean Internal Control over Financial Reporting opinion. Couple these improvements with our robust internal control program, we are ensuring taxpayer funds are expended as efficiently and effectively as possible while preventing and detecting fraud, waste and abuse. We will continue to work toward a more mature process and are addressing known gaps based on our approach to continually seek for a better solution.

Organizational Changes: DHS continues to look for opportunities to improve organizational effectiveness. Based on recent studies two major transformations are underway and will continue into the next fiscal year. The first is the CWMD effort that was previously discussed in Mission 1. The second major organizational change is occurring within the Science and Technology (S&T) Directorate to become more agile in tackling customer requests and change the way the organization responds to requests from years to days/weeks. As the research and development (R&D) arm of the DHS[3], S&T focuses on providing the tools, technologies, and knowledge products the nation's Homeland Security Enterprise needs today and tomorrow. That means S&T constantly works to bridge industry and end-user communities around the nation. S&T's R&D focus areas cover DHS's core mission areas and use our network of industry, national laboratory, and other partners seek solutions for capability gaps and define topics for future research.

Procurement Innovation: DHS established the Procurement Innovation Lab (PIL) in 2015, focused on creating a procurement culture that takes smart risks to ensure timely delivery to the important mission needs across the Department. By testing innovative techniques through actual DHS procurements and then sharing the lessons learned and best practices across the acquisition workforce, the PIL framework promotes a continuous cycle of iteration and improvement. The PIL supports strategic acquisitions for the Department, such as Grants Management Modernization and Financial Systems Modernization. To date, over 8,300 members of the acquisition workforce have participated in PIL webinars or PIL Boot Camps (one-day immersive training workshops), evidence of a growing grassroots community of procurement innovators developing across the Department. DHS is committed to maturing this nascent culture change in order to deliver exceptional results for the DHS mission and serve as a model for the Federal acquisition community.

[3] CWMD conducts R&D for Departmental radiological and nuclear detection capabilities.

Financial Overview

The Department's principal financial statements—Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Custodial Activity—report the financial position and results of operations of the Department, including long-term commitments and obligations. The statements have been prepared pursuant to the requirements of Title 31, United States Code, Section 3515(b), in accordance with U.S. generally accepted accounting principles and the formats prescribed by OMB. These statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the Federal Government, a sovereign entity. KPMG LLP performed the audit of the Department's principal financial statements.

Financial Position

The Department prepares its Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on an accrual basis, in accordance with generally accepted accounting principles; meaning that economic events are recorded as they occur, regardless of when cash is received or disbursed.

The Balance Sheet presents the resources owned or managed by the Department that have future economic benefits (assets) and the amounts owed by DHS that will require future payments (liabilities). The difference between the Department's assets and liabilities is the residual amount retained by DHS (net position) that is available for future programs and capital investments.

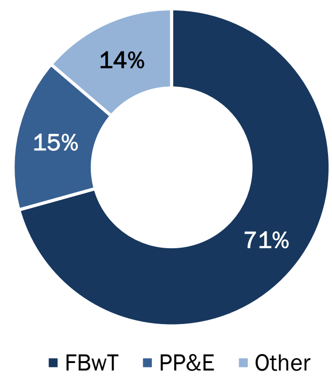
Financial Position ($ in millions)	FY 2018	FY 2017	$ Change	% Change
Fund Balance with Treasury	$ 105,095	$ 71,466	$ 33,629	47%▲
Property, Plant, and Equipment	23,146	21,887	1,259	6%▲
Other Assets	20,445	18,358	2,087	11%▲
Total Assets	**148,686**	**111,711**	36,975	33%▲
Federal Employee and Veterans' Benefits	61,864	58,715	3,149	5%▲
Debt	20,541	30,440	(9,899)	-33%▼
Accounts Payable	4,440	4,278	162	4%▲
Deferred Revenue and Advances	4,737	5,799	(1,062)	-18%▼
Insurance Liabilities	1,658	12,331	(10,673)	-87%▼
Accrued Payroll	2,432	2,276	156	7%▲
Other Liabilities	10,218	7,654	2,564	33%▲
Total Liabilities	**105,890**	**121,493**	**(15,603)**	-13%▼
Total Net Position	42,796	(9,782)	52,578	<-100%▼
Total Liabilities and Net Position	**$ 148,686**	**$ 111,711**	**$ 36,975**	33%▲

Results of Operations ($ in millions)	FY 2018	FY 2017	$ Change	% Change
Gross Cost	$ 82,051	$ 80,683	$ 1,368	2%▲
Less: Revenue Earned	(16,373)	(13,786)	(2,587)	19%▲
Net Cost Before Gains and Losses on Assumption Changes	65,678	66,897	(1,219)	-2%▼
Gains and Losses on Assumption Changes	1,143	(494)	1,637	<-100%▼
Total Net Cost	**$ 66,821**	**$ 66,403**	**$ 418**	1%▲

Assets – What We Own and Manage

Assets represent amounts owned or managed by the Department that can be used to accomplish its mission.

The Department's largest asset is *Fund Balance with Treasury (FBwT),* which consists primarily of appropriated, revolving, trust, deposit, receipt, and special funds remaining at the end of the fiscal year.



Property, Plant, and Equipment (PP&E) is the second largest asset, and include buildings and facilities, vessels, aircraft, construction in progress, and other equipment. In acquiring these assets, the Department either spent resources or incurred a liability to make payment at a future date; however, because these assets should provide future benefits to help accomplish the DHS mission, the Department reports these items as assets rather than expenses.

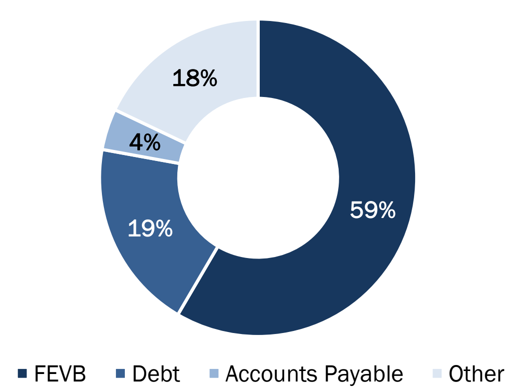
Other Assets includes items such as investments, accounts receivable, cash and other monetary assets, taxes, duties and trade receivables, direct loans, and inventory and related property.

As of September 30, 2018, the Department had $148.7 billion in assets, representing a $37 billion increase from FY 2017. The majority of this change is due to the increase in FEMA's and USCG's FBwT to support disaster relief efforts for the significant hurricanes that struck the United States and its territories in FY 2017 and the state of California wildfires in FY 2018, as well as CBP receiving increased appropriations for border security.

Liabilities – What We Owe

Liabilities are the amounts owed to the public or other federal agencies for goods and services provided but not yet paid for; to DHS employees for wages and future benefits; and for other liabilities.

The Department's largest liability is for *Federal Employee and Veterans' Benefits (FEVB)*. The Department owes these amounts to current and past civilian and military personnel for pension and other post-employment benefits. The liability also includes medical costs for approved workers' compensation cases. For more information, see Note 16 in the Financial Information section. This liability is not covered by current budgetary resources, and the Department will use future appropriations to cover these liabilities (see Note 14 in the Financial Information section).



Debt is the second largest liability, and results from Treasury loans and related interest payable to fund FEMA's National Flood Insurance Program (NFIP) and Disaster Assistance Direct Loan Program. Given the current premium rate structure, FEMA will not be able to generate sufficient resources from premiums to pay its debt; therefore, legislation will need to be enacted to provide funding to repay the Treasury or cancel the debt. This is discussed further in Note 15 in the Financial Information section.

Insurance Liabilities represent an estimate of NFIP claim activity based on the loss and loss adjustment expense factors inherent to the NFIP insurance underwriting operations, including trends in claim severity and frequency.

Other Liabilities include amounts owed to other federal agencies and the public for goods and services received by the Department, amounts received by the Department for goods or services that have not been fully rendered, unpaid wages and benefits for current DHS employees, and amounts due to the Treasury's general fund, environmental liabilities, refunds and drawbacks, and other.

As of September 30, 2018, the Department reported $105.9 billion in total liabilities. Total liabilities decreased by $15.6 billion in FY 2018. A reduced estimated insurance liability for disaster relief efforts for the significant hurricanes in FY 2018 drives most of this decrease in liabilities.

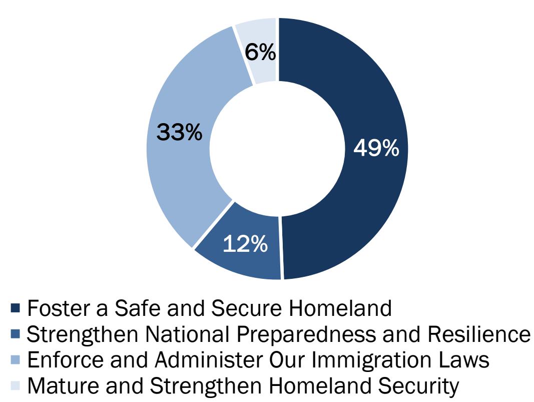
Net Position

Net position represents the accumulation of revenue, expenses, budgetary, and other financing sources since inception, as represented by an agency's balances in unexpended appropriations and cumulative results of operations on the Statement of Changes in Net Position. Financing sources increase net position and include, but are not limited to, appropriations, user fees, and excise taxes. The net costs discussed in the section below as well as transfers to other agencies decrease net position. The Department's total net position is $42.8 billion. Total net position increased approximately $53 billion from FY 2017, in large part because of supplemental appropriations received for the Disaster Relief Fund (DRF) for relief efforts in response to Hurricanes Harvey, Irma, and Maria in FY 2017 and wildfires in FY 2018, as well as debt relief for NFIP.

Results of Operations

The Department operates under one unified mission: *With honor and integrity, we will safeguard the American people, our homeland, and our values*. The FY 2014-2018 Strategic Plan further details the Department's missions and focus area, which are grouped into four major missions in the Statement of Net Cost and related footnotes to allow the reader of the Statement of Net Cost to clearly see how resources are spent towards the common goal of a safe, secure, and resilient Nation.

Net cost of operations before gains and losses represents the difference between the costs incurred and revenue earned by DHS programs. The Department's net cost of operations before gains and losses was $65.6 billion in FY 2018. DHS recognized increased revenue this year because of revenue earned from Immigration Examination fees and NFIP reinsurance.

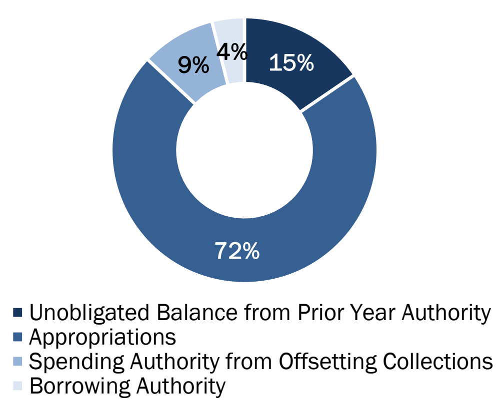


During FY 2018, the Department earned approximately $16.4 billion in exchange revenue. Exchange revenue arises from transactions in which the Department and the other party receive value and that are directly related to departmental operations. The Department also collects non-exchange duties, taxes, and fee revenue on behalf of the Federal Government. This non-exchange revenue is presented in the Statement of Custodial Activity or Statement of Changes in Net Position, rather than the Statement of Net Cost.

Budgetary Resources

Budgetary accounting principles require recognition of the obligation of funds according to legal requirements, which in many cases happens prior to the transaction under accrual basis. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds. The budget represents our plan for efficiently and effectively achieving the strategic objectives to carry out our mission and to ensure that the Department manages its operations within the appropriated amounts using budgetary controls.

Sources of Funds ($ in millions)	FY 2018	FY 2017	$ Change	% Change
Unobligated Balance from Prior Year Authority	$ 23,900	$ 15,341	$ 8,559	56%▲
Appropriations	110,725	68,224	42,501	62%▲
Spending Authority from Offsetting Collections	14,038	10,971	3,067	28%▲
Borrowing Authority	6,110	7,427	(1,317)	-18%▼
Total Budgetary Authority	**$ 154,773**	**$ 101,963**	**$ 52,810**	52%▲



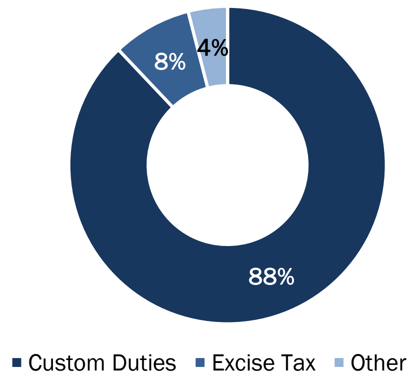
The Department's budgetary resources were approximately $154.8 billion for FY 2018. The authority was derived from $23.9 billion in authority carried forward from FY 2017, appropriations of $110.7 billion, $14 billion in collections, and $6 billion in borrowing authority. Budgetary resources increased approximately $53 billion from FY 2017. Supplemental appropriations received for the Disaster Relief Fund (DRF) for relief efforts in response to Hurricanes Harvey, Irma, and Maria in late FY 2017 and wildfires in early FY 2018, as well as Congressionally approved debt relief for NFIP served to increase the Department's budget authority significantly in FY 2018.

Of the total budget authority available, the Department incurred a total of $108 billion in obligations from salaries and benefits, purchase orders placed, contracts awarded, or similar transactions.

Custodial Activities

The Statement of Custodial Activity is prepared 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.

Cash Collections ($ in millions)	FY 2018	FY 2017	$ Change	% Change
Cash Collections	$ 41,584	$ 34,835	$ 6,749	19%▲
Excise Tax	3,809	3,631	178	5%▲
Other	1,892	1,810	82	5%▲
Total Cash Collections	**$ 47,285**	**$ 40,276**	**$ 7,009**	17%▲



Custodial activity includes the revenue collected by the Department on behalf of others, and the disposition of that revenue to the recipient entities. Non-exchange revenue is either retained by the Department to further its mission or transferred to Treasury's general fund and other federal agencies. The Department's total cash collections is $47.3 billion. Total cash collections increased approximately $7 billion from FY 2017. Increased collections are related to several duty increases enacted by Executive Orders and/or as a result of United States Trade Representative investigations, including but not limited to, Steel and Aluminum imports and various products imported from China.

Custom duties collected by CBP account for 88 percent of total cash collections. The remaining 12 percent is comprised of excise taxes, user fees, and various other fees.

Other Key Regulatory Requirements

For a discussion on DHS's compliance with the Prompt Payment Act, Debt Collection Improvement Act of 1996 and Biennial Review of User Fees, see the Other Information section.

Secretary's Assurance Statement

November 14, 2018

The Department of Homeland Security management team is responsible for meeting the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) by managing risks and maintaining effective internal control over three internal control objectives: effectiveness and efficiency of operations; reliability of reporting; and compliance with applicable laws and regulations. The Department conducted its assessment of risk and internal control in accordance with the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Department can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2018 except for the disclosures noted in the subsequent sections.

Pursuant to the DHS Financial Accountability Act (FAA), the Department is required to obtain an opinion on its internal control over financial reporting. The Department conducted its assessment of the effectiveness of internal control over financial reporting in accordance with Appendix A of OMB Circular A-123 and Government Accountability Office (GAO) Standards for Internal Control. Based on the results of this assessment, the Department can provide reasonable assurance that its internal control over financial reporting was designed and operating effectively, with the exception of the following two areas: 1) Financial Reporting and 2) Information Technology Controls and Systems Functionality, where material weaknesses have been identified and remediation is in process, as further described in the *Management Assurances* section of the Agency Financial Report.

In addition, the material weaknesses related to Information Technology (IT) Controls and Systems Functionality stated above affects the Department's ability to fully comply with the Federal Financial Management Improvement Act of 1996 (FFMIA) financial management system requirements, and therefore the Department is also reporting a noncompliance with FFMIA.

As a result of our assessments conducted, I am pleased to report that the Department has made progress in enhancing its internal controls and financial management program and continues to plan for additional improvements going forward.

Sincerely,

Kirstjen Nielsen
Secretary of Homeland Security

Management Assurances

DHS management is responsible for establishing, maintaining, and assessing internal control to provide reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act of 1982 (31 United States Code 3512, Sections 2 and 4) and the Federal Financial Management Improvement Act of 1996 (Pub. L. 104-208), as prescribed by the GAO Standards for Internal Control in the Federal Government known as the Green Book, are met. In addition, the Department of Homeland Security Financial Accountability Act (Pub. L. 108-330) requires a separate management assertion and an audit opinion on the Department's internal control over financial reporting.

In FY 2014, GAO revised the Green Book effective beginning FY 2016 and for the Federal Managers' Financial Integrity Act reports covering that year. The Green Book provides managers the criteria for an effective internal control system, organized around internal control components, principles, and attributes. In FY 2016, the OMB revised Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The revisions emphasize the integration of risk management and internal controls within existing business practices across an Agency. Updates to the Circular were effective in FY 2016, with the implementation of enterprise risk management requirements effective in FY 2017.

Federal Managers' Financial Integrity Act, Section 2

Since Circular No. A-123 became effective 2006, DHS has worked extensively to establish, maintain, and assess internal controls. The Department has made considerable improvements in internal controls over operations, reporting, and compliance through the extensive work of staff and management at Headquarters and in the Components.

In accordance with Circular A-123, the Department performs assessments over the effectiveness of its internal controls. The results of these assessments provide management with an understanding of the effectiveness and efficiency of programmatic operations, reliability of reporting, and compliance with laws and regulations. Management performs an analysis on the pervasiveness and materiality over any identified deficiencies to determine their impact. Based on the results of these assessments, the Secretary provides assurances over the Department's internal controls in the annual assurance statement.
Any deficiency identified as a material weakness within internal control over financial reporting is defined as a deficiency, or a combination of deficiencies, in internal control, 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. To identify material weaknesses and non-compliances in internal control over operations, management used the following criteria:

- Significant enough to report outside the Agency as a material weakness;
- Impacts the operating effectiveness of Entity-Level Controls;
- Impairs fulfillment of essential operations or mission;
- Deprives the public of needed services;
- Significantly weakens established safeguards against waste, loss, unauthorized use or misappropriation of funds, property, other assets, or conflicts of interest;
- Substantial non-compliance with laws and regulations; and

- Financial management systems conformance to government-wide systems requirements.

The Department instituted an Accountability Structure, which includes a Senior Management Council (SMC), the Risk Management and Assurance (RM&A) Division, and a Senior Assessment Team (SAT). The SMC approves the level of assurances for the Secretary's consideration and is comprised of the Department's Under Secretary for Management, Chief Financial Officer, Chief Readiness Support Officer, Chief Human Capital Officer, Chief Information Officer, Chief Information Security Officer, Chief Security Officer, and Chief Procurement Officer.

The RM&A Division seeks to integrate and coordinate internal control assessments with other internal control related activities and incorporates results from all of the Department's lines of business to address cross-cutting internal control issues. Finally, the SAT, led by the Chief Financial Officer and overseen by RM&A, is comprised of senior-level financial managers assigned to carry out and direct Component-level internal control over financial reporting assessments.

Component Senior Leadership provided assurance statements to the SAT that serve as the primary basis for the Secretary's assurance statements. These assurance statements are also based on information gathered from various sources including management-initiated internal control assessments, program reviews, and evaluations. In addition, these statements consider the results of reviews, audits, inspections, and investigations performed by the Department's Office of Inspector General (OIG) and GAO.

Department of Homeland Security Financial Accountability Act

Pursuant to the DHS FAA, the Department must obtain an opinion over internal control over financial reporting. Using GAO Standards for Internal Control and Circular A-123 as criteria, the Department has demonstrated continued progress in reducing its financial material weaknesses and maintaining progress over sustained processes through routine internal control testing. This robust find, fix, test and assert assessment strategy will support sustainment of the financial statement opinion and achievement of an opinion over internal control over financial reporting in the near future.

In FY 2018, the Department continued to make progress in remediating material weaknesses in the areas of: 1) Financial Reporting and 2) IT Controls and System Functionality. Refer to Table 1: Internal Control over Financial Reporting Corrective Actions for details.

The Department remains dedicated to fully remediating financial reporting and IT system security and functionality weaknesses. A summary of corrective actions are provided in the tables below.

Table 1: Internal Control over Financial Reporting Corrective Actions

Area of Material Weakness	Component	Year Identified	Target Correction Date
	USCG, USSS, CBP, and FEMA	FY 2003	FY 2019
Financial Reporting	USCG, USSS, CBP, and FEMA experienced challenges with deficiencies in multiple financial management areas. These issues may include a combination of trading partner reconciliations, journal entries, third party service monitoring, non-routine transactions, and lack of compensating controls to mitigate system limitations.		
Corrective Actions	The DHS CFO will continue to support Components in implementing corrective actions to establish effective financial reporting control activities based on component contribution to the weakness area and risk. One of the primary financial reporting condition is due to a lack of integrated financial systems at the USCG. In FY 2018, the Department and USCG focused on implementing and executing manual compensating measures. USCG completed its root cause analysis resulting in additional and refined remediation strategy. USCG will increase monitoring and oversight over the implementation of the actuarial liability checklist review. USCG plans to complete its remediation by Q2 of FY 2019. In addition, the Department continues to pursue system modernization. USSS remediation strategy will be focused on properly resourcing financial operations who are adequately trained on key financial management procedures and internal controls, fully remediating property as well as fully implementing its processes and controls that changed its control environment due to the Oracle update in FY 2018. Management will be adding additional resources to the actuarial liability process at USSS to increase oversight. CBP remediation will be targeted on remaining corrective action milestones related to journal entries, third party service provider monitoring, and seized asset disclosures. To ensure non-routine transactions are handled properly (such as the FEMA transaction), DHS will review its Technical Accounting Issue Resolution process and include additional levels of management review based on the materiality of the transaction. The Department will continue to prioritize remediation efforts based on risk and components will implement targeted corrective actions to resolve the overall Department financial reporting conditions.		
Area of Material Weakness	Component	Year Identified	Target Correction Date
	All DHS Components	FY 2003	FY 2020
IT Controls and System Functionality	The Department internal control assessment identified IT Controls and System Functionality as an area of material weakness due to inherited control deficiencies surrounding general computer and application controls. The Federal Information Security Management Act (FISMA) mandates that federal agencies maintain IT security programs in accordance with OMB and National Institute of Standards and Technology guidance. In addition, the Department's financial systems do not fully comply with the FFMIA.		
Corrective Actions	In FY 2018, DHS continued to implement the find, fix, and test strategy using a risk-based approach which allowed Components to focus on high impact systems further prioritized by FISCAM families. The focus was to test and find issues in systems that have not been fully assessed, while fixing prior and current year identified issues. Through this effort, DHS is postured to make significant progress in FY 2019 and downgrade the material weaknesses in FY 2020, evidenced by test of design and effectiveness.		

Federal Financial Management Improvement Act (FFMIA)

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that Federal agencies' financial management systems provide reliable financial data that complies with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger (USSGL) at the transaction level.

OMB Circular A-123, Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996, provides guidance the Department used in determining compliance with FFMIA. OMB's Appendix D provides a revised compliance model that entails a risk-and outcome-based approach to assess FFMIA compliance. The Department considered results of OIG and GAO audit reports, annual financial statement audits, the Department's annual Federal Information Security Modernization Act Report, and other relevant information. The Department's assessment also relies upon evaluations and assurances under the Federal Managers' Financial Integrity Act of 1982 (FMFIA), including assessments performed to meet the requirements of OMB Circular A-123 Appendix A. When applicable, particular importance is given to any reported material weakness and material non-conformance identified during these internal control assessments.

Based on the results of our overall assessment, the material weaknesses related to financial reporting and Information Technology Controls and Systems Functionality affects the Department's ability to fully comply with financial management system requirements, and therefore the Department is also reporting a noncompliance with FFMIA. The Department is actively engaged to correct the material weaknesses through significant compensating controls while undergoing system improvement efforts. The outcome of system improvement efforts will efficiently enable the Department to comply with government-wide requirements and reduce manual compensating controls. Refer to Table 1: Internal Control over Financial Reporting Corrective Actions for corrective actions to comply with FFMIA.

Digital Accountability and Transparency Act of 2014

In addition to performing an analysis of the Department's compliance with FMFIA, FFMIA, DHS FAA, and applicable laws and regulations, management also considered its compliance with recently enacted laws. On May 9, 2014, the President signed the Digital Accountability and Transparency Act of 2014 (DATA Act) into law. In April 2017, DHS successfully certified and submitted its first quarterly spending data for posting on USASpending.gov. In FY 2018, DHS continued to provide required quarterly submission by the due date and improved the match rate to 95.8% of dollars as of third quarter. This outpaces the benchmark established by DHS in its first fiscal year reporting (91.3% matching dollars). In addition, each Component was required to complete test of design and effectiveness over data consolidation and validation process. Based on the results of the assessment, management provides reasonable assurance that controls over the data consolidation and validation process is operating effectively. In FY 2019, DHS will implement its Data Quality Plan and will also implement a risk assessment process that enables DHS to identify and test high risk data elements, on a sample basis, to support the accuracy and validity at the data element transaction level.

Federal Information Security Modernization Act of 2014 (FISMA)

FISMA provides a framework for ensuring effectiveness of security controls over information resources that support federal operations and assets and provides a statutory definition for information security.

The Office of Inspector General (OIG) conducts an annual assessment of the DHS information security program in accordance with FISMA to determine whether DHS's information security program is adequate, effective, and complies with FISMA requirements. Per the FY 2017 OIG FISMA audit report, *"Evaluation of DHS' Information Security Program for Fiscal Year 2017,"* the OIG identified five recommendations for the Department to improve Federal information security. As a result of corrective actions taken prior to June 2017, the OIG has closed four of the recommendations from the FY 2017 FISMA audit. The final OIG recommendation has been noted as resolved but will remain open pending receipt of DHS provided evidence.

The FY 2018 OIG FISMA audit is pending completion at the time of this report's issuance. As such, the audit recommendations and Management's response to the recommendations will be provided when made available.

Financial Management Systems

Pursuant to the Chief Financial Officers Act of 1990, the DHS CFO is responsible for developing and maintaining agency accounting and financial management systems to ensure systems comply with applicable accounting principles, standards, and requirements and with internal control standards. As such, the DHS CFO oversees and coordinates all financial systems modernization efforts.

DHS has established a Joint Program Management Office (JPMO) to oversee Financial Systems Modernization (FSM) program management, priorities, risk, and cost and schedule. Our approach to modernizing financial management systems across the Department, includes:

- Expanding business intelligence and standardizing data across Components to quickly provide enterprise-level reporting;
- Targeting investments in financial systems modernization in a cost-effective manner and minimizing duplication in infrastructure in accordance with emerging technologies and guidance;
- Prioritizing essential system modernizations for the Components with the most critical need and projected greatest potential return on investment for efficiency and business process improvements; and
- Strengthening existing system controls—DHS is not depending on FSM efforts to achieve a "clean" internal control opinion or FFMIA compliance. We are addressing IT control weaknesses in high impact CFO designated systems through a holistic, multi-year remediation and internal control strategy, including compensating and complimentary controls.

As a federal shared service provider, the Department of the Interior (DOI), Interior Business Center (IBC) implemented financial management system solution for DNDO at the IBC data center in FY 2016 and additional development was continuing to eventually migrate TSA and USCG onto the new solution when fully developed to meet their requirements. In March 2017, it was determined that DHS would transition the DNDO, TSA, and USCG FSM initiatives out of the DOI IBC. DHS made a significant investment in the financial management solution and migrated this solution to an alternative hosting environment in August 2018 to complete integration and implementation. This system solution delivers a standardized baseline for CWMD, TSA, and USCG, with increased functionality and integration for CWMD. In October 2018, TSA and USCG resumed implementation efforts while CWMD uses the current solution. DHS is leveraging the lessons learned from this shared services implementation, reducing risk in future migrations through deliberative approaches to program management, resource management, business process standardization, risk management, change management, and scheduling rigor and oversight.

In addition, USSS completed the move to the next version of their current accounting software, Oracle Federal Financials in FY 2018. Other FSM efforts in early stages, include FEMA's financial system, flood insurance, and grants management modernization.

Performance Accountability

Based on our internal controls evaluations, the performance information reported for the Department in our performance and accountability reports are complete and reliable, except those noted in our Annual Performance Report. The Department's performance and accountability reports for this and previous years are available on our public website: http://www.dhs.gov/performance-accountability.

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, 2018

I am honored to join Secretary Kirstjen M. Nielsen in presenting the Department of Homeland Security (DHS) Fiscal Year (FY) 2018 Agency Financial Report (AFR). One of our critical duties is stewardship of the taxpayer dollars DHS uses every day to help secure our homeland. The homeland security landscape is ever-changing and requires us to quickly adapt to new challenges.

Being flexible and innovative doesn't just happen. We have clear goals to put the department's CFO Community in the best position to positively impact management and operations in the dynamic homeland security environment. We put people first to revolutionize decision support, deliberately resource the department, and to be good stewards of taxpayer money. Specifically, our goals are:

People First: Be the workplace of choice for highly skilled and talented people delivering financial excellence.
Get the Data: Revolutionize CFO business practices and systems to enable proactive decision support.
Use the Data: Resource the Department of Homeland Security based on mission requirements, priorities, and affordability.
Stewardship: Provide evidence to our DHS partners, Congress, and the public that we are good stewards of taxpayer money.

The DHS CFO Community has achieved a lot since establishing these goals just over two years ago! We instituted a Common Appropriations Structure, which allows the Department to compare like missions and activities and reduce 76 non-integrated appropriations types to four common appropriations. With our strategic focus, we successfully downgraded our property material weakness. Almost all of our major acquisition programs have current, approved life cycle cost estimates. We established and grew our ability to perform independent cost analysis and affordability analysis, which improves our most important programs likelihood of success.

Personally, I was most excited to see how our CFO Community across DHS came together to support the development of our people. Every Component CFO contributed to the establishment of our very first DHS CFO Human Capital Strategy. Implementing this strategy, we have a centralized approach to training, which allows us to keep costs 60% or more below commercial prices. We launched a new employee orientation to help our people get to know each other and our mission. Our development programs are just getting started, but we've already put 40 employees on-track to become great leaders in our community.

You will be able to see more of the Department's FY 2018 accomplishments in this report, which provides detailed information about DHS's financial statements and a lens of the Department's financial activities. DHS remains committed to securing the homeland as well as preparing for and responding to disasters. We will continue to meet these challenges with accountability and transparency- strengthening our risk management, internal controls, and mission-based resourcing to maximize the return on taxpayer investment.

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, 2018 and 2017.

- The Consolidated **Statements of Net Cost** present the net cost of DHS operations for the fiscal years that ended on September 30, 2018 and 2017. 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, 2018 and 2017.

- The Combined **Statements of Budgetary Resources** present how and in what amounts budgetary resources were made available to the Department during fiscal years 2018 and 2017, the status of these resources at September 30, 2018 and 2017, the changes in the obligated balance, and outlays of budgetary resources for the fiscal years that ended on September 30, 2018 and 2017.

- 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, 2018 and 2017.

- The **Notes to the Financial Statements** provide detail and clarification for amounts on the face of the financial statements as of September 30, 2018 and 2017.

