U.S. Department of Homeland Security

FY 2019 Agency Financial Report

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

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Chair, CEAR Board

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in the Agency Financial Report for fiscal year 2018

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In May 2019, DHS received its sixth consecutive Certificate of Excellence in Accountability Reporting (CEAR) from the Association of Government Accountants (AGA) for its FY 2018 Agency Financial Report, along with a best-in-class award for *Receptiveness to Prior Year's CEAR Recommendations*. 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) 2019 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 2019, the Department's Performance and Accountability Reports consist of the following three reports:

- DHS Agency Financial Report | Publication date: November 15, 2019.
- DHS Annual Performance Report | Publication date: February 3, 2020 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, 2020.

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

Message from the Secretary

November 14, 2019

I am pleased to present the Department of Homeland Security's (DHS) Agency Financial Report for Fiscal Year (FY) 2019. 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.

The U.S. Department of Homeland Security and its homeland security mission are born from the commitment and resolve of Americans across the United States in the wake of the September 11th attacks. In those darkest hours, we witnessed true heroism, self-sacrifice, and unified resolve against evil. We rallied together for our common defense, and we pledged to stand united against the threats attacking our great Nation, fellow Americans, and way of life. Together, we are committed to relentless resilience, striving to prevent future attacks against the United States and our allies, responding decisively to natural and manmade disasters, and advancing American prosperity and economic security long into the future.

In the many years since the September 11th attacks, the Department has marshaled this collective vision to face new and emerging threats against the Homeland. To do so, we are instilling a "culture of relentless resilience" across the United States to harden security for the threats on the horizon, withstand attacks, and rapidly recover. We are raising security baselines across the world, addressing systemic risks, and building redundancies for critical lifelines that enable our prosperity and way of life. Perhaps most importantly, we are forging partnerships to strengthen public, private, and international cooperation and crowd-sourcing solutions that outpace the intentions of our adversaries.

As the complex threat environment continues to evolve and loom, the Department will embody the relentless resilience of the American people to ensure a safe, secure, and prosperous Homeland.

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

- **Champion "Relentless Resilience" for All Threats and Hazards:** DHS will remain resolute against today's threats and hazards by keeping pace with our adversaries and preparing for those of tomorrow by identifying and confronting systemic risk, ensuring the Nation's citizens remain resilient, building redundancy and resilience into community lifelines, and raising the baseline of our security across the board—and across the world.
- **Reduce the Nation's Risk to Homeland Security Dangers:** DHS will mitigate risks to the Homeland by interdicting threats, hardening assets to eliminate vulnerabilities, and enhancing rapid recovery efforts to reduce potential consequences from physical attacks, natural disasters, and cyber incidents.
- **Promote Citizen Engagement and Strengthen and Expand Trusted Partnerships:** Homeland security is a whole-of-society endeavor, from every federal department and agency to every American across this Nation. We will work together and empower

partners to leverage national capacity and capabilities, improve training exercises, and develop contingency plans that make America safe, secure, and resilient against all threats and all hazards.

- **Uphold Privacy, Transparency, Civil Rights, and Civil Liberties:** DHS will continue to implement safeguards for privacy, transparency, civil rights, and civil liberties when developing and adopting policies and throughout the performance of its mission to ensure that homeland security programs uphold privacy, civil rights, and civil liberties.
- **Ensure Mission-Driven Management and Integration:** As a unified Department, DHS will leverage the collective capabilities of its operational Components to identify opportunities for jointness and integration. Through a comprehensive and collaborative approach, DHS will ensure its operators and employees have the necessary tools, resources, and authorities to execute its mission.

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 with the tools needed to do their jobs. DHS continues to aggressively push forward to improve its management and operations, facing and over-coming many of the challenges of unifying so many disparate organizations.

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.

DHS remains committed to improving performance measurement and accountability, and I am able to provide reasonable assurance, based on our internal controls evaluations, that the performance and financial information reported for the Department in our performance and accountability reports are complete and reliable, except those noted in our Annual Performance Report. DHS's performance and accountability reports for this and previous years are available on our public website: http://www.dhs.gov/performance-accountability.

None of these efforts are possible without the efforts and sacrifice of our men and women. Whether is our front-liners or those supporting our missions, the Department workforce continues to excel at safeguarding our assets, our nation, and values.

I look forward to the Department's accomplishments in the years to come.

Sincerely,

Chad Wolf
Acting Secretary of Homeland Security

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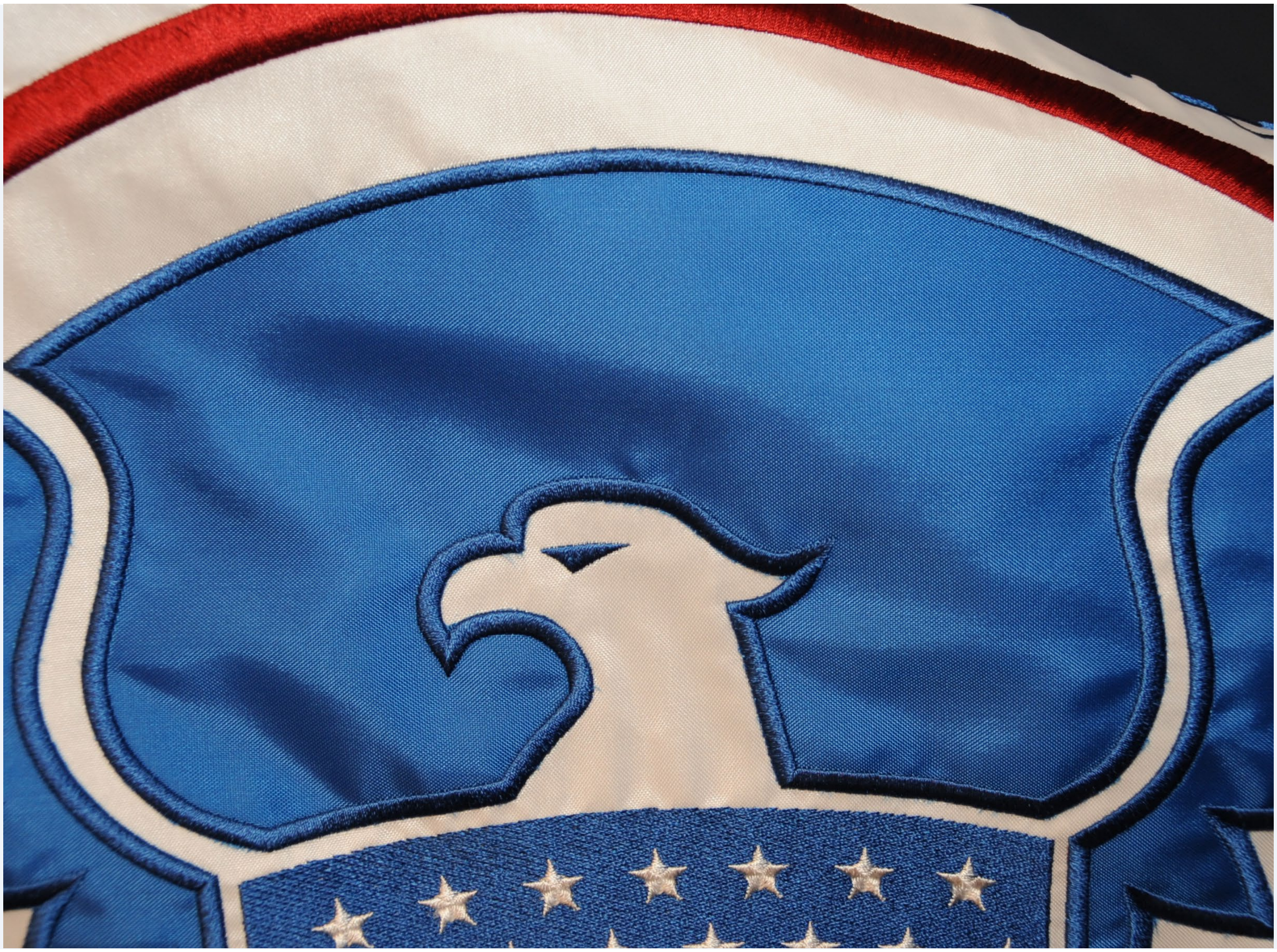
Management's Discussion and Analysis



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

The *Our Organization* section displays the Department's organization with links to the Department's 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.

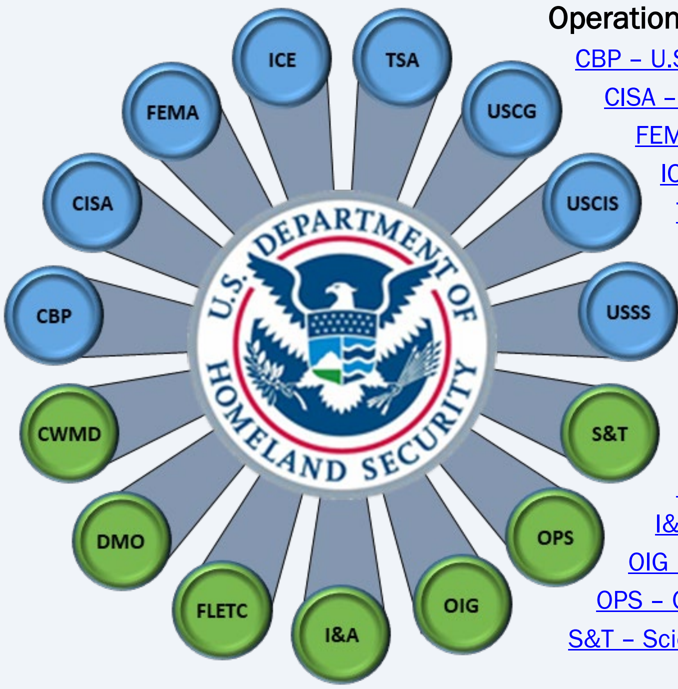
The *Financial Overview* section provides a summary of DHS's financial data explaining the major sources and uses of funds and provides a quick look at our Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Custodial Activities.

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

DHS has a fundamental duty—to secure the Nation from the many threats we face. This requires the dedication of more than 220,000 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 (shaded in blue) lead the Department's operational activities to protect our Nation. The DHS Support Components (shaded in green) provide mission support and business support activities to ensure the operational organizations have what they need to accomplish the DHS mission. For the most up to date information on the Department's structure and leadership, visit our web site at http://www.dhs.gov/organization.



Operational Components

- CBP – U.S. Customs and Border Protection
- CISA – Cybersecurity and Infrastructure Security Agency
- 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
- OIG – Office of Inspector General
- OPS – Office of Operations Coordination
- S&T – Science and Technology Directorate

Figure 1: DHS Components

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 2019-2021 Annual Performance Report with the FY 2021 Congressional Budget and can be accessed at: http://www.dhs.gov/performance-accountability. Previous reports can be found at this link as well.

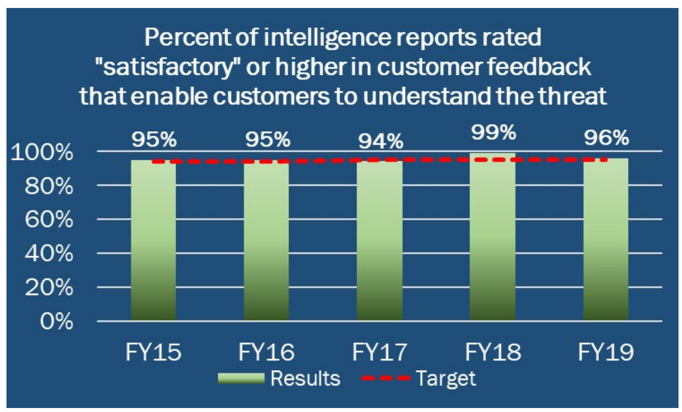
The Department has a robust performance framework that drives performance management and enables the implementation of performance initiatives. Strategic plan goals are implemented by our mission programs. A mission program is a group of activities acting

together to accomplish a specific high-level outcome external to DHS and includes operational processes, skills, technology, human capital, and other resources. Mission programs have performance goals, performance measures, and performance targets.

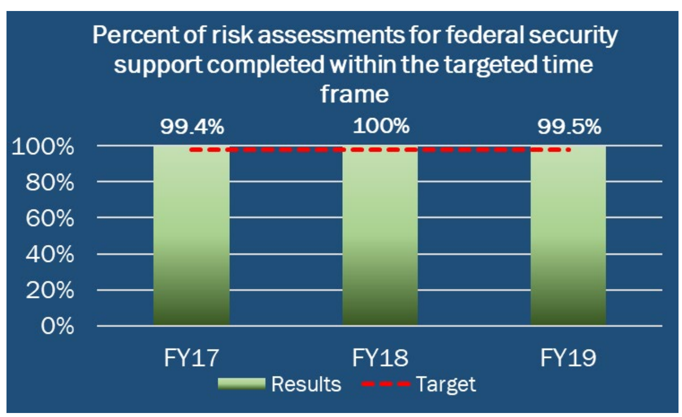
Goal 1: Counter Terrorism and Homeland Security Threats

One of the Department's top priorities is to protect Americans from terrorism and other homeland security threats by preventing nation-states and their proxies who engage in terrorist or criminal acts that threaten the homeland. In recent years, terrorists and criminals have increasingly adopted new techniques and advanced tactics to circumvent homeland security and threaten the safety, security, and prosperity of the American public and our allies. The rapidly evolving threat environment demands strategies and tactics to ensure a proactive response by DHS and its partners to identify, detect, and prevent attacks against the United States. Focused activity associated with this goal includes information sharing, aviation security, and protection of national leaders and events.

The following measures highlight some of our efforts to counter terrorism and homeland security threats. Up to five years of data is presented if available.