Financial Statements

Department of Homeland Security
Consolidated Balance Sheets
As of September 30, 2018 and 2017
(In Millions)

	2018	2017
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$ 105,095	$ 71,466
Investments, Net (Note 5)	9,216	7,614
Accounts Receivable (Note 6)	382	317
Other (Note 13)	755	1,003
Total Intragovernmental	**$ 115,448**	**$ 80,400**
Cash and Other Monetary Assets (Note 4)	78	308
Accounts Receivable, Net (Note 6)	2,203	3,405
Taxes, Duties, and Trade Receivables, Net (Note 7)	4,768	2,980
Direct Loans, Net (Note 8)	72	33
Inventory and Related Property, Net (Note 9)	2,181	2,008
General Property, Plant, and Equipment, Net (Note 11)	23,146	21,887
Other (Note 13)	790	690
TOTAL ASSETS	**$ 148,686**	**$ 111,711**
Stewardship Property, Plant, and Equipment (Note 12)		
LIABILITIES (Note 14)		
Intragovernmental		
Accounts Payable	$ 1,957	$ 2,018
Debt (Note 15)	20,541	30,440
Other (Note 18)		
Due to the General Fund	4,845	3,020
Accrued FECA Liability	370	407
Other	602	507
Total Intragovernmental	**$ 28,315**	**$ 36,392**
Accounts Payable	2,483	2,260
Federal Employee and Veterans' Benefits (Note 16)	61,864	58,715
Environmental and Disposal Liabilities (Note 17)	474	437
Other (Notes 18, 19, 20, and 21)		
Accrued Payroll and Benefits	2,432	2,276
Deferred Revenue and Advances from Others	4,737	5,799
Insurance Liabilities	1,658	12,331
Refunds and Drawbacks	259	202
Other	3,668	3,081
Total Liabilities	**$ 105,890**	**$ 121,493**
Commitments and Contingencies (Note 21)		

(Continued)

Department of Homeland Security
Consolidated Balance Sheets
As of September 30, 2018 and 2017
(In Millions)

	2018	2017
NET POSITION		
Unexpended Appropriations		
Unexpended Appropriations-Other Funds (Combined)	$ 84,662	$ 50,872
Cumulative Results of Operations		
Cumulative Results of Operations-Funds from Dedicated Collections (Note 22) (Combined)	(4,451)	(25,315)
Cumulative Results of Operations-Other Funds (Combined)	(37,415)	(35,339)
Total Net Position	**$ 42,796**	**$ (9,782)**
TOTAL LIABILITIES AND NET POSITION	**$ 148,686**	**$ 111,711**

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, 2018 and 2017
(In Millions)

Major Missions (Note 23)	**2018**	**2017**
Foster a Safe and Secure Homeland		
Gross Cost	$ 38,628	$ 35,195
Less Earned Revenue	(6,181)	(5,653)
Net Cost	**32,447**	**29,542**
Enforce and Administer Our Immigration Laws		
Gross Cost	11,760	11,601
Less Earned Revenue	(4,047)	(3,108)
Net Cost	**7,713**	**8,493**
Strengthen National Preparedness and Resilience		
Gross Cost	27,499	29,478
Less Earned Revenue	(5,557)	(4,434)
Net Cost	**21,942**	**25,044**
Mature and Strengthen Homeland Security		
Gross Cost	4,164	4,409
Less Earned Revenue	(588)	(591)
Net Cost	**3,576**	**3,818**
Total Department of Homeland Security		
Gross Cost	82,051	80,683
Less Earned Revenue	(16,373)	(13,786)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	65,678	66,897
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes (Note 16)	1,143	(494)
NET COST OF OPERATIONS	**$ 66,821**	**$ 66,403**

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, 2018
(In Millions)

	2018			
	Combined Funds from Dedicated Collections (Note 22)	Combined All Other Funds	Eliminations	Consolidated Total
Unexpended Appropriations:				
Beginning Balances	$ -	$ 50,872	$ -	$ 50,872
Budgetary Financing Sources:				
Appropriations Received	-	98,018	-	98,018
Appropriations Transferred In/(Out)	-	(12)	-	(12)
Other Adjustments	-	(680)	-	(680)
Appropriations Used	-	(63,536)	-	(63,536)
Total Budgetary Financing Sources	-	33,790	-	33,790
Total Unexpended Appropriations	**-**	**84,662**	**-**	**84,662**
Cumulative Results of Operations:				
Beginning Balances	(25,315)	(35,339)	-	(60,654)
Budgetary Financing Sources:				
Other Adjustments	-	-	-	-
Appropriations Used	-	63,536	-	63,536
Non-Exchange Revenue	2,594	1	-	2,595
Donations and Forfeitures of Cash and Cash Equivalents	3	-	-	3
Transfers In/(Out) without Reimbursement	(3,709)	3,263	-	(446)
Other	-	-	-	-
Other Financing Sources (Non-exchange):				
Donations and Forfeitures of Property	-	17	-	17
Transfers In/(Out) without Reimbursement	(180)	236	-	56
Imputed Financing	227	1,662	197	1,692
Gain on Debt Cancellation (Note 15)	16,000	-	-	16,000
Other	3,610	(1,454)	-	2,156
Total Financing Sources	18,545	67,261	197	85,609
Net Cost of Operations	2,319	(69,337)	(197)	(66,821)
Net Change	20,864	(2,076)	-	18,788
Cumulative Results of Operations	**$ (4,451)**	**$ (37,415)**	**$ -**	**$ (41,866)**
NET POSITION	**$ (4,451)**	**$ 47,247**	**$ -**	**$ 42,796**

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 (Note 22)	Combined All Other Funds	Eliminations	Consolidated Total
Unexpended Appropriations				
Beginning Balances	$	$ 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**
Cumulative Results of Operations				
Beginning Balances	(13,840)	(35,067)	-	(48,907)
Budgetary Financing Sources:				
Other Adjustments	-	-	-	-
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	-	-	-	-
Other Financing Sources (Non-Exchange):				
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)**
NET POSITION	**$ (25,315)**	**$ 15,533**	**-**	**$ (9,782)**

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, 2018 and 2017
(In Millions)

	2018		2017	
	Budgetary	**Non-Budgetary Credit Reform Financing Accounts**	**Budgetary**	**Non-Budgetary Credit Reform Financing Accounts**
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Budget Authority, Net	23,860	40	15,305	36
Appropriations	110,725	-	68,224	-
Borrowing Authority (Note 25)	6,100	10	7,425	2
Spending Authority from Offsetting Collections	13,455	583	10,971	-
TOTAL BUDGETARY RESOURCES	**$ 154,140**	**$ 633**	**$ 101,925**	**$ 38**
MEMORANDUM (NON-ADD) ENTRIES:				
Net Adjustments to Unobligated Balance Brought Forward, October 1[1]	3,793	31	-	-
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (Note 24)	$ 107,254	$ 626	$ 81,858	$ 29
Unobligated Balance, End Of Year				
Apportioned, Unexpired	43,786	7	16,587	9
Exempt from Apportionment, Unexpired	22	-	2	-
Unapportioned, Unexpired	1,621	-	1,857	-
Unexpired Unobligated Balance, End of Year	45,429	7	18,446	9
Expired Unobligated Balance, End of Year	1,457	-	1,621	-
Total Unobligated Balance, End of Year	46,886	7	20,067	9
TOTAL BUDGETARY RESOURCES	**$ 154,140**	**$ 633**	**$ 101,925**	**$ 38**
Outlays, Net	82,115	3	63,814	11
Distributed Offsetting Receipts	(11,900)	-	(11,611)	-
Agency Outlays, Net	**$ 70,215**	**$ 3**	**$ 52,203**	**$ 11**

The accompanying notes are an integral part of these statements.

[1] The current year Unobligated Balance from Prior Year Budget Authority, Net represents prior year Total Unobligated Balance, End of Year and any changes reflected in the current year Net Adjustments to Unobligated Balance Brought Forward, October1.

Department of Homeland Security
Consolidated Statements of Custodial Activity
For the Years Ended September 30, 2018 and 2017
(In Millions)

	2018	2017
Revenue Activity (Note 29)		
Sources of Cash Collections:		
Duties	$ 41,584	$ 34,835
User Fees	1,631	1,504
Excise Taxes	3,809	3,631
Fines and Penalties	57	97
Interest	25	23
Miscellaneous	179	186
Total Cash Collections	47,285	40,276
Accrual Adjustments, Net	1,707	(78)
Total Custodial Revenue	**48,992**	**40,198**
Disposition of Collections		
Transferred to Federal Entities:		
U.S. Department of Agriculture	12,770	10,681
Treasury General Fund Accounts	30,766	26,192
U.S. Army Corps of Engineers	1,513	1,388
Other Federal Agencies	43	44
Transferred to Non-Federal Entities	167	136
(Increase)/Decrease in Amounts Yet to be Transferred	1,810	(66)
Refunds and Drawbacks (Notes 18 and 29)	1,923	1,823
Total Disposition of Custodial Revenue	**48,992**	**40,198**
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[2]:

- **U.S. Customs and Border Protection (CBP)**
- **U.S. Coast Guard (USCG)**
- **U.S. Citizenship and Immigration Services (USCIS)**
- **Federal Emergency Management Agency (FEMA)**
- **Federal Law Enforcement Training Centers (FLETC)**
- **National Protection and Programs Directorate (NPPD)**
- **U.S. Immigration and Customs Enforcement (ICE)**
- **Departmental Operations and Other**, including the Management Directorate (MGMT), the Office of the Secretary, the Office of Inspector General (OIG), Countering Weapons of Mass Destruction (CWMD) Office[3], 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)**

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

[3] The Countering Weapons of Mass Destruction (CWMD) Office was created in December 2017 to elevate and streamline DHS efforts to prevent terrorists and other national security threat actors from using harmful agents, such as chemical, biological, radiological, and nuclear material and devices, to harm Americans and U.S. interests. The CWMD Office consolidated the Domestic Nuclear Detection Office (DNDO), a majority of the Office of Health Affairs (OHA), and elements of the Office of Strategy, Plans, & Policy. For AFR presentation purposes, all prior and current year references to DNDO, OHA, and Office of Strategy, Plans, & Policy have been replaced with CWMD.

B. Basis of Presentation

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

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

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

Intragovernmental assets and liabilities are derived from activity with other federal entities. All other assets and liabilities result from activities with parties outside the Federal Government, such as domestic and foreign persons, organizations, or governments. Intragovernmental earned revenue includes collections or revenue accruals from other federal entities, and intragovernmental costs are payments or expense accruals to other federal entities.

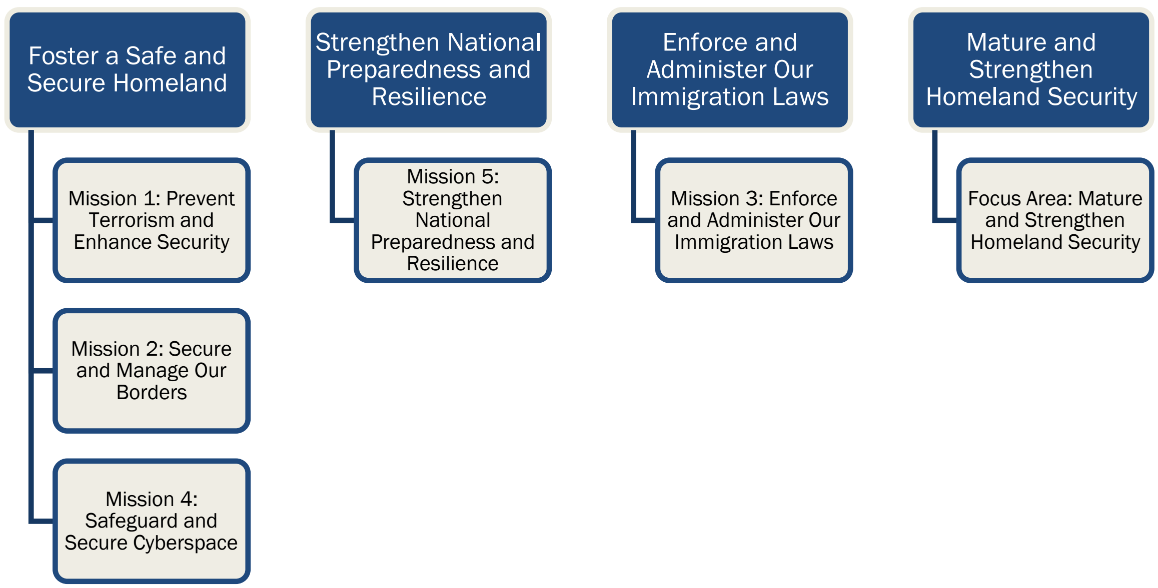
Transactions and balances among the Department's Components have been eliminated in the consolidated presentation of the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and the Statements of Custodial Activity. Intradepartmental activity reported in a fund from dedicated 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 basis, revenue from cash collections is reported separately from receivable accruals, and cash disbursements are reported separately from payable accruals.

D. Use of Estimates

Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of consolidated financial statements, and the reported amounts of revenue, claims, and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include: the year-end accruals of accounts and grants payable; environmental liabilities; deferred revenue; National Flood Insurance Program (NFIP) insurance liability; actuarial liabilities related to workers' compensation; taxes and duties trade receivables and supplemental duty bills; and actuarial liabilities related to military and other pension, retirement, and post-retirement benefits.

E. Entity and Non-Entity Assets

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

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

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

F. Fund Balance with Treasury

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

For additional information, 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 is reported in two categories: nonprohibited and prohibited.

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

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

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. Liabilities not requiring budgetary resources are liabilities that have not in the past required and will not in the future require the use of budgetary resources. The Federal Government, acting in its sovereign capacity, can annul liabilities of the Department arising from any transaction or event other than contracts or other instances where its sovereign immunity has been waived (e.g., refund statutes).

Q. Contingent Liabilities

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

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

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

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

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

R. Liabilities for Grants and Cooperative Agreements

The Department awards grants and cooperative agreements to state and local governments, universities, nonprofit organizations, and private-sector companies to build their capacity to respond to disasters and emergencies; conduct research into preparedness; enhance and ensure the security of passenger and cargo transportation by air, land, or sea; and support other Department-related activities. The Department estimates the year-end grant and cooperative agreement accrual for unreported and unpaid recipient expenditures using historical disbursement data in compliance with Federal Financial Accounting Technical Release 12, *Accrual Estimates for Grant Programs*. Grants and cooperative agreement liabilities are recorded as grants payable to the public and reported as Other Liabilities in the accompanying Balance Sheets. As grantee expenditure in a given year may vary greatly depending on occurrence of disasters and the expiration dates of awards for the numerous non-disaster grant programs, the estimate may 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). Given the current premium rate structure, FEMA will not be able to generate sufficient resources from premiums to pay its debt; therefore, legislation will need to be enacted to provide funding to repay the Treasury or cancel 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. Insurance claims and CDLs have indefinite borrowing authority. Indefinite borrowing authority represents the balance of borrowing authority which is the amount equal to those unpaid obligations covered by borrowing authority at the close of the fiscal year

For more information, see Note 15, Debt, and Note 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 16.2 percent of base pay for regular FERS employees and 33.8 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, the Department contributes 16.7 percent of base pay for regular FERS employees and 34.3 percent for law enforcement agents. For the FERS further revised annuity benefit, the Department contributes 16.9 percent of base pay for regular FERS employees and 34.5 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 2017, 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 custom duties, custodial collections of user fees, taxes, fines and penalties, interest on the fines and penalties, and the refunds and drawbacks related to these collections. Non-exchange revenue from user fees results from the government's sovereign power to demand revenue and is recognized as earned. Examples of non-exchange revenue from user fees include the collection of fees by CBP on incoming private vessels, private aircraft, and commercial vehicles. Non-exchange revenue also arises from 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-exchange and non-entity revenue, disbursements, and refunds are reported on the Statement of Custodial Activity using a modified cash basis. Non-entity revenue reported on the Department's Statement of Custodial Activity include duties, excise taxes, and various non-exchange fees collected by CBP that are subsequently remitted to the Treasury general fund or to other federal agencies. Duties, user fees, fines, and penalties are assessed pursuant to the provisions of 19 USC; nonimmigrant petition fees and interest under 8 USC; and excise taxes are assessed under 26 USC.

CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. The custodial revenue is recorded at the time of collection.

These revenue collections primarily result from current fiscal year activities. CBP records an equal and offsetting liability due to the Treasury general fund for amounts recognized as non-entity tax and trade receivables. Non-entity tax and trade accounts receivables consist of duties, excise taxes, user fees, fines and penalties, refunds and drawbacks overpayments, and interest associated with import/export activity, that have been established as specifically identifiable, legally enforceable claims that remain uncollected as of year-end. CBP accrues an estimate of duties, taxes, and fees related to entry summaries completed prior to year-end where receipt of payment is anticipated subsequent to year-end. The portions of the fees that are subsequently remitted to other federal agencies are recorded as custodial revenue at the time of collection.

Non-entity receivables are presented net of amounts deemed uncollectible. CBP tracks and enforces payment of estimated duties, taxes, and fees receivable by establishing a liquidated damage case that generally results in fines and penalties receivable. A fine or penalty, including interest on past-due balances, is established when a violation of import/export law is discovered. An allowance for doubtful collections is established for substantially all accrued fines and penalties and related interest. The amount is based on a statistical sample to assess historical collectability of these receivables. 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 2018, certain FY 2017 balances were reclassified to conform to FY 2018 presentation in accordance with OMB Circular A-136 for the following: Statement of Changes in Net Position; Statement of Budgetary Resources; Note 14, Liabilities Not Covered by Budgetary Resources; Note 19, Leases; Note 28, Undelivered Orders, End of Period; and Required Supplemental Information – Combining Statement of Budgetary Resources.

2. Non-Entity Assets

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

	2018	2017
Intragovernmental:		
Fund Balance with Treasury	$ 2,445	$ 2,075
Accounts Receivable	15	1
Total Intragovernmental	2,460	2,076
Public:		
Cash and Other Monetary Assets	6	5
Accounts Receivable, Net	39	35
Taxes, Duties, and Trade Receivables, Net	4,768	2,980
Total Public	4,813	3,020
Total Non-Entity Assets	7,273	5,096
Total Entity Assets	141,413	106,615
Total Assets	**$ 148,686**	**$ 111,711**

Non-entity Fund Balance with Treasury consists of certain special and deposit funds, permanent and indefinite appropriations, and miscellaneous receipts. Non-entity assets (also discussed in Notes 4, 6, and 7) are offset by corresponding liabilities at September 30, 2018 and 2017. Taxes, duties, and trade receivables from the public represent amounts due from importers for goods and merchandise imported to the United States.

3. Fund Balance with Treasury

Status of Fund Balance with Treasury

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

	2018	2017
Budgetary Status		
Unobligated Balances:		
Available	$ 43,815	$ 16,598
Unavailable	3,078	3,478
Obligated Balance Not Yet Disbursed	55,656	48,329
Total Budgetary Status	102,549	68,405
Reconciling Adjustments:		
Receipt, Clearing, and Deposit Funds	3,066	2,826
Borrowing Authority (Note 25)	(6)	(4)
Investments	(9,149)	(7,568)
Receivable Transfers and Imprest Funds	(323)	(308)
Authority Unavailable for Obligation	6,995	6,175
Offsetting Collections Previously or Temporarily Precluded from Obligation	33	33
SFRBTF; OSLTF	1,466	1,443
Temporary Reduction of Budget Authority	477	479
Temporary Reduction of Specific Invested Treasury Account Symbols	(13)	(15)
Total Fund Balance with Treasury	**$ 105,095**	**$ 71,466**

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, 2018 and 2017.
- 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):

	2018	2017
Total Cash and Other Monetary Assets	$ 78	$ 308

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 $6 million and $5 million at September 30, 2018 and 2017, respectively (see Note 2). The decrease in FY 2018 is due to cash held at the end of FY 2017 to pay claims for Hurricanes Harvey, Irma, and Maria.

5. *Investments, Net*

Investments at September 30, 2018, consisted of the following (in millions):

Type of Investment:	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental Securities:						
OSLTF	Effective interest method	$ 6,557	$ (37)	$ 18	$ 6,538	N/A
SFRBTF	Effective interest method	1,946	(4)	7	1,949	N/A
General Gift Fund	Effective interest method	1	-	-	1	N/A
Total Nonmarketable, Par Value		8,504	(41)	25	8,488	N/A
National Flood Insurance Reserve Fund	Effective interest method	733	(11)	4	726	720
Gifts and Donations Fund	Effective interest method	2	-	-	2	-
Total Nonmarketable, Market-Based		735	(11)	4	728	720
Total Investments, Net		**$ 9,239**	**$ (52)**	**$ 29**	**$ 9,216**	

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**	

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 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):

	2018	2017
Intragovernmental	$ 382	$ 317
With the Public:		
Accounts Receivable	2,277	3,484
Allowance for Doubtful Accounts	(74)	(79)
Total With the Public	2,203	3,405
Accounts Receivable, Net	**$ 2,585**	**$ 3,722**

As of September 30, 2018 and 2017, total restricted non-entity accounts receivable were $54 million and $36 million, respectively (see Note 2).

Accounts receivable, net have historically included amounts related to criminal restitution owed to the government. Beginning in FY 2018, this amount is required to be disclosed separately. Included in accounts receivable with the public, net is $24 million of gross receivables related to criminal restitution orders, of which $1 million is determined to be collectible. CBP also has criminal restitutions orders most of which is related to, and reported as part of, taxes and duties receivable due to their custodial nature (See Note 7. Taxes, Duties, and Trade Receivable, Net). Gross receivables and net collectible amounts related to CBP's criminal restitution orders are $151 million and $18 million, respectively.

7. Taxes, Duties, and Trade Receivables, Net

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

As of September 30, 2018:	Gross Receivables	Allowance	Total Net Receivables
Duties	$ 4,320	$ (166)	$ 4,154
Excise Taxes	212	(11)	201
User Fees	90	(1)	89
Fines/Penalties	519	(415)	104
Antidumping and Countervailing Duties	2,843	(2,624)	219
Interest Receivable	1,368	(1,367)	1
Total Taxes, Duties, and Trade Receivables, Net	**$ 9,352**	**$ (4,584)**	**$ 4,768**

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**

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 80 percent and 91 percent at September 30, 2018 and 2017, 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 for special CDLs to determine if a local government qualifies for additional cancellations. In addition, the law allows FEMA to reimburse those local governments who have repaid all, or a portion of, their loans, and who have received additional cancellations. Analysis and execution of cancellations and refunds are complete as of April 30, 2015. All remaining loans not cancelled shall be repaid no later than September 30, 2035 as stated in P.L. 113-6.

In FY 2018, Congress passed the Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2017 (P.L. 115-72) which provided $4.9 billion to DADLP for local governments affected by Hurricanes Harvey, Irma, and Maria. Of the $4.9 billion, 1.5% may be used for Section 417 administrative expenses, $150 million for Section 319 Advance of Non-Federal Share subsidy, $1 million for Section 319 administrative expenses, and the remainder for Section 417 subsidy. P.L. 115-72 specifies that a territory or possession, and instrumentalities and local governments thereof, of the United States shall be deemed a local government. Loan sizing may be based on projected loss of tax and other revenues and on projected cash outlays not previously budgeted for a period not to exceed 180 days from date of disaster, may exceed $5 million cap, and local governments may receive more than one loan. Language also specifies that loans may be cancelled in whole or in part at the discretion of Secretary of Homeland Security and Secretary of Treasury.

Additionally, Congress passed the Bipartisan Budget Act of 2018 (P.L. 115-123) which provided another $150 million to the DADLP for Section 319 Advance of Non-Federal Share subsidy, of which $1 million may be used Section 319 administrative expenses. P.L. 115-123 also amended the 180 days provision in P.L. 115-72 and inserted 365 days.

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

	2018	2017
	Loans Receivable, Net	Loans Receivable, Net
Community Disaster Loans	$ 72	$ 33

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

B. Direct Loans Obligated (in millions):

Community Disaster Loans	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
2018	$ 410	$ 9	$ (347)	$ 72
2017	$ 117	$ 7	$ (91)	$ 33

C. Total Amount of Direct Loans Disbursed (in millions):

	2018	2017
Community Disaster Loans	$ 345	$ 10

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
2018	$ 13	$ 328	$ 341
2017	$ -	$ 9	$ 9

The Other line represents increased disbursement activity associated with P.L.115-72 which provided FEMA authority to lend to those areas affected by Hurricanes Harvey, Irma, and Maria as discussed above.

Direct Loan Modifications and Re-estimates

Community Disaster Loans	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
2018	$ -	$ -	$ (42)	$ (42)
2017	$ -	$ -	$ (5)	$ (5)

The Technical Re-estimates line represents the increased downward re-estimate resulting from the 2013 loans cohort as the 5 years window for drawdowns will expire at September 30, 2018. Overall, 35 percent of 2013 cohort loans opted not to drawdown on their loans.

Total Direct Loan Subsidy Expense

	2018	2017
Community Disaster Loans	$ 299	$ 4

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

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

	2018	2017
	Community Disaster Loans	Community Disaster Loans
Interest Subsidy Cost	2.32%	2.62%
Default Costs	0.16%	0.17%
Other	87.85%	88.24%

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):

	2018	2017
Beginning balance of the subsidy cost allowance	91	$ 110
Add subsidy expense for direct loans disbursed during the reporting years by component:		
Interest rate differential costs	13	-
Other subsidy costs	328	9
Adjustments:		
Loans written off	(48)	(24)
Subsidy allowance amortization	5	1
Ending balance of the subsidy cost allowance before re-estimates	389	96
Add subsidy re-estimate by Component		
Technical/default re-estimate	(42)	(5)
Ending balance of the subsidy cost allowance	**$ 347**	**$ 91**

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

	2018	2017
Community Disaster Loans	**$ 5**	**$ 1**

9. Inventory and Related Property, Net

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

	2018	2017
OM&S		
Items Held for Use	$ 1,407	$ 1,333
Items Held for Future Use	54	47
Items Held for Repair	930	856
Less: Allowance for Losses	(366)	(334)
Total OM&S, Net	2,025	1,902
Inventory		
Inventory Purchased for Resale	42	39
Less: Allowance for Losses	(7)	(7)
Total Inventory, Net	35	32
Stockpile Materials Held in Reserve	121	74
Total Inventory and Related Property, Net	**$ 2,181**	**$ 2,008**

10. Seized and Forfeited Property

Prohibited seized property item counts as of September 30 and seizure and forfeiture activity for FY 2018 and 2017 are as follows:

For the fiscal year Ended September 30, 2018:

Seized Property:	Beginning Balance	New Seizures	Remissions and Adjustments	New Forfeitures	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	348	390,041	55	(390,444)	-
Cocaine	611	86,432	(20)	(87,023)	-
Heroin	23	3,392	(9)	(3,406)	-
Methamphetamine	239	36,762	(179)	(36,822)	-
Khat	-	27,493	-	(27,493)	-
Synthetic Marijuana	10	5,065	(6)	(5,069)	-
Fentanyl	39	1,536	69	(1,644)	-
Other Drugs	2,538	36,399	(3,753)	(33,266)	1,918
Firearms and Explosives (in number of case line items)	1,123	1,677	(238)	(1,013)	1,549
Counterfeit Currency (US/Foreign, in number of items)	4,380,627	3,746,699	(3,514,929)	-	4,612,397
Counterfeit Goods (in number of case line items)	30,129	72,806	(5,016)	(60,817)	37,102

Forfeited Property:	Beginning Balance	New Forfeitures	Transfers and Adjustments	Destroyed	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	89,034	390,444	(213,095)	(168,637)	97,746
Cocaine	33,868	87,023	(50,673)	(30,120)	40,098
Heroin	3,423	3,406	(355)	(1,632)	4,842
Methamphetamine	26,163	36,822	(7,653)	(18,093)	37,239
Khat	2,256	27,493	(992)	(27,933)	824
Synthetic Marijuana	13,975	5,069	(6,407)	(7,196)	5,441
Fentanyl	870	1,644	7	(645)	1,876
Other Drugs	5,821	33,266	(16,060)	(9,292)	13,735
Firearms and Explosives (in number of case line items)	1,240	1,013	(925)	(1)	1,327
Counterfeit Goods (in number of case line items)	26,147	60,817	960	(66,812)	21,112

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

This schedule is presented for prohibited (non-valued) seized and forfeited property. These items are retained and ultimately destroyed by CBP and USSS and are not transferred to the Treasury's forfeiture fund or other federal agencies.

Illegal drugs consist of tested and verified controlled substances as defined per the Controlled Substances Act. Illegal drugs are presented in kilograms, and a portion of the weight includes packaging, which often cannot be reasonably separated from the weight of the drugs since the packaging must be maintained for evidentiary purposes. In FY 2018, CBP began reporting seizures that are turned over to another Federal agency within 72 hours. It was deemed appropriate to report these items since the seizures are temporarily in the custody of CBP before being turned over. For FY 2018, Schedule I and II drugs are presented as summarily forfeited[4], thus resulting in an ending balance of zero for seized drugs. This represents a change from FY 2017 as the enhancements made to the seized/forfeited assets tracking system provides for more timely recording of forfeitures. Further, for FY 2018, fentanyl is disclosed separately due to its lethal potency, usage, and social relevance. Fentanyl was previously reported under Other drugs. 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.

[4] Summarily forfeited refers to when a drug is seized and processed, it is immediately forfeited to the government not requiring further administrative or judicial action.

11. General Property, Plant, and Equipment, Net

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

As of September 30, 2018:	Useful Life	Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	$ 306	N/A	$ 306
Improvements to Land	2-50 yrs	2,368	1,069	1,299
Construction in Progress	N/A	3,697	N/A	3,697
Buildings, Other Structures and Facilities	10-50 yrs	8,646	4,395	4,251
Equipment:				
Information Technology Equipment	5 yrs	1,048	779	269
Aircraft	20 yrs	6,123	3,124	2,999
Vessels	5-30 yrs	9,834	4,111	5,723
Vehicles	5-15 yrs	1,051	856	195
Other Equipment	5-15 yrs[5]	7,421	5,223	2,198
Assets Under Capital Lease	2-20 yrs	69	53	16
Leasehold Improvements	2-50 yrs	2,372	1,495	877
Internal Use Software	2-13 yrs	4,629	3,641	988
Internal Use Software - in Development	N/A	328	N/A	328
Total General Property, Plant, and Equipment, Net		**$ 47,892**	**$ 24,746**	**$ 23,146**

[5] In FY 2018, the useful life for Other Equipment was revised to better align to the useful lives of the capitalized assets under Other Equipment.

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**

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:

2018	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	71	-	-	71
S&T	1	-	-	1
FLETC	1	-	-	1
Multi-use Heritage Assets				
USCG	105	-	(4)	101
CBP	4	-	-	4
FEMA	1	-	-	1
ICE	1	-	-	1
Total Stewardship PP&E	**214**	**0**	**(4)**	**210**

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**

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):

	2018	2017
Intragovernmental:		
Advances and Prepayments	$ 755	$ 1,003
Total Intragovernmental	755	1,003
Public:		
Advances and Prepayments	788	688
Other Assets	2	2
Total Public	790	690
Total Other Assets	**$ 1,545**	**$ 1,693**

14. Liabilities Not Covered by Budgetary Resources

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

	2018	2017
Intragovernmental:		
Debt (Note 15)	$ 20,525	$ 30,425
Due to the General Fund (Note 18)	-	-
Accrued FECA Liability (Note 18)	370	407
Other	71	72
Total Intragovernmental	20,966	30,904
Public:		
Federal Employee and Veterans' Benefits:		
Actuarial FECA Liability (Note 16)	2,963	2,882
Military Service and Other Retirement Benefits (Note 16)	58,901	55,833
Environmental and Disposal Liabilities (Note 17)	472	435
Other:		
Accrued Payroll and Benefits (Note 18)	1,330	1,412
Contingent Legal Liabilities (Note 21)	677	471
Capital Lease Liability (Note 19)	23	27
Other	169	2
Total Public	64,535	61,062
Total Liabilities Not Covered by Budgetary Resources	85,501	91,966
Total Liabilities Not Requiring Budgetary Resources	5,003	3,110
Liabilities Covered by Budgetary Resources	15,386	26,417
Total Liabilities	**$ 105,890**	**$ 121,493**

The Department anticipates that the portion of the Liabilities Not Covered by Budgetary Resources listed above will be funded from future budgetary resources when required. Total Liabilities Not Requiring Budgetary Resources represents a new line required by OMB Circular A-136, effective FY 2018, to report liabilities for clearing accounts, non-fiduciary deposit funds, and custodial collections, including amounts due to the general fund. The remaining liabilities are covered by current budgetary resources.

15. Debt

Debt at September 30 and activity for fiscal years ended FY 2018 and 2017 consisted of the following (in millions):

Debt to the Treasury General Fund:	2018	2017
NFIP:		
Beginning Balance	$ 30,425	$ 23,000
New Borrowing	6,100	7,425
Interest Payable	-	-
Canceled Debt	(16,000)	-
Ending Balance	**20,525**	**30,425**
DADLP (Credit Reform):		
Beginning Balance	15	17
New Borrowing	5	2
Repayments	(4)	(4)
Ending Balance	**16**	**15**
Total Debt	**$ 20,541**	**$ 30,440**

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 1.125 percent to 2.375 percent as of September 30, 2018, and from 0.625 percent to 2.5 percent as of September 30, 2017. Interest is paid semi-annually on March 31 and September 30. The total interest paid for the year was $368 million and $394 million as of September 30, 2018 and 2017, respectively. Interest is accrued based on the loan balances reported. Principal repayments are permitted any time during the term of the loan. At maturity, a loan may be repaid or refinanced. 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 the Additional Supplemental Appropriations for Disaster Relief Requirements Act on October 26, 2017 (P. L. 115-72). The Act provides FEMA's Disaster Relief Fund with an additional $13,760 million for response and recovery activity, and $4,900 million to DADLP for 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.

In accordance with the requirements established by the Biggert-Waters Flood Insurance Reform Act of 2012, FEMA reports on the status of the debt; interest paid since 2005, and principal repayments to OMB and Congress on a quarterly basis. These requirements established a quarterly reporting requirement for the Reserve Ratio Requirement. There is a separate report for debt, interest, and principal repayments, where reports are due on a semi-annual basis.

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 2018 and FY 2017 were 3.22 percent and 1.89 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):

	2018	2017
USCG Military Retirement and Healthcare Benefits	$ 53,998	$ 50,741
USSS DC Pension Plan Benefits	4,903	5,092
Actuarial FECA Liability	2,963	2,882
Total Federal Employee and Veterans' Benefits	**$ 61,864**	**$ 58,715**

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, 2018:	USCG Military Retirement System	USCG Military Health System	USSS Uniformed Division and Special Agent Pension	Total
Beginning Liability Balance:	$ 44,583	$ 6,158	$ 5,092	$ 55,833
Expenses:				
Normal Cost	1,284	278	-	1,562
Interest on the Liability Balance	1,699	229	123	2,051
Actuarial Losses/(Gains):				
From Experience	68	38	11	117
From Assumption Changes	1,205	8	(70)	1,143
Other	105	-	-	105
Total Expense	4,361	553	64	4,978
Less Amounts Paid	1,417	240	253	1,910
Ending Liability Balance	**$ 47,527**	**$ 6,471**	**$ 4,903**	**$ 58,901**

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**

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).

In FY 2018, several changes were made to the USCG actuarial assumptions resulting in a significant fluctuation from FY 2017. The major changes include (1) decrease of the current discount rate from 3.83% to 3.65% resulting in a liability increase of $1.44 billion, (2) revised mortality assumptions provided by DOD and adopted by Coast Guard, increasing the liability by $169 million, and (3) lower assumed cost of living adjustments, decreasing the liability by $348 million.

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

1. For active duty members and reserves, USCG uses the MP-2016 Mortality Improvement Scale developed by the Society of Actuaries. For military retirees and annuitants, USCG uses the Department of the Defense (DOD) Mortality Improvement tables. Disability, withdrawal, and retirement tables reflecting actual USCG experience were developed based on an USCG experience study dated February 25, 2015.

2. Cost of living increases for the retirement plan are 2.33 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 3.65 percent for the retirement system and 3.60 percent for the health system.

5. Rates of salary increases are 1.9 percent annually, based on a ten-year average of military pay increases. This is in addition to assumed Merit Pay increases that reflect longevity increases, promotions, and advancements. The Merit Pay Table was modified in 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. A three year weighted

average is used to compute expected claims for the current year — 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. This plan also includes beneficiaries and dependents. All uniformed USSS officers who were hired before January 1, 1984, are automatically covered under this retirement system. Participants in the 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. The benefits for this plan are not currently prefunded and the USSS has no segregated plan assets. Each year's contribution equals the benefits paid from the plan. USSS reimburses the District of Columbia for the difference between benefits provided to the annuitants and payroll contributions received from current employees. This liability is presented as a component of the liability for 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, 2018, are as follows:

1. The mortality assumption was changed from the adjusted RP-2014 Mortality Tables with projection using the MP-2016 Mortality Improvement Scale to those published by the United States Office of Personnel Management.

2. Cost of living increases for retirees in the plan are 2.5 percent, based on the fourth quarter of the 2017 Survey of Professional Forecasters, Congressional Budget Office 2017 Long-Term Budget Outlook, the Cleveland Federal Reserve Bank Inflation Forecast Model as of December 2017, and the U.S. Treasury Bond Market Breakeven Inflation Rates for 30-year maturities as of December 31, 2017. The plan gives survivors a 3 percent based on the annual percentage increase in the Consumer Price Index (All Urban Consumers) plus 100 basis points.

3. The discount rate calculated in accordance with SFFAS No. 33 is 2.5 percent.

4. Rates of salary increases are 0 percent annually because the vast majority of plan participants have already retired. All remaining active participants are assumed to retire immediately.

5. Family composition is 85% based on the probability of marriage at commencement of benefits. Retired participants are assumed to have no eligible children.

6. The installment benefit payable upon the death of a retired participant is 40% of final pay, adjusted for cost-of-living increases if death occurs after retirement.

B. Actuarial FECA Liability

The actuarial FECA liability represents the estimated liability for future workers’ compensation and includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. Future workers’ compensation estimates for the future cost of approved compensation cases, which are generated from an application of actuarial procedures developed by DOL, were approximately $2,963 million and $2,882 million at September 30, 2018 and 2017, respectively.

17. Environmental and Disposal Liabilities

Environmental and disposal liabilities at September 30, 2018 and 2017 are $474 million and $437 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, 2018:	Current	Non-Current	Total
Intragovernmental:			
Due to the General Fund (Note 14)	$ 4,845	$ -	$ 4,845
Accrued FECA Liability (Note 14)	141	229	370
Advances from Others	94	-	94
Employer Benefits Contributions and Payroll Taxes	243	-	243
Other Intragovernmental Liabilities	217	48	265
Total Intragovernmental Other Liabilities	**$ 5,540**	**$ 277**	**$ 5,817**
Public:			
Accrued Payroll and Benefits (See B. below)	$ 2,432	$ -	$ 2,432
Deferred Revenue and Advances from Others (See B. below)	4,329	408	4,737
Insurance Liabilities (Note 20)	1,556	102	1,658
Refunds and Drawbacks	259	-	259
Contingent Legal Liabilities (Note 21)	602	137	739
Capital Lease Liability (Note 19)	5	18	23
Other	1,306	1,600	2,906
Total Other Liabilities with the Public	**$ 10,489**	**$ 2,265**	**$ 12,754**
Total Other Liabilities	**$ 16,029**	**$ 2,542**	**$ 18,571**

As of September 30, 2017:	Current	Non-Current	Total
Intragovernmental:			
Due to the General Fund	$ 3,020	$ -	$ 3,020
Accrued FECA Liability	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**

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 $215 million and $207 million, respectively, for the fiscal years ended September 30, 2018 and 2017.

B. Other Liabilities with the Public

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

	2018	2017
Accrued Funded Payroll and Benefits	$ 1,005	$ 753
Accrued Unfunded Leave	1,329	1,412
Unfunded Employment Related Liabilities	1	-
Other	97	111
Total Accrued Payroll and Benefits	**$ 2,432**	**$ 2,276**

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

	2018	2017
USCIS Application Fees	$ 2,149	$ 2,166
FEMA Unearned NFIP Premium	2,557	3,604
Advances from Others	31	29
Total Deferred Revenue	**$ 4,737**	**$ 5,799**

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.

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.

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

In FY 2018, ICE changed its methodology for allocating bond liabilities between current and non-current liabilities to be based on historical financial trends. As a result, a significant portion of the other liabilities is classified as current rather than non-current liabilities.

19. Leases

A. Operating Leases

The Department leases various facilities and equipment accounted for as operating leases. Leased items consist of offices, warehouses, vehicles, and other equipment. The majority of office space occupied by the Department is either owned by the Federal Government or is leased by GSA from commercial sources. The estimated future lease payments for non-cancellable operating leases are based on lease contract terms, considering payments made during the year ended September 30, 2018.

As of September 30, 2018, estimated future minimum lease commitments for non-cancellable operating leases were as follows (in millions):

	Land and Buildings		
	Federal	Non-Federal	Total
FY 2019	$ 460	$ 46	$ 506
FY 2020	453	41	494
FY 2021	423	24	447
FY 2022	392	6	398
FY 2023	358	3	361
After FY 2023	2,770	17	2,787
Total Future Minimum Lease Payments	**$ 4,856**	**$ 137**	**$ 4,993**

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

B. Capital Leases

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

Certain license agreements are cancellable depending on future funding. Substantially all of the net present value of capital lease obligations and software license agreements will be funded from future sources. All of the Department’s capital leases are non-federal.

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

	2018	2017
Land and Buildings	$ 68	$ 68
Software	-	11
Vehicles and Equipment	1	1
Accumulated Amortization	(53)	(61)
Assets under Capital Lease, Net	**$ 16**	**$ 19**

The estimated future lease payments for capital leases are based on lease contract terms. As of September 30, 2018, estimated future minimum lease payments under capital leases, were as follows (in millions):

	Land and Buildings		
	Federal	Non-Federal	Total
FY 2019	$ -	$ 6	$ 6
FY 2020	-	6	6
FY 2021	-	6	6
FY 2022	-	6	6
FY 2023	-	3	3
After FY 2023	-	-	-
Total Future Minimum Lease Payments	-	27	27
Less: Imputed Interest and Executory Costs	-	(4)	(4)
Total Capital Lease Liability	**$ -**	**$ 23**	**$ 23**

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):

	2018	2017
Beginning Balance	$ 12,331	$ 3,196
Change in Incurred Losses		
Change from Events of the Current Year	1,618	13,443
Change from Events of Prior Years	(2,236)	487
Less: Amounts Paid During Current Period		
Paid for Events of the Current Year	(368)	(1,391)
Paid for Events of Prior Years	(9,687)	(3,404)
Total Insurance Liability	**$ 1,658**	**$ 12,331**

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.

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 2018			
Probable	$ 739	$ 739	$ 777
Reasonably Possible		$ 458	$ 1,064
FY 2017			
Probable	$ 473	$ 473	$ 584
Reasonably Possible		$ 457	$ 1,217

The claims above generally relate to the Federal Tort Claims Act (28 U.S.C. 2671), OSLTF, personnel grievances, and various customs laws and regulations. The estimated contingent liability recorded in the accompanying financial statements as of September 30, 2018, and 2017, was $739 million and $473 million, respectively, of which $62 million and $2 million, respectively, was funded.

As of September 30, 2018, and 2017, 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, 2018 and 2017 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, 2018 and 2017, CBP had 16 aircraft on loan from DOD with a total replacement value of up to $23 million per aircraft. As of September 30, 2018, and 2017 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, 2018 and 2017, the Department estimates total payments related to cancelled appropriations to be $165 million and $213 million, respectively, of which $135 million and $162 million, respectively, may require future funding.

TSA maintains four 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 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 areas. These OTAs establish the respective cost-sharing obligations and other responsibilities of TSA and the specific entity (board, port, or authority) conducting the installations or improvements. P.L. 108-176 established the Aviation Security Capital Fund and the most recent law (P.L. 110-53) authorizes TSA to set aside $250 million annually to fund LOIs ($200 million annually) and OTAs ($50 million annually). 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, 2018 and 2017, TSA received invoices or documentation for costs incurred totaling $18 million and $40 million, respectively, for unpaid invoices.

Under section 1604(b)(2) of the 9/11 Act, TSA is required to give funding consideration to airports that incurred eligible costs for in-line baggage screening systems but were not recipients of funding agreements. TSA began reviewing claims from at least 16 airports for reimbursement of costs incurred for in-line baggage systems installed prior to FY 2008. In FY 2018, TSA complied this review and identified up to $217.9 million of potential costs eligible for reimbursement. Congress gave TSA $50 million in FY 2018 appropriations to begin reimbursing airports for these costs, leaving a future funded liability of $167.9 million for reimbursing airports for eligible costs.

22. Funds from Dedicated Collections

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

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

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 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, 2018								
ASSETS								
Fund Balance with Treasury	$ 489	$ 3	$ 2,632	$ 6,181	$ 34	$ 1,301	$ 1,573	$ 12,213
Investments, Net	-	1,949	-	726	6,538	-	3	9,216
Accounts Receivable	392	101	9	2	1,362	-	126	1,992
Other	-	-	667	642	-	6	50	1,365
Total Assets	**$ 881**	**$ 2,053**	**$ 3,308**	**$ 7,551**	**$ 7,934**	**$ 1,307**	**$ 1,752**	**$ 24,786**
LIABILITIES								
Other Liabilities	$ 18	$ 1,245	$ 2,586	$ 24,876	$ 221	$ 190	$ 101	$ 29,237
Total Liabilities	**$ 18**	**$ 1,245**	**$ 2,586**	**$ 24,876**	**$ 221**	**$ 190**	**$ 101**	**$ 29,237**
NET POSITION								
Cumulative Results of Operations	$ 863	$ 808	$ 722	$ (17,325)	$ 7,713	$ 1,117	$ 1,651	$ (4,451)
Total Liabilities and Net Position	**$ 881**	**$ 2,053**	**$ 3,308**	**$ 7,551**	**$ 7,934**	**$ 1,307**	**$ 1,752**	**$ 24,786**
Statement of Net Cost for the Year Ended September 30, 2018								
Gross Program Costs	$ 794	$ 124	$ 3,942	$ 1,392	$ 57	$ 169	$ 1,555	$ 8,033
Less: Earned Revenue	-	-	(3,880)	(5,414)	(52)	(250)	(756)	(10,352)
Net Cost of Operations	**$ 794**	**$ 124**	**$ 62**	**$ (4,022)**	**$ 5**	**$ (81)**	**$ 799**	**$ (2,319)**
Statement of Changes in Net Position for the Year Ended September 30, 2018								
Net Position Beginning of Period	$ 752	$ 802	$ 567	$ (37,353)	$ 7,123	$ 1,174	$ 1,620	$ (23,315)
Net Cost of Operations	(794)	(124)	(62)	4,022	(5)	81	(799)	2,319
Non-exchange Revenue	859	650	-	3	692	-	390	2,594
Gain on Debt Cancellation	-	-	-	16,000	-	-	-	16,000
Other	46	(520)	217	3	(97)	(138)	440	(49)
Change in Net Position	111	6	155	20,028	590	(57)	31	20,864
Net Position, End of Period	**$ 863**	**$ 808**	**$ 722**	**$ (17,325)**	**$ 7,713**	**$ 1,117**	**$ 1,651**	**$ (4,451)**

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, 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)**

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 FY 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 to pay claims and commissions and taxes of agents, insurance operations, interest on the debt, and for flood mitigation assistance actions

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

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

The Additional Supplemental Appropriations for Disaster Relief Requirements Act (P. L. 115-72) provided debt relief and additional borrowing authority for the NFIP by cancelling $16,000 million of the NFIP's debt to Treasury as shown in the Statement of Changes in Net Position.

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).

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 and 70C5385). The fund's revenue is derived from security service fees in accordance with 49 USC 44940. Annually, the first $250 million derived from Aviation Security fees are deposited into this fund. TSA provides funding to airport sponsors for projects to (1) replace baggage 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 Centers, Department of Homeland Security; 116 Stat. 2135
- 70X5543: International Registered Traveler Program Fund, U.S. Customs and Border Protection, Department of Homeland Security; 121 Stat. 2091-2092
- 70_5710: Coast Guard Housing Fund, U.S. Coast Guard, Department of Homeland Security, 14 USC 687(c)
- 70X5710: Coast Guard Housing Fund, U.S. Coast Guard, Department of Homeland Security, 14 USC 687(c)
- 70X5569: Asia-Pacific Economic Cooperation Business Travel Cards, U.S. Customs and Border Protection, Department of Homeland Security, 125 Stat. 551
- 70X4363: Enhanced Inspectional Services, U.S. Customs and Border Protection, Department of Homeland Security, 127 Stat. 378
- 70X5702: 9-11 Response and Biometric Exit Account, U.S. Customs and Border Protection, Department of Homeland Security, 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: CWMD, FLETC, NPPD, OIG, S&T, USSS, I&A, and OPS.

Net Costs by Sub-Organization and Major Missions
For the Year Ended September 30, 2018 (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	$ -	$ 3,731	$ 1,208	$ 697	$ 1,989	$ -	$ -	$ 1,547	$ 9,172
Public Gross Cost	55	8,931	7,887	1,657	6,394	-	-	4,532	29,456
Gross Cost	55	12,662	9,095	2,354	8,383	-	-	6,079	38,628
Intragovernmental Revenue	-	(60)	(144)	(41)	(1)	-	-	(1,174)	(1,420)
Public Revenue Earned	-	(153)	(102)	(123)	(4,378)	-	-	(5)	(4,761)
Less Revenue Earned	-	(213)	(246)	(164)	(4,379)	-	-	(1,179)	(6,181)
Net Cost	**55**	**12,449**	**8,849**	**2,190**	**4,004**	**-**	**-**	**4,900**	**32,447**
Enforce and Administer Our Immigration Laws									
Intragovernmental Gross Cost	$ -	$ 781	$ 107	$ 852	$ -	$ 1,172	$ 1	$ 20	$ 2,933
Public Gross Cost	-	1,572	739	3,962	-	2,332	6	216	8,827
Gross Cost	-	2,353	846	4,814	-	3,504	7	236	11,760
Intragovernmental Revenue	-	(13)	(15)	(9)	-	(8)	-	(5)	(50)
Public Revenue Earned	-	(42)	(9)	(1)	-	(3,945)	-	-	(3,997)
Less Revenue Earned	-	(55)	(24)	(10)	-	(3,953)	-	(5)	(4,047)
Net Cost	**-**	**2,298**	**822**	**4,804**	**-**	**(449)**	**7**	**231**	**7,713**
Strengthen National Preparedness and Resilience									
Intragovernmental Gross Cost	$ 5,807	$ -	$ 153	$ -	$ -	$ -	$ -	$ 168	$ 6,128
Public Gross Cost	20,165	-	1,028	-	-	-	-	178	21,371
Gross Cost	25,972	-	1,181	-	-	-	-	346	27,499
Intragovernmental Revenue	(38)	-	(20)	-	-	-	-	(3)	(61)
Public Revenue Earned	(5,481)	-	(15)	-	-	-	-	-	(5,496)
Less Revenue Earned	(5,519)	-	(35)	-	-	-	-	(3)	(5,557)
Net Cost	**20,453**	**-**	**1,146**	**-**	**-**	**-**	**-**	**343**	**21,942**

Net Costs by Sub-Organization and Major Missions
For the Year Ended September 30, 2018 (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	$ -	$ -	$ 257	$ 32	$ -	$ 167	$ 541	$ 180	$ 1,177
Public Gross Cost	-	-	1,339	101	-	327	883	337	2,987
Gross Cost	-	-	1,596	133	-	494	1,424	517	4,164
Intragovernmental Revenue	-	-	(15)	(1)	-	-	(3)	(20)	(39)
Public Revenue Earned	-	-	(46)	(4)	-	(499)	-	-	(549)
Less Revenue Earned	-	-	(61)	(5)	-	(499)	(3)	(20)	(588)
Net Cost	**-**	**-**	**1,535**	**128**	**-**	**(5)**	**1,421**	**497**	**3,576**
Total Department of Homeland Security									
Intragovernmental Gross Cost	$ 5,807	$ 4,512	$ 1,725	$ 1,581	$ 1,989	$ 1,339	$ 542	$ 1,915	$ 19,410
Public Gross Cost	20,220	10,503	10,993	5,720	6,394	2,659	889	5,263	62,641
Gross Cost	26,027	15,015	12,718	7,301	8,383	3,998	1,431	7,178	82,051
Intragovernmental Revenue	(38)	(73)	(194)	(51)	(1)	(8)	(3)	(1,202)	(1,570)
Public Revenue Earned	(5,481)	(195)	(172)	(128)	(4,378)	(4,444)	-	(5)	(14,803)
Less Revenue Earned	(5,519)	(268)	(366)	(179)	(4,379)	(4,452)	(3)	(1,207)	(16,373)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	**20,508**	**14,747**	**12,352**	**7,122**	**4,004**	**(454)**	**1,428**	**5,971**	**65,678**
(Gain)/Loss on Pension, ORB, or OPEB Assumption	-	-	1,213	-	-	-	-	(70)	1,143
NET COST OF OPERATIONS	**$ 20,508**	**$ 14,747**	**$ 13,565**	**$ 7,122**	**$ 4,004**	**$ (454)**	**$ 1,428**	**$ 5,901**	**$ 66,821**

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 & 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**

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, 2018:	Apportionment Category A	Apportionment Category B	Exempt from Apportionment	Total
New Obligations and Upward Adjustments – Direct	$ 51,150	$ 48,641	$ 2,271	$ 102,062
New Obligations and Upward Adjustments – Reimbursable	2,878	2,940	-	5,818
Total New Obligations and Upward Adjustments	**$ 54,028**	**$ 51,581**	**$ 2,271**	**$ 107,880**

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**

25. Available Borrowing Authority

For the Years Ended September 30:	2018	2017
Beginning Borrowing Authority	$ 4	$ 5
Current Year Borrowing Authority Realized	6,138	7,454
Decrease in Current Year Borrowing Authority Realized	(28)	(27)
Net Current Year Borrowing Authority Realized	6,110	7,427
Less: Borrowing Authority Converted to Cash	(6,105)	(7,427)
Less: Borrowing Authority Withdrawn	(3)	(1)
Ending Borrowing Authority	**$ 6**	**$ 4**

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, 2018, and 2017, net current year borrowing authority realized presented in the SBR totaled $6,110 million and $7,427 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, 2018, and 2017, FEMA had drawn from Treasury $20,525 million and $30,425 million, respectively, leaving $9,900 million and $0, 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 NFIP debt to Treasury; increasing FEMA's total available borrowing authority to cover flood insurance claims and other related expenses.

FEMA also requests borrowing authority annually to cover the unsubsidized portion of loans made, finance downward re-estimates, modifications, modification adjustment transfers, and annual interest payment to Treasury at year-end. In FY 2018, FEMA requested borrowing totaling $38 million. As of September 30, 2018, the ending available borrowing authority of $6 million was 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 $1,480 million and $1,450 million at September 30, 2018, and 2017, 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 2017 Statement of Budgetary Resources and the actual amounts reported for FY 2017 in the Budget of the Federal Government. Since the FY 2018 financial statements will be reported prior to the release of the Budget of the Federal Government, DHS is reporting for FY 2017 only. Typically, the Budget of the Federal Government with the FY 2018 actual data is published in February of the subsequent year. Once published, the FY 2018 actual data will be available on the OMB website.

	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
FY 2017 Actual Balances per the FY 2019 Budget of the U.S. Government (in millions)	**$ 97,909**	**$ 80,510**	**$ 11,611**	**$ 62,123**
Reconciling Items:				
Accounts that are expired that are not included in Budget of the United States	1,597	-	-	-
Distributed Offsetting Receipts not included in the Budget of the United States, Net Outlays	-	-	-	(11,611)
Refunds and drawbacks not included in the Budget of the United States	1,697	1,697	-	1,685
Byrd Program (Continued Dumping and Subsidy Offset) not included in the Budget of the United States	189	47	-	47
Miscellaneous Differences	571	(367)	-	(30)
Per the 2017 Statement of Budgetary Resources	**$ 101,963**	**$ 81,887**	**$ 11,611**	**$ 52,214**

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, End of Period

An unpaid undelivered order exists when a valid obligation has occurred and funds have been reserved but the goods or services have not been received by the Department. A paid undelivered order exists when a valid obligation has occurred and funds have been advanced but the goods or services have not been received by the Department.

Undelivered Orders consisted of the following (in millions):

As of September 30, 2018:	Federal	Non-Federal	Total
Undelivered Orders – Unpaid	$ 10,353	$ 42,303	$ 52,656
Undelivered Orders - Paid	$ 856	787	$ 1,643

As of September 30, 2017:	Federal	Non-Federal	Total
Undelivered Orders – Unpaid	$ 7,511	$ 37,925	$ 45,436
Undelivered Orders - Paid	$ 1,126	$ 686	$ 1,812

29. Custodial Revenue

The Department collects revenue from a variety of duties, excise taxes, fines and penalties, and various other fees. Revenue collections primarily result from current fiscal year activity. Current Taxes, Duties, Trade Receivables, Net are collected within 90 days of the assessment. 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, 2018 and 2017 (in millions):

2018 Tax Disbursements	Tax Year			
	2018	2017	2016	Prior Years
Total tax refunds and drawbacks disbursed	$ 1,149	$ 314	$ 154	$ 306

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

Total tax refunds and drawbacks disbursed consist of non-exchange customs duties revenue refunded. The disbursements include interest payments of $44 million and $35 million for the fiscal years ended September 30, 2018 and 2017, 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 2018 and FY 2017 are as follows:

	2018	2017
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments (Note 24)	$ 107,880	$ 81,887
Less: Spending Authority from Offsetting Collections and Recoveries	(18,424)	(13,509)
Obligations Net of Offsetting Collections and Recoveries	89,456	68,378
Less: Offsetting Receipts	(11,900)	(11,611)
Net Obligations	77,556	56,767
Other Resources		
Donations and Forfeiture of Property	17	20
Transfers In (Out) without Reimbursement	56	66
Imputed Financing from Costs Absorbed by Others	1,692	1,194
Other	18,156	1,956
Net Other Resources Used to Finance Activities	19,921	3,236
Total Resources Used to Finance Activities	**$ 97,477**	**$ 60,003**
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	$ 6,784	$ 4,463
Resources that Fund Expenses Recognized in Prior Periods	10,755	312
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	(7)	(4)
Other	(2,894)	(3,479)
Resources that Finance the Acquisition of Assets	2,786	2,350
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	18,042	1,826
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	35,466	5,468
TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS	**$ 62,011**	**$ 54,535**
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
Increase in Exchange Revenue Receivable from the Public	(33)	82
Increase in Environmental and Disposal Liability	37	-
Increase in Insurance Liability	-	9,135
Increase in Actuarial Pension Liability	2,755	-
Increase in Actuarial Health Insurance Liability	313	852
Increase in Other	527	231
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	3,599	10,340

	2018	2017
Components not Requiring or Generating Resources		
Depreciation and Amortization	1,838	1,896
Revaluation of Assets or Liabilities	156	66
Other	(783)	(434)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	1,211	1,528
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	4,810	11,868
NET COST OF OPERATIONS	$ 66,821	$ 66,403

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 2018) 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, CWMD, and USCG have made significant investments in research and development this fiscal year (in millions):

	FY 2018	*FY 2017*	*FY 2016*	*FY 2015*	*FY 2014*
S&T	$ 973	$ 962	$ 878	$ 785	$ 654
CWMD	59	63	29	76	74
USCG	19	22	21	25	25
TSA	-	-	-	-	1
Total Research & Development	$ 1,051	$ 1,047	$ 928	$ 886	$ 754

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.

- *Counter Terrorist; Silicon Valley Innovation Program (SVIP).* The program expands the Department's reach to find new technologies that strengthen national security with the goal of reshaping how government, entrepreneurs, and industry work together to find cutting-edge solutions. The program also reaches out to innovation communities across the nation and around the world to harness the commercial R&D ecosystem for government applications, co-invest in ideas, and accelerate transition-to-market.

- *Border Security; Ground Based Technologies*. S&T continues efforts to introduce process and technology improvements to CBP traveler inspection operations in order to strengthen traveler vetting and facilitate lawful and legitimate travel in support of the President's National Travel and Tourism Strategy.

CWMD 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. CWMD's research efforts seek to achieve dramatic advancements in technologies to enhance our national detection and forensics capabilities and include:

- Continued funding 16 research efforts at 9 universities to address long-term, high-risk challenges in Radiation/Nuclear Detection and Forensics by completing investigation of new materials and approaches in support of the CWMD mission. Released a Notice of Funding Opportunity announcement to solicit new proposals for research and awarded 4 new grants.
- Initiated new research and development activities into next generation prototype radioisotope identification device that could provide a low cost and operationally effective alternative to commercial-off-the-shelf detectors and mobile active interrogation using neutron techniques for shielded threat detection. Continued to improve wide area monitoring and search techniques for radiological and nuclear threats including the fusion of other sensors such as video and license plate readers. Completed investigation into enabling technologies designed to dramatically improve radiological/nuclear detection in rail cargo.
- Began a series of research and development initiatives to investigate data analytics and anomaly detection techniques to integrate sensor data with other information streams, perform data analytics to determine patterns, and produce actionable information regarding indicators of weapons of mass destruction terrorist activity.

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:

- Completed market research on cell phone technology to support the precise geo-location of distressed mariners in mayday and Search and Rescue (SAR) scenarios. The research identified and assessed state of the market commercial/government off the shelf geo-location systems.
- Completed a review and assessment of the current state of commercial and government communications technologies suitable for Sector and Cutter Forces to securely share imagery, text, email, documents, and other operational data. The technology will allow rapid communications between boarding and inspection teams, and command centers.

- Developed a Global Positioning System (GPS)/Automatic Identification System (AIS) Cyber assessment report. The research looked into cybersecurity vulnerabilities, threats, and risk mitigation strategies for Coast Guard surface and air assets.
- Completed a technology demonstration report on the long range Arctic Navigation Safety Information System (ANSIS). The system will provide reliable critical navigational safety information to identify, assess, and mitigate navigational risks in the Arctic region.
- Developed a final report providing an introduction to Laser Eye Protection suitable for flight operations. The report also recommended specific steps that the Coast Guard can implement to increase mission success and operational readiness. This report was in response to an increase in laser incidents on Coast Guard fixed and rotary winged aircraft.
- Developed a final report on advanced Small Unmanned Aircraft System sensors. The sensors are necessary to meet CG wide area surveillance needs.
- Developed a Maritime Object Tracker prototype using current technology to assist in the tracking and recovery of floating maritime objects. Use of new tracking technology will save time, effort, and cost involved in recovery operations.
- Developed a process to catalogue information regarding emerging oil spill response technologies in a standardized manner by pre-screening technology submittals against a set of fixed criteria. The Oil Spill Response Technology Evaluation Guidance will assist the Coast Guard Office of Marine Environmental Response Policy in evaluating the technical aspects of oil spill response technology submittals and will focus on emerging technologies with Technology Readiness Levels rated as 7 or higher.
- Developed an interim report that documents the deployment, equipment and hardware, and technical specifications of the experimental, environmentally friendly, buoy mooring systems. These prototype systems, deployed in St. Petersburg FL, are part of an extended user evaluation to determine better methods of mooring buoys to reduce or eliminate damage to sensitive areas by their mooring systems.