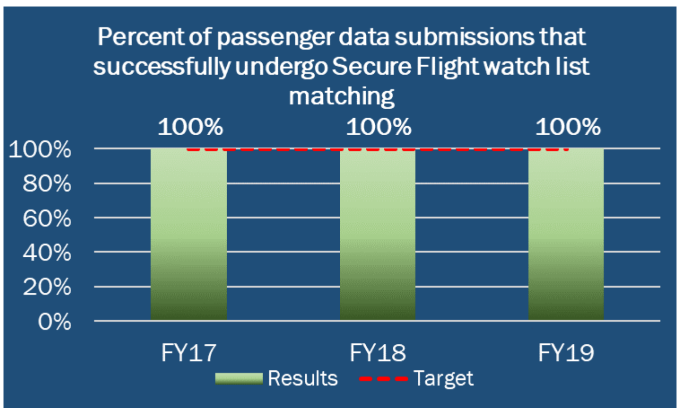
Percent of intelligence reports rated "satisfactory" or higher in customer feedback that enable customers to understand the threat (I&A): This measure gauges the extent to which the DHS Intelligence Enterprise is satisfying customer needs related to anticipating emerging threats. This measure encompasses reports, produced by all DHS Component intelligence programs, which are provided to federal, state, and local customers. In FY 2019, 1,239 out of 1,290 DHS evaluations were rated as satisfactory or higher resulting in a 96 percent satisfaction rate, meeting the target. Trends over time show high satisfaction with reports.



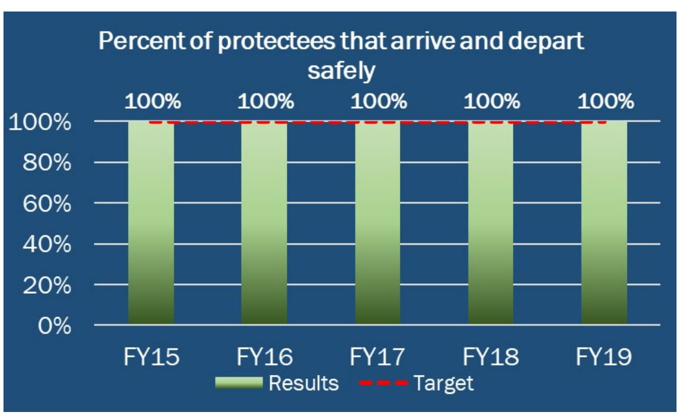
Percent of risk assessments for federal security support of large public/community special events completed within the targeted time frame (OPS): This measure indicates the percent of Special Event Assessment Ratings (SEAR) completed within the targeted timeframe as voluntarily requested from state and local authorities for events taking place within their jurisdictions. These events are assessed using the SEAR methodology providing a rating scale that defines five levels of risk, with a SEAR-1 rating being the highest. These risk assessments are used by federal agencies as criteria to determine their level of support to state and local events and are the primary

The DHS Office of Operations Coordination, Special Events Program (SEP) is the sole federal entity that coordinates the identification, risk assessment, information sharing, and support for special events. SEP engages in direct outreach to local, state, and federal event planners and manages the National Special Events Data Call which resulted in the submission of over 17,000 events for 2019.

federal awareness mechanisms for special events occurring across the nation. OPS provided risk assessment ratings on-time 99.5 percent of the time, which is above target but slightly down compared to last year's 100 percent result. With growing demand, success over the past three years can be attributed to standardized processes for adjudicating submissions, dedicated staff, and successful development and application of methodology and technology tools.



Percent of passenger data submissions that successfully undergo Secure Flight watch list matching (TSA): This measure reports the percent of qualified message submissions received from the airlines that are successfully matched by the Secure Flight automated vetting system against the existing high-risk watch lists. A qualified message submission from the airlines contains passenger data sufficient to allow successful processing in the Secure Flight automated vetting system. Vetting individuals against high-risk watch lists disrupts current and emerging homeland security threats. In FY 2019, this measure achieved 100 percent, meeting the target, and has maintained this level of performance for the past three years. DHS will continue to report this measure as it conveys an underlying critical layered process to ensure security in the aviation environment.



Percent of protectees that arrive and depart safely (USSS): This measure gauges the percent of travel stops where the USSS protectees arrive and depart safely. Protectees include the President and Vice President of the United States and their immediate families, former presidents, their spouses, and their minor children under the age of 16, major presidential and vice-presidential candidates and their spouses, and foreign heads of state. The performance target is always 100 percent and the USSS has maintained a 100 percent performance record for the past five years. To achieve these results takes a coordinated effort across several specialized resources within the USSS, including the: Airspace Security Branch; Counter Sniper Team; Emergency Response Team; Counter Surveillance Unit; Counter Assault Team; Hazardous Agent Mitigation and

Did you know?

Because of the assassination of President William McKinley on September 14, 1901, Congress requested USSS Protection of U.S. Presidents.

Medical Emergency Response Team; and the Magnetometer Operations Unit. Using advanced countermeasures, USSS executes security operations that deter, minimize, and decisively respond to identified threats and vulnerabilities.

The USSS secured the Salute to America Independence Day celebration on July 4th, 2019, coordinating with many agencies across the National Capital Region. The event occurred at the Lincoln Memorial in Washington, DC, and required extensive planning to keep the public and USSS protectees safe, including the development of a comprehensive and strategic operational security and safety plan that addressed the current threat environment and vulnerabilities posed in today's world.

Looking Forward

A few near-term efforts to advance the Department's capability and capacity in these areas are provided below.

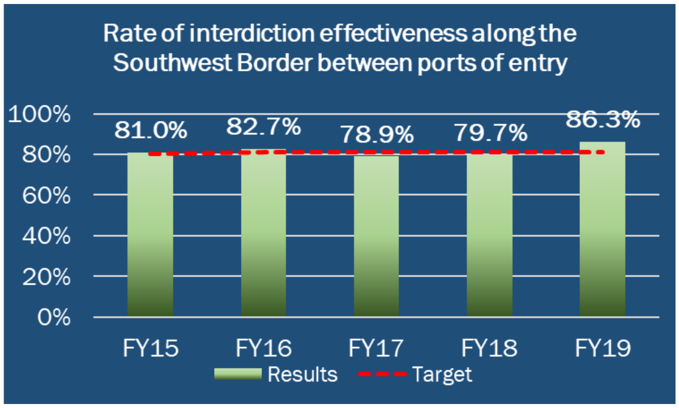
- *DHS recently released and is implementing the Department of Homeland Security Strategic Framework for Countering Terrorism and Targeted Violence*: This framework highlights key insights and actions to be taken, including: understanding the interconnection between terrorism and targeted violence; conducting an annual assessment that will explain the state of the threat to the Homeland; providing an extended assessment of the dangers posed by domestic terrorists; understanding how preventive tools can be brought to bear against these threats, regardless of the varying ideological or non-ideological drivers; and the importance of transparency, the protections of civil rights and civil liberties, and the protection of data in a digital age. DHS's Strategic Framework for Countering Terrorism and Targeted Violence is intentionally forward-looking in its understanding of technology's role—as a factor that can exacerbate problems, but also one that can provide new solutions to combat the threats we confront. This strategy is designed to implement the White House's 2017 National Security Strategy and 2018 National Strategy for Counterterrorism, as well as related national policy guidance.
- *DHS is conducting studies to combat terrorism*: These studies include focused examinations on enhancing the use of social media/open source information, considering methods to leverage artificial intelligence for data integration and discoverability, and continuing to improve situational awareness and information sharing through tools and partnerships with our law enforcement and federal, state, and local partners.
- *Deploy improvements to airport scanning and detection*: Since aviation security continues to present a high-risk environment for exploitation by terrorists, the Department will continue to seek and deploy improvements to airport scanning and detection with new technology to enhance explosives detection and other threat detection capabilities at airport checkpoints. TSA recently began the multi-year deployment of computed tomography scanners that apply sophisticated algorithms for the detection of explosives and create three-dimensional images that can be viewed and rotated for thorough visual image analysis by TSA officers.

Goal 2: Secure U.S. Borders and Approaches

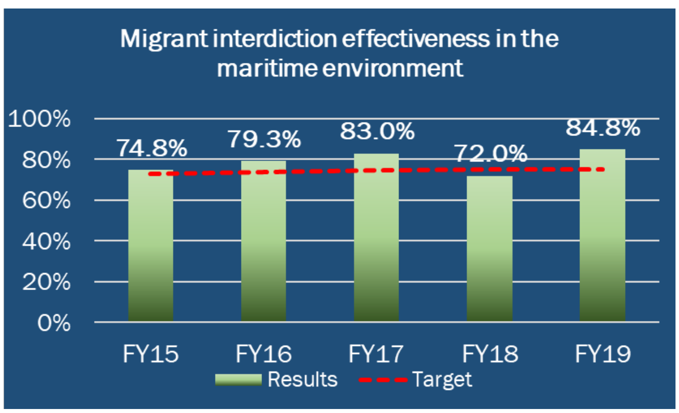
Secure borders are essential to our national sovereignty. Those who enter the country illegally or overstay their authorized period of admission potentially compromise the security of our nation by disregarding our national sovereignty, threatening our national security,

compromising our public safety, exploiting our social welfare programs, and ignoring lawful immigration processes. DHS continues to implement a border security approach to secure and maintain control of our land and maritime borders. Concentration is also focused on Transnational Criminal Organizations and preventing the impact of these organizations operating both domestically and internationally. Efforts also continue to pursue, and appropriately prosecute, those illegally in the interior of the country and ensure that we properly administer immigration benefits and employ only those who are authorized to work.

The following measures highlight some of our efforts to secure U.S. borders and approaches. Up to five years of data is presented if available.

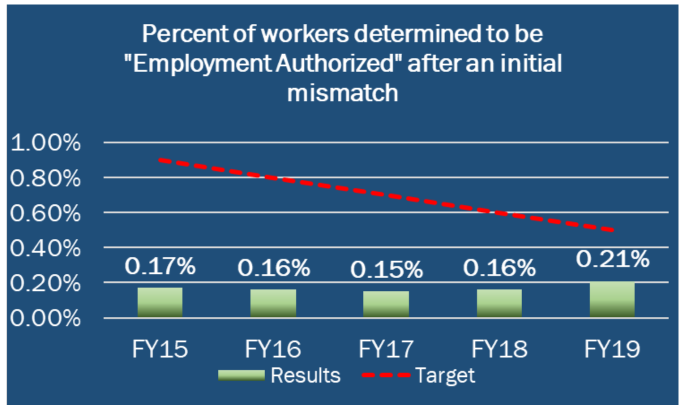


Rate of interdiction effectiveness along the Southwest Border between ports of entry (CBP): The Border Patrol uses this measure as an important indicator of the effectiveness at apprehending detected illegal border crossers or confirming that illegal entrants return to the country from which they entered. It is an important indicator of the effectiveness of law enforcement response, an element of Border Patrol's Operational Control of U.S. borders. In FY 2019, the results for this measure were greater than historical results due largely to the unprecedented increase in the number of individuals crossing the border who made no attempt to evade apprehension. In addition, mass illegal migration activity created an unprecedented border security and humanitarian crisis in FY 2019 and led to a variety of successful administrative activities striving to reduce the flow. The FY 2019 results were also influenced by efforts of the Border Patrol working to increase Operational Control between ports of entry, and the assistance of National Guard personnel and CBP's Office of Field Operations. It is expected that the results for this measure in the future will be similar to historical results.



Migrant interdiction effectiveness in the maritime environment (U.S. Coast Guard): This measure reports the percent of detected migrants of all nationalities who were interdicted by the U.S. Coast Guard and partners via maritime routes. The U.S. Coast Guard conducts patrols and coordinates with other federal agencies and foreign countries to interdict migrants at sea, denying them entry via maritime routes to the United States, its territories, and possessions. In FY 2019, this measure achieved a record 84.8 percent, which is above target and represents the highest interdiction rate in the past five years. The FY 2019 reported interdiction rate is significantly higher than FY 2018 due to a major improvement in the reporting processes of our partner nations rather than an actual spike in the number of migrants utilizing maritime routes that were interdicted.

In August 2019, the U.S. Coast Guard Cutter WILLIAM TRUMP interdicted 146 Haitian migrants off Haiti, embarking them from an overloaded 40-foot vessel due to safety of life at sea concerns. This is the second largest U.S. Coast Guard migrant interdiction in 2019, and the largest migrant interdiction by a Fast Response Cutter (FRC) to-date. This highlights the use of the FRC in this mission set in the Caribbean.



Percent of workers determined to be "Employment Authorized" after an initial mismatch (USCIS): This measure assesses the accuracy of the E-Verify process by assessing the percent of employment verification requests that are not positively resolved at time of initial review. In FY 2019, this measure achieved 0.21 percent easily meeting its target but slightly up compared to last year's result. E-Verify confirms employment eligibility of new hires by electronically matching information provided by employees on the I-9 Form, Employment Eligibility Verification, against records available to the Social Security Administration and DHS. USCIS continues to increase the records available for electronic matching, which strengthens the program against identity fraud.

Looking Forward

A few near-term efforts to advance the Department's capability and capacity in these areas are provided below.

- *Implement the 2020 U.S. Border Patrol Strategy and the Operational Control (OPCON) framework*: This strategy articulates the three essential elements of OPCON: Situational Awareness — collecting and assessing information and integrating that intelligence into our operations; Impedance and Denial — stopping illegal crossings or slowing them down to allow additional response time; and Response and Resolution — rapidly responding to threats determined in the areas of highest risk. This plan expands the OPCON concept to include a path for measuring and assessing performance and improving Border Patrol's ability to clearly articulate status and progress. The FY 2020-2021 OPCON Agency Priority Goal is a tool that will support implementation of this important strategy.
- *Remove those who have entered the country illegally*: The Office of Enforcement and Removal Operations and the Office of the Principal Legal Advisor work to remove those who have entered the country illegally. While workload, technology, staffing, and interagency collaboration are challenges, these two programs are actively working to implement correction actions to maximize their effectiveness. Future efforts include: expansion of temporary and emergency detention

Did you know?

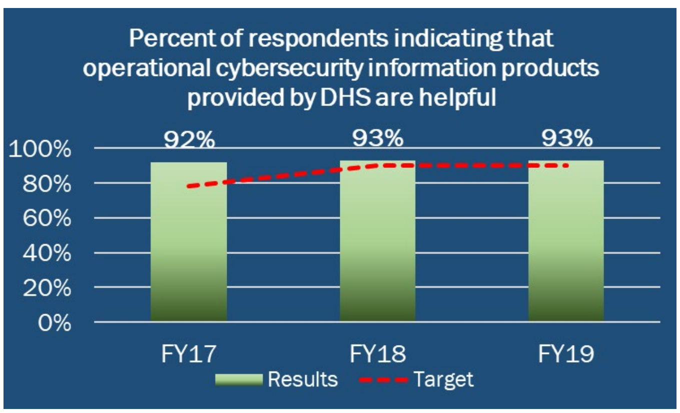
The 287(g) Jail Enforcement Model Program is one of ICE's safest and most efficient methods for identifying, arresting, and removing immigration law violators through partnerships with state and local law enforcement agencies.

capacity; efforts to implement a family case management program; increasing digital content to improve the public's understanding of program efforts; investments in enhanced video teleconference technology; engagement in cross-training with the Department of Justice, Office of Immigration Litigation, to facilitate the timely and efficient completion of federal litigation activities; and work with the Department of Justice's Executive Office for Immigration Review to establish priority dockets and processing for expediting cases.

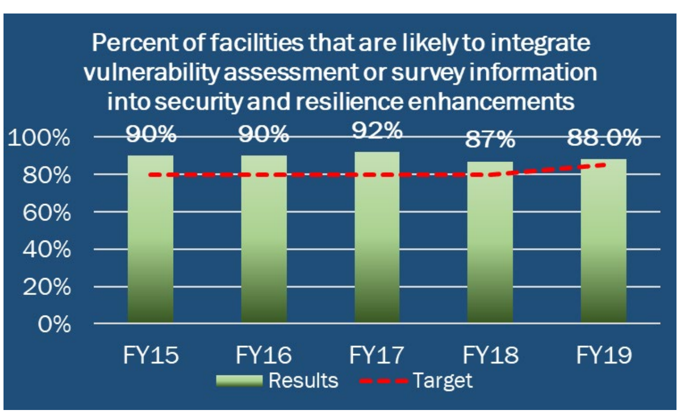
Goal 3: Secure Cyberspace and Critical Infrastructure

Increased connectivity of people and devices to the Internet and to each other has created an ever-expanding attack surface that transcends borders and penetrates almost every American home. As a result, cyberspace has become an active threat domain in the world and a dynamic threat to the Homeland. Nation-states and their proxies, transnational criminal organizations, and cyber criminals use sophisticated and malicious tactics to undermine critical infrastructure, steal intellectual property and other innovations, engage in espionage, and threaten our democratic institutions. Moreover, the interconnectivity of critical infrastructure systems raises the possibility of cyber-attacks inflicting devastating effects.

The following measures highlight some of our efforts to secure cyberspace and critical infrastructure. Up to five years of data is presented if available.



Percent of respondents indicating that operational cybersecurity information products provided by DHS are helpful (CISA): This measure assesses whether the products that the DHS National Cybersecurity and Communications Integration Center (NCCIC) provides are helpful for its customers. NCCIC's website feedback form enables recipients of products to submit feedback about the content of each product. DHS uses the feedback to determine how various organizations measure the value of operational cybersecurity information and to improve the exchange of information and intelligence. In FY 2019, a total of 4,169 out of 4,446 respondents reported that NCCIC products were helpful, achieving 93 percent, which meets the target and is consistent compared to the last two years.



See the Agency Priority Goals section for more information on cybersecurity.

Percent of facilities that are likely to integrate vulnerability assessment or survey information into security and resilience enhancements (CISA): This measure demonstrates the percent of facilities that are likely to enhance their security and resilience by integrating Infrastructure Protection vulnerability assessment or survey information. Security

and resilience enhancements can include changes to physical security, security force, security management, information sharing, and protective measures. In FY 2019, a total of 372 out of 423 respondents indicated they will integrate vulnerability information into security enhancements. Current year's results are consistent with the five-year trend. Providing facilities with vulnerability information allows them to understand and reduce risk to the nation's critical infrastructure.

For months prior to the 2018 midterm elections, DHS provided risk & vulnerability assessments to state & local governments to help them harden their election registration and reporting systems against cyber-attacks. Leading up to the election day, DHS worked with state and local officials to provide them with the necessary information to make security enhancements to their election infrastructure. The DHS-provided risk and vulnerability assessments helped election officials to better understand vulnerabilities to their systems to prioritize actions and investments to make the election more secure.

Looking Forward

A few near-term efforts to advance the Department's capability and capacity in these areas are provided below.

Did you know?

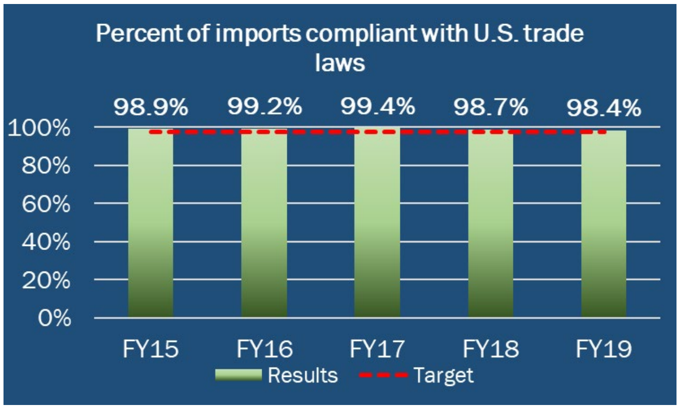
The DHS National Cybersecurity Assessments and Technical Services team provides free cybersecurity assessments to facilitate the identification of risk for the purpose of protecting the Nation's election cyber infrastructure.

- *Improve cybersecurity posture of federal civilian network*: CISA will gain appropriate visibility into the federal enterprise to assist in the safeguarding of systems and assets against a spectrum of risks. CISA will continue to advance federal cybersecurity through a follow-on FY 2020-2021 Agency Priority Goal to mitigate, within 30 days, 75 percent of critical and high configuration-based vulnerabilities identified through high value asset assessments, by September 30, 2021,
- *Enhance resilience of critical infrastructure*: Nation-state adversaries work to identify and exploit technology for maximum injury to American critical infrastructure and systems. Cyber-attacks for financial gain have become ever more common, requiring improved cyber hygiene at every level. CISA is focusing efforts in the following areas: supply chain disrupters; 5G wireless; soft target; government network protection; industrial control systems; and election security.

Goal 4: Preserve and Uphold the Nation's Prosperity and Economic Security

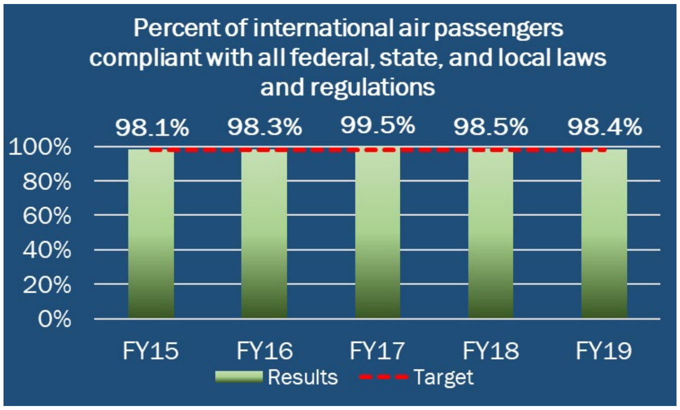
America's prosperity and economic security are integral to homeland security and are achieved through our international trade operations, maritime natural resources, ice breaking for commercial cargo, aids to navigation for boats/ships, and protection of the nation's financial systems.

The following measures highlight some of our efforts to preserve and uphold the nation's prosperity and economic security. Up to five years of data is presented if available.

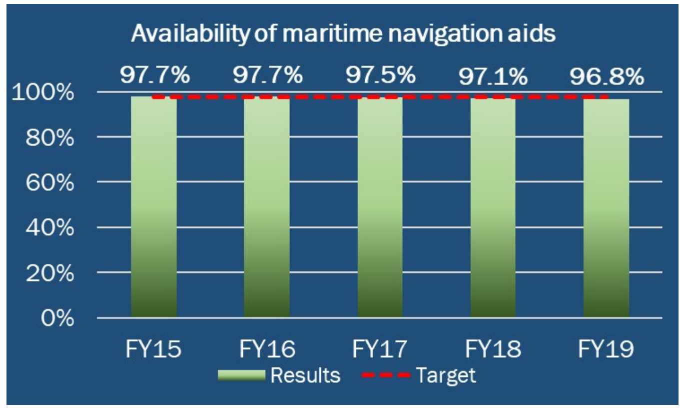


Percent of imports compliant with U.S. trade laws (CBP): This measure reports the percent of imports that are compliant with U.S. trade laws including customs revenue laws. Ensuring all imports are legally compliant and that their entry records contain no major discrepancies facilitates lawful trade. In FY 2019, this measure achieved 98 percent results which meets the target and is slightly down compared to last year's result. Any discrepancies discovered from the compliance measurement process are addressed through billing and collection, and if broader risks are apparent, further action is taken.

CBP oversees and processes more than 33 million declared imports through automated systems each year, averaging more than one shipment per second every day. Leveraging partnerships and legal authorities and emphasizing legitimate trade, revenue collection and advanced enforcement capabilities enable 98% compliance with U.S. trade laws. CBP operations significantly impact the U.S. economy—for every dollar invested in regulatory compliance, technology transformation and enforcement of import laws, an estimated $96 is gained in the American economy—benefiting producers, manufactures and government.



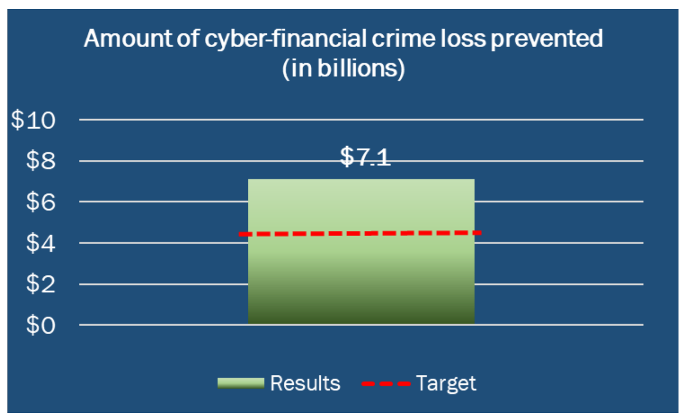
Percent of international air passengers compliant with all federal, state, and local laws and regulations (CBP): This measure shows CBP's success at maintaining a high level of security in the international air environment by measuring the degree of compliance with all federal, state, and municipal laws and regulations which CBP is charged with enforcing at the ports of entry (international airports). The laws and regulations include those CBP has direct jurisdiction over, such as agriculture, immigration, and customs, as well as those of other government agencies that CBP is tasked by Congress to enforce. Examples include Food and Drug Administration pharmaceutical regulations, Consumer Product Safety Commission product safety alerts, Center for Disease Control health and safety alerts, and confiscation of alcoholic beverages from minors on behalf of state authorities. In FY 2019, this measure achieved 98.4 percent which is above target and consistent over the past 5 years. CBP continues to meet targets for air passenger compliance with laws, rules, and regulations through passenger outreach efforts on the CBP website pages "For U.S. Citizens/Lawful Permanent Residents", "Know Before You Visit", "Electronic System for Travel Authorization", "Electronic Visa Update System", "Visa Waiver Program", including "For Canadian Citizens and Mexican Nationals", and "Trusted Traveler Programs".



Availability of maritime navigation aids (U.S. Coast Guard): This measure indicates the hours that short-range federal Aids to Navigation are available as defined by the International Association of Marine Aids to Navigation and Lighthouse Authorities in December 2004. A short-range Aid to Navigation is counted as not being available from the initial time a discrepancy is reported until the time the discrepancy is corrected. In FY 2019, this measure achieved 96.8 percent which is slightly below target and down compared to last year's result and has slightly declined over the past five years. Several factors continue to hinder meeting the target the past two years which include ongoing repairs in the Mid-Atlantic, Florida, Puerto Rico, and the Gulf Coast due to 2017 storm damage from Hurricanes Harvey, Irma, and Maria as well as late-2018 damage due to Hurricane Florence. The U.S. Coast Guard will continue with their risk-based prioritization of navigational aid repairs.

Did you know?

The U.S. Coast Guard ensures that over 20,000 bridges and causeways spanning the navigable waters of the U.S. do not unreasonably obstruct navigation.



Amount of cyber-financial crime loss prevented (in billions) (USSS): This measure is an estimate of the direct dollar loss to the public prevented due to cyber-financial investigations by the U.S. Secret Service. This is the first fiscal year that the cyber and traditional financial loss measures were combined to show a comprehensive view of our efforts to combat financial crimes. The dollar loss prevented is based on the estimated amount of financial loss that would have occurred had the offender not been identified nor the criminal enterprise interrupted. The measure reflects USSS' efforts to reduce financial losses to the public attributable to cyber financial crimes. In FY 2019, this measure achieved $7.10 billion in loss prevention greatly exceeding the target of $4.5 billion due to one very large case closure. This single case involved $4.3 billion in loss prevented associated with the Deepwater Horizon explosion and oil spill in the Gulf.

Looking Forward

A few near-term efforts to advance the Department's capability and capacity in these areas are provided below.