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 the number of responders trained over the course of the programs cited below. FEMA and S&T have made significant investments in human capital (in millions):

	FY 2018	*FY 2017*	*FY 2016*	*FY 2015*	*FY 2014*
FEMA	$ 101	$ 104	$ 101	$ 101	$ 101
S&T	2	3	4	3	7
Total Human Capital	$ 103	$ 107	$ 105	$ 104	$ 108

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 2018, NFA provided training to 95,651 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 2018, EMI provided training to 1,707,586 state, local, tribal, and territorial emergency responders through traditional classroom-based and online-distance learning training.
- *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 2018, CDP provided training to 50,580 state, local, tribal, and territorial emergency responders.

S&T issues grants to Minority Serving Institutions (MSI), 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. Current MSI programs, including the Scientific Leadership Award program and the Summer Research Team, are developing course content and training in areas critical to homeland security while they also build enduring partnerships with research and development centers of excellence.

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 CWMD have made significant investments in non-federal physical property (in millions):

	FY 2018	*FY 2017*	*FY 2016*	*FY 2015*	*FY 2014*
TSA	$ 237	$ 227	$ 271	$ 311	$ 215
FEMA[1]	-	21	69	53	42
CWMD	-	-	-	-	6
Total Non-Federal Physical Property	$ 237	$ 248	$ 340	$ 364	$ 263

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 four 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

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

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.

CWMD 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.

Required Supplementary Information

Unaudited, see accompanying Independent Auditors' Report

1. Deferred Maintenance and Repairs

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

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

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

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

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

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

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

Significant Changes from Prior Year. As of September 30, 2018, $1,548 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 $251 million.

Deferred maintenance and repairs for FY 2018, by asset class, consisted of (in millions):

	Ending	Beginning
Active:		
Buildings, Structures, and Facilities	$ 1,383	$ 1,153
Furniture, Fixtures, and Equipment	117	93
Other General PP&E	37	14
Heritage assets	6	32
Total Active	**$ 1,543**	**$ 1,292**
Inactive and Excess:		
Buildings, Structures, and Facilities	$ 3	$ 3
Heritage assets	2	2
Total Inactive and Excess	**$ 5**	**$ 5**
Total Deferred Maintenance	**$ 1,548**	**$ 1,297**

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 2018. The following table provides the Statement of Budgetary Resources disaggregated by DHS Components rather than by major budget account because the Department manages its budget at the Component level.

Combining Statement of Budgetary Resources by Sub-Organization Accounts
For the Year Ended September 30, 2018 (in millions)

	CBP	USCG	USCIS	FEMA	FLETC	ICE	DeptOps	NPPD	USSS	S&T	TSA	TOTAL
BUDGETARY RESOURCES												
Unobligated Balance Brought Forward, October 1	$ 2,185	$ 1,995	$ 1,525	$ 13,594	$ 139	$ 729	$ 1,072	$ 1,002	$ 206	$ 374	$ 1,079	$ 23,900
Appropriations	18,530	13,037	4,023	55,437	261	7,535	1,824	1,911	2,272	831	5,064	110,725
Borrowing Authority	-	-	-	6,110	-	-	-	-	-	-	-	6,110
Spending Authority from Offsetting Collections	2,450	509	45	5,458	121	188	676	1,704	35	72	2,780	14,038
TOTAL BUDGETARY RESOURCES	$ 23,165	$ 15,541	$ 5,593	$ 80,599	$ 521	$ 8,452	$ 3,572	$ 4,617	$ 2,513	$ 1,277	$ 8,923	$ 154,773
STATUS OF BUDGETARY RESOURCES												
New Obligations and Upward Adjustments	$ 20,769	$ 11,861	$ 4,209	$ 44,727	$ 402	$ 7,884	$ 2,787	$ 3,776	$ 2,356	$ 955	$ 8,154	$ 107,880
Unobligated Balance, End Of Year												
Apportioned, Unexpired	1,931	3,367	338	35,437	97	390	647	710	81	283	512	43,793
Exempt from Apportionment, Unexpired	2	2	-	-	-	-	-	-	18	-	-	22
Unapportioned, Unexpired	254	-	1,028	247	1	6	23	-	23	5	34	1,621
Unexpired Unobligated Balance, End of Year	2,187	3,369	1,366	35,684	98	396	670	710	122	288	546	45,436
Expired Unobligated Balance, End of Year	209	311	18	188	21	172	115	131	35	34	223	1,457
Total Unobligated Balance, End of Year	2,396	3,680	1,384	35,872	119	568	785	841	157	322	769	46,893
TOTAL BUDGETARY RESOURCES	$ 23,165	$ 15,541	$ 5,593	$ 80,599	$ 521	$ 8,452	$ 3,572	$ 4,617	$ 2,513	$ 1,277	$ 8,923	$ 154,773
Outlays, Net	15,994	10,699	3,995	32,083	241	7,138	1,854	1,797	2,190	994	5,133	82,118
Distributed Offsetting Receipts	(4,790)	(74)	(4,380)	(884)	-	(191)	(1)	-	-	-	(1,580)	(11,900)
Agency Outlays, Net	$ 11,204	$ 10,625	$ (385)	$ 31,199	$ 241	$ 6,947	$ 1,853	$ 1,797	$ 2,190	$ 994	$ 3,553	$ 70,218

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.

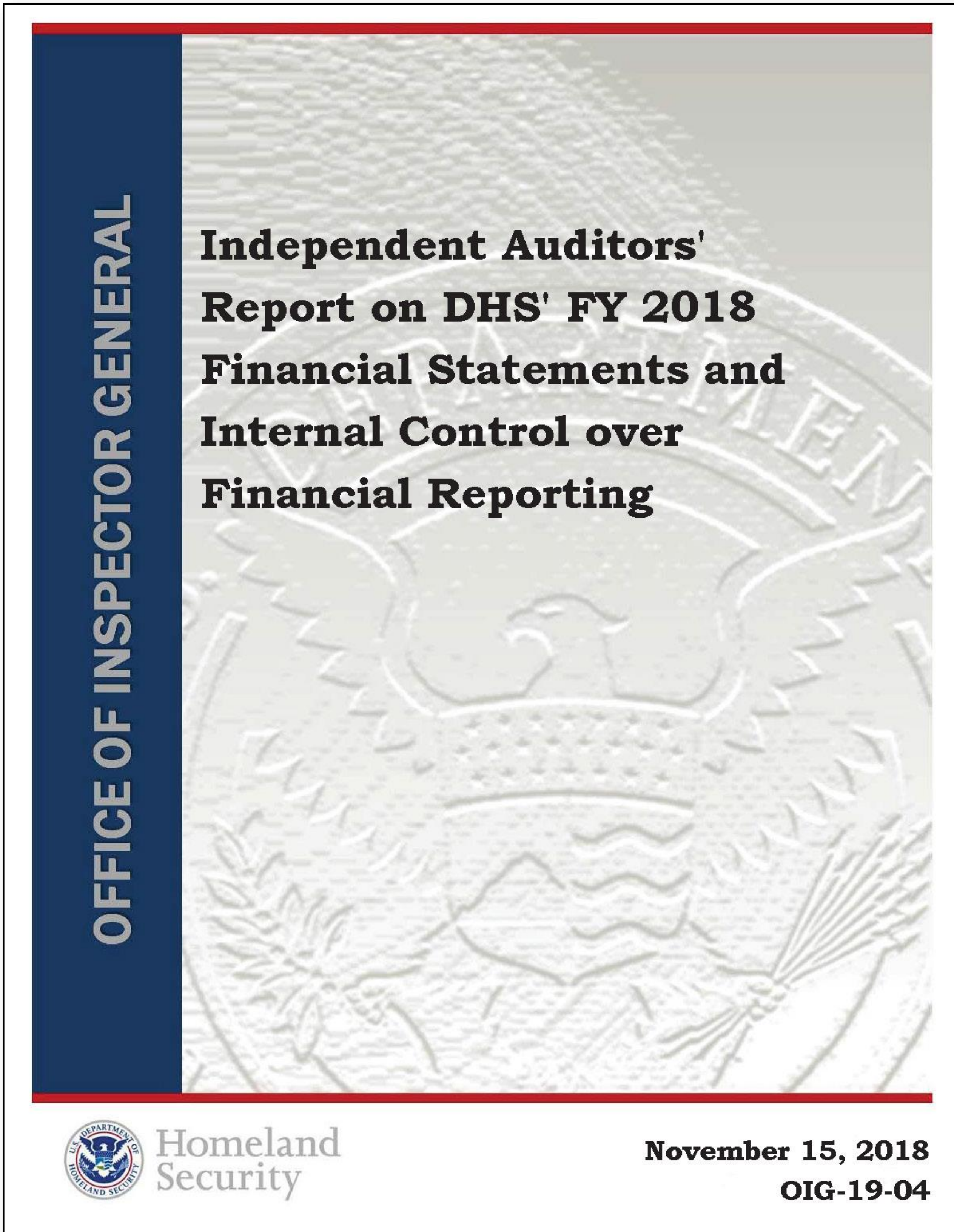
For FY 2018 and FY 2017, CBP had the legal right to collect $4,768 million and $2,980 million of receivables, respectively. In addition, there were $2,455 million and $1,830 million representing records still in the protest phase for FY 2018 and FY 2017, respectively. CBP recognized as write-offs $4 million and $14 million, respectively, of assessments that the Department had statutory authority to collect at September 30, 2018 and 2017, but have no future collection potential. Most of this amount represents duties, taxes, and fees.

4. Risk Assumed Information

The Department performed an analysis of the NFIP's unearned premium reserve. The unearned premium reserve is associated with policies that were still in force on September 30 and will expire at some point in the next fiscal year. The "Risk Assumed" analysis evaluated that reserve, net of operating expenses, to determine if they are sufficient to meet the typical future claims that these policies will incur before they expire. Since a little less than 20% of NFIP policies are charged discounted (that is, less than full risk) premiums, the unearned premium reserve, by itself, has a projected deficiency. However, the NFIP has two other sources of funds that can also be used to pay future claims that more than offset that deficiency. Those additional funds are the unearned reserved fund assessment and the unearned Homeowner Flood Insurance Affordability Act (HFIAA) of 2014 surcharge. Thus, the risk assumed liability as of September 30, 2018 is $0. This positive outcome is because the deficiency in the unearned premium due to discounted premium – which has been declining due to the increases in subsidized premiums mandated by Biggert-Waters Flood Insurance Modernization Act of 2012—is now more than offset by the unearned Reserve Fund Assessment and the unearned HFIAA surcharge.

Actual flood losses are highly variable from year to year. For the majority of years, the unearned premium reserve is adequate to pay the losses and expenses associated with the unearned premium. In those years with catastrophic flooding, the reserve will prove inadequate.

Independent Auditors' Report



OFFICE OF INSPECTOR GENERAL

Independent Auditors' Report on DHS' FY 2018 Financial Statements and Internal Control over Financial Reporting

Homeland Security

November 15, 2018

OIG-19-04

DHS OIG HIGHLIGHTS

Independent Auditors' Report on DHS' FY 2018 Financial Statements and Internal Control over Financial Reporting

November 15, 2018

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 61 recommendations that, when implemented, would help improve the Department's internal control.

For Further Information:
Contact our Office of Public Affairs at (202) 981-6000, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

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, 2018.

KPMG issued an adverse opinion on DHS' internal control over financial reporting of its financial statements as of September 30, 2018. 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 laws and regulations:

Significant Deficiencies

1. Information Technology Controls and Financial Systems
2. Financial Reporting
3. Entity-Level Controls
4. Property, Plant, and Equipment
5. Custodial Activities: Entry Process, Refunds and Drawbacks, and Seized Property
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. *Antideficiency Act*
4. *Federal Financial Management Improvement Act of 1996*

Management's Response

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

www.oig.dhs.gov OIG-19-04

OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

November 15, 2018

MEMORANDUM FOR: The Honorable Kirstjen M. Nielsen
Secretary
Department of Homeland Security

FROM: John V. Kelly
Senior Official Performing the
Duties of Inspector General

SUBJECT: *Independent Auditors' Report on DHS' FY 2018 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) 2018 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 2018 *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 2018 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 reported the following significant deficiencies in internal control in six areas, of which two are considered material weaknesses, and four instances of noncompliance with laws and regulations:

Significant Deficiencies Considered To Be Material Weaknesses

- Information Technology Controls and Financial Systems
- Financial Reporting

Other Significant Deficiencies

- Entity-Level Controls
- Property, Plant, and Equipment

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

- Custodial Activities: Entry Process, Refunds and Drawbacks, and Seized Property
- 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 control 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 15, 2018, 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.

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.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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 Sondra McCauley, Assistant Inspector General for Audits at (202) 981-6000; or Maureen Duddy, Deputy Assistant Inspector General for Audits, at (617) 565-8723.

Attachment

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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Appendixes

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

Independent Auditors' Report

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

Report on the Financial Statements and Internal Control

We have audited the accompanying consolidated financial statements of the U.S. Department of Homeland Security (DHS), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, 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, 2018, based on criteria established in the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States.

Management's Responsibility for the Financial Statements and Internal Control Over Financial Reporting

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements and an opinion on DHS's internal control over financial reporting based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 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. We have identified material weaknesses in the following two areas:

A. Information Technology Controls and Financial Systems
B. Financial Reporting

These material weaknesses are described in Exhibit I and included in the *Secretary's Assurance Statement*. 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, 2018 and 2017, 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, 2018, based on criteria established in the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States.

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 2018 consolidated financial statements, and these findings do not affect our unmodified opinion on the consolidated financial statements.

KPMG

Emphasis of Matter

As discussed in Notes 1T, 15, and 25 of the consolidated financial statements, DHS had intragovernmental debt of approximately $21 billion, and $30 billion used to finance the *National Flood Insurance Program* (NFIP) as of September 30, 2018 and 2017, respectively. Due to the subsidized nature of the NFIP, DHS has determined that future insurance premiums, and other anticipated sources of revenue, may not be sufficient to repay this debt. As discussed in Note 15 of the consolidated financial statements, on October 26, 2017, Congress enacted the *Additional Supplemental Appropriations for Disaster Relief Requirements Act of 2017*. This act cancelled $16 billion of DHS's debt that was 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*.

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.

KPMG

Other Reporting Required by Government Auditing Standards

Internal Control Over Financial Reporting

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. 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, Refunds and Drawbacks, and Seized Property
F. Grants Management

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 fiscal year 2018 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. 19-01, 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 fiscal year 2018 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.

DHS's Responses to Findings

DHS's responses to findings identified in our audit are described in Appendix A. DHS's responses were not subjected to the auditing procedures applied in the audit of the fiscal year 2018 consolidated financial statements and, accordingly, we express no opinion on these responses.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the 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 15, 2018

Independent Auditors' Report
Exhibit I – Material Weaknesses

The weaknesses in internal control and findings related to compliance with certain provisions of laws, regulations, contracts, and grant agreements, presented herein, were identified during our audit of the U.S. Department of Homeland Security's (DHS) financial statements and internal control over financial reporting as of and for the year ended September 30, 2018. All Components of DHS, as defined in Note 1A – *Reporting Entity* to the financial statements, were considered in the scope of our audit of DHS' financial statements and internal control over financial reporting. The determination of which control deficiencies rise to the level of a material weakness or significant deficiency is based on an evaluation of the impact of control deficiencies identified in all Components, considered individually and in the aggregate, on the DHS consolidated financial statements as of September 30, 2018.

Our findings are presented in three Exhibits:

Exhibit I Material Weaknesses. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We have reported material weaknesses within the following two areas:

A. Information Technology Controls and Financial Systems
B. Financial Reporting

Exhibit II Significant Deficiencies. A significant deficiency in internal control over financial reporting is less severe than a material weakness, yet important enough to merit attention of DHS management and others in positions of DHS oversight. We have reported four significant deficiencies in the following areas:

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

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. 19-01, *Audit Requirements for Federal Financial Statements*. We have reported four instances of noncompliance:

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*

Criteria We audited DHS's internal control over financial reporting based on the criteria established by *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book).

I.1

Independent Auditors' Report
Exhibit I – Material Weaknesses

I-A Information Technology Controls and Financial Systems

Background: Information technology (IT) controls are a critical subset of an entity's internal control. Green Book principle 11 indicates that management should design the entity's information system and related control activities to achieve objectives and respond to risk. There are two main types of IT controls: IT general controls (ITGCs) and application controls. ITGCs 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, operating system, database, and application level, and include controls over security management, access control, configuration management, segregation of duties, and contingency planning. Effective ITGCs 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 complete and accurate processing of data.

During our fiscal year (FY) 2018 assessment of ITGCs, we noted DHS continued to design and implement controls to remediate IT findings related to user recertifications and password settings we reported in FY 2017, however, we identified new findings related to the operating effectiveness of controls in FY 2018. Additionally, management did not take sufficient corrective action to address deficiencies in multiple information systems that we identified and reported to management as a material weakness for several years.

As DHS moves forward with its financial systems modernization efforts, it is critical that DHS's modernization plans capitalize on the results from prior modernization efforts, as well as correct for current internal and external findings.

Conditions Related to ITGCs: The control deficiencies in ITGCs represent an elevated risk of material misstatement as DHS has an absence of sufficient manual, compensating controls in its process areas to fully mitigate these ITGC deficiencies. Deficiencies indicated in this Exhibit are representative of ITGC deficiencies identified at various Components across DHS. We identified the following:

Access Controls/Segregation of Duties:

DHS did not:

- adequately and consistently design, implement, and operate effective controls over initial authorization and periodic recertification of application, database, and operating system user, service, privileged, 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, including 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, including defining events that should be logged;
- 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; and
- maintain appropriate segregation of duties between development and production environments.

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 identified access control failures across multiple Components. In addition, DHS Components use other service providers to provide infrastructure support for various IT systems. We tested controls operated by these service providers and noted inconsistent oversight of the service provider and additional access control failures.

Independent Auditors' Report
Exhibit I – Material Weaknesses

Configuration Management:

DHS did not consistently or completely:

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

In addition, we identified Security Management and Contingency Planning ITGC deficiencies.

Conditions Related to Financial Systems: During our audit, we also evaluated and considered the impact of financial system functionality on financial reporting. Historically, we noted that limitations in DHS'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 the *Federal Financial Management Improvement Act of 1996 (*FFMIA) and OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996.* Several DHS Components implemented and supported ITGCs and financial process areas with manual processes, decentralized systems or records management processes, or utilities with limited automated capabilities. These functionality limitations caused a greater 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 DHS. For example, system configurations and posting logic deficiencies limited the effectiveness of controls to accurately record certain activity at the transaction level. 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 DHS. 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; complex, highly interrelated yet decentralized nature of systems and system components; failure of communication between offices in the same organization regarding ITGC ownership; absence of continual self-review and risk assessments performed over ITGCs; 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.

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 DHS's ability to process, store, and report financial data in a manner that ensures accuracy, confidentiality, integrity, and availability. The aggregate impact of the ITGC deficiencies result in a 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 ITGCs are rendered ineffective. Ineffective process level application controls, in turn, create a need for mitigating controls which were often not present or not 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 absence of manual mitigating controls, which contributed to the findings reported in Exhibits I, II, and III. Furthermore, due to these

Independent Auditors' Report
Exhibit I – Material Weaknesses

ITGC deficiencies, we deemed certain key manual controls throughout DHS ineffective, as they are dependent upon application controls to ensure the information produced from systems is complete and accurate.

Recommendations: We recommend that:

1. the DHS Office of the Chief Financial Officer (OCFO), in coordination with the Office of the Chief Information Officer (OCIO), the Office of the Chief Information Security Officer (OCISO), and Component IT and financial management, make the necessary improvements to DHS's ITGC and application controls. Specific, more detailed recommendations were provided in individual limited distribution Notice of Findings and Recommendations to DHS and Component management;
2. DHS consider the identified system deficiencies and prior system implementation challenges to ensure that improvements in ITGC and application controls are designed, implemented, and sustained in new systems;
3. DHS establish an effective internal control process to ensure that financial accounts and transactions that are susceptible to error due to IT systems functionality issues and inability to rely on application controls supported by deficient ITGCs are compensated for with manual controls until system deficiencies are remediated; and
4. DHS ensure 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.

I-B Financial Reporting

Background: 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 the applicable financial reporting framework.

In FY 2018, DHS continued to implement corrective action plans and made progress in certain areas. However, the United States Secret Service (USSS) continues to have challenges due to the financial system upgrade and business process changes. We identified new deficiencies, some of which are directly related to the system transformation USSS completed in FY 2018. In contrast, United States Coast Guard (USCG) management sustained the progress made in FY 2017 and continued to demonstrate greater understanding of the actuarial pension and healthcare valuation processes, including assumptions and sources of data used in the valuations. However, as described below, USCG management should continue to refine the management review controls over actuarial liabilities. We also identified a new deficiency related to a specific accounting transaction at the Federal Emergency Management Agency (FEMA).

Conditions and causes across DHS:

- DHS did not demonstrate a commitment to recruiting, developing or retaining competent individuals as required by Green Book principle 4.
- DHS did not identify, analyze, and respond to risks related to financial reporting as required by Green Book principle 7.
- DHS did not remediate identified internal control deficiencies as required by Green Book principle 17.
- DHS has not established robust monitoring and testing of ITGCs that is necessary to identify weaknesses, nor has it assessed the resulting risks created by IT deficiencies. Therefore, DHS lacked sufficient manual process level controls to fully mitigate the weaknesses caused by ITGC deficiencies.
- DHS does not have sufficient monitoring controls to ensure that Components have sufficient controls for the consistent application of allocation methodologies for the Statement of Net Cost.

I.4

Independent Auditors' Report
Exhibit I – Material Weaknesses

- DHS 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. Personnel tasked with evaluating the roles 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.

Effect: The lack of compensating controls for IT deficiencies results in DHS'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*. Several Components failed to adequately review their Statement of Net Cost footnote templates to ensure they were completed accurately during the year. This resulted in auditor-identified errors in the allocation percentages used across DHS goals.

Conditions and causes related to the review and approval of journal entries:

- USSS did not design and implement effective controls over journal entries. Due to gaps in the number of financial management personnel with the appropriate skills, and in well-defined policies and procedures, USSS personnel did not have sufficient knowledge to properly perform the review and approval of journal entries. USSS staffing challenges are compounded by stringent security clearance processes, which impair management's ability to quickly hire and on-board qualified personnel. In addition, USSS did not provide adequate training and coordination for recording on-top adjustments. Specifically:
  - journal entries were directly entered into the 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;
  - journal entries were directly entered into the financial system, for which review and approval was not evidenced;
  - entries related to the pension liability and expense were not recorded for the proper amounts or to the correct U.S. Standard General Ledger (USSGL) accounts; and
  - the general ledger system allowed certain users to enter transactions without following the appropriate posting logic and lines of accounting.
- USCG did not design and implement controls related to the review and approval of journal entries. The USCG's three legacy general ledger systems, developed over a decade ago, have functional limitations and necessitate large manual adjusting entries to compensate for the inability to record transactions correctly upon initiation. The magnitude of these entries inhibit management from performing adequate reviews of activity for reasonableness and alignment with the current year's business events. These system functionality limitations also hinder USCG's ability to ensure accuracy of certain beginning balances and year-end close-out activities at a transaction level. Specifically, there were not effective controls:
  - over the review of manual adjusting journal entries to prevent and/or detect and correct financial reporting errors and to ensure their alignment with actual current year business events; and
  - to ensure the accuracy of certain beginning balance and year-end close-out activities, at the transaction level, in its three general ledgers due to manual adjusting entries for all activity only being recorded to one general ledger.

Independent Auditors' Report
Exhibit I – Material Weaknesses

Effect: The failure to adequately design and implement internal controls over journal entries increases the risk that errors can occur without being prevented and detected.

Conditions and causes related to technical accounting determinations:

Congress passed the Additional Supplemental Appropriations for Disaster Relief Requirements Act of 2017 (Pub. L. 115-72) on October 26, 2017, which provided debt relief and additional borrowing authority for the National Flood Insurance Program (NFIP) by cancelling $16 billion of the NFIP's debt to the U.S. Department of the Treasury. DHS and FEMA did not design and implement effective controls to properly account for the proprietary impact of Pub. L. 115-72. FEMA did not properly apply the generally accepted accounting principles (GAAP) hierarchy to ensure the transaction was accounted for in accordance with Statement of Federal Financial Accounting Standards 7 No: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. In addition, DHS failed to properly monitor FEMA's controls to ensure that a non-routine and material transaction, which impacted the DHS consolidated financial statements, was properly recorded.

Effect: This resulted in an auditor-identified $16 billion adjustment that DHS corrected to properly present the Statement of Changes in Net Position.

Conditions and causes related to actuarially derived 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 overreliance on an external actuary. In addition, existing policies and procedures were not detailed enough to enable new employees to understand the design and implementation of the controls. USSS did not fully assess risk, design and implement sufficient controls, and document processes over its actuarial pension liability. Specifically, management did not implement:
  - controls at an appropriate level of precision for management review of assumptions used in the valuation of the liability;
  - policies and procedures to document its 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; and
  - controls to validate the completeness and accuracy of underlying data used in the valuation of the liability.
- USCG did not properly design, implement, or adequately document the operation of management review controls over actuarial liabilities. Specifically, management review controls lacked sufficient precision and timeliness to ensure the appropriateness of the assumptions used in the preparation of the actuarial liabilities.

Effect: This resulted in over $200 million in auditor-identified errors to the USSS actuarial pension liability and $105 million to the USCG actuarial pension liability.

Other financial reporting-related conditions:

- USSS did not effectively plan and train for new processes required as a result of the system transformation. USSS did not establish processes or controls to verify that financial transactions received during the system transformation were completely and accurately tracked, monitored, and entered into the financial system on a timely basis.
- USSS did not have properly designed and implemented controls over the preparation and review of accounting checklists.
- USSS did not effectively design its controls over the monitoring of obligated balances, including an inability to readily generate an open obligations report.

I.6

Independent Auditors' Report
Exhibit I – Material Weaknesses

- Financial system functionality issues hindered USCG's ability to ensure that transactions were recorded and assigned to the correct trading partner at the time of the business event. USCG did not have properly designed and implemented controls to reconcile intra-governmental activities and balances and to ensure that transactions were recorded and assigned to the correct trading partner at the time of the business event.

Effect: The aggregate result of the financial reporting deficiencies is a risk that a misstatement will not be prevented or detected and corrected in a timely manner.

Recommendations: We recommend that:

DHS:

5. fill needs for technical and resource support personnel to remediate control deficiencies or prevent deterioration of the internal control system;
6. assess training needs for personnel and align skills with roles and responsibilities, and ensure 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;
7. define succession and contingency plans for key roles involved in internal control over financial reporting to mitigate risks due to employee turnover;
8. improve the process for identification, analysis, and response to risks related to financial reporting;
9. strengthen monitoring controls over remediating internal control deficiencies;
10. develop continuous monitoring and testing of ITGCs to identify weaknesses, assess the resulting risks created by any identified IT deficiencies, and respond to those risks by implementing compensating controls;
11. develop and implement monitoring controls to ensure Components properly apply allocation methodologies for the Statement of Net Cost;
12. 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; and
13. establish a process to ensure accounting for non-routine material transactions impacting the financial statements is appropriate.

USSS:

14. develop and implement policies and procedures over the review of journal entries;
15. establish new, or improve existing, policies, procedures, and related internal controls over the valuation of its pension liability to ensure:
    a. adequate understanding of the pension estimate;
    b. oversight of assumptions used in significant estimates is maintained and the validity of those assumptions is routinely evaluated;
    c. the annual pension checklist developed by USSS is completed; and
    d. the underlying census data is reviewed at least annually;
16. provide sufficient training to personnel responsible for accounting related activities, including the processes resulting from the system transformation and the monitoring of obligations; and
17. design and implement controls over the preparation and review of accounting checklists.

Independent Auditors' Report
Exhibit I – Material Weaknesses

USCG:

18. improve and reinforce existing policies, procedures, and related internal controls to ensure that:
    a. journal entries and manual adjusting entries are adequately researched, supported, and reviewed before and after recording in the general ledger;
    b. manual adjusting entries are recorded at the transaction level in the correct underlying general ledger systems in order to generate accurate beginning balances in each system;
    c. design and implement control procedures to ensure that assumptions are sufficiently reviewed on a timely basis with an appropriate level of precision, and that the results of these reviews are properly documented; and
    d. transactions are recorded to the accurate trading partner upon initiation; all intra-governmental balances are reconciled with trading partners; and differences are resolved in a timely manner.

FEMA:

19. develop specific controls over material accounting transactions that are not part of FEMA's routine business operations.

Independent Auditors' Report
Exhibit II – Significant Deficiencies

II-C Entity-Level Controls

Background: Entity-level controls are defined by the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book) as controls that have an effect on an entity's internal control system and may pertain to multiple components of internal control. Entity-level controls may include controls related to the entity's risk assessment process, control environment, service organizations, management override and monitoring. These controls must be effectively designed, implemented, and operating effectively in an integrated manner to create and sustain an organizational structure that is conducive to reliable financial reporting.

Conditions, Cause/Effect, and Recommendations: During our audit, we identified certain deficiencies in entity-level controls. Certain of these deficiencies are included in the conditions and causes in Exhibit I. Other deficiencies are included below. The resulting recommendations include improvements needed in management's control environment, risk assessment process, communication practices throughout DHS, and its monitoring activities. Improvements in these areas are necessary 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: DHS 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 DHS Management-level leadership is required to address the following areas of the control environment at certain Components:

20. ensure significant accounting policies and standard operating procedures are formally documented, complete, updated, and revised timely;
21. define roles and responsibilities of program and field personnel that provide key financial information, and ensure those personnel understand and comply with policies; and
22. establish a structure with central ownership and oversight for internal controls where responsibilities have been delegated to discrete units.

Risk Assessments: DHS 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 DHS 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:

23. procedures to expand fraud risk assessments to include processes with higher risk and a known deficiency in control design, implementation, and effectiveness throughout DHS;
24. planned changes that could impact the internal control system, such as financial system transitions and implementation of new tools; and
25. 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.

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

26. coordination between headquarters and Components with resource constraints to respond to financial accounting and reporting risks and control deficiencies;

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27. 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;
28. individuals within the financial reporting, accounting and budget departments identify and use quality information for financial reporting;
29. communication of the roles and responsibilities of program and field personnel that provide key financial information, and that those personnel understand and comply with policies; and
30. 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, DHS continued to make progress in identifying and remediating control deficiencies in certain areas. However, DHS 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:

31. design continuous monitoring controls to ensure personnel with internal control oversight responsibilities adequately examine transactions with higher risk of error;
32. seek opportunities to implement more reliable controls earlier in the process to prevent errors at the transaction source; and
33. enhance internal testing of both IT and financial 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 2018, USSS continued to experience significant issues in its design and implementation of controls over property, plant, and equipment financial reporting. USSS has taken initial steps to account for its property through a physical count of property, plant and equipment.

The USCG sustained the progress they had made in FY 2017; however, some control deficiencies related to property, plant, and equipment persisted.

The National Protection and Programs Directorate (NPPD) has a continuing issue with the review of expenses to ensure that they are capitalized timely.