- *International trade and travel*: CBP collects approximately $50 billion in duties, taxes, and other fees while processing more than $2.5 trillion in imports. In addition, CBP processes more than 350 million travelers each year at 328 ports of entry and more than 700 enforcement actions daily. The rapidly changing and ever-increasing level of trade and travel presents ongoing challenges to ensuring security while delivering

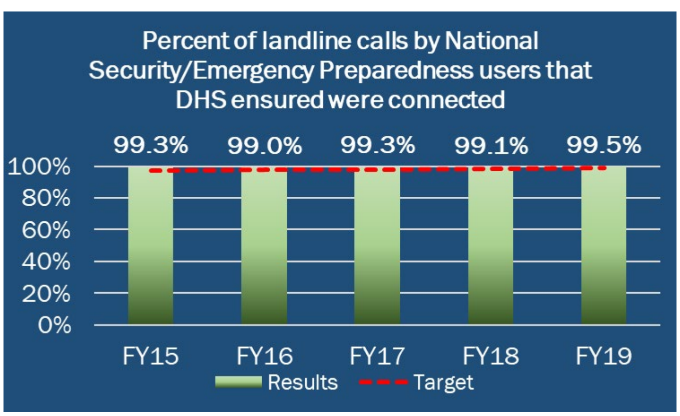
service expected by trade partners and the traveling public. CBP will continue to focus on developing and implementing high-impact solutions [Information Technology (IT) and non-IT] to process each trade transaction at faster speeds, and to find non-intrusive methods for processing international travelers while ensuring safety and maintaining civil rights and liberties.

- *Safeguard the nation's financial system*: Economic prosperity depends on global trust in the U.S. dollar and reliable financial institutions and payment systems as critical enablers of global commerce. The USSS Electronic Crimes Task Force (ECTF) network is a strategic alliance of law enforcement, other federal agencies (e.g., Treasury), academia, and the corporate sector, dedicated to investigating, disrupting, and deterring homeland security-related cybercrime, as well as cyber-related high consequence events that might affect the financial infrastructure. The ECTF is currently leveraging state-of-the-art forensic equipment and laboratories to keep pace with heightened capabilities of cyber criminals and the growing complexity of cybercrimes. The ECTF leadership is continuously looking at new technology to stay abreast of our adversaries. Furthermore, to improve oversight of our nation's financial systems, the USSS Office of Investigations will: expand investigative purview; conduct high-impact investigations; expand the ECTF; develop specialized expertise; increase collaboration; and provide training to key foreign partners.

Goal 5: Strengthen Preparedness and Resilience

Preparedness is a shared responsibility across federal, state, local, tribal, and territorial governments; the private sector; non-governmental organizations; and the American people. Some incidents will overwhelm the capabilities of communities, so the Federal Government must remain capable of responding to natural and man-made disasters. Following disasters, the Federal Government must ensure an ability to direct resources needed to support local communities' immediate response and long-term recovery assistance. The United States can effectively manage emergencies and mitigate the harm to American communities by thoroughly preparing local communities, rapidly responding during crises, and supporting recovery.

The following measures highlight some of our efforts to strengthen preparedness and resilience. Up to five years of data is presented if available.

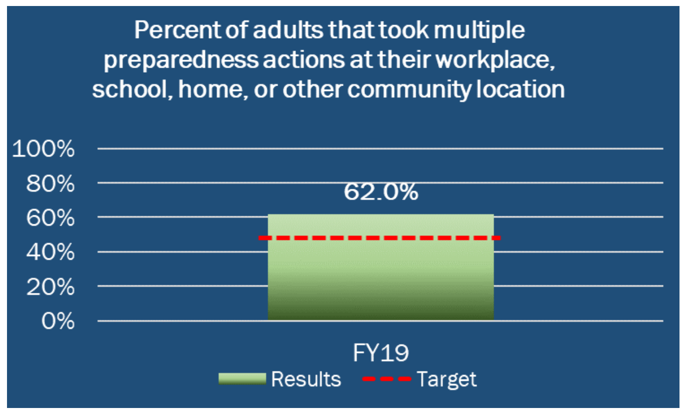


Percent of landline calls by National Security/Emergency Preparedness users that DHS ensured were connected (CISA): This measure gauges the landline reliability and effectiveness of the Government Emergency Telecommunications Service (GETS) to ensure accessibility by authorized users at any time, most commonly to ensure call completion during times of network congestion caused by all-hazard scenarios, including terrorist attacks or natural disasters (e.g., hurricane or earthquake). In FY 2019, this measure achieved 99.5 percent call completion which is above target and the highest call completion rate over the past five years. In FY 2019, there were more than 600,000 calls made using GETS. By ensuring effective emergency communications, DHS

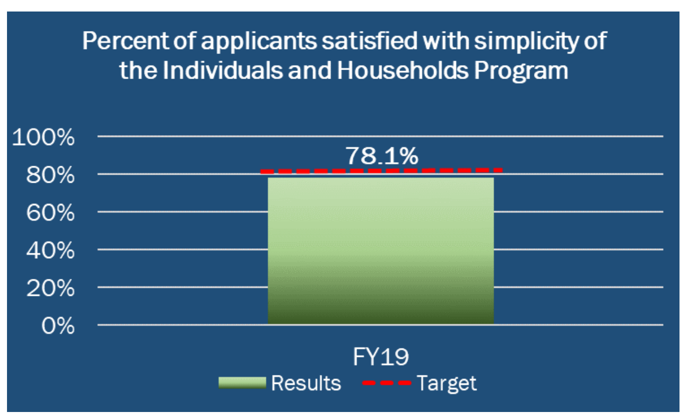
contributes to a national effective emergency response effort which helps strengthen national preparedness and resilience.

CISA partnered with the National Council of Statewide Interoperability Coordinators to develop 25 State Interoperability Markers. States and territories use these markers to conduct a self-assessment, resulting in a national view of communications interoperability. This information will help states and territories identify gaps to inform strategic and financial planning. In addition, the data enables CISA to tailor technical communications assistance to states and territories.

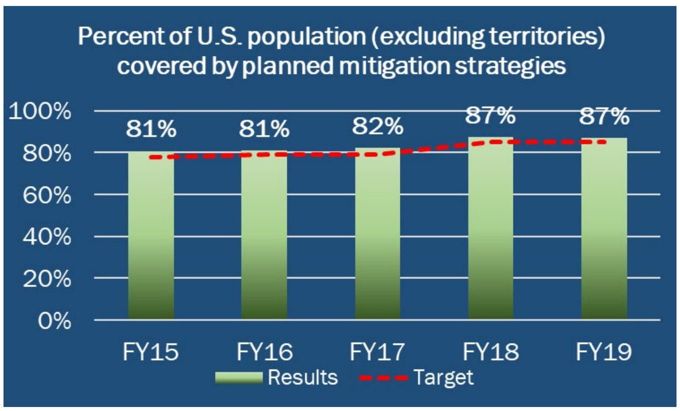
Percent of adults that took multiple preparedness actions at their workplace, school, home, or other community location in the past year (FEMA): This is the first year for this measure reporting results. This measure reports the share of all respondents to [FEMA's annual National Household Survey](#) (NHS) who answered affirmatively to questions assessing whether they had taken more than one preparedness action in the past year, whether taking these actions at their workplace, school, home, or other community location. Many Americans will experience a disaster or emergency at some point and FEMA emphasizes the importance of a national approach to preparedness and will use results from this measure to assess the agency's effectiveness. In FY 2019, this measure achieved 62.0 percent which is above target and future trends will be reported in DHS's Annual Performance Reports. The NHS surveyed approximately 5,000 adults in the United States identifying residents who took three or more of the surveyed preparedness actions including attending a local meeting or training, talking with others, making an emergency plan, seeking preparedness information, participating in a drill, or gathering supplies to last at least three days. These efforts help motivate communities and individuals to act and to serve as a contributing factor to the increase in preparedness actions.



Percent of applicants satisfied with simplicity of the Individuals and Households Program (FEMA): This is the first year for this measure reporting results. This measure provides information on disaster survivors' impressions about the simplicity of the procedures required to receive disaster relief from the [Individuals and Households Program](#) (IHP). The program collects survivors' impressions of their interactions with IHP using standard surveys, administered by telephone, at three touchpoints of their experience with FEMA. Managers use insights derived from survey results to help identify procedural improvements. Feedback from disaster survivors will ensure that the program provides clear information and high-quality service in critical, public-facing agency activities. In FY 2019, this measure achieved 78.1 percent which is below target and

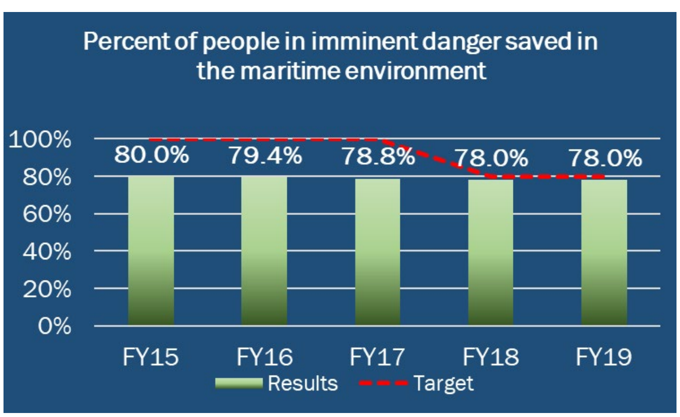


The Disaster Recovery Reform Act provides separate maximum grant amounts under the Individual and Households Program for Other Needs Assistance and Housing (excluding accessibility-related items and rental assistance) retroactive to August 1, 2017. Since March 2019 more than $74 million has been provided to over 11,200 applicants in retroactive assistance. Retroactive payments will continue until all eligible cases have been reviewed.



future results will be reported in DHS's Annual Performance Reports. After a detailed analysis of the survey results, it was determined that the primary issue was the ease of use of disaster assistance information. FEMA will work to clarify disaster information to simplify the application process for the survivor.

Percent of U.S. population (excluding territories) covered by planned mitigation strategies (FEMA): This measure reports the percent of U.S. population (excluding territories) covered by approved or approvable local Hazard Mitigation Plans. The population of each community with approved or approvable local Hazard Mitigation Plans is used to calculate the percent of the national population. In FY 2019, this measure achieved 87 percent which is above target and consistent with last year's result. The process of creating a Hazard Mitigation Plan allows communities to build partnerships, increase awareness, identify comprehensive approaches to focus their resources, and communicate internally to identify potential sources of grant funding to support strategies. FEMA regional planning staff work directly with states and jurisdictions to support timely submission of plans for review and approval. In FY 2019, regional staff focused technical assistance on assisting communities with producing higher quality risk assessments.



Percent of people in imminent danger saved in the maritime environment (U.S. Coast Guard): 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 U.S. Coast Guard. The number of lives lost before and after the U.S. Coast Guard is notified and the number of persons missing at the end of search operations are factored into this result. In FY 2019, this measure achieved 78 percent which is below target but is consistent with the last five years' results. This measure has only a 2.0 percent variance from a low of 78.0 percent to a high of 80 percent. Several factors hinder successful response including untimely distress notification to the U.S. Coast Guard, incorrect distress site location reporting, severe weather conditions at the distress site, and distance to the scene. Target adjusted in FY 2018 to be in-line with historical results.

<u>Looking Forward</u>

A few near-term efforts to advance the Department's capability and capacity in these areas are provided below.

- *<u>Outcome-Driven Community Response</u>*: The *2017 Hurricane Season FEMA After-Action Report* identified the need to create a new operational prioritization and response tool. To that end, FEMA has championed the [Community Lifelines]() decision tool, to enable the continuous operation of government functions and critical business concerns essential to human health, safety, and economic security. The Lifelines tool assists affected populations in addressing concerns about safety and security; food, water, and shelter; health and medical; energy (power and fuel); communications; transportation; and hazardous materials. FEMA is also initiating efforts to reduce the complexity of FEMA to lessen the administrative and bureaucratic burden tied to the delivery of assistance and to improve the survivor and grantee experience.

> **Did you know?**
>
> FEMA's National Watch Center maintains uninterrupted, all-hazards situational awareness. Working closely with regional & interagency partners, the men & women of the Watch Center provide national-level reporting, and 24/7 capability to immediately initiate a coordinated national disaster response.

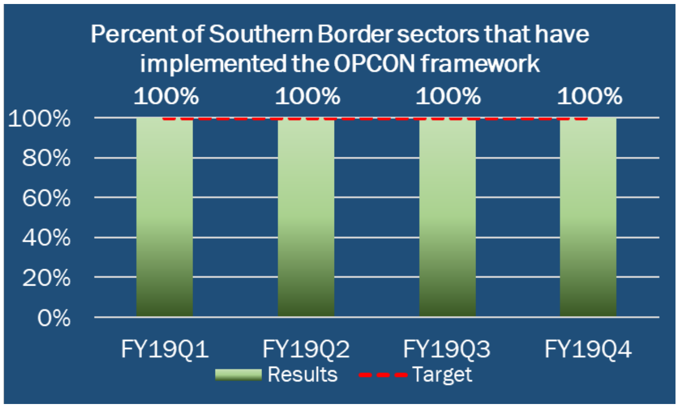
- *<u>Train and equip first responders</u>*: Most effective strategies for emergency management are federally-supported but executed by the immediate authority of a local jurisdiction. As disasters unfold, individuals and municipal agencies serve as the first responders to triage the incident and stabilize the situation. DHS will continue to promote community-building initiatives to improve the strength of local networks and reinforce practical skills of first responders and disseminate key skills including basic first aid, home maintenance, and emergency planning methods. In addition, DHS's Science and Technology (S&T) Directorate continues to drive advances in immediate response capabilities as well as long-term recovery capabilities. With S&T's recent reorganization, future focus on emerging needs will be incorporated into their research and development plans for equipping first responders with tools to improve their job.

Agency Priority Goals

Agency Priority Goals (APGs) are one of the tenets of the Government Performance and Results Act Modernization Act of 2010 and provide a tool for senior leadership to drive the delivery of results on key initiatives over a two-year period. Quarterly reports of progress are provided to interested parties through the Office of Management and Budget (OMB) web site performance.gov.

<u>APG: Enhance Southern Border Security</u>

DHS's FY 2018-2019 APG, *Enhance Southern Border Security*, was initiated to improve security along the southwest border between ports of entry. The goal focused on beginning implementation activities associated with the Operational Control (OPCON) framework between ports of entry in Border Patrol Sectors along the Southwest Border. This framework relies on the interconnectedness of the three pillars of OPCON: Situational Awareness; Impedance and Denial; and Law Enforcement Resolution. Implementation of the OPCON framework aligns strategies, tools, and tactics across the Southern Border to enhance border security. A follow-on FY 2020-2021 APG will continue to articulate progress in Southern Border implementation efforts while expanding initial implementation of OPCON to the Northern Border.

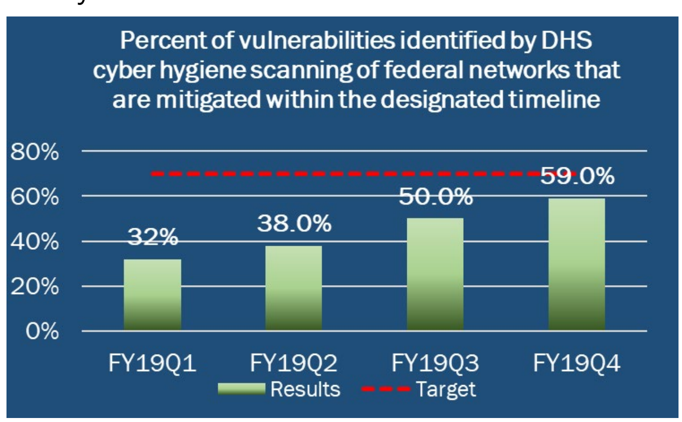


Key Measure: Percent of Southern Border sectors that have implemented the OPCON framework

With the submission of FY 2019 Master Concepts of Operations (CONOPs) from each sector in October 2018, and subsequent approval by Headquarters in December 2018, CBP achieved its original goal. By developing the FY 2019 CONOPs, the Border Patrol acclimated sector staff to writing yearly plans with the intent of improving OPCON implementation in their sectors. This will be critical for the development of FY 2020 CONOPs, when sector plans will reference the OPCON baseline scores, and will use measures in the OPCON framework, to discern measurable impacts from their efforts during FY 2020. The CONOPs establish traceability for how operations in the field impact OPCON. The FY 2020-2021 OPCON APG will continue to advance the implementation of OPCON to enhance border security.

APG: Strengthen Federal Cybersecurity

DHS's Cybersecurity FY 2018-2019 APG focused on strengthening the defense of the federal civilian network. Cybersecurity threats to federal networks continue to grow and evolve. Continuous scanning, intrusion prevention, and vulnerability assessments have allowed DHS to augment existing agencies' capabilities with additional tools and information to assist them in taking timely and appropriate risk-based actions to defend their networks. Through the increased dissemination of cyber threat and vulnerability information in near real time to federal agencies, the goal was to mitigate 70% of significant (critical and high) vulnerabilities identified through DHS scanning. In FY 2019, 59 percent of vulnerabilities were mitigated within the designated timeframe. The FY 2020 – 2021 Cybersecurity APG will continue to advance efforts to mitigate risks the federal network. DHS will also continue to engage with senior agency leadership and appropriate information technology and security experts to apply cybersecurity programs and agency cybersecurity practices and ensure the successful implementation of activities to enhance the security of the federal network.



Key Measure: Percent of significant (critical and high) vulnerabilities identified by DHS cyber hygiene scanning of federal networks that are mitigated within the designated timeline (CISA): This measure calculates the percent of significant (critical and high) vulnerabilities identified through cyber hygiene scanning that are mitigated within the specified timeline. For critical vulnerabilities the timeline is 15 days and for high vulnerabilities the timeline is 30 days. DHS provides cyber hygiene scanning to agencies to aid in identifying and prioritizing vulnerabilities based on their severity for agencies to make risk-based decisions regarding their network security. Identifying and mitigating the most serious vulnerabilities on a network in a timely manner is a critical component of an effective cybersecurity program. FY 2019, this measure achieved 59 percent

which is below target, but has made significant progress the last half of the year. During the last half of the year, the Binding Operational Directive (BOD) 15-01 was replaced with BOD 19-02 on April 29 formally establishing mitigation timelines of 15 days for critical vulnerabilities and 30 days for high vulnerabilities. Since BOD 19-02's implementation, the compliance rate has increased substantially, and DHS expects performance to continue to improve in FY 2020.

Performance Measure Verification and Validation

The Department recognizes the importance of collecting complete, accurate, and reliable performance data that is shared with leadership and external stakeholders. Performance data are considered reliable if transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management. OMB Circular A-136, Financial Reporting Requirements, OMB Circular A-11, and the Reports Consolidation Act of 2000 (P.L. No. 106-531) further delineate this responsibility by requiring agencies to ensure completeness and reliability of the performance data they report by putting management assurance procedures in place.

DHS has implemented a multi-pronged approach to effectively mitigate risks and reinforce processes that enhance the Department's ability to report complete and reliable data for performance measure reporting. This approach consists of: 1) an annual measure improvement and change control process using a standard form for consistency; 2) a central information technology repository for performance measure information; 3) a performance measure checklist for completeness and reliability; and 4) annual assessments of the completeness and reliability of a sample of our performance measures by an independent, third-party, review team. A full description of our processes, as well as a full accounting of each measure's description, scope, data source(s), data collection methodology, and data reliability checks can be found in our forthcoming FY 2019-2021 Annual Performance Report, or our previous reports, located at http://www.dhs.gov/performance-accountability.

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.

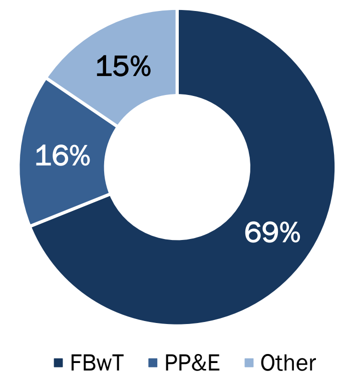
The Balance Sheet presents the resources owned or managed by the Department that have future economic benefits (assets) and the amounts owed by DHS that will require future payments (liabilities). The difference between the Department's assets and liabilities is the residual amount retained by DHS (net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

Financial Position ($ in millions)	FY 2019	FY 2018	$ Change	% Change
Fund Balance with Treasury	$ 108,971	$ 105,095	$ 3,876	4%
Property, Plant, and Equipment	24,673	23,146	1,527	7%
Other Assets	24,455	20,445	4,010	20%
Total Assets	**158,099**	**148,686**	9,413	6%
Federal Employee and Veterans' Benefits	65,107	61,864	3,243	5%
Debt	20,596	20,541	55	0%
Accounts Payable	4,464	4,440	24	1%
Deferred Revenue and Advances	3,001	4,737	(1,736)	-37%
Insurance Liabilities	3,389	1,658	1,731	>100%
Accrued Payroll	2,889	2,432	457	19%
Other Liabilities	13,463	10,218	3,245	32%
Total Liabilities	**112,909**	**105,890**	**7,019**	7%
Total Net Position	45,190	42,796	2,394	6%
Total Liabilities and Net Position	**$ 158,099**	**$ 148,686**	**$ 9,414**	6%

Results of Operations ($ in millions)	FY 2019	FY 2018	$ Change	% Change
Gross Cost	$ 80,818	$ 82,051	$ (1,233)	-2%
Less: Revenue Earned	(15,655)	(16,373)	718	-4%
Net Cost Before Gains and Losses on Assumption Changes	65,163	65,678	(515)	-1%
Gains and Losses on Assumption Changes	924	1,143	(219)	-19%
Total Net Cost	**$ 66,087**	**$ 66,821**	**$ (734)**	-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.

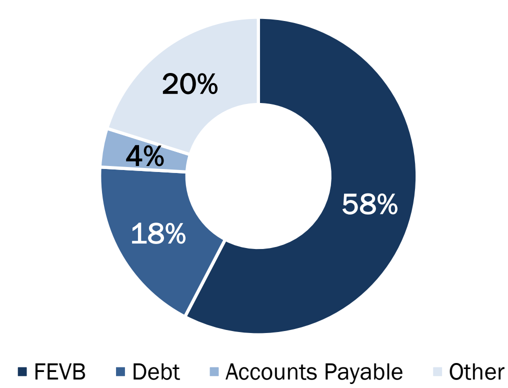
Property, Plant, and Equipment (PP&E) is the second largest asset, and include buildings and facilities, vessels, aircraft, construction in progress, and other equipment. In acquiring these assets, the Department either spent resources or incurred a liability to make payment at a future date; however, 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, 2019, the Department had $158.1 billion in assets, representing a $9.4 billion increase from FY 2018. The majority of this change is due to an increase in USCG funding for the acquisition, procurement, construction, rebuilding, and improvement of vessels, aircraft, shore facilities and military housing, aids to navigation systems and facilities, and command, control, communications and computer systems and related equipment, as well as an increase in funding in support of ICE's expanded law enforcement activity and CBP's customs and border protection activities.

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.

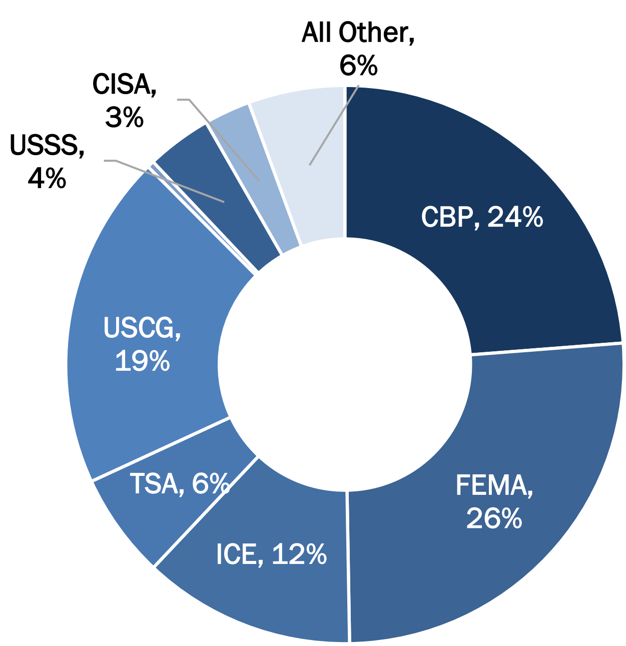
Insurance Liabilities represent an estimate of NFIP claim activity based on the loss and loss adjustment expense factors inherent to the NFIP insurance underwriting operations, including trends in claim severity and frequency.

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, 2019, the Department reported approximately $112.9 billion in total liabilities. Total liabilities increased by $7 billion in FY 2019 mostly due to numerous changes in actuarial assumptions related to the Department's FEVB, as well as an increase in cash collections due to the General Fund by CBP based on current year import activity on goods imported.

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 $45.2 billion. Total net position increased $2.4 billion from FY 2018, in large part because there was an increase in appropriations for border security and USCG procurement, construction and improvements which were offset by a reduction in actual expenditures in FY 2019.



*USCIS negative net cost balance is due from excessive revenue from H1-B and L-1 visa fee collections.

Results of Operations

The Department presents net costs by operational Components which carry out DHS's major mission activities, with the remaining support Components representing "All Other."

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 $65.2 billion in FY 2019. DHS recognized decreased costs in FY 2019 due to a decrease in disaster events.

During FY 2019, the Department earned approximately $15.7 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

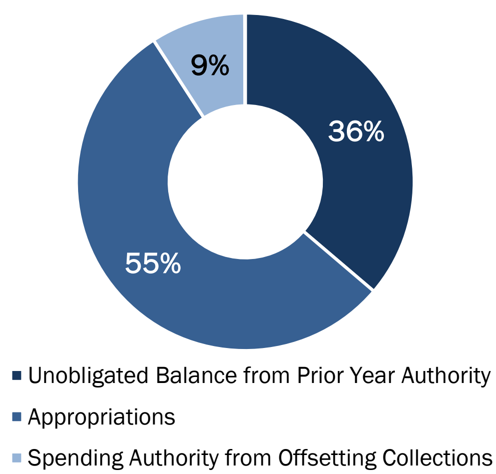
non-exchange duties, taxes, and fee revenue on behalf of the Federal Government. This non-exchange revenue is presented in the Statement of Custodial Activity or Statement of Changes in Net Position, rather than the Statement of Net Cost.

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 2019	FY 2018	$ Change	% Change
Unobligated Balance from Prior Year Authority	$ 50,768	$ 23,900	$ 26,868	>100%
Appropriations	76,512	110,725	(34,213)	-31%
Spending Authority from Offsetting Collections	12,738	14,038	(1,300)	-9%
Borrowing Authority	67	6,110	(6,043)	-99%
Total Budgetary Authority	**$ 140,085**	**$ 154,773**	**$(14,688)**	-9%

The Department's budgetary resources were approximately $140.1 billion for FY 2019. The authority was derived from $50.8 billion in authority carried forward from FY 2018, appropriations of $76.5 billion, approximately $12.7 billion in collections, and $67 million in borrowing authority. Budgetary resources decreased approximately $14.6 billion from FY 2018. This is due to decrease in supplemental appropriations and borrowing authority related to disaster recovery.

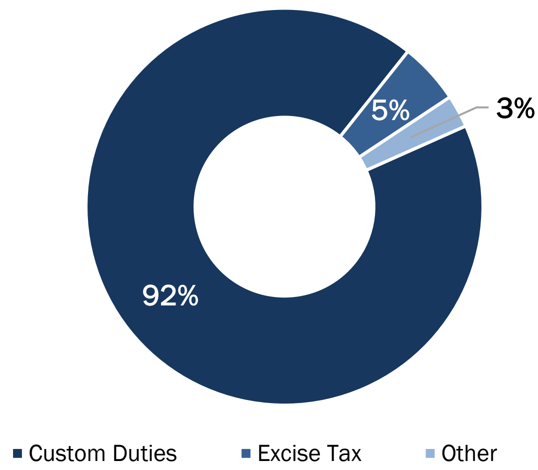


Of the total budget authority available, the Department incurred a total of $92 billion in obligations from salaries and benefits, purchase orders placed, contracts awarded, or similar transactions.