Conditions:

USSS did not:

- implement established inventory policies and control procedures to ensure the completeness, existence, and accuracy of property, plant and equipment;

Independent Auditors' Report
Exhibit II – Significant Deficiencies

- design and implement sufficient controls to reconcile its property, plant, and equipment detailed sub-ledger to the general ledger and appropriately track asset activity at a transaction level, and ensure the timely recording of asset additions, deletions, or other adjustments to property, plant, and equipment;
- design and implement sufficient controls to appropriately report the asset placed in service date, maintain support for the date used, and analyze and disaggregate the useful lives among types of property, plant and equipment; and
- design and implement controls to determine and review the capitalization thresholds established or identify instances of and criteria for property, plant, and equipment asset impairment.

USCG did not:

- design and implement sufficient controls over the physical count of real property assets to ensure assets are appropriately and timely inventoried to verify their continued existence as recorded in the general ledger; and
- have controls that were operating effectively over the timely recording of fixed asset addition and retirement activity in the general ledger.

NPPD did not:

- implement control activities to identify contracts and expenditures that by their nature can be capitalized, ensure expenditures are appropriately capitalized in a timely manner, and consistently implement manual compensating controls.

Cause: USSS performed an inadequate assessment of risks and failed to implement controls related to the capital property processes, including the proper integration between the sub-ledger and general ledger. USSS also had inappropriate resources to monitor and oversee the reporting and recording of capital property. Furthermore, insufficient communication existed among USSS internal groups to ensure proper accountability.

USCG management decided to focus FY 2018 remediation efforts on construction in progress internal control deficiencies rather than real property inventory and timely recording of asset activity deficiencies.

NPPD has not designed and implemented sufficient controls across the directorate to develop, document, implement, and perform robust internal control procedures.

Effect: USSS experienced significant difficulties in providing complete and accurate data to support operating controls and year-end property, plant, and equipment balances. The aggregate impact of the property, plant, and equipment deficiencies at USSS, USCG, and NPPD result in a risk that misstatements related to the completeness, existence, and valuation of property, plant, and equipment are not prevented, or detected and corrected in a timely manner. The potential errors identified for property, plant, and equipment were approximately $300 million.

Recommendations: We recommend that:

USSS:

34. design and implement controls and procedures to reconcile property, plant, and equipment between the sub-ledger and the general ledger and identify and investigate all significant differences;
35. 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;

36. design and implement sufficient controls to support and record the date property is placed in service and the useful lives of various types of personal property;
37. design and implement controls over the capitalization thresholds established for property, plant, and equipment;
38. design and implement controls and processes to identify instances and criteria for asset impairment;
39. establish new, or improve current, communication channels and standard operating procedures to ensure sufficient review of property, plant, and equipment activity and balances; and
40. attract and deploy additional skilled resources to support the control environment and provide the necessary financial reporting oversight.

USCG:

41. design and implement real property inventory controls to ensure the completeness and existence of all real property assets; and
42. reinforce controls over the timely recording of asset addition and retirement activity to ensure they operate effectively.

NPPD:

43. design and implement sufficient controls to properly record items that should be capitalized in a timely fashion.

II-E Custodial Activities: Entry Process, Refunds and Drawbacks, and Seized Property

Background: CBP comprises approximately 99% of DHS'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. CBP uses Centers of Excellence and Expertise (CEE) to align CBP's trade relationships with modern business practices. CBP pairs each CEE with specific industries (e.g., electronics) to create a uniformity of practices across ports of entry, and to facilitate the timely resolution of trade compliance issues for their specific industry.

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. TDTRs also include any fines, 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. The *Trade Facilitation and Trade Enforcement Act of 2015* (TFTEA) contains provisions for drawback modernization that simplify the rules for determining if exports are eligible for drawback refunds, expands the timeframe for drawback claims, and eliminates some of the documentation requirements. Refund claims are a remittance, in whole or in part, of duties, taxes, or fees previously paid by an importer. Refund claims typically occur when previous payments are identified as having been made at the incorrect rate due to free trade programs (i.e., North American Free Trade Agreement) or errors in the classification of goods imported into the United States.

Independent Auditors' Report
Exhibit II – Significant Deficiencies

Many of the conditions cited below have existed for several years. As of February 24, 2018, all refund and drawback requests are processed in the automated commercial environment (ACE). The transition from the legacy system allows for the implementation of additional automated controls. However, until the finalization of the TFTEA legislation and submission of claims under related provisions, the drawback conditions below will continue to exist.

CBP seizes various items including prohibited drugs and counterfeit goods. Although CBP does not have law enforcement authority to prosecute cases, seizures are maintained for evidence. CBP is also the primary custodian for U.S. Immigration and Customs Enforcement (ICE) seizures. CBP relies on ICE to enter case information including weights and measures into the seized property system for tracking purposes.

Conditions: We identified the following internal control deficiencies related to custodial activities at CBP and ICE 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 entry edit and exception reports. Specifically, items may be included on the report for a given CEE, though not processed by that CEE, and therefore are not subject to the same level of review.
- CBP did not fully establish controls over the inputs to the TDTR estimate. There were instances where rates used in the Supplemental Duties Bills estimation model were calculated incorrectly.

Related to Refunds and Drawbacks:

- The current drawbacks IT system at CBP 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 claims were based. Further, the system had not been configured to restrict drawback claims to the statutory limits, in accordance with regulations for applicable drawback claims.
- Documentation retention periods were not appropriate to ensure that importers maintained support for drawback transactions for the full claim time-period. CBP did not always maintain support for importers qualifying for accelerated filer status at one port.
- Controls over refund disbursements were not operating effectively. Refund disbursements were made without proper review and approval. In addition, controls over the calculation of interest were not operating effectively to prevent the miscalculation of interest paid for certain refunds.

Related to Seized Property:

- The design of CBP's monthly review control over seized property was inadequate, as it did not identify unusual weight and measure variances needing further investigation.
- CBP had not designed and implemented adequate controls to verify that the data used to produce the Seized and Forfeited Property Footnote was complete and accurate.
- CBP lacked sufficient controls over the system configuration used to generate seized and forfeited property reports to ensure all activity, including turnover seizures, was captured and reported.
- Processes were not implemented to ensure seized asset transactions were properly and timely recorded in the seized assets tracking system at CBP and ICE.

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Independent Auditors' Report
Exhibit II – Significant Deficiencies

Cause/Effect: Policies and procedures over the review of entry edit, and exception reports were not sufficient to ensure personnel performed the controls consistently at all ports and CEE during FY 2018. In addition, existing policies and procedures do not require timely coordination with all applicable parties. Failure to adhere to existing policies and procedures consistently 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 Activity. Inadequate controls could result in CBP's failure to identify amounts that are due to the Treasury General Fund.

Failure to fully establish and define control activities related to the entry process could lead to potential misstatements of net TDTR on the DHS Balance Sheet and total cash collections on the Statement of Custodial Activity.

IT system functionality and outdated IT systems contribute to the weaknesses identified above. Refer to Comment **I-A**, *Information Technology Controls and Financial Systems*. The current refunds and drawbacks IT system does not prevent the overpayment of legacy drawback claims. Once the TFTEA drawback provisions are finalized the system configurations will be updated to ensure proper processing of claims filed under TFTEA. CBP does not currently have sufficient resources to effectively perform compensating manual controls over drawback claims. TFTEA changed the statutes that govern the drawback process and further reduced the need for manual controls. The length of the drawback claim lifecycle often extends beyond the documentation retention period, which is set by statute. Until effective automated or compensating 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 for years, it will take several years for claims existing prior to the implementation of TFTEA to be completed. In addition, CBP did not adequately research and determine the root cause of incorrect system interest calculations.

CBP is responsible for reporting seized and forfeited property that is in its custody. CBP relies on other entities to enter seizures into the seized property system, but as the custodian, CBP did not recognize their responsibility to design an effective review process over the input, extraction, or reporting of seized and forfeited property activity. In addition, ICE did not properly train employees on how to use the seized property system. The errors in the seized property data resulted in overstatements of various weights and measures that required correction in the FY 2018 consolidated financial statements.

Recommendations: We recommend that CBP:

Related to the Entry Process:

44. update and redistribute guidance to appropriate personnel regarding the relevant CBP directives to ensure consistent performance of controls across all locations;
45. provide training to all personnel on new policies to ensure consistent implementation at decentralized locations;

Related to Refunds and Drawbacks:

46. continue implementing requirements of TFTEA, which will take full effect beginning on February 24, 2019;
47. continue to enhance 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;
48. revise current policies and procedures to ensure appropriate personnel review and approve all refunds prior to disbursement;

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49. revise policies and procedures to ensure effective review of the interest calculation for refund disbursements;
50. implement policies and procedures to ensure supporting documentation for accelerated filer status is maintained;

Related to Seized Property:

51. improve the design of existing review controls over monthly seized property reports;
52. redesign and implement controls over the completeness and accuracy of the data used for reporting purposes; and
53. redesign and implement controls, in coordination with ICE, to validate that weights and measures entered into the seized property system are complete and accurate.

II-F Grants Management

Background: FEMA is the primary grantor within DHS, and manages multiple Federal disaster and non-disaster grant programs. In FY 2018, FEMA began implementation of the process to standardize all grant management activities. This included coordination among the grant regional offices and headquarters as well as among the various grant programs. Although not fully implemented in FY 2018, FEMA has established policies and procedures that have been partially executed in FY 2018.

Conditions: The internal control deficiencies related to grants management were reported in the prior year and persisted in FY 2018. We deemed these deficiencies to, collectively, merit the attention of those charged with governance.

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;
- demonstrate effective monitoring of grantees, reconcile grantee quarterly financial reports to FEMA's systems consistently and effectively, and timely closeout of FEMA grants; and
- issue Management Decision Letters timely for single audit reports available in the Federal Audit Clearinghouse.

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 Title 2 of the Code of Federal Regulations (CFR), Part 200 - *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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 grant systems to FEMA's general ledger system, and to track grants eligible for closeout. Refer to Comment **I-A**, *Information Technology Controls and Financial Systems*. Historically, responsibilities surrounding grants management have been assigned to discrete units within the organization, and there was no overall central oversight to ensure the delegated responsibilities were being effectively carried out for all grants. In FY 2018, FEMA implemented grant management guidance with policies and procedures applicable to the discrete units within FEMA. However, the internal controls based on these policies and procedures were not implemented for the entire fiscal year. 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 failure to implement standardized internal controls within FEMA for all of FY 2018 caused difficulty assembling a comprehensive status of cash on hand at grantees and the status of grants eligible for closeout, thereby creating risk of excessive cash on hand at grantees and untimely closure of grants.

Recommendations: We recommend that FEMA:

54. implement a continuous quality assurance and grants monitoring process, including review of corrective actions resulting from procedures over obtaining, timely reviewing, and reconciling required quarterly grantee reports and procedures to create and track comprehensive lists of FEMA grants eligible for closeout; and
55. 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.

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 FMFIA. DHS has implemented a multi-year plan to achieve full assurance on internal control. However, the DHS *Secretary's Assurance Statement*, dated November 15, 2018, as presented in *Management's Discussion and Analysis* of DHS's FY 2018 *Agency Financial Report* (AFR), acknowledged the existence of control activities demonstrating material weaknesses, and therefore provided qualified assurance that internal control over financial reporting was operating effectively as of September 30, 2018. Management's findings were similar to the control deficiencies we have described in Exhibits I and II. However, continuous monitoring and testing of both IT and financial controls was not performed for all significant areas.

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

Recommendation: We recommend that DHS:

56. 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 for FY 2019; and
57. conduct complete risk assessments to identify significant risk areas and continuously monitor and test IT and financial controls within those areas.

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

FEMA is the primary grantor within DHS, managing multiple Federal disaster and non-disaster grant programs. The *Single Audit Act Amendments of 1996*, as implemented by the 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 of the Super Circular in FY 2018. We noted that FEMA implemented some standardized grants management processes during the year, including new monitoring policies. However, FEMA did not review all grantee single audit reports in a timely manner. The failure to implement controls over grants management prevents FEMA from being able to monitor its grantees' compliance with applicable laws and regulations effectively.

Recommendation: We recommend that FEMA:

58. 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 ongoing within DHS have identified, 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. In FY 2017, the package to notify the President, Congress, and the U.S. Government Accountability Office (GAO) of the violation was signed by the DHS Secretary. OMB cleared the package in FY 2018 and the DHS Office of Legislative Affairs is working with OMB on next steps to deliver the package.
- In FY 2016, 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.

Independent Auditors' Report
Exhibit III – Compliance and Other Matters

- In FY 2017, 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 pending OMB clearance.
- In FY 2018, DHS finalized its investigation related to 42 contract violations (11 with CBP, four with FEMA, three with the Federal Law Enforcement Training Center, two with ICE, nine with the Management Directorate, 12 with USCG, and one with USSS) and 104 Other Transaction Agreements with the Transportation Security Administration in excess of $1 million awarded from FY 2010 to FY 2016 without the appropriate Congressional notification. The package to notify the President, Congress, and GAO of the violation is pending OMB clearance.
- CBP is investigating a potential ADA violation related to overtime in excess of the annual cap established in the FY 2015 appropriations acts. DHS is waiting on the decision to a litigation case before finalizing the report.
- CBP is investigating a potential ADA violation related to the obligation of funds on uniform contracts from FY 2005 to FY 2011 with an open-ended buyout clause.
- In FY 2018, USSS completed an investigation of a potential ADA violation related to accepting voluntary services in FY 2014. The preliminary investigation report is pending review from legal counsel.
- USCG is investigating a potential ADA violation related to obligating funds in advance of appropriation during a Government shutdown in FY 2018.
- USCG is investigating a potential ADA violation related to potentially obligating funds in FY 2018 on an anchor chain sourced from China in violation of the Buy American Act and the appropriation.
- USCG is investigating a potential ADA violation in FY 2017 and FY 2018 related to obligating funds from an expired FY 2016 appropriation.
- USCG is investigating a potential ADA violation related to 20 leases signed with open-ended indemnification clauses, unlimited liability, and/or indeterminate amounts from FY 1972 to FY 2015.
- FEMA investigated a potential ADA violation related to obligating funds in FY 2017 under the Federal Assistance appropriation instead of the Procurement Construction & Improvement appropriation and concluded it was not an ADA violation.
- The DHS Financial Operations Division (OFO) is investigating a potential ADA violation related to obligating funds in the Working Capital Fund in excess of the Fund Balance with Treasury, creating a negative balance.

Recommendation: We recommend that DHS:

59. reinforce existing policies and procedures through training to strengthen the implementation and effectiveness of preventative controls; and
60. 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

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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, *Compliance 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 15, 2018, that DHS's financial management systems do not substantially conform to government-wide requirements mandated by FFMIA. DHS's remedial actions and related timeframes are also presented in the FY 2018 AFR.

An element within FFMIA, Federal system requirements, entails 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 Systems*, which impact DHS's ability to fully comply with FISMA.

Recommendation: We recommend that DHS:

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

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix A
Management Comments to the Draft Report

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

Homeland Security

NOV 14 2018

MEMORANDUM FOR: John V. Kelly
Senior Official Performing the Duties of the Inspector General

FROM: Stacy Marcott
Acting Chief Financial Officer

SUBJECT: Fiscal Year 2018 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) 2018 and 2017. We agree with the Independent Public Accountant's conclusions. We are pleased to have earned an unmodified financial statement audit opinion for the sixth consecutive year.

Despite the complexities of disparate financial systems and associated business processes, management continues to make and sustain progress at many of our large Components such as the United States Coast Guard, as noted in your report. The report also highlights significant financial reporting challenges at the United States Secret Service (USSS), many of which are related to a recent system upgrade. Although USSS accounts for less than 2% of total assets and budgetary resources, we take the report's findings very seriously and are committed to assigning the necessary resources to ensure remediation of these deficiencies.

In regard to information technology controls, we have prioritized and are addressing the most significant internal control issues across the DHS financial systems portfolio. These efforts span multiple years and are tightly monitored, yielding results now, with a clear path to future internal control maturity. We are confident that with continued commitment to and investment in our DHS financial management community, our steady progress will continue in FY 2019.

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

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Department of Homeland Security

Appendix B
Report Distribution

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Other Information

The ***Other Information*** section contains information on Tax Burden/Tax Gap, Combined Schedule of Spending, Summary of Financial Statement Audit and Management Assurances, Payment Integrity, Fraud Reduction, Reduce the Footprint, and Other Key Regulatory Requirements. Also included in this section are the OIG's Summary of Major Management and Performance Challenges Facing the Department of Homeland Security and Management's Response.

Unaudited, see accompanying Auditors' Report

Tax Burden/Tax Gap

Revenue Gap

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

Table 2: Entry Summary of Trade Compliance Measurement

($ in millions)

	FY 2018 (Preliminary)	FY 2017 (Final)
Estimated Revenue Gap	$267.0 mil	$544.7 mil
Estimated Revenue Gap of all collectable revenue for year (%)	0.54%	1.34%
Estimated Over-Collection	$62.0 mil	$75.2 mil
Estimated Under-Collection	$329.0 mil	$619.9 mil
Estimated Overall Trade Compliance Rate (%)	98.8 %	99.4 %

The preliminary overall compliance rate for Fiscal Year (FY) 2018 is 98.8 percent. The final overall trade compliance rate and estimated revenue gap for FY 2018 will be issued in February 2019.

Combined Schedule of Spending

The Combined Schedule of Spending (SOS) presents an overview of how departments or agencies are spending money. The SOS presents combined budgetary resources and obligations incurred for the reporting entity. Obligations incurred reflect an agreement to either pay for goods and services, or provide financial assistance once agreed upon conditions are met. The data used to populate this schedule is the same underlying data used to populate the Statement of Budgetary Resources (SBR). Simplified terms are used to improve the public's understanding of the budgetary accounting terminology used in the SBR.

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

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

How was the Money Spent/Issued? This section presents services or items that were purchased, categorized by Components. Those Components that have a material impact on the SBR are presented separately. Other Components are summarized under Directorates and Other Components, which includes the Countering Weapons of Mass Destruction (CWMD) Office[1] , the Federal Law Enforcement Training Center (FLETC), the Office of Intelligence and Analysis (I&A), the Office of Operations Coordination (OPS), the Management Directorate (MGMT), the Office of Inspector General (OIG), the National Protection and Programs Directorate (NPPD), the Science and Technology Directorate (S&T), U.S. Citizenship and Immigration Services (USCIS), and the U.S. Secret Service (USSS).

For purposes of this schedule, the breakdown of "How Was the Money Spent/Issued" is based on the Office of Management and Budget (OMB) definitions for budget object class found in OMB Circular A-11.

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[1] The Countering Weapons of Mass Destruction (CWMD) Office was created in December 2017 to elevate and streamline DHS efforts to prevent terrorists and other national security threat actors from using harmful agents, such as chemical, biological, radiological, and nuclear material and devices, to harm Americans and U.S. interests. The CWMD Office consolidated the Domestic Nuclear Detection Office (DNDO), a majority of the Office of Health Affairs (OHA), and elements of the Office of Strategy, Plans, & Policy. For AFR presentation purposes, all prior and current year references to DNDO, OHA, Office of Strategy, Plans, & Policy have been replaced with CWMD.

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

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

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

Department of Homeland Security
Combined Schedule of Spending
For the Years Ended September 30, 2018 and 2017
(In Millions)

	2018	2017
What Money is Available to Spend?		
Total Resources	$ 154,773	$ 101,963
Less Amount Available but Not Agreed to be Spent	(43,815)	(16,598)
Less Amount Not Available to be Spent	(3,078)	(3,478)
TOTAL AMOUNT AGREED TO BE SPENT	**$ 107,880**	**$ 81,887**
How Was the Money Spent/Issued?		
U.S. Customs and Border Protection		
Personnel Compensation and Benefits	$ 11,717	$ 11,107
Contractual Services and Supplies	4,445	3,948
Acquisition of Assets	2,527	1,372
Insurance, Refunds, and Other Spending	2,080	1,798
Total Spending	**20,769**	**18,225**

(Continued)

Department of Homeland Security
Combined Schedule of Spending
For the Years Ended September 30, 2018 and 2017
(In Millions)

	2018	2017
U.S. Coast Guard		
Personnel Compensation and Benefits	5,847	5,526
Contractual Services and Supplies	5,092	4,575
Acquisition of Assets	798	1,215
Grants, Subsidies, and Contributions	114	115
Insurance, Refunds, and Other Spending	10	18
Total Spending	**11,861**	**11,449**
Federal Emergency Management Agency		
Personnel Compensation and Benefits	1,723	1,393
Contractual Services and Supplies	14,714	7,101
Acquisition of Assets	1,480	581
Grants, Subsidies, and Contributions	16,544	8,921
Insurance, Refunds, and Other Spending	10,266	6,356
Total Spending	**44,727**	**24,352**
U.S. Immigration and Customs Enforcement		
Personnel Compensation and Benefits	3,419	3,292
Contractual Services and Supplies	4,141	3,617
Acquisition of Assets	281	205
Insurance, Refunds, and Other Spending	43	51
Total Spending	**7,884**	**7,165**
Transportation Security Administration		
Personnel Compensation and Benefits	5,141	4,979
Contractual Services and Supplies	2,681	2,429
Acquisition of Assets	250	191
Grants, Subsidies, and Contributions	79	80
Insurance, Refunds, and Other Spending	3	4
Total Spending	**8,154**	**7,683**
Directorates and Other Components		
Personnel Compensation and Benefits	5,273	4,828
Contractual Services and Supplies	8,437	7,450
Acquisition of Assets	612	606
Grants, Subsidies, and Contributions	159	103
Insurance, Refunds, and Other Spending	4	26
Total Spending	**14,485**	**13,013**

(Continued)

Department of Homeland Security
Combined Schedule of Spending
For the Years Ended September 30, 2018 and 2017
(In Millions)

	2018	2017
Department Totals		
Personnel Compensation and Benefits	33,120	31,125
Contractual Services and Supplies	39,510	29,120
Acquisition of Assets	5,948	4,170
Grants, Subsidies, and Contributions	16,896	9,219
Insurance, Refunds, and Other Spending	12,406	8,253
TOTAL AMOUNT AGREED TO BE SPENT	**$ 107,880**	**$ 81,887**
Who Did the Money Go To?		
Non-Federal Governments, Individuals and Organizations	$ 81,034	$ 61,825
Federal Agencies	26,846	20,062
TOTAL AMOUNT AGREED TO BE SPENT	**$ 107,880**	**$ 81,887**

Summary of Financial Statement Audit and Management Assurances

Table 3 and Table 4 below provide a summary of the financial statement audit results and management assurances for FY 2018.

Table 3: Summary of the Financial Statement Audit

Audit Opinion	Unmodified				
Restatement	No				
Area of Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Reporting	1	0	0	0	1
IT Controls & System Functionality	1	0	0	0	1
Total Areas of Material Weakness	**2**	**0**	**0**	**0**	**2**

For FY 2018, the Independent Auditors' Report on the integrated financial statement audit identified material weakness conditions at the Department level. Consistent with the Independent Auditor's Report, the Department is providing reasonable assurance on internal control over financial reporting, with the exception of material weaknesses as identified in Table 4 as of September 30, 2018. Management has performed its evaluation, and the assurance is provided based upon the cumulative assessment work performed on Entity Level Controls, Financial Reporting, Budgetary Accounting, Fund Balance with Treasury, Human Resources and Payroll Management, Payment Management, Insurance Management, Grants Management, Property Plant and Equipment, Revenue and Receivables, and Information Technology General Controls across the Department. DHS has remediation work to continue in FY 2019; however, no additional material weaknesses were identified as a result of the assessment work performed in FY 2018. The following table provides those areas where material weaknesses were identified and remediation work continues.

Table 4: Summary of Management Assurances

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA SECTION 2)					
Statement of Assurance	Modified				
Area of Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Reporting	1	0	0	0	1
IT Controls & System Functionality	1	0	0	0	1
Total Areas of Material Weaknesses	**2**	**0**	**0**	**0**	**2**
EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA SECTION 2)					
Statement of Assurance	Unmodified				
Area of Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
None Noted	0	0	0	0	0
Total Areas of Material Weaknesses	**0**	**0**	**0**	**0**	**0**

COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS (FMFIA SECTION 4)					
Statement of Assurance	Systems do not fully conform with financial system requirements				
Non Conformances	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Federal Financial Management Systems Requirements, including Financial Systems Security & Integrate Financial Management Systems.	1	0	0	0	1
Noncompliance with the U.S. Standard General Ledger	1	0	0	0	1
Federal Accounting Standards	1	0	0	0	1
Total Non-Conformances	**3**	**0**	**0**	**0**	**3**

COMPLIANCE WITH SECTION 803(a) OF THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)		
	DHS	Auditor
Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
Applicable Federal Accounting Standards	Lack of compliance noted	Lack of compliance noted
USSGL at Transaction Level	Lack of compliance noted	Lack of compliance noted

Payment Integrity

The Improper Payments Information Act of 2002 (IPIA) (Pub. L. 107-300), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) (Pub. L. 111-204) and Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA); (Pub. L. 112-248), requires agencies to review and assess all programs and activities they administer and identify those determined to be susceptible to significant improper payments, estimate the annual amount of improper payments, and submit those estimates to Congress. A program with significant improper payments has both a 1.5 percent improper rate and at least $10 million in improper payments, or it exceeds $100 million dollars regardless of the error rate. Additionally, federal agencies are required to assess improper payments and report annually on their efforts according to OMB Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement*.

The Department performs risk assessments to determine susceptibility to improper payments, testing to estimate the rates and amounts of improper payment, establishes improper payment reduction targets in accordance with OMB guidance, and develops and implements corrective actions. In addition to this report, more detailed information on the Department's improper payments and information reported in previous Agency Financial Reports (AFR) can be found at https://paymentaccuracy.gov/.

In FY 2018, the Department made significant progress to improve its processes to comply with IPERA. The Department has successfully reduced estimated improper payment rates over the years from an average estimated improper payment rate of 1.3 percent in FY 2013 to 0.62 percent in FY 2018. In FY 2018, the OIG conducted an annual audit to determine whether the Department complied with IPERA as reported in the FY 2017 AFR. The OIG concluded DHS did not fully comply because it did not meet its annual reduction targets established by within 0.1 percent for two programs deemed susceptible to significant improper payments. For FY 2018 reporting, DHS met established reduction targets for seven of the eight programs deemed susceptible to significant improper payments due to continued corrective action efforts and sustained internal controls. We remain strongly committed to ensuring our agency's transparency and accountability to the American taxpayer and achieving the most cost effective strategy on the reduction of improper payments.

1. Risk Assessments

In accordance with IPERA Section 2(a), agency heads are required to periodically review all programs and activities that the relevant agency head administers and identify all programs and activities that may be susceptible to significant improper payments, and perform the review at least once every three years.

In FY 2017, the Department established a two part process comprised of a preliminary assessment followed by a comprehensive assessment if necessary. The preliminary risk assessment process is used on all programs not already reporting an improper payment estimate and that meet the minimum disbursement threshold of $10 million[2]. The comprehensive risk assessment process is required based on the preliminary risk assessment results and the program's three year risk assessment cycle. In FY 2018, the Department conducted 39 comprehensive risk assessments. The Department assessed all payment types except for federal intragovernmental payments, which were excluded based on the definition of an improper payment per OMB Circular A-123, Appendix C.

In conducting the comprehensive risk assessments, components held meetings with program managers, key personnel, and other stakeholders to discuss the inherent risk of improper payments. The Department's comprehensive risk assessment involved evaluating attributes that directly or indirectly affect the likelihood of improper payments using the GAO Standards for Internal Control (Green Book) framework: As required by OMB Circular A-123, Appendix C, the following minimum risk factors were also considered:

- Whether the program or activity reviewed is new to the agency;
- The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts;
- The volume of payments made annually;
- Whether payments or payment eligibility decisions are made outside of the agency, for example, by a state or local government, or a regional Federal office;
- Recent major changes in program funding, authorities, practices, or procedures;
- The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate;
- Inherent risks or improper payments due to the nature of agency programs or operations[3];
- Significant deficiencies in the audit reports of the agency including, but not limited to, the agency Inspector General or the GAO audit report findings, or other relevant management findings that might hinder accurate payment certification; and
- Results from prior improper payment work[4].

Program managers and Component's internal controls division assigned a risk rating to each risk factor based on their detailed understanding of the processes and risk of improper payment. Weighted percentages were assigned to each risk factor rating based on a judgmental determination of the direct or indirect impact on improper payments. An overall risk score was then computed for each program, calculated by the sum of the weighted scores for each risk factor and overall rating scale. Programs were assessed using both qualitative and quantitative risk factors to determine if they were susceptible to significant improper payments. A weighted average of 65 percent for qualitative factors and 35 percent for quantitative risk yields the program's overall risk score.

[2] Per OMB Circular A-123, Appendix C, a program is only susceptible to "significant improper payments" if the program has both a 1.5 percent improper rate and at least $10 million in improper payments, or exceeds $100 million dollars regardless of the error rate.
[3] Removed in the June 26, 2018 release of OMB Circular A-123, Appendix C "Requirements for Payment Integrity Improvement"
[4] Removed in the June 26, 2018 release of OMB Circular A-123, Appendix C "Requirements for Payment Integrity Improvement"

Additionally, the Department conducted independent reviews of component submissions to identify significant changes in the program compared to last year and assess the reasonableness of the risk ratings. RM&A maintains the final documentation of component submissions and reviews, including maintaining a list of all programs and activities assessed this current FY.

2. Sampling and Estimation

The Department used a statistically valid, stratified sample design[5] performed by a statistician to select and test FY 2017 disbursements for those programs identified as susceptible to significant improper payments. Our procedures provided an overall estimate of the percentage of improper payment dollars within ±3 percent precision at the 95 percent confidence level, as specified by OMB Circular A-123 Appendix C.

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

- Grouped payments into mutually exclusive strata;
- Assigned each payment a random number generated using a seed;
- Sorted the population by stratum and random number within stratum; and
- Selected the number of payments within each stratum (by ordered random numbers) following the sample size design[6].

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

3. Payment Reporting

The table below summarizes Improper Payment (IP) amounts for DHS programs susceptible to significant improper payments. It provides a breakdown of estimated IP and reduction targets for each DHS program or activity. IP percent (IP%) and IP dollar (IP$) results are provided from this year’s testing of FY 2017 payments. Data for projected future−year improvements is based on the timing and significance of completing corrective actions.

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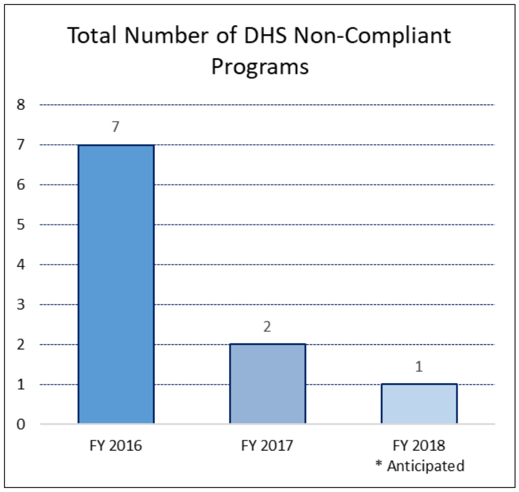
[5] The Federal Emergency Management Agency (FEMA) Homeland Security Grant Program (HSGP), and Public Assistance (PA) Program used an OMB approved alternative sampling methodology for multi-year targeted sampling plan.
[6] For the certainty strata, all payments are selected.