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 2019	FY 2018	$ Change	% Change
Cash Collections from Duties	$ 71,902	$ 41,584	$ 30,318	73%
Excise Tax	3,889	3,809	80	2%
Other	2,058	1,892	166	9%
Total Cash Collections	**$ 77,849**	**$ 47,285**	**$ 30,564**	65%



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 $77.8 billion. Total cash collections increased $30.5 billion from FY 2018. This is due to increased collections related to several duty increases enacted by Executive Orders and/or as a result of U.S. Trade investigations including but not limited to steel and aluminum imports and various imported products.

Custom duties collected by CBP account for 92 percent of total cash collections. The remaining 8 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, 2019

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, 2019 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, except for Financial Reporting and Information Technology Controls and Systems Functionality, where areas of 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 areas of 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. In addition, a few Components identified certain financial management systems do not substantially comply with Federal accounting standards and application of the United States Standard General Ledger at the transacton level.

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,

Chad Wolf
Acting Secretary of Homeland Security

Management's Report on Internal Controls Over Financial Reporting

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

Homeland Security

The Honorable Joseph V. Cuffari
Inspector General
Department of Homeland Security
Washington, DC

Dear Inspector General Cuffari:

The United States Department of Homeland Security (DHS) 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 accounting principles generally accepted in the United States of America. 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 accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Management of DHS is responsible for designing, implementing, and maintaining effective internal control over financial reporting. Management assessed the effectiveness of the DHS's internal control over financial reporting as of September 30, 2019, based on criteria established in the *Standards for Internal Control in the Federal Government* (GAO-14-704G) issued by the Comptroller General of the United States Based on that assessment, management concluded that, as of September 30, 2019, the DHS's internal control over financial reporting is effective except for material weaknesses identified in Financial Reporting and Information Technology Controls and System Functionality, based on criteria established in the *Standards for Internal Control in the Federal Government*. Specifically, management of DHS identified areas of material weaknesses in Financial Reporting and Information Technology Controls and System Functionality. Specifically:

1. *Financial Reporting:* Ineffective controls over the journal entry process, review of actuarial liability assumptions, service provider monitoring, and other conditions.
2. *IT Controls and System Functionality:* Ineffective controls in financial management systems, insufficient design of controls over information produced by entity, and ineffective monitoring of service provider organizations.

Management's Report on Internal Controls Over Financial Reporting

The Honorable Joseph V. Cuffari
Page 2

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. 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.

DHS has made progress in improving its internal controls and financial management program. Management commits to implementing corrective actions to resolve the remaining areas of material weakness.

Best Regards,

Acting Secretary

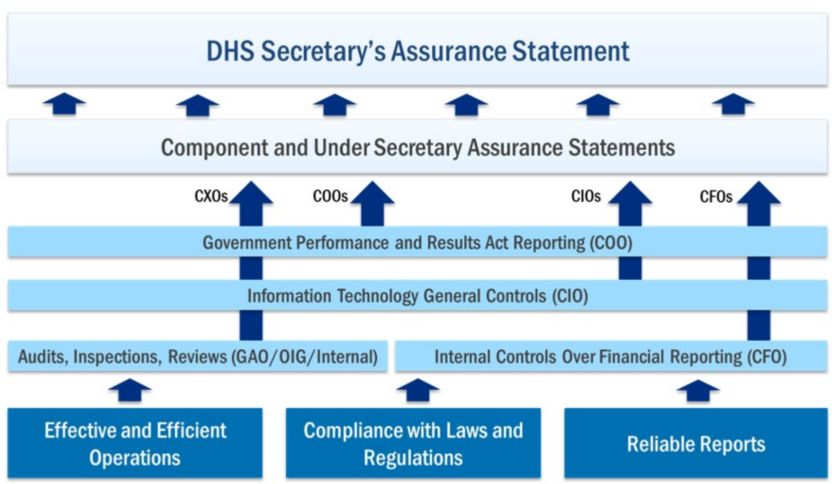
Management Assurances

DHS management is responsible for establishing, maintaining, and assessing internal controls 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 DHS 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.

The FMFIA requires the GAO to prescribe standards of internal control in the Federal Government. Commonly known as the Green Book, these standards provide the internal control framework and criteria federal managers must use in designing, implementing, and operating an effective system of internal control. The Green Book defines internal control as a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity are achieved. These objectives and related risks can be broadly classified into one or more of the following categories:

- Effectiveness and efficiency of operations,
- Compliance with applicable laws and regulations, and
- Reliability of reporting for internal and external use.

OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* provides implementation guidance to Federal managers on improving the accountability and effectiveness of federal programs and operations by identifying and managing risks, establishing requirements to assess, correct, and report on the effectiveness of internal controls. OMB Circular A-123 implements the FMFIA and Green Book requirements. FMFIA also requires the Statement of Assurance to include assurance on whether the agency's financial management systems comply with government-wide requirements. The financial management systems requirements are directed by Section 803(a) of the FMFIA and Appendix D to OMB Circular A-123, Compliance with the Federal Financial Management Improvement Act of 1996.



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 financial reporting, and compliance with laws and regulations. Per OMB Circular A-123, management gathered information from various sources including management-initiated internal control assessments, program reviews, and evaluations. Management also considered results of reviews, audits, inspections, and investigations performed by the Department's Office of Inspector General (OIG) and GAO. Using available information, each Component performs an

analysis on the pervasiveness and materiality over any identified deficiencies to determine their impact and uses the result as the basis for the respective Component assurance statement signed by the Component Head. The Secretary provides assurances over the Department's internal controls in the annual assurance statement considering the state of internal controls at each Component.

Furthermore, DHS is building on the enterprise risk management framework per OMB Circular A-123 and have established a Department-wide Enterprise Risk Management (ERM) working group to facilitate and promote Component development and maturation of ERM capability. In FY 2018, the Department developed an agency risk profile. As continuation, Components were asked to update and continue to implement ERM at Component-levels. DHS Components are at different stages of ERM maturity and some Components have begun embedding the ERM framework into their statement of assurance process. The Department will continue to mature in ERM capability and integrate its internal controls, as appropriate.

Department of Homeland Security Financial Accountability Act

Pursuant to the DHS FAA, the Department must obtain an opinion over internal control over financial reporting. Annually, the Deputy Secretary issues a memorandum to Component Heads on audit results and approach, asking senior leaders across the organization to fix long-standing issues and properly resource both remediation and testing efforts. Senior leaders across the organization emulate this top-down approach by committing to annual remediation goals and improving the internal control environment, validated through testing, and finally ensuring that proper resources are available to realize these plans. Senior leaders also track, monitor, and discuss progress against commitments throughout the year to ensure we meet the overall objectives.

Using GAO Standards for Internal Control and Circular A-123 as criteria, the Department's internal control over financial reporting methodology is a risk-based, continuous feedback approach centered around four phases: find, fix, test, and assert. Effectiveness of controls and status of each Component's implementation of the internal control strategy are communicated and reported to senior leaders using the Internal Control Maturity Model (ICMM). The ICMM is four-tiered model that uses test of design and effectiveness, quality of assessments, and timeliness and efficacy of remediation as primary drivers in demonstrating maturation of the control environment. The goal is to have most Components placed on the Standardized (third) tier, which informs leaders that quality internal assessments are performed to validate that neither material weakness conditions exist, nor will there be audit surprises. This assessment and reporting strategy supports sustainment of the financial statement opinion and eventual achievement of an opinion over internal control over financial reporting.

Areas of Material Weaknesses Resolution Status

In FY 2018, management reported two areas of material weaknesses - financial reporting and IT controls and system functionality. DHS made significant improvements in remediating areas of material weaknesses and planned to resolve financial reporting in FY 2019 through targeted remediation at USCG. USCG designed and implemented a Journal Entry process that focused on management review controls as well as documenting and implementing acceptable documentation to support journal entries. However, Management did not formally test these areas to provide reasonable assurance that risks have been sufficiently mitigated. Refer to the table below for areas contributing to the financial reporting material weakness and appropriate corrective actions planned in FY 2020.

Table 1: Internal Control over Financial Reporting Corrective Actions

Area of Material Weakness	Component	Year Identified	Target Correction Date
	USCG, USSS, All[1]	FY 2003	FY 2020
Financial Reporting	Areas of material weakness exist that are attributed to financial reporting, which include the following: • *Journal Entry / On-Top-Adjustments:* USCG did not sufficiently test the JV/OTA process as part of its annual assessment process. In FY 2020, USCG will continue to train process owners and improve execution of the designed journal entry process and continue to document and test underlying and compensating controls that would prevent and detect errors on a timely basis. In addition, ineffective IT system controls have contributed to this area. Refer to IT Controls and System Functionality material weakness and corrective action for more details. • *Actuarial Liabilities:* Controls over validating and documenting actuarial assumptions were not operating effectively. While Standard Operating Procedures exist, controls were not fully executed. • *Other:* Several deficiencies aggregated to an area of material weakness, classified as other. These include lack of monitoring of service providers and inability to record trading partner activity at the initiation of the transaction event due to system limitations.		
Corrective Actions	• *Journal Entry / On-Top-Adjustments:* USCG will test the Journal Entry and On Top Adjustment process as part of its annual assessment. In addition, USCG will continue to improve its procedures and supporting documentation to better explain the entries. • *Actuarial Liabilities:* USCG and USSS will continue to refine its processes and ensure are fully executed and monitored. • *Other:* DHS is in the process of implementing G-Invoicing[2] which will help reduce the risk of system limitations. For service monitoring controls, refer to IT Controls and System Functionality material weakness and corrective action for more details.		

Areas of material weakness over IT controls and system functionality remains; Components continue to fix known issues and have not yet been able to sufficiently demonstrate control effectiveness through testing. Corrective Actions for IT controls and system functionality is in the following table. The Department remains dedicated to fully remediating significant IT system security and functionality weaknesses. A summary of corrective actions is provided in the table below.

Table 2: Internal Control over Financial Reporting Corrective Actions

Area of Material Weakness	Component	Year Identified	Target Correction Date
	All DHS Components	FY 2003	FY 2020
IT Controls and System Functionality	Areas of material weakness exist that are attributed to the IT controls and system functionality deficiencies, which include the following: • *Financial System Requirements:* The Department internal control assessment identified IT Controls as a 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.		

[1] The "Other" area of material weakness in financial reporting contributes DHS-wide. Areas, Journal Entry/On-Top-Adjustment and Actuarial Liability, within financial reporting are only attributed to USCG and USSS.
[2] G-Invoicing is the government's long-term sustainable solution for Buy/Sell transactions and will manage the receipt and acceptance of General Terms and Conditions Agreements, Orders, and Performance.

<table>
<tr><th rowspan="2">Area of Material Weakness</th><th>Component</th><th>Year Identified</th><th>Target Correction Date</th></tr>
<tr><td>All DHS Components</td><td>FY 2003</td><td>FY 2020</td></tr>
<tr><td></td><td colspan="3">System Functionality and Information Produced by Entity (IPE): Ineffective IT control and inadequate application controls (functionality) impact the ability for management to fully rely on system generated data and reports, commonly referred to as IPEs. Currently, these deficiencies are directly associated with financial system requirement deficiencies. In FY 2020, in addition to fixing long-standing IT control weaknesses, DHS will implement a risk-based strategy for identifying and testing IPEs as well as test functionality for systems that have sufficient IT controls.
Service Provider Monitoring: The Department did not maintain effective internal controls related to service organizations, including evaluating and documenting roles of service organizations, performing effective reviews of service organization control reports, and addressing service provider risk in absence of SOC reports.</td></tr>
<tr><td>Corrective Actions</td><td colspan="3">Key contributing Components fixed prior year identified issues in FY 2019 while non-key contributing Components continued to implement the find, fix, test strategy. Remediated controls will be tested in FY 2020, which will be reflected in each Component's IT Commitment Letters signed by both the respective CFO and CIO. The IT Commitment Letters require each Component to commit to testing as well as provide commitment to passing results for each system and control in scope. Once OCFO obtains final Component commitments, this will enable the Department to gauge by FY 2020 Q1 if target correction date can be achieved.</td></tr>
</table>

Federal Financial Management Improvement Act (FFMIA)

FFMIA requires federal agencies to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger at the transaction level. A financial management system includes an agency's overall financial operation, reflecting the people, processes, and technology to capture, classify, summarize, and report data in a meaningful manner to support business decisions.

We assess our financial management systems annually for compliance with the requirements of Appendices A and D to OMB Circular A-123 and other federal financial system requirements. In addition, we assess available information from audit reports and other relevant and appropriate sources, such as FISMA compliance activities, to determine whether our financial management systems substantially comply with FFMIA. We also assess improvements and ongoing efforts to strengthen financial management systems and the impact of instances of noncompliance on overall financial management system performance.

Based on the results of our overall assessment, areas of material weaknesses related to 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 areas of 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.

Table 3: FFMIA Non-compliance Corrective Actions

<table>
<tr><th rowspan="2">Area of Non-Compliance</th><th>Component</th><th>Year Identified</th><th>Target Correction Date</th></tr>
<tr><td>All DHS Components</td><td>FY 2003</td><td>FY 2020</td></tr>
<tr><td>FFMIA Non-compliance</td><td colspan="3">DHS does not substantially comply with FFMIA primarily due to lack of compliance with financial system requirements as disclosed as material weakness in IT Controls and System functionality. USCG, CBP, and ICE noted that certain key systems are unable to produce transaction level activity that reconciles at the USSGL-level. USCG also reported a lack of compliance as its financial and mixed systems do not allow for financial statements and budgets to be prepared, executed, and reported fully in accordance with the requirements prescribed by the OMB, Treasury, and the Federal Accounting Standards Advisory Board.