Improper Payment Results and Reduction Outlook

Program Name	FY 2017 Outlays ($ in millions)	FY 2017 IP Amount ($ in millions)	FY 2017 IP Rate (%)	FY 2018 Outlays ($ in millions)	FY 2018 Proper Amount ($ in millions)	FY 2018 Proper Rate (%)	FY 2018 IP Amount ($ in millions)	FY 2018 IP Rate (%)	FY 2018 Overpayment Amount ($ in millions)	FY 2018 Overpayment Rate (%)	FY 2018 Underpayment Amount ($ in millions)	FY 2018 Underpayment Rate (%)	FY 2019 Est. IP Rate & Reduction Target (%)
	2017 Testing (Based on FY 2016 Actual Data)			2018 Testing (Based on FY 2017 Actual Data)									2019 Testing (Based on FY 2018 Actual Data
Customs and Border Protection (CBP) – Refund and Drawback (R&D) Program [1]	$1,875.0482	$14.8443	0.79%	$1,871.2814	$1,870.9265	99.98%	$0.3549	0.02%	$0.1880	0.01%	$0.1669	0.01%	0.15%
Federal Emergency Management Agency (FEMA) – Assistance to Firefighters Grant (AFG) Program [2]	$299.1566	$0.2581	0.09%	$306.4698	$302.4121	98.68%	$4.0576	1.32%	$4.0576	1.32%	$0.0000	0.00%	1.20%
FEMA – Flood Hazard Mapping & Risk Analysis (FHMRA) Program [3]	$132.0186	$4.3206	3.27%	$144.1581	$143.9076	99.83%	$0.2505	0.17%	$0.2477	0.17%	$0.0028	0.002%	0.50%
FEMA – Homeland Security Grant Program (HSGP) [4]	$1,280.1709	$4.8646	0.38%	$851.7723	$845.4692	99.26%	$6.3031	0.74%	$6.3031	0.74%	$0.0000	0.00%	1.10%
FEMA – National Flood Insurance Program (NFIP) [5]	$2,339.8225	$0.2917	0.01%	$3,742.6134	$3,742.4409	99.995%	$0.1726	0.005%	$0.1715	0.005%	$0.0011	0.00003%	0.10%
FEMA – Public Assistance (PA) Program [6]	$3,410.7482	$34.1075	1.00%	$3,428.1655	$3,395.0952	99.04%	$33.0704	0.96%	$32.9837	0.96%	$0.0867	0.003%	0.90%
FEMA – Vendor Pay (VP) Program [7]	$974.1092	$43.0423	4.42%[8]	$1,540.4643	$1,514.3464	98.30%	$26.1180	1.70%	$24.2779	1.58%	$1.8401	0.12%	1.60%
Immigration and Customs Enforcement (ICE) – Enforcement & Removal Operations (ERO) Program [9]	$1,828.1754	$6.0404	0.33%	$2,132.4533	$2,132.1638	99.99%	$0.2895	0.01%	$0.2895	0.01%	$0.0000	0.00%	0.60%
Science and Technology (S&T) – Hurricane Sandy Payments [10]	$0.7017	$0.0000	0.00%										
United States Coast Guard (USCG) – Acquisition, Construction, & Improvements (AC&I), Operating Expenses (OE) - Hurricane Sandy [10]	$79.4812	$1.0940	1.38%										
TOTAL[11]	$12,219.43	$108.86	0.89%	$14,017.38	$13,946.76	99.50%	$70.62	0.50%	$68.52	0.49%	$2.10	0.01%	0.63% [12]

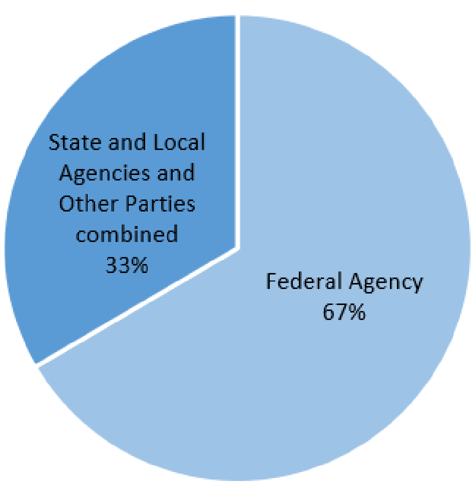
Note 1: The CBP Refunds and Drawback (R&D) program meets the 95/3 guidance for statistically valid and robust plan with an achieved precision rate of 1.81%. As such the FY 2018 IP rate of 0.02% met the FY 2018 Est. IP Reduction Target of 0.24% as the lower bound (0.00%) of the confidence interval of 0.00% to 1.83% is equal to or less than the reduction target.
Note 2: The FEMA Assistance to Firefighters Grant (AFG) program meets the 95/3 guidance for statistically valid and robust plan with an achieved precision rate of 2.08%. As such the FY 2018 IP rate of 1.32% met the FY 2018 Est. IP Reduction Target of 0.09% as the lower bound (0.00%) of the confidence interval of 0.00% to 3.41% is equal to or less than the reduction target.
Note 3: The FEMA Flood Hazard Mapping & Risk Analysis (FHMRA) program, previously titled the Flood Risk Map & Risk Analysis (FRM&RA) program, meets the 95/3 guidance for statistically valid and robust plan with an achieved precision rate of 1.22%. As such the FY 2018 IP rate of 0.17% met the FY 2018 Est. IP Reduction Target of 5.00% as the lower bound (0.00%) of the confidence interval of 0.00% to 1.39% is equal to or less than the reduction target.
Note 4: The FEMA Homeland Security Grant Program (HSGP) uses a non-statistically valid plan and alternative measurement methodology, previously approved by OMB, which uses a three-year assessment cycle. To calculate the national error rate for FY 2017 actual data, the error rate from the States tested in FY 2015, FY 2016, and FY 2017 were applied to the FY 2017 State payment populations to derive a national average. Given the limited scope of testing under the approved alternative measurement methodology, the sample was not designed to achieve a specified level of precision. As such, the FY 2018 IP rate of 0.74% did not meet the FY 2018 Est. IP Reduction Target of 0.35%.
Note 5: The FEMA National Flood Insurance Program (NFIP) meets the 95/3 guidance for statistically valid and robust plan with an achieved precision rate of 2.19%. As such the FY 2018 IP rate of <0.01% met the FY 2018 Est. IP Reduction Target of 0.17% as the lower bound (0.00%) of the confidence interval of 0.00% to 2.20% is equal to or less than the reduction target.
Note 6: The FEMA Public Assistance (PA) program uses a non-statistically valid plan and alternative measurement methodology, previously approved by OMB, which uses a three-year assessment cycle. To calculate the national error rate for FY 2017 actual data, the error rate from the States tested in FY 2015, FY 2016, and FY 2017 were applied to the FY 2017 State payment populations to derive a national average. Given the limited scope of testing under the approved alternative measurement methodology, the sample was not designed to achieve a specified level of precision. As such, the FY 2018 IP rate of 0.96% did meet the FY 2018 Est. IP Reduction Target of 1.00%.
Note 7: The FEMA Vendor Pay (VP) program meets the 95/3 guidance for statistically valid and robust plan with an achieved precision rate of 1.12%. As such the FY 2018 IP rate of 1.70% met the FY 2018 Est. IP Reduction Target of 4.00% as the lower bound (0.57%) of the confidence interval of 0.57% to 2.82% is equal to or less than the reduction target.
Note 8: In the FY 2017 DHS Agency Financial Report (AFR), DHS inaccurately reported the FEMA Vendor Pay (VP) program FY 2017 Underpayment Rate as 0.00% when it should have been reported as 0.02%. The overall FY 2017 IP Rate of 4.42% and the FY 2017 Overpayment Rate of 4.40% were accurately reported.
Note 9: The ICE Enforcement and Removal Operations (ERO) program meets the 95/3 guidance for statistically valid and robust plan with an achieved precision rate of 2.00%. As such the FY 2018 IP rate of 0.01% met the FY 2018 Est. IP Reduction Target of 1.00% as the lower bound (0.00%) of the confidence interval of 0.00% to 2.02% is equal to or less than the reduction target.
Note 10: The program did not record Hurricane Sandy related outlays in FY 2017. Also, the program does not have any remaining Hurricane Sandy funds and/or has been granted an OMB issued waiver. Therefore, this program was not tested in FY 2018.
Note 11: The total of estimates does not represent a true statistical improper payment estimate for the Department.
Note 12: The estimated DHS IP rate is not a true statistical estimate for the Department and was calculated using estimated outlays as well as estimated reduction outlook IP rates for FY 2019 testing.

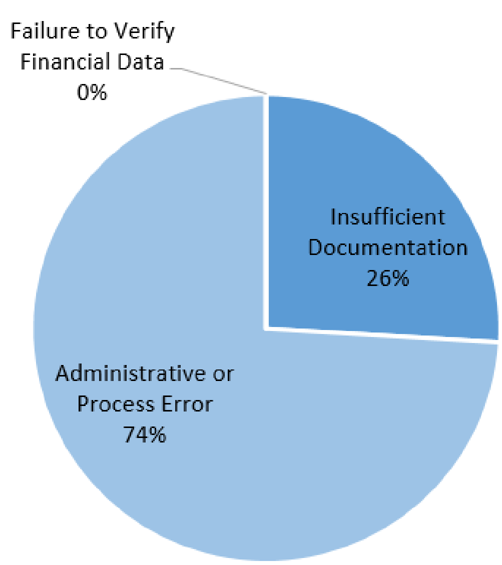
DHS non-compliance related to programs not meeting the published reduction targets has shown significant improvement over the past three years. Specifically, FEMA has reduced its number of non-compliant programs by approximately 80%. For the FY2018 IPERA review, DHS expects to have one program, FEMA Homeland Security Grant Program (HSGP), reported as non-compliant due to not meeting the reduction target established in prior year.



Upon analysis, we found that improper payments for the programs tested in FY 2018 were due to failure to verify financial data (approximately 0 percent), administrative or process errors (approximately 74 percent), and insufficient documentation (approximately 26 percent). In addition, approximately 67 percent of improper payments were attributed to errors made by the Federal Agency and 33 percent due to errors made by State and Local Agencies and Other Parties combined. The root causes were identified through improper payment testing and categorized using categories of error as defined in the June 2018 update to OMB Circular A-123, Appendix C.

Improper Payment Error Categories





The below table summarizes, by program, the root cause and estimated amount of improper payments made directly by the Government, and the amount of improper payments made by recipients of Federal money for the current fiscal year.

Table 5: Root Cause of Improper Payments

($ in millions)

Program	Payment Type	Error Made by Federal Agency			Error Made by State and Local Agency	Error Made by Other Party [1]	TOTAL
		Failure to Verify	Administrative or Process Error	Insufficient Documentation to Determine	Administrative or Process Error	Administrative or Process Error	
CBP: R&D	Overpayments	$0.0000	$0.1880	$0.0000	$0.0000	$0.0000	$0.1880
	Underpayments	$0.0000	$0.1669	$0.0000	$0.0000	$0.0000	$0.1669
FEMA: AFG	Overpayments	$0.0000	$0.0000	$3.4667	$0.5909	$0.0000	$4.0576
	Underpayments	$0.0000	$0.0000	$0.0000	$0.0000	$0.0000	$0.0000
FEMA: FHMRA	Overpayments	$0.0000	$0.2128	$0.0349	$0.0000	$0.0000	$0.2477
	Underpayments	$0.0000	$0.0028	$0.0000	$0.0000	$0.0000	$0.0028
FEMA: HSGP	Overpayments	$0.0011	$0.0000	$6.2767	$0.0253	$0.0000	$6.3031
	Underpayments	$0.0000	$0.0000	$0.0000	$0.0000	$0.0000	$0.0000
FEMA: NFIP	Overpayments	$0.0000	$0.00006	$0.0000	$0.0000	$0.1714	$0.1715
	Underpayments	$0.0000	$0.0000	$0.0000	$0.0000	$0.0011	$0.0011
FEMA: PA	Overpayments	$0.0000	$2.1002	$8.1457	$22.7377	$0.0000	$32.9837
	Underpayments	$0.0000	$0.0000	$0.0000	$0.0867	$0.0000	$0.0867
FEMA: VP	Overpayments	$0.0000	$24.1016	$0.1763	$0.0000	$0.0000	$24.2779
	Underpayments	$0.0000	$1.8401	$0.0000	$0.0000	$0.0000	$1.8401
ICE: ERO	Overpayments	$0.0000	$0.0788	$0.2107	$0.0000	$0.0000	$0.2895
	Underpayments	$0.0000	$0.0000	$0.0000	$0.0000	$0.0000	$0.0000
TOTAL		$0.001	$28.69	$18.31	$23.44	$0.17	$70.62

Note 1: Other Party to include: participating lender, health care provider, or any other organization administering Federal dollars

4. Improper Payment Corrective Actions

The following table lists corrective actions for the FEMA Vendor Pay (VP) program which exceeds the statutory threshold of 1.5 percent improper rate and $10 million in improper payments. These corrective actions are targeted at addressing the root causes of insufficient documentation, specifically the billed price within invoices not being identified in the contracts. The root causes of these errors are reoccurring from prior years, and FEMA has continued implementing the following corrective actions to ensure greater compliance. Through these actions, FEMA has made progress to reduce improper payments by 2.72 percentage points in 2018 testing.

FEMA Vendor Payment (VP) Program Corrective Actions

Error Cause	Error Cause Subcategory	Corrective Actions	Completion Date
Improve Quality of Contracts			
Insufficient Documentation	Billed Pricing not in Contract	Draft and incorporate standardized billing instructions to be included in all contracts, defining the standard form and content of billings for different contract types. Incorporate standard billing instructions in contract writing system.	Completed - August 2015 [1]
		FEMA Office of the Chief Procurement Officer (OCPO) to issue policy guidance regarding required Contract Line Item Number (CLIN) structure to be included in contracts.	Completed - November 2015 [1]
		FEMA OCPO to train Contracting Officers (COs) as part of PRISM system implementation, in uploading and maintaining Attachments or Quotes for which pricing is based, into the official contract file in PRISM.	Completed - March 2017 [2]
Administrative or Process Error	Authorization Issue	Revise contract template to include standard section for authorized invoice approver, designated payment office, and authorized official for receiving and acceptance.	Completed - August 2015 [1]
Improve Quality of Invoice Review			
Administrative or Process Error	Billed Pricing not in Contract or Mismatch to Contract	Conduct mandatory training for all Contracting Officer Representatives (CORs) and COs on proper invoice review and approval.	Completed – July 2013 Training Ongoing Quarterly
		Develop invoice review checklist addressing payments of different types, and what needs to be validated based on payment type.	Completed – March 2017
	Calculation Error; Interest Not Paid; Discount not Taken	Conduct training for Vendor Payment Accounting technicians on proper review of invoices and related invoice processing. Quarterly training will be enhanced to add additional focus on PPA.	3/31/2019
Improve Quality of Receipt and Acceptance			
Administrative or Process Error	Billed Pricing not in Contract	Develop a standard Inspection, Acceptance, and Receiving Report for FEMA COTR's for support of invoices.	Completed - January 2016

Error Cause	Error Cause Subcategory	Corrective Actions	Completion Date
		Develop COR specific training on documenting acceptance where required, by contract line item or deliverable.	Completed – June 2018 Training Ongoing Quarterly

Note 1: While the corrective action is completed, it applied to new contract actions awarded after August 2015. The VP disbursement universe still includes actions / payments for contracts awarded before this date.
Note 2: While the corrective action is completed, it applied to new contract actions awarded after the PRISM system implementation. The VP disbursement universe still includes actions / payments for contracts awarded before this date.

5. Accountability

The goals and requirements of IPERIA were communicated to all levels of staff throughout the Office of the Chief Financial Officer and to relevant program office and procurement staff. The Department has taken extensive measures to ensure that managers, accountable officers (including Component CFOs), programs, and states and localities are held accountable for reducing and recapturing improper payments. The Department's CFO and senior staff have incorporated improper payment reduction targets in their annual performance plans.

Component managers are responsible for completing internal control work on payment processing as part of the Department's OMB Circular A-123 effort. They are further responsible for establishing and maintaining sufficient internal controls, including a control environment that prevents improper payments from being made, effectively managing improper payment risks, and promptly detecting and recovering any improper payment that may occur. Management's improper payments efforts are subject to an annual compliance review by the DHS's Office of Inspector General.

6. Agency Information Systems and Other Infrastructure

OMB requires the identification of all programs with improper payments exceeding the statutory thresholds defined as 1) both 1.5 percent of program outlays and $10 million or 2) $100 million, regardless of the improper payment percentage of total program outlays. Using this criteria, the FEMA Vendor Pay program exceeded the statutory threshold with an estimated improper payment rate of 1.70 percent and approximately $26.12 million in estimated improper payments. Refer to the *Improper Payment Results and Reduction Outlook* table for the statistically valid estimate of the annual amount of improper payment for FEMA Vendor Pay.

The Department and FEMA have the necessary internal controls, human capital, information systems, and infrastructure to continue its efforts of reducing improper payments and increase recoveries as demonstrated through reduction of estimated improper payment rates reported this FY. The Department monitors Component improper payment testing in accordance with OMB Circular A-123. Additionally, each CFO provides an annual assurance statement attesting to the effectiveness of program controls within their Component.

7. Barriers

There are no statutory or regulatory barriers that will impact the ability of DHS to successfully complete corrective actions to reduce improper payments.

8. Recapture of Improper Payments

During FY 2018, the Department did not have any recovery audit activities for FY 2017 disbursements. The Department conducted multiple cost analysis reviews over the past several years and determined that payment recapture audit programs are not cost-effective by considering recovery amounts, costs of audits exceeding recovery amounts identified for recapture and no major changes to payment operations to justify performing an audit.

The table on the next page identifies funds recovered outside of the recapture audit program. Overpayments identified through grant and contract closeout processes, IPERA testing, or self-reported by vendors were collected through the high dollar overpayment reporting process during FY 2018.

Table 6: Overpayment Payment Recaptured with and without Recapture Audit Programs

($ in millions)

	Overpayments Recaptured outside of Payment Recapture Audits	
Component	Amount Identified	Amount Recaptured
ICE	$0.25	$0.25
NPPD	$0.26	$0.26
S&T	$0.26	$0.26
TSA	$7.98	$7.98
DHS Totals	**$8.75**	**$8.75**

Fraud Reduction

On June 30, 2016, Congress enacted Public Law 111-186, Fraud Reduction and Data Analytics Act (FRDAA). The FRDAA requires agencies to conduct an evaluation of fraud risks and use a risk-based approach to design and implement financial and administrative control activities to mitigate identified fraud risks; collect and analyze data from reporting mechanisms on detected fraud to monitor fraud trends and periodically improve fraud detection through use of data analytics; and use the results of monitoring, evaluation, audits and investigations to improve fraud prevention, detection and response.

DHS implemented several initiatives to comply with the FRDAA using GAO's Fraud Risk Framework and OMB Circular A-123. While DHS Components and respective programs have individually mitigated the risk of fraud, full implementation of a Department-wide fraud management framework is an iterative process as DHS continues to build upon enterprise risk management.

Source: GAO. | GAO-15-593SP

Figure 3: GAO's Fraud Risk Framework

To-date, DHS has continued its fraud risk assessment, while periodically improving our existing processes to mitigate and detect fraud risk. Specifically, DHS implementation status and accomplishments include the following:

- ***Commit:*** Leadership and all levels of the organization have committed to periodically identify, prevent, detect, and respond to fraud risks, while actively engaging the OIG to assist the Department in combatting fraud. Leadership commitment, in a holistic risk management approach, is evidenced through each of the Components entity level control evaluations where assessments are made based on tone at the top and integrity and ethical values. Currently, RM&A is leading the financial and administrative fraud risk management initiatives for the Department with strong support from Components, while engaging the enterprise risk management work group to expand communication and awareness of fraud risk programs DHS-wide.

- ***Assess:*** As part of the Department's internal control evaluation, Components are required to assess fraud risk on an annual basis to support its entity level control assessments, as prescribed within the Green Book (Principle 8, Assess Fraud Risks). The last three years, the Department and Components identified fraud risks common to payroll, grants, payments (to include large contracts), and purchase and travel cards. Each Component was required to assess the likelihood and impact of each fraud risk based on its control environment to create its financial and administrative fraud risk profile. In addition, Components were required to identify other fraud risks that are specific for their mission and include them into its fraud risk inventory for consolidation. For example, CBP included a Component-specific fraud risk relative to a lack of resources when manual fraud risk controls are overwhelmed by the volume of activity. CBP included this risk as CBP has been challenged by past surge needs which were deemed as root causes to multiple NFRs.
- ***Design and Implement:*** For each identified fraud risk, Components were required to identify control activities, leveraging work already performed through existing internal control evaluations while ensuring the mapped control activities address the fraud risk.
- ***Evaluate and Adapt:*** Once control activities were mapped or new control activities were identified, Components were required to complete test of effectiveness. The results of testing would yield a residual risk rating by fraud risk/control, which is used to inform if the controls are effectively designed to mitigate the fraud risk or additional control activities are needed. In FY 2018, the Department provided feedback on improvements. In FY 2019 DHS will continue to coordinate with Components to develop corrective action plans or implement new financial and administrative controls to reduce residual risk at an acceptable level.
- ***Monitoring and Feedback:*** The Department, under the Chief Financial Officer (CFO), monitors evaluations for administrative fraud risk conducted by each Component. In FY 2018, the Department focused its monitoring and evaluation efforts on analyzing the FY 2016 and FY 2017 baseline assessments submitted by each Component to determine control effectiveness to detect and respond to fraud risk and whether any fraud risks were pervasive Department-wide. While DHS has improved implementation of the fraud risk assessment year-over-year, opportunities still exist to better link fraud risks to controls and communicate outcomes of the fraud risk evaluation through training. In FY 2019, DHS will develop training that incorporates and matures the fraud risk assessment process for control assessors including considerations from the newly released Anti-Fraud Playbook issued by Treasury. DHS will continue to participate in the OMB Fraud Working Group and implement best practices as needed.

Data Analytics

In FY 2018, the Department conducted an assessment over use of purchase cards for disaster recovery efforts in response to Hurricanes Harvey, Irma, and Maria. Specifically, using data analysis, RM&A focused on cardholder transactions with increased micro purchase limit (MPL) thresholds during disaster periods covering August 21, 2017 through December 31, 2017, then sampled these transactions in order to verify that sampled purchases had documentation to support clear and direct relationship to disaster response and recovery efforts.

In FY 2019, DHS plans to expand the data analytic capability to strengthen its risk assessment process in areas such as payroll, charge cards, and travel to identify potential red flags, test targeted areas for potential for fraud, and develop and further matures its fraud risk management activities.

Other Initiatives

Other supporting initiatives that were completed in FY 2018 and will continue in FY 2019 include:

- *Contract award, monitoring and oversight* – Embedded within Federal Acquisition Regulations and the Homeland Security Acquisition Manual are measures to identify indicators of procurement fraud, and internal controls to prevent such fraud. OCPO monitors compliance with acquisition regulations and DHS policy across the Department, through its procurement oversight program. In addition, OCPO has an established Industry engagement and communication program, providing an external control for detecting fraud.
- *Improper Payments* – In accordance with IPERA, OMB requires programs identified as susceptible to improper payments to be tested and the root causes of improper payments include an analysis of potential for fraudulent activity. As part of reporting efforts, Components are required to report if any potential fraudulent activity occurred and refer these matters appropriately.

Reduce the Footprint

OMB issued Management Procedures Memorandum No. 2015-01, *Implementation of OMB Memorandum M-12-12 Section 3: Reduce the Footprint*, which superseded OMB Management Procedures Memorandum No. 2013-02, *Implementation of OMB Memorandum M-12-12 Section 3: Freeze the Footprint*, and required agencies to submit a five-year Real Property Efficiency Plan annually to the General Services Administration (GSA) and the Office of Management and Budget. The Memorandum designated FY 2015 as the base year for this new measurement.

In FY 2017, the Department indicated a slight increase in its Reduce the Footprint (RTF) inventory due to a location misclassification for some mission essential assets. However, from FY 2019 through FY 2023, the Department anticipates a 2.8 percent reduction from its RTF baseline of 31.1 million square feet (SF) for office and warehouse space. Within this five-year plan, DHS projects to reduce its office space by 862,000 SF and its warehouse space by 15,000 SF for a total reduction of 877,000 SF.

Currently, the Department occupies more than 101 million SF, which is comprised of 44 million SF of owned space and 57 million SF of leased space. Approximately one-third, or 31.4 million, of the Department's total SF has been identified as RTF building space.

The Department's leased portfolio has annual costs of approximately $1.8 billion in rental cost and operations and maintenance costs. As lease costs rise in densely-populated locations, the Field Efficiency Program Management Office (FE-PMO) within the Office of the Chief Readiness Support Officer is working on the relocation of DHS Components from leased to owned space where opportunities exist. This relocation will increase space utilization and reduce costs. For example, in Boston, the FE-PMO supported the relocation of the USCG First District from leased space to USCG-owned space at Base Boston to achieve an annual cost avoidance of $1.7 million in rent costs in 2017. In Seattle, the FE-PMO supported an agreement between the USCG and TSA to share a warehouse at Base Seattle, achieving an annual savings of $50,000 in rent costs. In FY 2018 and FY 2019, the FE-PMO and Components will closely coordinate to leverage opportunities for reducing real property costs. This coordination will help ensure relocation efforts are planned and executed in a more efficient way.

Table 7: Reduce the Footprint Baseline Comparison (square feet)

	RTF Baseline	FY 2017 Actual	Change (FY 2015 Baseline to FY 2017)
TOTAL	31,135,962	31,445,160	309,196

Table 8: Reporting of O&M Building Costs

($ in millions)

	FY 2016 Actual Costs	FY 2017 Projected Costs	Projected Change in Costs
Operations and Maintenance Costs	$85	$87	+2

Between the end of FY 2019 and the end of FY 2023, the Department expects total O&M costs to decrease as we work toward our target square footage reductions under RTF.

Civil Monetary Penalty Adjustment for Inflation

The Federal Civil Penalties Inflation Adjustment Act of 1990, as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect.

The following represents the Department's civil monetary penalties, all of which were last updated via regulation in 2018. Additional information about these penalties and the latest adjustment is available in the Federal Register Volume 83, No. 63.

Table 9: Civil Monetary Penalties

Penalty	Authority	Year Enacted	Adjusted New Penalty
CBP			
Non-compliance with arrival and departure manifest requirements for passengers, crew members, or occupants transported on commercial vessels or aircraft arriving to or departing from the United States	8 USC 1221(g); INA Section 231(g); 8 CFR 280.53(c)(1)	2002	$1,360
Non-compliance with landing requirements at designated ports of entry for aircraft transporting aliens	8 USC 1224; INA Section 234; 8 CFR 280.53(c)(2)	1990	$3,695
Violations of removal orders relating to aliens transported on vessels or aircraft under section 241(d) of the INA, or for costs associated with removal under section 241(e) of the INA	8 USC 1253(c)(1)(A); INA Section 243(c)(1)(A); 8 CFR 280.53(c)(4)	1996	$3,116
Failure to remove alien stowaways under section 241(d)(2) of the INA	8 USC 1253(c)(1)(B); INA Section 243(c)(1)(B); 8 CFR 280.53(c)(5)	1996	$7,791
Failure to report an illegal landing or desertion of alien crewmen, and for each alien not reported on arrival or departure manifest or lists required in accordance with section 251 of the USC (for each alien)	8 USC 1281(d); INA Section 251(d); 8 CFR 280.53(c)(6)	1990	$369
Use of alien crewmen for longshore work in violation of section 251(d) of the INA	8 USC 1281(d); INA Section 251(d); 8 CFR 280.53(c)(6)	1990	$9,239
Failure to control, detain, or remove alien crewmen	8 USC 1284(a); INA Section 254(a); 8 CFR 280.53(c)(7)	1990	Minimum $924 Maximum $5,543
Employment on passenger vessels of aliens afflicted with certain disabilities	8 USC 1285; INA Section 255; 8 CFR 280.53(c)(8)	1990	$1,848

Penalty	Authority	Year Enacted	Adjusted New Penalty
Discharge of alien crewmen	8 USC 1286; INA Section 256; 8 CFR 280.53(c)(9)	1990	Minimum $2,771 Maximum $5,543
Bringing into the United States alien crewmen with intent to evade immigration laws	8 USC 1287; INA Section 257; 8 CFR 280.53(c)(10)	1990	$18,477
Failure to prevent the unauthorized landing of aliens	8 USC § 1321(a); INA Section 271(a); 8 CFR 280.53(c)(11)	1990	$5,543
Bringing to the United States aliens subject to denial of admission on a health-related ground	8 USC § 1322(a); INA Section 272(a); 8 CFR 280.53(c)(12)	1990	$5,543
Bringing to the United States aliens without required documentation	8 USC § 1323(b); INA Section 273(b); 8 CFR 280.53(c)(13)	1990	$5,543
Improper entry	8 USC § 1325(b) INA Section 275(b); 8 CFR 280.53(c)(15)	1996	Minimum $78 Maximum $390
Dealing in or using empty stamped imported liquor containers	19 USC 469	1879	$518
Transporting passengers between coastwise points in the United States by a non-coastwise qualified vessel	46 USC 55103(b); 19 CFR 4.80(b)(2	1898	$778
Towing a vessel between coastwise points in the United States by a non-coastwise qualified vessel	46 USC 55111(c); 19 CFR 4.92	1940	Minimum $907 Maximum $2,852 plus $155 per ton
ICE			
Violation of Immigration and Naturalization Act (INA) sections 274C(a)(1)–(a)(4) (First offense)	8 CFR 270.3(b)(1)(ii)(A)	1990	Minimum $461 Maximum $3,695
Violation of Immigration and Naturalization Act (INA) sections 274C(a)(5)–(a)(6) (First offense)	8 CFR 270.3(b)(1)(ii)(B)	1996	Minimum $390 Maximum $3,116
Violation of Immigration and Naturalization Act (INA) sections 274C(a)(1)–(a)(4) (Subsequent offenses)	8 CFR 270.3(b)(1)(ii)(C)	1990	Minimum $3,695 Maximum $9,239
Violation of Immigration and Naturalization Act (INA) sections 274C(a)(5)–(a)(6) (Subsequent offenses)	8 CFR 270.3(b)(1)(ii)(D)	1996	Minimum $3,116 Maximum $7,791
Violation/prohibition of indemnity bonds	8 CFR 274a.8(b)	1986	$2,236

Penalty	Authority	Year Enacted	Adjusted New Penalty
Knowingly hiring, recruiting, referral, or retention of unauthorized aliens (per unauthorized alien) (First offense)	8 CFR 274a.10(b)(1)(ii)(A)	1986	Minimum $559 Maximum $4,473
Knowingly hiring, recruiting, referral, or retention of unauthorized aliens (per unauthorized alien) (Second offense)	8 CFR 274a.10(b)(1)(ii)(B)	1986	Minimum $4,473 Maximum $11,181
Knowingly hiring, recruiting, referral, or retention of unauthorized aliens (per unauthorized alien) (Subsequent offenses)	8 CFR 274a.10(b)(1)(ii)(C)	1986	Minimum $6,709 Maximum $22,363
I–9 paperwork violations	8 CFR 274a.10(b)(2)	1986	Minimum $224 Maximum $2,236
Failure to depart voluntarily	8 USC 1229c(d); INA Section 240B(d); 8 CFR 280.53(c)(3)	1996	Minimum $1,558 Maximum $7,791
Failure to depart	8 USC 1324(d); INA Section 274D; 8 CFR 280.53(c)(14)	1996	$779
NPPD			
Non-compliance with CFATS regulations	6 USC 624(b)(1); 6 CFR 27.300(b)(3)	2002	$34,013
TSA			
Certain aviation related violations by an individual or small business concern (49 CFR Ch. XII § 1503.401(c)(1))	49 USC 46301(a)(1), (4)	2003	$13,333 (up to a total of $66,666 per civil penalty action)
Certain aviation related violations by any other person not operating an aircraft for the transportation of passengers or property for compensation (49 CFR Ch. XII § 1503.401(c)(2))	49 USC 46301(a)(1), (4)	2003	$13,333 (up to a total of $533,324 per civil penalty action)
Certain aviation related violations by a person operating an aircraft for the transportation of passengers or property for compensation (49 CFR Ch. XII § 1503.401(c)(3))	49 USC 46301(a)(1), (4)	2003	$33,333 (up to a total of $533,324 per civil penalty action)
Violation of any other provision of title 49 USC or of 46 USC Ch. 701, or a regulation prescribed, or order issued under thereunder (49 CFR Ch. XII § 1503.401(b))	49 USC 114(v)(2)	2009	$11,410 (up to a total of $57,051 for individuals and small businesses, $456,409 for others)

Penalty	Authority	Year Enacted	Adjusted New Penalty
USCG			
Saving Life and Property	14 USC 88(c)	2014	$10,389
Saving Life and Property (Intentional Interference with Broadcast)	14 USC 88(e)	2012	$1,066
Confidentiality of Medical Quality Assurance Records (first offense)	14 USC 645(i)	1992	$5,218
Confidentiality of Medical Quality Assurance Records (subsequent offenses)	14 USC 645(i)	1992	$34,791
Aquatic Nuisance Species in Waters of the United States	16 USC 4711(g)(1)	1996	$38,954
Obstruction of Revenue Officers by Masters of Vessels	19 USC 70	1935	$7,779
Obstruction of Revenue Officers by Masters of Vessels—Minimum Penalty	19 USC 70	1935	$1,815
Failure to Stop Vessel When Directed; Master, Owner, Operator or Person in Charge	19 USC 1581(d)	1930	$5,000
Failure to Stop Vessel When Directed; Master, Owner, Operator or Person in Charge - Minimum Penalty	19 USC 1581(d)	1930	$1,000
Anchorage Ground/Harbor Regulations General	33 USC 471	2010	$11,279
Anchorage Ground/Harbor Regulations St. Mary's River	33 USC 474	1946	$778
Bridges/Failure to Comply with Regulations	33 USC 495(b)	2008	$28,474
Bridges/Drawbridges	33 USC 499(c)	2008	$28,474
Bridges/Failure to Alter Bridge Obstructing Navigation	33 USC 502(c)	2008	$28,474
Bridges/Maintenance and Operation	33 USC 533(b)	2008	$28,474
Bridge to Bridge Communication; Master, Person in Charge or Pilot	33 USC 1208(a)	1971	$2,074
Bridge to Bridge Communication; Vessel	33 USC 1208(b)	1971	$2,074
PWSA Regulations	33 USC 1232(a)	1978	$91,901
Vessel Navigation: Regattas or Marine Parades; Unlicensed Person in Charge	33 USC 1236(b)	1990	$9,239
Vessel Navigation: Regattas or Marine Parades; Owner Onboard Vessel	33 USC 1236(c)	1990	$9,239
Vessel Navigation: Regattas or Marine Parades; Other Persons	33 USC 1236(d)	1990	$4,619
Oil/Hazardous Substances: Discharges (Class I per violation)	33 USC 1321(b)(6)(B)(i)	1990	$18,477

Penalty	Authority	Year Enacted	Adjusted New Penalty
Oil/Hazardous Substances: Discharges (Class I total under paragraph)	33 USC 1321(b)(6)(B)(i)	1990	$46,192
Oil/Hazardous Substances: Discharges (Class II per day of violation)	33 USC 1321(b)(6)(B)(ii)	1990	$18,477
Oil/Hazardous Substances: Discharges (Class II total under paragraph)	33 USC 1321(b)(6)(B)(ii)	1990	$230,958
Oil/Hazardous Substances: Discharges (per day of violation) Judicial Assessment	33 USC 1321(b)(7)(A)	1990	$46,192
Oil/Hazardous Substances: Discharges (per barrel of oil or unit discharged) Judicial Assessment	33 USC 1321(b)(7)(A)	1990	$1,848
Oil/Hazardous Substances: Failure to Carry Out Removal/Comply With Order (Judicial Assessment)	33 USC 1321(b)(7)(B)	1990	$46,192
Oil/Hazardous Substances: Failure to Comply with Regulation Issued Under 1321(j) (Judicial Assessment)	33 USC 1321(b)(7)(C)	1990	$46,192
Oil/Hazardous Substances: Discharges, Gross Negligence (per barrel of oil or unit discharged) Judicial Assessment	33 USC 1321(b)(7)(D)	1990	$5,543
Oil/Hazardous Substances: Discharges, Gross Negligence—Minimum Penalty (Judicial Assessment)	33 USC 1321(b)(7)(D)	1990	$184,767
Marine Sanitation Devices; Operating	33 USC 1322(j)	1972	$7,779
Marine Sanitation Devices; Sale or Manufacture	33 USC 1322(j)	1972	$20,742
International Navigation Rules; Operator	33 USC 1608(a)	1980	$14,543
International Navigation Rules; Vessel	33 USC 1608(b)	1980	$14,543
Pollution from Ships; General	33 USC 1908(b)(1)	1980	$72,718
Pollution from Ships; False Statement	33 USC 1908(b)(2)	1980	$14,543
Inland Navigation Rules; Operator	33 USC 2072(a)	1980	$14,543
Inland Navigation Rules; Vessel	33 USC 2072(b)	1980	$14,543
Shore Protection; General	33 USC 2609(a)	1988	$51,302
Shore Protection; Operating Without Permit	33 USC 2609(b)	1988	$20,521
Oil Pollution Liability and Compensation	33 USC 2716a(a)	1990	$46,192
Clean Hulls; Civil Enforcement	33 USC 3852(a)(1)(A)	2010	$42,292

Penalty	Authority	Year Enacted	Adjusted New Penalty
Clean Hulls; False statements	33 USC 3852(a)(1)(A)	2010	$56,391
Clean Hulls; Recreational Vessel	33 USC3852(c)	2010	$5,639
Hazardous Substances, Releases Liability, Compensation (Class I)	42 USC 9609(a)	1986	$55,907
Hazardous Substances, Releases Liability, Compensation (Class II)	42 USC 9609(b)	1986	$55,907
Hazardous Substances, Releases Liability, Compensation (Class II subsequent offense)	42 USC 9609(b)	1986	$167,722
Hazardous Substances, Releases, Liability, Compensation (Judicial Assessment)	42 USC 9609(c)	1986	$55,907
Hazardous Substances, Releases, Liability, Compensation (Judicial Assessment subsequent offense)	42 USC 9609(c)	1986	$167,722
Safe Containers for International Cargo	46 USC 80509(a)	2006	$6,111
Suspension of Passenger Service	46 USC 70305(c)	2006	$61,115
Vessel Inspection or Examination Fees	46 USC 2110(e)	1990	$9,239
Alcohol and Dangerous Drug Testing	46 USC 2115	1998	$7,520
Negligent Operations: Recreational Vessels	46 USC 2302(a)	2002	$6,802
Negligent Operations: Other Vessels	46 USC 2302(a)	2002	$34,013
Operating a Vessel While Under the Influence of Alcohol or a Dangerous Drug	46 USC 2302(c)(1)	1998	$7,520
Vessel Reporting Requirements: Owner, Charterer, Managing Operator, or Agent	46 USC 2306(a)(4)	1984	$11,712
Vessel Reporting Requirements: Master	46 USC 2306(b)(2)	1984	$2,343
Immersion Suits	46 USC 3102(c)(1)	1984	$11,712
Inspection Permit	46 USC 3302(i)(5)	1983	$2,443
Vessel Inspection; General	46 USC 3318(a)	1984	$11,712
Vessel Inspection; Nautical School Vessel	46 USC 3318(g)	1984	$11,712
Vessel Inspection; Failure to Give Notice IAW 3304(b)	46 USC 3318(h)	1984	$2,343
Vessel Inspection; Failure to Give Notice IAW 3309 (c)	46 USC 3318(i)	1984	$2,343
Vessel Inspection; Vessel ≥ 1600 Gross Tons	46 USC 3318(j)(1)	1984	$23,426
Vessel Inspection; Vessel <1600 Gross Tons	46 USC 3318(j)(1)	1984	$4,685

Penalty	Authority	Year Enacted	Adjusted New Penalty
Vessel Inspection; Failure to Comply with 3311(b)	46 USC 3318(k)	1984	$23,426
Vessel Inspection; Violation of 3318(b)- 3318(f)	46 USC 3318(l)	1984	$11,712
List/count of Passengers	46 USC 3502(e)	1983	$244
Notification to Passengers	46 USC 3504(c)	1983	$24,421
Notification to Passengers; Sale of Tickets	46 USC 3504(c)	1983	$1,220
Copies of Laws on Passenger Vessels; Master	46 USC 3506	1983	$489
Liquid Bulk/Dangerous Cargo	46 USC 3718(a)(1)	1983	$61,055
Uninspected Vessels	46 USC 4106	1988	$10,260
Recreational Vessels (maximum for related series of violations)	46 USC 4311(b)(1)	2004	$323,027
Recreational Vessels; Violation of 4307(a)	46 USC 4311(b)(1)	2004	$6,460
Recreational Vessels	46 USC 4311(c)	1983	$2,443
Uninspected Commercial Fishing Industry Vessels	46 USC 4507	1988	$10,260
Abandonment of Barges	46 USC 4703	1992	$1,739
Load Lines	46 USC 5116(a)	1986	$11,181
Load Lines; Violation of 5112(a)	46 USC 5116(b)	1986	$22,363
Load Lines; Violation of 5112(b)	46 USC 5116(c)	1986	$11,181
Reporting Marine Casualties	46 USC 6103(a)	1996	$38,954
Reporting Marine Casualties; Violation of 6104	46 USC 6103(b)	1988	$10,260
Manning of Inspected Vessels; Failure to Report Deficiency in Vessel Complement	46 USC 8101(e)	1990	$1,848
Manning of Inspected Vessels	46 USC 8101(f)	1990	$18,477
Manning of Inspected Vessels; Employing or Serving in Capacity not Licensed by USCG	46 USC 8101(g)	1990	$18,477
Manning of Inspected Vessels; Freight Vessel <100 GT, Small Passenger Vessel, or Sailing School Vessel	46 USC 8101(h)	1983	$2,443
Watchmen on Passenger Vessels	46 USC 8102(a)	1983	$2,443
Citizenship Requirements	46 USC 8103(f)	1983	$1,220
Watches on Vessels; Violation of 8104(a) or (b)	46 USC 8104(i)	1990	$18,477
Watches on Vessels; Violation of 8104(c), (d), (e), or (h)	46 USC 8104(j)	1990	$18,477
Staff Department on Vessels	46 USC 8302(e)	1983	$244
Officer's Competency Certificates	46 USC 8304(d)	1983	$244

Penalty	Authority	Year Enacted	Adjusted New Penalty
Coastwise Pilotage; Owner, Charterer, Managing Operator, Agent, Master or Individual in Charge	46 USC 8502(e)	1990	$18,477
Coastwise Pilotage; Individual	46 USC 8502(f)	1990	$18,477
Federal Pilots	46 USC 8503	1984	$58,562
Merchant Mariners Documents	46 USC 8701(d)	1983	$1,220
Crew Requirements	46 USC 8702(e)	1990	$18,477
Small Vessel Manning	46 USC 8906	1996	$38,954
Pilotage: Great Lakes; Owner, Charterer, Managing Operator, Agent, Master or Individual in Charge	46 USC 9308(a)	1990	$18,477
Pilotage: Great Lakes; Individual	46 USC 9308(b)	1990	$18,477
Pilotage: Great Lakes; Violation of 9303	46 USC 9308(c)	1990	$18,447
Failure to Report Sexual Offense	46 USC 10104(b)	1989	$9,819
Pay Advances to Seamen	46 USC 10314(a)(2)	1983	$1,220
Pay Advances to Seamen; Remuneration for Employment	46 USC 10314(b)	1983	$1,220
Allotment to Seamen	46 USC 10315(c)	1983	$1,220
Seamen Protection; General	46 USC 10321	1993	$8,465
Coastwise Voyages: Advances	46 USC 10505(a)(2)	1993	$8,465
Coastwise Voyages: Advances; Remuneration for Employment	46 USC 10505(b)	1993	$8,465
Coastwise Voyages: Seamen Protection; General	46 USC 10508(b)	1993	$8,465
Effects of Deceased Seamen	46 USC 10711	1983	$489
Complaints of Unfitness	46 USC 10902(a)(2)	1983	$1,220
Proceedings on Examination of Vessel	46 USC 10903(d)	1983	$244
Permission to Make Complaint	46 USC 10907(b)	1983	$1,220
Accommodations for Seamen	46 USC 11101(f)	1983	$1,220
Medicine Chests on Vessels	46 USC 11102(b)	1983	$1,220
Destitute Seamen	46 USC 11104(b)	1983	$244
Wages on Discharge	46 USC 11105(c)	1983	$1,220
Log Books; Master Failing to Maintain	46 USC 11303(a)	1983	$489
Log Books; Master Failing to Make Entry	46 USC 11303(b)	1983	$489
Log Books; Late Entry	46 USC 11303(c)	1983	$366
Carrying of Sheath Knives	46 USC 11506	1983	$122
Documentation of Vessels	46 USC 12151(a)(1)	2012	$15,995
Documentation of Vessels; Activities involving mobile offshore drilling units	46 USC 12151(a)(2)	2012	$26,659
Engaging in Fishing After Falsifying Eligibility (fine per day)	46 USC 12151(c)	2006	$122,231

Penalty	Authority	Year Enacted	Adjusted New Penalty
Numbering of Undocumented Vessel; Willful violation	46 USC 12309(a)	1983	$12,211
Numbering of Undocumented Vessels	46 USC 12309(b)	1983	$2,443
Vessel Identification System	46 USC 12507(b)	1988	$20,521
Measurement of Vessels	46 USC 14701	1986	$44,727
Measurement; False Statements	46 USC 14702	1986	$44,727
Commercial Instruments and Maritime Liens	46 USC 31309	1988	$20,521
Commercial Instruments and Maritime Liens; Mortgagor	46 USC 31330(a)(2)	1988	$20,521
Commercial Instruments and Maritime Liens; Violation of 31329	46 USC 31330(b)(2)	1988	$51,302
Port Security	46 USC 70119(a)	2002	$34,013
Port Security; Continuing Violations	46 USC 70119(b)	2006	$61,115
Maritime Drug Law Enforcement; Penalties	46 USC 70506(c)	2010	$5,639
Hazardous Materials: Related to Vessels	49 USC 5123(a)(1)	2012	$79,976
Hazardous Materials: Related to Vessels; Penalty from Fatalities, Serious Injuries/Illness or substantial Damage to Property	49 USC 5123(a)(2)	2012	$186,610
Hazardous Materials: Related to Vessels; Training	49 USC 5123(a)(3)	2012	$481

Grants Oversight & New Efficiency (GONE) Act

Enacted on January 28, 2016, the GONE Act requires each agency to submit to Congress a report on Federal grant and cooperative agreement awards which have not yet been closed and for which the period of period of performance, including any extensions, elapsed for more than two years. The following table includes DHS open grants and cooperative agreements whose period of performance ended on or before September 30, 2015.

Table 10: Grants/Cooperative Agreements Summary Status

CATEGORY	2 3Years	3 5 Years	> 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	0	2	0
Number of Grants/Cooperative Agreements with Undisbursed Balances	61	8	2
Total Amount of Undisbursed Balances	$62,910,572	$1,947,814	$36,010

DHS awards approximately $10 billion annually in grants and cooperative agreements through eight DHS financial assistance awarding offices. The awarding offices include the Federal Emergency Management Agency (FEMA), U.S. Coast Guard, Countering Weapons of Mass Destruction (CWMD) Office, U.S. Immigration and Customs Enforcement, National Protection & Programs Directorate, Science and Technology, and U.S. Citizenship and Immigration Services. FEMA awards ninety-eight percent of DHS grants and cooperative agreements.

DHS awarding offices use disparate grant management systems, and this has created a multitude of challenges in closing grant awards and cooperative agreements on a timely basis. DHS has made tremendous progress in FY 2018 to institute consistent policies, procedures and processes used to award and close grants. FEMA continues to simplify and coordinate business management and oversight approaches for its grant programs with the Grant Management Modernization (GMM) effort.

DHS is providing centralized oversight and training on grants management processes. These improved processes and an integrated systems environment have supported the close out of grants and cooperative agreements in a timely manner. With a concerted focus, DHS has closed 92% of the grants reported as open in the FY 2017 AFR, while reducing the undisbursed balance by $52M.

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[1] The Countering Weapons of Mass Destruction (CWMD) Office was created in December 2017 to elevate and streamline DHS efforts to prevent terrorists and other national security threat actors from using harmful agents, such as chemical, biological, radiological, and nuclear material and devices, to harm Americans and U.S. interests. The CWMD Office consolidated the Domestic Nuclear Detection Office (DNDO), a majority of the Office of Health Affairs (OHA), and elements of the Office of Strategy, Plans, & Policy. For AFR presentation purposes, all prior and current year references to DNDO, OHA, Office of Strategy, Plans, & Policy have been replaced with CWMD

Other Key Regulatory Requirements

Prompt Payment Act

The *Prompt Payment Act* requires federal agencies to make timely payments (within 30 days of receipt of invoice) to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts only when they are economically justified. The Department's Components submit Prompt Payment data as part of data gathered for the OMB CFO Council's Metric Tracking System (MTS). Periodic reviews are conducted by the DHS Components to identify potential problems. Interest penalties as a percentage of the dollar amount of invoices subject to the Prompt Payment Act have been measured between 0.0016 percent and 0.0075 percent for the period of October 2017 through September 2018, with an annual average of 0.004 percent.
(Note: MTS statistics are reported with at least a six-week lag).

Debt Collection Improvement Act

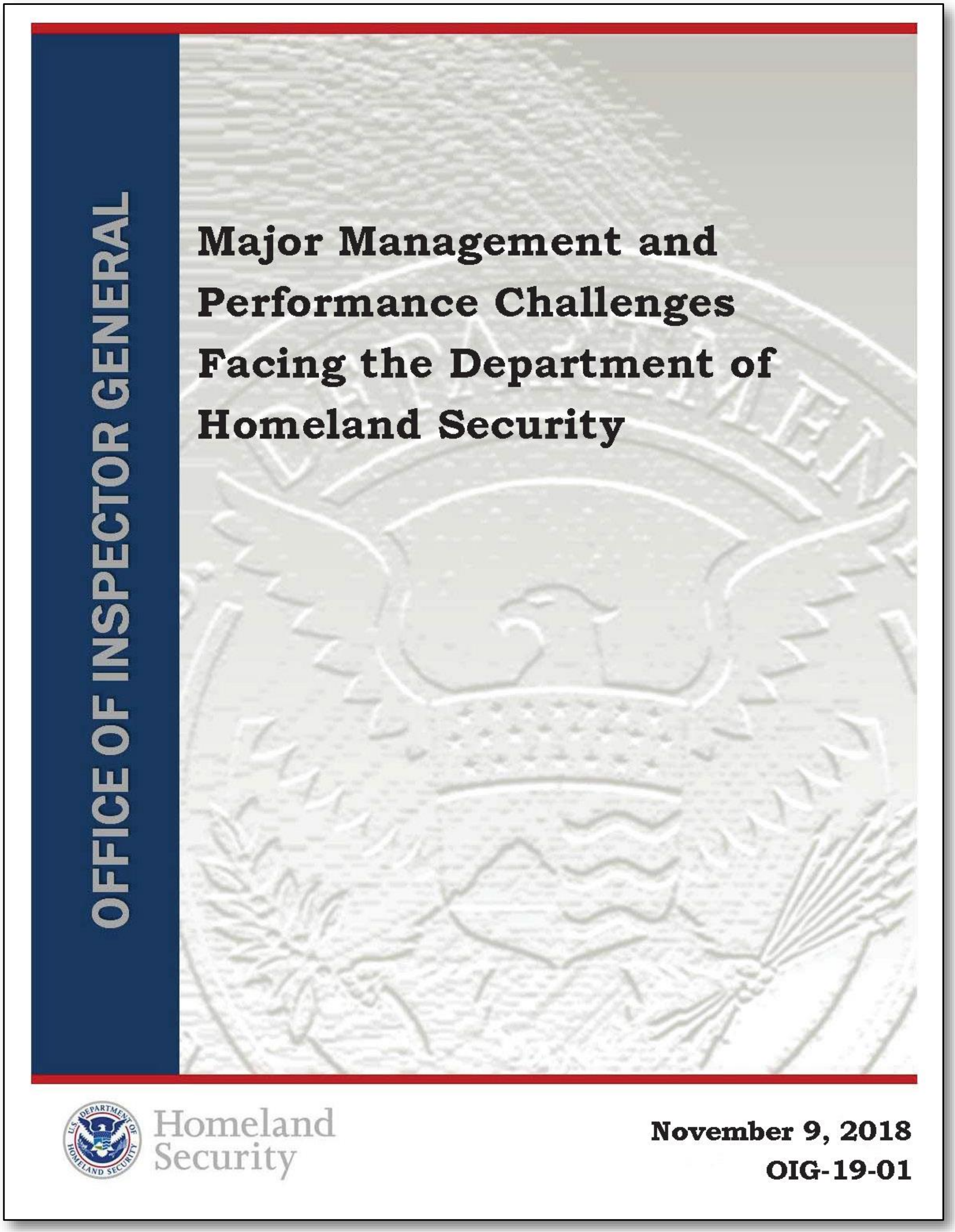
In compliance with the *Debt Collection Improvement Act of 1996* (DCIA), the Department manages its debt collection activities under the DHS DCIA regulation. The regulation is implemented under the Department's comprehensive debt collection policies that provide guidance to the Components on the administrative collection of debt; referring non-taxable debt; writing off non-taxable debt; reporting debts to consumer reporting agencies; assessing interest, penalties and administrative costs; and reporting receivables to the Treasury. The *Digital Accountability and Transparency Act* of 2014 was passed in May 2014 and updated DCIA requirements for referring non-taxable debt.

Biennial User Charges Review

The Chief Financial Officers Act of 1990 and OMB Circular A-25 Revised, User Charges, requires each agency CFO to review, on a biennial basis, the fees, royalties, rents, and other charges imposed by the agency for services and items of value provided to specific recipients, beyond those received by the general public. The purpose of this review is to periodically adjust existing charges to 1) reflect unanticipated changes in costs or market values, and 2) to review all other agency programs to determine whether fees should be assessed for Government services or the use of Government goods or services. Based on our review, we identified adjustments for fees to achieve full-cost recovery.

In FY 2018, the Department approved updates to the Financial Management Policy Manual for Biennial Fee Reviews (BFR), Unobligated Carryover Balances, and Cost Recovery. The Department, in coordination with the Fee Governance Council, initiated and completed a department-wide BFR. The Fee Governance Council, which was created to establish a governance and a centralized oversight structure for fees programs across the Department, will review the results, take necessary follow-on steps, and make recommendations to the components on what steps can be taken to achieve full cost recovery or improve fee collections.

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



OFFICE OF INSPECTOR GENERAL

Major Management and Performance Challenges Facing the Department of Homeland Security

Homeland Security

November 9, 2018

OIG-19-01

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Department of Homeland Security

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

November 9, 2018

MEMORANDUM FOR: The Honorable Kirstjen M. Nielsen
Secretary
Department of Homeland Security

FROM: John V. Kelly
Senior Official Performing the
Duties of the Inspector General

SUBJECT: *Major Management and Performance Challenges Facing the Department of Homeland Security*

For your information is our annual report, *Major Management and Performance Challenges Facing the Department of Homeland Security*. Pursuant to the *Reports Consolidation Act of 2000*, the Office of Inspector General is required to issue a statement that summarizes what the Inspector General considers to be the most serious management and performance challenges facing the agency and briefly assess the agency's progress in addressing those challenges. This requirement is consistent with our duties under the *Inspector General Act* to conduct audits, as well as provide leadership and recommend policies to promote economy, efficiency, and effectiveness in Department of Homeland Security programs and operations.

We acknowledge past and ongoing efforts by Department's senior leadership to address the challenges identified in this report. At the same time, our aim in this report is two-fold — to identify areas that need continuing focus and improvement and to point out instances in which senior leadership's goals and objectives are not executed throughout the Department. Therefore, we highlight persistent management and performance challenges that hamper the Department's efforts to accomplish the homeland security mission efficiently and effectively. The Department continues to strive to act as a single, focused organization while establishing strong internal controls and incorporating management fundamentals. DHS also faces challenges with overseeing and managing critical aspects of the homeland security mission, as well as acquisitions and cybersecurity.

Overcoming these management and performance challenges demands unified action. The Department has taken steps to achieve this unity, such as starting an Immigration Data Integration Initiative and establishing a requirements process that moves from program-specific requirements to those focused on broader capabilities. However, the challenge persists. A lack of coordination and harmony can negatively affect all aspects of DHS' programs and operations

— planning, acquisition, budgeting, and execution. To efficiently and effectively fulfill its vital mission of protecting and securing our Nation, the Department must work cohesively.

Unified Effort, Internal Controls, and Management Fundamentals

Since its creation 15 years ago, DHS' overriding and continuing challenge remains building a single, cohesive, and effective organization greater than the sum of its parts — the very reason it was established. Reaching this goal demands effective collaboration and integration of a wide array of component management functions, programs, and operations, all aimed at accomplishing a multi-faceted homeland security mission. The Department has not yet demonstrated it can take a unified approach, while implementing effective internal controls and incorporating management fundamentals in programs and operations across components. The current environment of relatively weak internal controls and management fundamentals affects all aspects of the Department's mission, from border protection and immigration enforcement to protection against terrorist attacks and natural disasters.

Our recent work offers examples of the Department's challenges effectively overseeing and managing programs and operations through careful planning; gathering complete and reliable data for informed decision making; implementing and enforcing clear and consistent policies, procedures, and practices; and establishing meaningful performance measures for future improvement.

Lack of Planning

In a review of U.S. Immigration and Customs Enforcement's (ICE) 287(g) program, ICE approved 40 additional applicants without planning for a corresponding increase in program management staffing, determining how to promptly deliver needed information technology (IT) equipment to participants, or ensuring participants are fully trained. Specifically, ICE did not analyze program needs to determine how many additional 287(g) program managers should be hired and was not able to hire enough to keep up with the quick expansion. Approving all new participants without adequate planning has hindered ICE's oversight and management of the 287(g) program and may be affecting participating agencies' ability to assist ICE in enforcing immigration laws and identifying removable aliens.[1]

Following our investigation of U.S. Customs and Border Protection's (CBP) implementation of the January 2017 Executive Order 13769, *Protecting the Nation from Foreign Terrorist Entry into the United States* (EO), we determined

[1] *Lack of Planning Hinders Effective Oversight and Management of ICE's Expanding 287(g) Program* (OIG-18-77)

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that CBP was caught by surprise when the President issued the EO.[2] DHS had little opportunity to prepare for and respond to basic questions about the categories of affected travelers. We also observed that the lack of a public or congressional relations strategy significantly hampered CBP and harmed its public image.

Incomplete and Unreliable Data

As noted in an audit of the Department's controls over firearms and other sensitive assets, the Department did not have complete and accurate property management data for effective oversight and informed decision making. Those responsible for managing the Department's sensitive assets must know the total number across all components. Yet, the system used to manage these assets did not contain complete and accurate information. Without Department oversight and policy improvements, highly sensitive assets will continue to be subject to loss or theft and the safety of the general public will be at risk.[3]

The *Digital Accountability and Transparency Act of 2014* requires DHS to submit complete, accurate, and timely spending data to the Department of the Treasury for publication on USASpending.gov. Although DHS met the Act's mandated submission deadline, we identified issues with the completeness and accuracy of its first data submission, which hindered the quality and usefulness of the information. DHS has improved its data reconciliation procedures since making its first quarterly submission to Treasury and should continue to reconcile misalignments, identify errors and unacceptable timing differences, and develop or adjust existing internal controls to improve the overall quality of its data.[4]

Based on our observations in the field, we determined that DHS was not fully prepared to implement the Administration's Zero Tolerance Policy or to deal with some of its after-effects.[5] Among other challenges, DHS had difficulty identifying, tracking, and reunifying families separated under the Zero Tolerance Policy due to limitations with IT systems, including a lack of integration among ICE's, CBP's, and Department of Health and Human Services' systems. DHS struggled to provide accurate, complete, reliable data on family separations and reunifications, raising concerns about the accuracy of its reporting.

[2] *DHS Implementation of Executive Order #13769 "Protecting the Nation From Foreign Terrorist Entry Into the United States"* (OIG-18-37)
[3] *DHS' Controls Over Firearms and Other Sensitive Assets* (OIG-18-05)
[4] *DHS' Implementation of the DATA Act* (OIG-18-34)
[5] *Special Review - Initial Observations Regarding Family Separation Issues Under the Zero Tolerance Policy* (OIG-18-84)

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Unclear and Unenforced Policies, Procedures, and Practices

Following our department-wide review of conduct and discipline, we concluded that DHS' support components do not have sufficient processes and procedures to address misconduct.[6] These deficiencies exist because no single office or entity is responsible for managing and overseeing misconduct issues across support components. Without comprehensive department-wide procedures, DHS cannot ensure the components address allegations properly or administer disciplinary actions consistently.

At four of five ICE detention facilities inspected, OIG identified issues that raised concerns about management's failure to ensure the contracted facilities complied with policies and procedures in detention standards. For example, some detainees were housed incorrectly based on their criminal history; others were strip searched in violation of standards; and staff did not always use available language services to facilitate communication with detainees. Some facility staff reportedly deterred detainees from filing grievances and did not thoroughly document resolution of grievances. The problems we identified undermine the protection of detainees' rights, their humane treatment, and the provision of a safe and healthy environment.[7]

After reviewing ICE's two types of inspections for detention facilities, we reported that one type of inspection does not fully examine actual conditions or identify all deficiencies and the other type is too infrequent to ensure facilities correct all deficiencies. Moreover, ICE does not adequately follow up on identified deficiencies or consistently hold facilities accountable for correcting them, which further diminishes the usefulness of the inspections.[8]

In our special review of DHS' implementation of the Zero Tolerance Policy, we observed that, faced with resource limitations and other challenges, DHS regulated the number of asylum-seekers entering the country through ports of entry at the same time that it encouraged asylum-seekers to come to the ports, which may have caused more illegal border crossings.

Inadequate Performance Measures

During our assessment of the Federal Air Marshal Service's (FAMS) contributions to the Transportation Security Administration's layered approach to security, we determined that FAMS lacked performance measures for 24 strategic initiatives and most ground-based activities outlined in its strategic plan. Additionally, performance measures for FAMS' Visible Intermodal

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[6] *DHS Support Components Do Not Have Sufficient Processes and Procedures to Address Misconduct* (OIG-18-81)
[7] *Concerns about ICE Detainee Treatment and Care at Detention Facilities* (OIG-18-32)
[8] *ICE's Inspections and Monitoring of Detention Facilities Do Not Lead to Sustained Compliance or Systemic Improvements*, (OIG-18-67)

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Prevention and Response Team operations failed to determine their effectiveness. FAMS could not provide a budget breakout by division or operational area. Without effective performance measures or detailed accounting of funds, FAMS cannot ensure it is maximizing its resources to address its highest risks and cannot measure the value of its investments in its ground-based activities.[9]

In automating naturalization benefits delivery, U.S. Citizenship and Immigration Services (USCIS) lacked performance measures to assess whether its IT system was achieving the expected outcomes to improve efficiency, accuracy, and security in benefits delivery.[10] Existing performance measures were neither clear nor focused. Although USCIS collected a number of metrics to monitor system performance, it did not monitor the operational impact or quality of automated benefits processing. For example, it could not measure whether it had achieved targets for reducing adjudication time and the use of paper to process immigration benefits. In response to our recommendation, USCIS provided evidence that it had defined qualitative and quantitative metrics for each program goal.