In FY 2018, the Department updated the targeted correction date to FY 2020. The target correction date took into consideration reduction of the financial reporting material weakness that would also compensate for inadequate system functionality as well as the Department’s target to substantially reduce the severity of IT controls by end of FY 2020. Based on rigorous testing conducted in FY 2017 through FY 2018, key contributing Components committed to fixing prior year identified issues in FY 2019 which ultimately delayed the Department in meeting its goals. Remediated controls will be tested in FY 2020, which will be reflected in each Component’s IT Commitment Letters signed by both the respective CFO and CIO. The IT Commitment Letters require each Component to commit to testing as well as provide commitment to passing results for each system and control in scope. Once OCFO obtains final commitments, this will enable the Department to gauge by FY 2020 Q1 if target correction date can be achieved.</td></tr>
<tr><td>Corrective Actions</td><td colspan="3">The DHS CFO, CIO, and Components will support the Components in the design and implementation of internal controls in accordance with DHS 4300A, Sensitive Systems Handbook, Attachment R: Compliance Framework for CFO Designated Financial Systems. In addition, DHS CFO and Components will continue to design, document, and implement compensating controls to reduce the severity of system security internal controls and functionality limitations. Once OCFO obtains final Component commitments, this will enable the Department to gauge by FY 2020 Q1 if target correction date can be achieved.</td></tr>
</table>

Digital Accountability and Transparency Act of 2014

Pursuant to OMB Circular A-123, Appendix A, *Management of Reporting and Data Integrity Risk*, the Department issued its Digital Accountability and Transparency Act of 2014 (DATA Act) Data Quality Plan (DQP) on March 15, 2019. The plan describes the organizational structure, operating environment, internal controls processes, and systems used to generate and evaluate the data published to USAspending.gov. The plan includes DHS's processes for compiling, reviewing, and monitoring the quality of data provided to USAspending.gov. In addition, the plan describes the processes to assess the level of data quality, methods for increasing the data quality, and the data risk management strategy. The outcomes of this plan align with the Administration's goal for greater transparency, ultimately benefiting citizens and holding government accountable for its stewardship over its assets.

In prior years' Components assessed the design and operating effectiveness of its respective DATA Act reporting processes and controls over consolidation and variance resolution of data submitted to DHS Headquarters. In FY 2019, DHS developed a risk assessment process to identify high risk data elements and tested the accuracy, completeness, and timeliness of the recorded transactions against source documents. Deficiencies were identified during testing and aggregated to a level of control deficiency, where management can provide reasonable assurance over the submitted data. This two-pronged approach ensures that the Department can provide reasonable assurance that reports over DATA Act are reliable both at reporting and transaction levels further supporting the fidelity of reported transactions to Treasury.

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 with internal control standards. As such, the DHS CFO oversees and coordinates all the financial systems modernization efforts.

DHS has established a Joint Program Management Office (JPMO) to oversee Financial Systems Modernization (FSM) program management, priorities, risk, 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 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.

In March 2017, it was determined that DHS would transition the CWMD, TSA, and USCG FSM initiatives out of their current shared service provider environment at the Department of

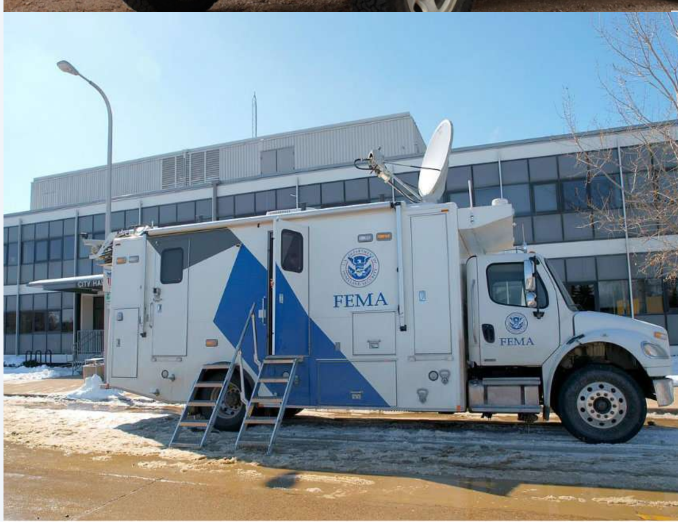
Interior (DOI) and into a DHS-managed solution. This solution delivers a standardized baseline for this trio of components, with increased functionality and integration for CWMD. In October of 2018, TSA and USCG resumed implementation efforts while CWMD has been upgraded to the latest solution. DHS is leveraging lessons learned from the former shared services implementation, reducing risk in future migrations through deliberative approaches to program management, resource management, business process standardization, risk management, change management, schedule rigor, and oversight.

Progress continues as USSS and CWMD have completed upgrades to the next version of their current accounting software, as we actively work to implement upgrades at TSA and USCG. Other significant system modernization efforts in various stages of implementation include FEMA's financial system, flood insurance, and grants management modernization as well as CBP's custodial revenue system, Automated Commercial Environment (ACE).

Other Regulatory Matters

The Department is required to comply with several other legal and regulatory financial requirements, including the Improper Payment Information Act (IPIA, as amended), the Debt Collection Improvement Act, and the Prompt Payment Act. The results of IPIA are reported in the Other Information section. In addition, the Department does not refer a substantial amount of debts to Treasury for collection. In FY 2019, DHS paid vendor timely 93% of the time versus the government-wide goal of 98%. On-time invoice payment reduction was primarily due to delays in invoice processing due to the funding lapse in FY 2019.

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.

The ***Financial Statements*** section includes 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***.

The ***Required Supplementary Stewardship Information*** section discusses stewardship investments which are substantial investments made by the Federal Government for the benefit of the Nation.

The ***Required Supplementary Information*** section provides sections to present information on Deferred Maintenance and Repairs, Statement of Budgetary Resources, and Statement of Custodial Activity

The ***Independent Auditors' Report*** section is provided by KPMG LLP on the Department's Financial Statements and accompanying Notes.

Message from the Chief Financial Officer

November 14, 2019

On behalf of the men and women of the Department of Homeland Security (DHS) financial management community, I am proud to present the Department's Agency Financial Report (AFR) for Fiscal Year (FY) 2019.

One of our critical duties is stewardship of the taxpayer dollars DHS uses every day to help secure our homeland. While the homeland security landscape consistently changes and requires us to adapt to new challenges as they occur, we never lose sight of remaining accountable and transparent to the American people. This section of the AFR provides our stakeholders a comprehensive view of the Department's financial activities.

Our Department's commitment to accountability remains absolute, as is evidenced in the Department earning its seventh consecutive unmodified (clean) audit opinion on our financial statements for FY 2019. DHS's financial management team invests considerable effort each year to produce a streamlined, effective AFR that communicates to our stakeholders the Department's performance and financial information. Our success was recognized again this year when the Association of Government Accountants awarded the Department our sixth consecutive Certificate of Excellence in Accountability Reporting for our FY 2018 AFR.

To continue to achieve and exceed the expectations of our stakeholders with regards to accurate, transparent, and timely financial information, the Department continues to exert tremendous effort and cooperation across headquarters and all of our Components to ensure that all DHS financial systems are modernized. Modern systems will translate into better management of the Department's resources, more efficient financial operations, and improvements in its ability to provide timely and accurate reporting. It will provide a standard of accountability across the Department to ensure proper stewardship of taxpayer dollars to our mission.

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

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

Sincerely,

Stacy Marcott

Acting Chief Financial Officer

Introduction

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

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

- The Consolidated **Balance Sheets** present those resources owned or managed by the Department 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, 2019 and 2018.
- The Consolidated **Statements of Net Cost** present the net cost of DHS operations for the fiscal years that ended on September 30, 2019 and 2018. 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, 2019 and 2018.
- The Combined **Statements of Budgetary Resources** present how and in what amounts budgetary resources were made available to the Department during fiscal years 2019 and 2018, the status of these resources at September 30, 2019 and 2018, the changes in the obligated balance, and outlays of budgetary resources for the fiscal years that ended on September 30, 2019 and 2018.
- 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, 2019 and 2018.
- The **Notes to the Financial Statements** provide detail and clarification for amounts on the face of the financial statements as of September 30, 2019 and 2018.

Financial Statements

Department of Homeland Security
Consolidated Balance Sheets
As of September 30, 2019 and 2018
(In Millions)

	2019	2018
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$ 108,971	$ 105,095
Investments, Net (Note 5)	10,352	9,216
Accounts Receivable (Note 6)	342	382
Other (Note 13)	542	755
Total Intragovernmental	**$ 120,207**	**$ 115,448**
Cash and Other Monetary Assets (Note 4)	67	78
Accounts Receivable, Net (Note 6)	2,121	2,203
Taxes, Duties, and Trade Receivables, Net (Note 7)	7,732	4,768
Direct Loans, Net (Note 8)	73	72
Inventory and Related Property, Net (Note 9)	2,295	2,181
General Property, Plant, and Equipment, Net (Note 11)	24,673	23,146
Other (Note 13)	931	790
TOTAL ASSETS	**$ 158,099**	**$ 148,686**
Stewardship Property, Plant, and Equipment (Note 12)		
LIABILITIES (Note 14)		
Intragovernmental		
Accounts Payable	$ 2,064	$ 1,957
Debt (Note 15)	20,596	20,541
Other (Note 18)		
Due to the General Fund	7,727	4,845
Accrued FECA Liability	489	370
Other	535	602
Total Intragovernmental	**$ 31,411**	**$ 28,315**
Accounts Payable	2,400	2,483
Federal Employee and Veterans' Benefits (Note 16)	65,107	61,864
Environmental and Disposal Liabilities (Note 17)	624	474
Other (Notes 18, 19, 20, and 21)		
Accrued Payroll and Benefits	2,889	2,432
Deferred Revenue and Advances from Others	3,001	4,737
Insurance Liabilities	3,389	1,658
Refunds and Drawbacks	328	259
Other	3,760	3,668
Total Liabilities	**$ 112,909**	**$ 105,890**
Commitments and Contingencies (Note 21)		

(Continued)

Department of Homeland Security
Consolidated Balance Sheets
As of September 30, 2019 and 2018
(In Millions)

	2019	2018
NET POSITION		
Unexpended Appropriations		
Unexpended Appropriations-Other Funds (Combined)	$ 87,723	$ 84,662
Cumulative Results of Operations		
Cumulative Results of Operations-Funds from Dedicated Collections (Note 22) (Combined)	(3,789)	(4,451)
Cumulative Results of Operations-Other Funds (Combined)	(38,744)	(37,415)
Total Net Position	**$ 45,190**	**$ 42,796**
TOTAL LIABILITIES AND NET POSITION	**$ 158,099**	**$ 148,686**

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, 2019 and 2018
(In Millions)

	2019	2018
Operational Components		
U.S. Customs and Border Protection		
Gross Cost	$ 15,847	$ 15,015
Less Earned Revenue	(231)	(268)
Net Cost	**15,616**	**14,747**
Federal Emergency Management Agency		
Gross Cost	21,542	26,027
Less Earned Revenue	(4,485)	(5,519)
Net Cost	**17,057**	**20,508**
U.S. Immigration and Customs Enforcement		
Gross Cost	8,282	7,301
Less Earned Revenue	(201)	(179)
Net Cost	**8,081**	**7,122**
Transportation Security Administration		
Gross Cost	8,621	8,383
Less Earned Revenue	(4,614)	(4,379)
Net Cost	**4,007**	**4,004**
U.S. Coast Guard		
Gross Cost	13,135	12,718
Less Earned Revenue	(382)	(366)
Net Cost	**12,753**	**12,352**
U.S. Citizenship and Immigration Services		
Gross Cost	4,194	3,998
Less Earned Revenue	(4,463)	(4,452)
Net Cost	**(269)**	**(454)**
U.S. Secret Service		
Gross Cost	2,488	2,076
Less Earned Revenue	(11)	(12)
Net Cost	**2,477**	**2,064**
Cybersecurity and Infrastructure Agency		
Gross Cost	2,969	3,197
Less Earned Revenue	(1,205)	(1,134)
Net Cost	**1,764**	**2,063**

Department of Homeland Security
Consolidated Statement of Net Cost
For the Years Ended September 30, 2019 and 2018
(In Millions)

	2019	2018
Departmental Operations and Other Support Components		
Gross Cost	3,740	3,336
Less Earned Revenue	(63)	(64)
Net Cost	**3,677**	**3,272**
Total Department of Homeland Security		
Gross Cost	80,818	82,051
Less Earned Revenue	(15,655)	(16,373)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	65,163	65,678
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes (Note 16)	924	1,143
NET COST OF OPERATIONS	**$ 66,087**	**$ 66,821**

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, 2019
(In Millions)

	2019			
	Combined Funds from Dedicated Collections (Note 22)	Combined All Other Funds	Eliminations	Consolidated Total
Unexpended Appropriations:				
Beginning Balances	$ -	$ 84,662	$ -	$ 84,662
Budgetary Financing Sources:				
Appropriations Received	-	62,710	-	62,710
Appropriations Transferred In/(Out)	-	(151)	-	(151)
Other Adjustments	-	(754)	-	(754)
Appropriations Used	-	(58,744)	-	(58,744)
Total Budgetary Financing Sources	-	3,061	-	3,061
Total Unexpended Appropriations	**$ -**	**$ 87,723**	**$ -**	**$ 87,723**
Cumulative Results of Operations:				
Beginning Balances	(4,451)	(37,415)	-	(41,866)
Budgetary Financing Sources:				
Other Adjustments	-	(1)	-	(1)
Appropriations Used	-	58,744	-	58,744
Non-Exchange Revenue	2,425	4	5	2,424
Donations and Forfeitures of Cash and Cash Equivalents	4	-	-	4
Transfers In/(Out) without Reimbursement	(3,885)	3,944	-	59
Other	-	-	-	-
Other Financing Sources (Non-exchange):				
Donations and Forfeitures of Property	-	1	-	1
Transfers In/(Out) without Reimbursement	(174)	314	-	140
Imputed Financing	244	1,658	75	1,827
Other	3,725	(1,503)	-	2,222
Total Financing Sources	2,339	63,161	80	65,420
Net Cost of Operations	(1,677)	(64,490)	(80)	(66,087)
Net Change	662	(1,329)	-	(667)
Cumulative Results of Operations	**$ (3,789)**	**$ (38,744)**	**$ -**	**$ (42,533)**
NET POSITION	**$ (3,789)**	**$48,979**	**$ -**	**$ 45,190**