DHS' Efforts to Strengthen Internal Controls

Recognizing that the U.S. Government Accountability Office (GAO) and OIG continue to identify internal control issues that profoundly affect reporting of accurate, reliable financial and programmatic information, the Department has taken steps to strengthen its internal controls. For example, DHS has established an internal control reporting structure, which allows the Secretary to report and provide reasonable assurance on the effectiveness of the Department's system of internal controls. DHS and its components also continue to establish, monitor, and implement corrective actions to eliminate weaknesses related to IT controls and financial reporting. Many components have implemented plans to assess the effectiveness of operational internal controls through inspections, evaluations, and desk audits. Finally, in FY 2018, among other actions, DHS updated its risk profile and developed an operational risk register at each component.

Oversight and Management of the Homeland Security Mission

Our recent reviews illustrate how critical it is for the Department to effectively oversee and manage various aspects of the homeland security mission, including disaster assistance, border protection, transportation security, and immigration enforcement. Specifically, the Department has had difficulty overseeing disaster assistance grants and grantees, as well as managing the National Flood Insurance Program. DHS also faces challenges safeguarding

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9 *FAMS Needs to Demonstrate How Ground-Based Assignments Contribute to TSA's Mission* (OIG-18-70)
10 *USCIS Has Been Unsuccessful in Automating Naturalization Benefits Delivery*, (OIG-18-23)

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controlled areas and systems, protecting our borders against illegal entry of contraband, efficiently screening international travelers, and ensuring applicants for immigration benefits are both protected and meet requirements. These challenges also touch on tangential issues, such as the opioid crisis and public health.

Disaster Assistance

Recent hurricanes, wildfires, and other events highlight the Federal Emergency Management Agency's (FEMA) challenges responding to natural and manmade disasters — in both immediate response and long-term recovery efforts. FEMA continues to face systemic challenges managing its disaster assistance grant programs. On average, FEMA awards about $10 billion each year in disaster assistance grants and preparedness grants. The 2017 hurricane season was the costliest in U.S. history. Three major hurricanes — Harvey, Irma, and Maria — made landfall in 4 weeks during August and September 2017. During this timeframe, the President declared seven major California disasters eligible for FEMA Public Assistance Program funding. As historic and unprecedented disasters continue to strike, the Department and FEMA must address significant challenges, which, unmitigated, will continue to delay recovery efforts and put billions of dollars of Federal funds at risk.

We issued a special report to FEMA leadership regarding the potential procurement challenges that would likely arise during the recovery phases of Hurricanes Harvey, Irma, and Maria — with damage estimates in excess of $300 billion.[11] We reported that the massive scale of damage and the large number of high dollar contracts that grantees and subgrantees would likely award translated to a significant risk that taxpayer monies might be spent on ineligible costs.

In a recent management alert, we reported that FEMA's guidance for post-disaster debris monitoring still lacks sufficient information to ensure adequate oversight.[12] In response to a 2011 DHS OIG report, FEMA released additional criteria for debris estimating and monitoring to enhance the overall effectiveness of debris operations. However, in January 2016, FEMA issued its *Public Assistance Program and Policy Guide*, which superseded selected Public Assistance Program guidance, including guidance for debris operations. The guide eliminates Federal and state monitoring responsibilities for debris operations and relies solely on subrecipients to monitor debris removal operations. Although local officials said contractors monitor debris removal as required, FEMA, State, and subrecipients provided limited or no contractor oversight, and contractor employees lacked adequate training for monitoring.

[11] *Lessons Learned from Prior Reports on Disaster-related Procurement and Contracting* (OIG-18-29)
[12] *Management Alert – Observations of FEMA's Debris Monitoring Efforts for Hurricane Irma* (OIG-18-85)

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Without adequate guidance and oversight of debris removal by FEMA, State officials, and subrecipients, there is increased risk of fraud, waste, and abuse of taxpayer money.

According to a GAO report, the 2017 hurricanes and wildfires highlighted some longstanding issues and revealed other emerging response and recovery issues.[13] For example, the concurrent timing and scale of the disaster damages nationwide caused shortages in available debris removal contractors and delays in removing disaster debris — a key first step in recovery. In addition, FEMA's available workforce was overwhelmed by the response needs. FEMA officials noted that staff shortages and lack of trained personnel with program expertise led to complications in its response efforts.

Our recent work related to disaster assistance programs demonstrates FEMA's continuing challenges holding grant recipients accountable for managing disaster relief funds. Under the Public Assistance Program, states are required to monitor subgrantees' activities to ensure compliance with applicable Federal requirements. Yet, we continue to document the failure of grantees to fulfill basic grant management responsibilities. For example, as a result of an audit of $7 million in Public Assistance Program funds awarded to Richland County, North Dakota, we determined funding totaling $6.2 million was ineligible because the County did not have the legal responsibility for repairs to township roadways.[14] In general, our audits show that the oversight intended to monitor the billions of dollars awarded by FEMA in disaster assistance grants is often ineffective and inefficient, as well as vulnerable to fraud, waste, and abuse. Therefore, FEMA must ensure the states effectively manage their disaster relief grants and monitor their subrecipients.

In addition to issues with grant management, we identified a number of other challenges to FEMA's programs and operations. For example, FEMA failed to address persistent issues with technology planning, governance, and system support challenges to effectively support its mission.[15] Specifically, in 2015 we recommended the Chief Information Officer finalize key planning documents related to IT modernization, execute against those planning documents, fully implement an IT governance board, improve integration and functionality of existing systems, and implement component-wide acquisition, development, and operation and maintenance standards. In 2018, many of the issues we reported in prior years remain unchanged, with adverse impact on day-to-day operations and mission readiness. In another example, FEMA created the Sandy Claims Review Process (SCRP), but did not rely on legislatively mandated controls designed to ensure appropriate payments to flood victims.

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[13] *2017 Hurricanes and Wildfires-Initial Observations on the Federal Response and Key Recovery Challenges* (GAO-18-472)
[14] *Management Alert - FEMA Should Recover $6.2 Million in Public Assistance Funds for Disaster Repairs That Are Not the Legal Responsibility of Richland County, North Dakota* (OIG-18-09)
[15] *Management Alert-Inadequate Progress in Addressing Open Recommendations from our 2015 Report, "FEMA Faces Challenges in Managing Information Technology"* (OIG-18-54)

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This resulted in policyholders receiving unsupported additional payments, excessive costs to operate the process, and time delays processing claims. As of December 1, 2017, a re-review of claims under the SCRP cost more than $196 million and had offered policyholders an additional $270 million for their claims.[16]

Protecting Controlled Areas and Systems, Securing the Border and Transportation System, and Complying with Immigration Laws

As a result of a recent audit, we determined that DHS still faces challenges implementing and managing requirements of the Homeland Security Presidential Directive-12 program, which could lead to unauthorized access to controlled areas and information systems.[17] The Department has an effective process for issuing personal identity verification cards, but still faces challenges such as ensuring separated contractors' cards are terminated. In addition, the Department has made limited progress in regulating access to its facilities and systems. Finally, DHS has not independently verified components' reported compliance in implementing logical access controls on their unclassified information systems. As a result, DHS cannot ensure that only authorized employees have access to its controlled facilities and systems and individuals who misrepresent their identities could circumvent controls and harm people and assets. Potential unauthorized access to information systems could lead to loss, theft, or misuse of sensitive information.

We also reported that U.S. Customs and Border Protection's (CBP) ineffective processes and IT security controls to support air mail inspection operations at John F. Kennedy International Airport could hamper efforts to prevent prohibited items, including opioids, from entering the United States.[18] Despite legislative requirements to systematically target and widely prevent illegal imports, CBP inspects only a limited number of the hundreds of thousands of pieces of incoming air mail each day, largely due to difficulty inventorying and locating targeted mail, as well as inadequate guidance, equipment, and resources. Further, international mail suspected of containing contraband is not physically controlled due to procedural, space, and technical limitations. This inspection environment could lead to stolen, misplaced, or improperly delivered mail; hazards for inspection personnel; and potentially lost or damaged evidence to support criminal cases. Given a lack of oversight, servers supporting CBP's mail inspection processes do not meet IT security control requirements, and not all of them are included in CBP's system inventory, making them vulnerable to potential attacks and operational disruptions.

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[16] *Unsupported Payments Made to Policyholders Who Participated in the Hurricane Sandy Claims Review Process*, (OIG-18-38)
[17] *Department-wide Management of the HSPD-12 Program Needs Improvement* (OIG-18-51)
[18] *CBP's International Mail Inspection Processes Need Improvement at JFK International Airport* (OIG-18-83)

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Additionally we reviewed deficient cyber security controls that resulted in a January 2, 2017 outage of CBP's TECS, the principal system used by officers at the border to help screen and determine the admissibility of arriving persons. This prevented CBP from promptly processing arriving international passengers at airports.[19] We also reported that CBP did not have an adequate test environment for TECS. Without being able to test system changes using 'real-life' scenarios, CBP would be at increased risk that TECS would experience future outages.

Finally, we determined that USCIS has inadequate controls for verifying that foreign nationals seeking lawful permanent residence status meet health-related standards for admissibility.[20] First, USCIS is not properly vetting the physicians it designates to conduct required medical examinations of these foreign nationals, and it has designated physicians with a history of patient abuse or a criminal record. This is occurring because USCIS does not have policies to ensure only suitable physicians are designated. Second, when reviewing these foreign nationals' required medical forms, USCIS Immigration Services Officers are accepting incomplete and inaccurate forms because they are not adequately trained and because USCIS does not enforce its existing policies. As a result of these deficiencies, USCIS may be placing foreign nationals at risk of abuse by physicians performing medical examinations. USCIS could also be exposing the U.S. population to contagious or dangerous health conditions from foreign nationals erroneously granted lawful permanent resident status.

Acquisition Program Management

Acquisition program management continues to be one of the Department's significant challenge areas. Every year, the Department spends billions of dollars on a broad range of assets and services — from ships, aircraft, surveillance towers, and nuclear detection equipment to financial, human resources, and IT systems. Procurement practices that do not comply with Federal requirements can lead to high-risk contracts resulting in U.S. taxpayers bearing excessive and ineligible costs.

GAO also highlighted acquisition program management as one of DHS' high risk areas. According to GAO, DHS' efforts to improve its major acquisition programs are noteworthy, but the program continues to face challenges. Issues with staffing, funding, and defining the Department's requirements increase the likelihood that major acquisition projects will cost more and take longer than expected to complete. Components have an ongoing tendency to acquire systems before adequately defining requirements or developing performance measures.

[19] *Review of CBP Information Technology System Outage of January 2, 2017* (OIG-18-19)
[20] *USCIS' Medical Admissibility Screening Process Needs Improvement* (OIG-18-78)

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Acquisition program management is inherently complex and high risk. It is further challenged by the magnitude and diversity of the Department's procurements, the need to expand capabilities to meet evolving threats, and budget constraints. DHS' well-documented challenges in this area cover decisions on a wide array of high-value goods and services. For example, in the past, although DHS has undertaken numerous initiatives to better manage the billions of dollars in IT investments, these projects frequently incur cost overruns and schedule slippages while contributing little to mission-related outcomes. We are currently auditing acquisition activities related to the planned wall on the southern border, which will likely highlight continuing challenges.

Our fiscal year 2018 body of work illustrates these ongoing challenges. For instance, we reported that although the United States Coast Guard approved approximately $1.8 billion in IT procurements between FYs 2014 and 2016, it does not know if almost 400 information systems are receiving proper acquisition oversight.[21] This occurred because the Coast Guard's controls over IT investments lack synergy and create weaknesses that affect its ability to adequately identify, designate, and oversee non-major IT acquisition programs. Programs that do not receive adequate oversight are at risk of wasting money, missing milestones, and failing to meet performance requirements.

As previously reported, the Department also faced challenges in managing its acquisition of the Performance and Learning Management System (PALMS).[22] Because the PALMS program office did not effectively implement its acquisition methodology and did not monitor contractor performance, PALMS did not address the Department's critical need for an integrated, department-wide learning and performance management system. We are continuing audit work on PALMS.

Acquisition program management is critical to fulfilling all DHS' missions. The Department has taken steps to improve its processes and strengthen its oversight of major acquisition programs. However, to be fully successful, DHS must act as one entity working toward a common goal. The Department must continue toward a strong central authority and uniform policies and procedures to ensure lasting change.

Cybersecurity

Cybersecurity is an area of increasing risk throughout the Federal government. External threats such as hackers, cyber-terrorist groups, and denial of service attacks are of particular concern. GAO has identified the security of cyber assets and the privacy of personally identifiable information as another area on its High Risk List. GAO first designated information security as a government-

[21] *Coast Guard IT Investments Risk Failure Without Required Oversight* (OIG-18-15)
[22] *PALMS Does Not Address Department Needs* (OIG-17-91)

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wide high-risk area in 1997. This was later expanded to include protecting cyber critical infrastructure, as well as the privacy of personally identifiable information. The risks to these systems are increasing as security threats evolve and become more sophisticated. The Department must remain vigilant in establishing a control environment to continuously monitor potential IT risks, threats, and vulnerabilities.

Since its inception, the Department has struggled to implement and enforce a strong internal control environment that will protect the security of its information systems, critical infrastructure, and protecting the privacy of personally identifiable information. For example, CBP did not implement information security controls and safeguards to protect the information collected on its Unmanned Aircraft Systems (UAS).[23] CBP did not perform a privacy threshold analysis for the Intelligence, Surveillance, and Reconnaissance (ISR) Systems used in the UAS. Without a privacy assessment, CBP could not determine whether the system contained data requiring safeguards per privacy laws, regulations, and DHS policy. In addition, CBP did not implement adequate controls to limit physical access to the ground control station housing ISR Systems data. These information security deficiencies occurred because CBP did not establish an effective program structure, including the leadership, expertise, staff, training, and guidance needed to manage ISR Systems effectively. As a result, ISR Systems and mission operations were at increased risk of compromise by trusted insiders and external sources.

The Department also faces challenges to sharing cyber threat information across Federal and private sector entities.[24] The system DHS currently uses to share cybersecurity information does not provide the quality, contextual data needed to effectively defend against ever-evolving threats. Without acquiring a cross-domain information processing solution and automated tools, DHS cannot analyze and share threat information expeditiously. Further, without enhanced outreach, DHS cannot increase participation and improve coordination of information sharing across the Federal and private sectors.

We also identified examples of weak cybersecurity controls in a report on DHS' information security program. As a result of our review, we determined the Department could protect its information and systems more fully and effectively.[25] Specifically, in three of five areas, DHS' information security program fell one level below the targeted "Level 4" in the FY 2017 *Federal Information Security Modernization Act* reporting instructions. Among other issues, DHS lacked valid authority to operate 64 systems, did not implement all configuration settings required to protect component systems, did not monitor software licenses for unclassified systems, and did not test all system

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23 *CBP Has Not Ensured Safeguards for Data Collected Using Unmanned Aircraft Systems* (OIG-18-79)
24 *Biennial Report on DHS' Implementation of the Cybersecurity Act of 2015* (OIG-18-10)
25 *Evaluation of DHS' Information Security Program for FY 2017* (OIG-18-56)

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contingency plans. In addition, based on the maturity model in this year's reporting instructions, DHS' information security program for intelligence systems was not effective.[26] Specifically, DHS' continuous monitoring tools were not interoperable, and it did not have documented procedures, formal training, or qualitative and quantitative measures to continuously monitor intelligence systems. Based on information provided by the Office of Intelligence and Analysis, OIG agreed to close our recommendations.

DHS depends on its systems and data to carry out its mission. Additional oversight is needed to address deficiencies. Otherwise, DHS cannot ensure its systems adequately protect the sensitive data they store and process. The Department must act as a central oversight body and ensure components secure these high-risk networks and comply with all applicable laws and regulations. Failure to do so increases the risk of unauthorized access manipulation, and misuse of the data they contain.

Looking Forward: Our Work Ahead

Although the Department continues to address and implement our recommendations to improve its programs and operations, these challenges highlight our need to continue proactive and thorough oversight, as well as the necessity for sustained effort by the Department. As agents of positive change, we strive to help the Department overcome these challenges by identifying them and making recommendations to improve efficiency and effectiveness; strengthen programs and operations; and safeguard public funds from fraud, waste, and abuse.

Management Comments and OIG Response

The Department's response to our report is attached as Appendix A. While the Department believes it has overcome many of its challenges, it is our assessment that while some improvements have been made, significantly more needs to be done. In response to the Department's comments, we did modify portions of our report to highlight positive actions taken by the Department.

[26] *Evaluation of DHS' Compliance with Federal Information Security Modernization Act Requirements for Intelligence Systems* (OIG-18-59)

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Appendix A
DHS' Comments to the Draft Report

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

Homeland Security

October 29, 2018

MEMORANDUM FOR: John V. Kelly
Senior Official Performing the Duties of the Inspector General
Office of Inspector General

FROM: Jim H. Crumpacker, CIA, CFE
Director
Departmental GAO-OIG Liaison Office

SUBJECT: Management Response to OIG's Draft Report: "Major Management and Performance Challenges Facing the Department of Homeland Security" (OIG-19-XXX, dated October 19, 2018)

Thank you for the Office of Inspector General's (OIG) independent perspective on the most serious management and performance challenges facing the Department of Homeland Security (DHS). DHS senior leadership continues to maintain a culture where everyone understands and believes that audits make the Department stronger, by helping make our programs, operations, and activities more effective and efficient, thus ensuring our Nation and its citizens are safe, secure, and resilient against terrorism and other hazards.

The OIG's report provides valuable insights; however, the Department is concerned the report does not seem to equitably balance the challenges the Department faces with the progress made in addressing those challenges. Many of the summaries of prior OIG work in the report are outdated and do not reflect the current state of actions taken, on-going, or planned to address the issues identified. For example, the summary about OIG's report on efforts to automate benefits processing using the Electronic Immigration System (ELIS), issued nearly one year ago,[1] does not recognize the significant progress U.S. Citizenship and Immigration Services (USCIS) has made establishing performance measures to assess whether ELIS is achieving expected outcomes related to improving efficiency, accuracy, and security in benefits delivery, even though credit for such progress in several instances was included in the report cited. In fact, OIG has already agreed to close four of the five recommendations made in this report, which confirms

[1] "USCIS Has Been Unsuccessful in Automating Naturalization Benefits Delivery," OIG-18-23 (Washington, D.C.: November 30, 2017)

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USCIS has implemented the agreed-upon actions and that doing so has corrected the deficiencies cited.

In addition, senior leadership believes that OIG's characterization of internal controls could leave readers of the report with a mistaken impression about DHS efforts and successes achieved in implementing effective internal controls and incorporating management fundamentals in programs and operations across Components, as it relates to the fulfillment of the Department's vital border security, immigration, law enforcement, and national preparedness missions, and protecting and securing our Nation. For example, the report does not recognize that DHS has established a robust internal control reporting structure, which enables the Secretary of Homeland Secretary to report and provide a reasonable assurance on the effectiveness of DHS's system of internal controls.

More specifically, "assurance statements" over the effectiveness of internal controls for financial reporting are based upon internal testing. Management performs an analysis on the pervasiveness and materiality over any identified deficiencies to determine their impact and management's analysis. Led by the DHS Chief Financial Officer (CFO), each Component and Under Secretary for Management assurance statements are reviewed for consideration and determination of impact to the DHS enterprise. Results of the analysis and recommendation for reporting are included in the overall DHS assurance statement, which is reviewed by the Secretary and Deputy Secretary prior to final publication. It is important to note that since FY 2006, DHS has reduced material internal control findings from ten to two. DHS and Components continue to establish, monitor and implement corrective actions to eliminate the remaining weaknesses related to IT controls and financial reporting.

Furthermore, many Components have also implemented an internal control plan to assess effectiveness of operational internal controls through inspections, self-evaluations, and desk reviews. In evaluating the results of internal control tests as well as a review of external audit reports and other sources of available information, none of the Component findings merited the Secretary of Homeland Security disclosing a material weakness in internal control over operations during the last four fiscal years. However, recognizing that U.S. Government Accountability Office (GAO) and OIG reports continue to identify internal control deficiencies, DHS and Components are persisting in their efforts to further implement and refine processes integrating and prioritizing control response and monitoring by maturing the Enterprise Risk Management framework at DHS. During FY 2018, DHS and Components have, in conjunction with DHS Office of the CFO, worked in coordination with the DHS Office of Policy (PLCY), DHS Risk and Analysis Executive Steering Committee, and others to (1) update the DHS risk profile through the Department's Strategic Review process, and (2) develop an operational risk register at each Component, among other activities.

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Senior leadership is also concerned about OIG assertions regarding DHS efforts "to effectively oversee and manage programs and operations through careful planning; gathering complete and reliable data for informed decision making; implementing and enforcing clear and consistent policies, procedures, and practices; and establishing meaningful performance measures for future improvement." Leadership acknowledges that while progress has been made, more work needs to be done in these areas; however, believes that OIG's report discussion and characterization of the issues areas lacks context as regards the achievement of DHS's strategic missions and goals.

For example, the DHS PLCY-led Immigration Data Integration Initiative has made progress on immigration data standards and sharing, the success of which has been demonstrated by strong Congressional support as signaled by additional appropriations provided to the Department. In addition, the DHS requirements process continues to mature and contribute to DHS acting as a single, focused organization. Most recently it has shown value in helping shape leadership decision-making on the U.S. Customs and Border Protection (CBP) Biometric Airport Exit Program, while working to coordinate CBP's efforts with the Transportation Security Administration's interest in expanding its use of biometrics in the airport environment. The requirements process has also made strides in moving from program-specific requirements to those focused on broader capability areas with the development of a suite of land and air domain awareness capability documents that will lead to better understanding of the contributions of existing domain awareness programs and more effective investment in future capability acquisitions in those areas. The start of a maritime domain awareness requirements effort is also imminent.

Also, GAO recently stated, after reviewing 28 acquisition programs, including DHS's largest programs that were in the process of obtaining new capabilities, and programs GAO or DHS identified as at risk of poor outcomes, that "DHS is collecting more timely cost estimate information on its acquisition programs to make more informed investment decisions."[2] For example, GAO found that the Department is regularly updating Life Cycle Cost Estimates (LCCEs), a GAO best practice that promotes accuracy.[3] Specifically, all of the programs reviewed met DHS requirements to update their LCCE at each acquisition decision event, as applicable. In addition, 10 of 11 selected programs reviewed met DHS's requirement for programs not yet in the deployment phase to update their LCCEs annually.

Further, GAO recognized that while DHS continues to face challenges in funding its acquisition portfolio, "to be clear, there can be valid reasons for cost growth or schedule

[2] GAO, "HOMELAND SECURITY ACQUISITIONS: Leveraging Programs' Results Could Further Improve DHS's Progress to Improve Portfolio Management," GAO-18-339SP (Washington, D.C.: May 17, 2018).
[3] GAO, "DHS PROGRAM COSTS: Reporting Program-Level Operations and Support Costs to Congress Would Improve Oversight," GAO-18-344 (Washington, D.C.: April 25, 2018).

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delays."[4] For example, some programs are pursuing expanded capabilities to meet evolving threats and, in these situations, more time and money will be needed to achieve their ultimate goals. In addition, funding constraints can also impede a program's intended delivery of capabilities. GAO stated that "DHS leadership has taken positive steps in recent years by strengthening its policies for acquisition management and resource allocations, and establishing policies related to requirements. Collectively, these policies reflect an integrated approach to managing investments."[5]

At the Component level, CBP is advancing its requirements and performance measures approaches using its Capabilities Gap Assessment approach which informed their Border Security Improvement Plan (which is providing details and justification for the border wall construction). U.S. Immigration and Customs Enforcement also led a study during FY 2018 on "Empirical Modeling of Immigration Flows" to further develop its predictive analysis and performance management capabilities for detention bed space and workforce deployment (the model is called Policy Optimized Decision Support (PODS). PODS uses data from other DHS border security/immigration Components, as well as U.S. Department of Justice immigration data, and we expect that it will gain more widespread use by these other Components as it matures.

Overall, we disagree with OIG's overall assessment that "Although DHS does attempt to address some of its challenges, it is generally not a sustained effort." The fact is the Department is pouring more resources than ever before into effectively overseeing and managing programs and operations through careful planning; gathering complete and reliable data for informed decision making; implementing and enforcing clear and consistent policies, procedures, and practices; and establishing meaningful performance measures for future improvement to be a unified entity, and will continue to do so.

Again, thank you for the opportunity to review and comment on this draft report. Technical comments were previously provided under separate cover for OIG consideration. Please contact me if you have any questions.

[4] GAO, "HOMELAND SECURITY ACQUISITIONS: DHS Has Strengthened Management, but Execution and Affordability Concerns Endure," GAO-16-338SP (Washington, D.C.: March 31, 2016).
[5] GAO-18-339SP

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Appendix B
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Acronym List

Unaudited, see accompanying Auditors' Report

Acronyms

ADIAC – Aviation Domain Intelligence Integration and Analysis Cell
AFG – Assistance to Firefighters Grants
AFR – Agency Financial Report
AGA – Association of Government Accountants
AMO – Air and Marine Operations
APR – Annual Performance Report
ATAK – Android Team Awareness Kit
AUO – Administratively Uncontrollable Overtime
CBP – U.S. Customs and Border Protection
CDL – Community Disaster Loans
CDM – Continuous Diagnostics and Mitigation
CDP – Center for Domestic Preparedness
CEAR – Certificate of Excellence in Accountability Reporting
CFATS – Chemical Facility Anti–Terrorism Standards
CFO – Chief Financial Officer
CFR – Code of Federal Regulations
CIO – Chief Information Officer
COBRA – Consolidated Omnibus Budget Reconciliation Act of 1985
COTS – Commercial Off–the–Shelf
CSAT – Chemical Security Assessment Tool
CSRS – Civil Service Retirement System
CWMD – Countering Weapons of Mass Destruction
CY – Current Year
DADLP – Disaster Assistance Direct Loan Program
DC – District of Columbia
DCIA – Debt Collection Improvement Act of 1996
DHS – Department of Homeland Security
DIEMS – Date of Initial Entry into Military Service
DMO – Departmental Management and Operations
DNDO – Domestic Nuclear Detection Office
DOD – U.S. Department of Defense
DOI IBC – Department of the Interior's Interior Business Center
DOL – U.S. Department of Labor
E3A – EINSTEIN 3 Accelerated
EEI – Employee Engagement Index
EDC – Explosive Detection Canines
EDS – Explosive Detection System
EMI – Emergency Management Institute
EO – Executive Order
ERM – Enterprise Risk Management
ERO – Enforcement and Removal Operations
FAA – DHS Financial Accountability Act
FBI – Federal Bureau of Investigation
FBwT – Fund Balance with Treasury
FCRA – Federal Credit Reform Act of 1990
FDNS – Fraud Detection and National Security Directorate
FECA – Federal Employees Compensation Act of 1916
FEMA – Federal Emergency Management Agency
FERS – Federal Employees Retirement System
FEVB – Federal Employee and Veterans' Benefits
FEVS – Federal Employee Viewpoint Survey
FFMIA – Federal Financial Management Improvement Act of 1996
FIID – Fraud and Internal Investigations Division
FISMA – Federal Information Security Management Act
FLETC – Federal Law Enforcement Training Centers
FMFIA – Federal Managers' Financial Integrity Act
FPS – Federal Protective Service
FSM – Financial Systems Modernization
FY – Fiscal Year
GAAP – Generally Accepted Accounting Principles
GAO – U.S. Government Accountability Office
GMM – Grants Management Modernization
GSA – General Services Administration
GSI – Global Satisfaction Index
HSGP – Homeland Security Grant Program
HRM – Human Resource Management

HSI – Homeland Security Investigations
HS-STEM – Homeland Security Science, Technology, Engineering, and Mathematics
I&A – Office of Intelligence and Analysis
ICE – U.S. Immigration and Customs Enforcement
IEFA – Immigration Examination Fee Account
IMATs – Incident Management Assistance Team
INA – Immigration Nationality Act
IP – Improper Payment
IPERA – Improper Payments Elimination and Recovery Act of 2010
IPERIA – Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA – Improper Payments Information Act of 2002
IT – Information Technology
JPMO – Joint Program Management Office
JRC – Joint Requirements Council
JTF – Joint Task Force
MERHCF – Medicare–Eligible Retiree Health Care Fund
MGMT – Management Directorate
MHS – Military Health System
MRS – Military Retirement System
MTS – Metric Tracking System
NCCIC – National Cybersecurity and Communications Integration Center
NCEPP – National Cyber Exercise and Planning Program
NCFI – National Computer Forensics Institute
NFIP – National Flood Insurance Program
NPPD – National Protection and Programs Directorate
NPSC – National Processing Service Centers
NSSE – National Special Security Events
OHA – Office of Health Affairs
OIG – Office of Inspector General
OMB – Office of Management and Budget
OM&S – Operating Materials and Supplies
OPA – Oil Pollution Act of 1990
OPCON – Operational Control
OPEB – Other Post Retirement Benefits
OPM – Office of Personnel Management
OPMAT – Operation Matador
OPS – Office of Operations Coordination
ORB – Other Retirement Benefits
OSLTF – Oil Spill Liability Trust Fund
PP&E – Property, Plant, and Equipment
PSC – Passenger Screening Canines
Pub. L. – Public Law
PY – Prior Year
R&D – Research and Development
RFID – Radio Frequency Identification
RM&A – Risk Management and Assurance
RNROC – Radiological/Nuclear Requirements Oversight Council
RtF – Reduce the Footprint
SAT – Senior Assessment Team
SBR – Statement of Budgetary Resources
SF – Square Feet
SFFAS – Statement of Federal Financial Accounting Standards
SFRBTF – Sport Fish Restoration Boating Trust Fund
SMC – Senior Management Council
SOS – Schedule of Spending
SPR – State Preparedness Report
S&T – Science and Technology Directorate
STC – Securing the Cities
TAFS – Treasury Account Fund Symbol
TCM – Trade Compliance Measurement
TCO – Transnational Criminal Organizations
THIRA – Threat and Hazard Identification and Risk Assessment
TSA – Transportation Security Administration
TSGP – Transit Security Grants Program
U.S. – United States
USBP – United States Border Patrol
USC – United States Code
USCG – U.S. Coast Guard
USCIS – U. S. Citizenship and Immigration Services
USSS – U.S. Secret Service
VA – U.S. Department of Veterans Affairs
VP – Vendor Pay
WYO – Write Your Own

Acknowledgements

This Agency Financial Report (AFR) was produced with the tireless energies and talents of Department of Homeland Security Headquarters and Component employees and contract partners.

- Within the Office of the Chief Financial Officer, the division of Financial Management is responsible for financial management policy, preparing annual financial statements and related notes and schedules, and coordinating the external audit of the Department's financial statements.
- The division of Risk Management and Assurance provides direction in the areas of internal control to support the Secretary's assurance statement, risk management, and improper payments.
- The division of Program Analysis and Evaluation conducts analysis for the Department on resource allocation issues and the measurement, reporting, and improvement of DHS performance, and coordinates the Performance Overview section of the AFR.
- The division of GAO-OIG Audit Liaison facilitates Department relationships with audit organizations and coordinates with OIG on the Management Challenges report.

We offer our sincerest thanks to all the offices involved in the Department's FY 2018 Agency Financial Report for their hard work and contributions.

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