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
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2019 and 2018
(In Millions)

	2019		2018	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Budget Authority, Net (Note 27)	50,767	1	23,860	40
Appropriations	76,512	-	110,725	-
Borrowing Authority (Note 23)	-	67	6,100	10
Spending Authority from Offsetting Collections	12,701	37	13,455	583
TOTAL BUDGETARY RESOURCES	**$ 139,980**	**$ 105**	**$ 154,140**	**$ 633**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments	$ 91,446	$ 105	$ 107,254	$ 626
Unobligated Balance, End of Year				
Apportioned, Unexpired	45,702	-	43,786	7
Exempt from Apportionment, Unexpired	4	-	22	-
Unapportioned, Unexpired	1,231	-	1,621	-
Unexpired Unobligated Balance, End of Year	46,937	-	45,429	7
Expired Unobligated Balance, End of Year	1,597	-	1,457	-
Total Unobligated Balance, End of Year	48,534	-	46,886	7
TOTAL BUDGETARY RESOURCES	**$ 139,980**	**$ 105**	**$ 154,140**	**$ 633**
OUTLAYS NET	71,444	62	82,115	3
Distributed Offsetting Receipts	(12,417)	-	(11,900)	-
AGENCY OUTLAYS, NET	**$ 59,027**	**$ 62**	**$ 70,215**	**$ 3**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statements of Custodial Activity
For the Years Ended September 30, 2019 and 2018
(In Millions)

	2019	2018
Revenue Activity (Note 28)		
Sources of Cash Collections:		
Duties	$ 71,902	$ 41,584
User Fees	1,678	1,631
Excise Taxes	3,889	3,809
Fines and Penalties	130	57
Interest	44	25
Miscellaneous	206	179
Total Cash Collections	77,849	47,285
Accrual Adjustments, Net	2,952	1,707
Total Custodial Revenue	**80,801**	**48,992**
Disposition of Collections		
Transferred to Federal Entities:		
U.S. Department of Agriculture	21,779	12,770
Treasury General Fund Accounts	51,468	30,766
U.S. Army Corps of Engineers	1,556	1,513
Other Federal Agencies	41	43
Transferred to Non-Federal Entities	170	167
(Increase)/Decrease in Amounts Yet to be Transferred	2,956	1,810
Refunds and Drawbacks (Notes 18 and 28)	2,831	1,923
Total Disposition of Collections	**80,801**	**48,992**
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[3]:

- **U.S. Customs and Border Protection (CBP)**
- **Federal Emergency Management Agency (FEMA)**
- **U.S. Immigration and Customs Enforcement (ICE)**
- **Transportation Security Administration (TSA)**
- **U.S. Coast Guard (USCG)**
- **U.S. Citizenship and Immigration Services (USCIS)**
- **U.S. Secret Service (USSS)**
- **Cybersecurity and Infrastructure Security Agency (CISA)**[4]
- **Departmental Operations and Other Support Components**, including the Management Directorate (MGMT), the Office of the Secretary, the Office of Inspector General (OIG), Countering Weapons of Mass Destruction (CWMD) Office, the Office of Intelligence and Analysis (I&A), the Office of Operations Coordination (OPS), Science and Technology Directorate (S&T) and the Federal Law Enforcement Training Centers (FLETC).

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.

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[3] Financial reporting Components are to be distinguished from direct report Components described in the Management's Discussion and Analysis, Our Organization.
[4] The National Protection and Programs Directorate was renamed to Cybersecurity and Infrastructure Security Agency as a result of the enactment of the *Cybersecurity and Infrastructure Security Agency Act of 2018 (P.L. 115-278)*.

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. Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

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.

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, allowance for doubtful accounts, duties and trade receivables, including 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. Receivables, 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 include supplemental duty bills, 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 advances for support of border security, as well as disaster recovery and assistance 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, 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 Property, Plant, and Equipment (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. Land is not depreciated.

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. 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.

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.

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. Due to their nature, heritage assets not used for general government operational functions are not depreciated because matching costs with specific periods would not be meaningful. 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.

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. NFIP is an exchange transaction insurance, and DHS discloses Insurance Liabilities in accordance with SFFAS 51.

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). 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. As a result of the implementation of SFFAS 51, insurance premiums, previously reported in Note 18, Other Liabilities as deferred revenue in FY 2018, are now required in FY 2019 to be reported in Note 20, Insurance Liabilities. For Note 20, Insurance Liabilities, no comparative financial information is presented. The Balance Sheet is not reclassified in the comparative presentation as SFFAS 51 does not require a reclassification.

For additional NFIP information, see Note 15, Debt; Note 18, Other Liabilities; Note 20, Insurance Liabilities; Note 22, Funds from Dedicated Collections; and Note 23, Available Borrowing Authority.

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 23, 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.

Uniformed Division and Special Agent Pension. The District of Columbia (DC) 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.

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

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 16.9 percent of base pay for regular FERS employees and 34.9 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 17.3 percent of base pay for regular FERS employees and 35.4 percent for law enforcement agents. For the FERS further revised annuity benefit, the Department contributes 17.6 percent of base pay for regular FERS employees and 35.6 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. Reimbursable work between federal agencies is generally subject to the Economy Act (31 United States Code (USC) 1535).

Appropriations Received on the Statement of Changes in Net Position differs from that reported on the Combined 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.

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). Exchange revenue prices are recognized using full cost or market pricing guidance in OMB Circular No. A-25, except when prices are set by law or executive order. Higher prices based on full cost or market price might reduce the quantity of goods or services demanded and, therefore, the difference between revenue received and such higher prices does not necessarily provide an indication of revenue foregone. 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, and interest on the fines and penalties net of 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. 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.

Inter-Entity Cost. Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed are recognized as imputed cost and are offset by imputed revenue. Prices for goods and services sold to the public are based on recovery of full cost or are set at a market price. Prices for goods and services sold to other Federal Government agencies are generally limited to the recovery of direct cost. Such imputed costs and revenues relate to business-type activities (if applicable), employee benefits, and claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

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. Statutes and 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 28, 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 2019, certain FY 2018 balances were reclassified to conform to FY 2019 presentation in accordance with OMB Circular A-136 for Note 21, Commitments and Contingent Liabilities.

The FY 2018 Statement of Net Cost (SNC) was reclassified to present net costs by major operational Components, with the remaining support Components grouped as "Departmental Operations and Other Support Components." In previous years, SNC was presented by grouping the missions and focus areas per the DHS Strategic Plan into four major missions.

2. Non-Entity Assets

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

	2019	2018
Intragovernmental:		
Fund Balance with Treasury	$ 2,665	$ 2,445
Accounts Receivable	1	15
Total Intragovernmental	2,666	2,460
Public:		
Cash and Other Monetary Assets	9	6
Accounts Receivable, Net	16	39
Taxes, Duties, and Trade Receivables, Net	7,732	4,768
Total Public	7,757	4,813
Total Non-Entity Assets	10,423	7,273
Total Entity Assets	147,676	141,413
Total Assets	**$ 158,099**	**$ 148,686**

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, 2019 and 2018. 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):

	2019	2018
Budgetary Status		
Unobligated Balances:		
Available	$ 45,706	$ 43,815
Unavailable	2,828	3,078
Obligated Balance Not Yet Disbursed	58,429	55,656
Total Budgetary Status	106,963	102,549
Reconciling Adjustments:		
Receipt, Clearing, and Deposit Funds	3,321	3,066
Borrowing Authority (Note 23)	(6)	(6)
Investments	(10,252)	(9,149)
Receivable Transfers and Imprest Funds	(311)	(323)
Authority Unavailable for Obligation	7,222	6,995
Offsetting Collections Previously or Temporarily Precluded from Obligation	34	33
SFRBTF; OSLTF	1,547	1,466
Temporary Reduction of Budget Authority	459	477
Temporary Reduction of Specific Invested Treasury Account Symbols	(6)	(13)
Total Fund Balance with Treasury	**$ 108,971**	**$ 105,095**

The Disaster Relief Fund (DRF) is an appropriation against which FEMA can direct, coordinate, manage, and fund eligible response and recovery efforts associated with domestic major disasters and emergencies that overwhelm State resources pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act. The DRF represents approximately 65% of the unobligated balances available and 49% of the total fund balance with treasury at September 30, 2019 and 65% of the unobligated balances available and 51% of the total fund balance with treasury at September 30, 2018.

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, 2019 and 2018.
- 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 23, 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 authority 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):

	2019	2018
Total Cash and Other Monetary Assets	**$ 67**	**$ 78**

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 $9 million and $6 million at September 30, 2019 and 2018, respectively (see Note 2).

5. Investments, Net

Investments at September 30, 2019, 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	$ 6,855	$ (34)	$ 15	$ 6,836	N/A
SFRBTF	Effective interest method	1,997	3	11	2,011	N/A
General Gift Fund	Effective interest method	1	-	-	1	N/A
Total Nonmarketable, Par Value		8,853	(31)	26	8,848	N/A
National Flood Insurance Reserve Fund	Effective interest method	1,526	(23)	1	1,504	1,515
Gifts and Donations Fund	Effective interest method	-	-	-	-	-
Total Nonmarketable, Market-Based		1,526	(23)	1	1,504	1,515
Total Investments, Net		**$ 10,379**	**$ (54)**	**$ 27**	**$ 10,352**	

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**	

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. When the FDC redeems its Treasury securities to make expenditures, the U.S. Treasury will finance those expenditures in the same manner that it finances all 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):

	2019	2018
Intragovernmental	$ 342	$ 382
With the Public:		
Accounts Receivable	2,240	2,277
Allowance for Doubtful Accounts	(119)	(74)
Total with the Public	2,121	2,203
Accounts Receivable, Net	**$ 2,463**	**$ 2,585**

As of September 30, 2019, and 2018, total restricted non-entity accounts receivable were $17 million and $54 million, respectively (see Note 2). Interest is accrued on uncollectible accounts receivable until the interest payment requirement is officially waived by the entity or the related debt is written off.

Accounts receivable, net include amounts related to criminal restitution owed to the government. In FY 2019, included in accounts receivable is $24 million of gross receivables related to criminal restitution orders, of which $1 million is determined to be collectible. CBP also has criminal restitution orders most of which are 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 $193 million and $16 million, respectively.

In FY 2018, this balance included $24 million of gross receivable related to criminal restitution orders, of which $1 million was determined to be collectible. Gross receivables and net collectible amounts related to CBP's criminal restitution orders were $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, 2019:	**Gross Receivables**	**Allowance**	**Total Net Receivables**
Duties	$ 7,124	$ (178)	$ 6,946
Excise Taxes	255	(10)	245
User Fees	95	(2)	93
Fines/Penalties	674	(526)	148
Antidumping and Countervailing Duties	3,071	(2,774)	297
Interest Receivable	1,538	(1,535)	3
Total Taxes, Duties, and Trade Receivables, Net	**$ 12,757**	**$ (5,025)**	**$ 7,732**

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**

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 78 percent and 80 percent at September 30, 2019 and 2018. 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 were 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 the 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):

	2019	2018
	Loans Receivable, Net	Loans Receivable, Net
Community Disaster Loans	$ 73	$ 72

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
2019	$ 562	$ 13	$ (502)	$ 73
2018	$ 410	$ 9	$ (347)	$ 72

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

	2019	2018
Community Disaster Loans	$ 161	$ 345

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
2019	$ 6	$ 153	$ 159
2018	$ 13	$ 328	$ 341

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
2019	$ -	$ -	$ (2)	$ (2)
2018	$ -	$ -	$ (42)	$ (42)

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

Total Direct Loan Subsidy Expense

	2019	2018
Community Disaster Loans	$ 157	$ 299

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

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

	2019	2018
	Community Disaster Loans	Community Disaster Loans
Interest Subsidy Cost	2.96%	2.32%
Default Costs	0.13%	0.16%
Other	87.63%	87.85%
Total	90.72%	90.33%

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):

	2019	2018
Beginning balance of the subsidy cost allowance	$ 347	$ 91
Add subsidy expense for direct loans disbursed during the reporting years by Component:		
Interest rate differential costs	6	13
Other subsidy costs	153	328
Adjustments:		
Loans written off	(13)	(48)
Subsidy allowance amortization	11	5
Ending balance of the subsidy cost allowance before re-estimates	504	389
Add subsidy re-estimate by Component		
Technical/default re-estimate	(2)	(42)
Ending balance of the subsidy cost allowance	**$ 502**	**$ 347**

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

	2019	2018
Community Disaster Loans	**$ 2**	**$ 5**

9. Inventory and Related Property, Net

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

	2019	2018
OM&S		
Items Held for Use	$ 1,468	$ 1,407
Items Held for Future Use	59	54
Items Held for Repair	1,021	930
Less: Allowance for Losses	(404)	(366)
Total OM&S, Net	2,144	2,025
Inventory		
Inventory Purchased for Resale	37	42
Less: Allowance for Losses	(8)	(7)
Total Inventory, Net	29	35
Stockpile Materials Held in Reserve	122	121
Total Inventory and Related Property, Net	**$ 2,295**	**$ 2,181**

10. Seized and Forfeited Property

Prohibited seized property item counts as of September 30 and seizure and forfeiture activity for FY 2019 and 2018 are as follows:

For the fiscal year Ended September 30, 2019:

Seized Property:	Beginning Balance	New Seizures	Remissions and Adjustments	New Forfeitures	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	-	272,024	50	(272,074)	-
Cocaine	-	121,590	(77)	(121,513)	-
Heroin	-	3,656	3	(3,659)	-
Methamphetamine	-	39,027	12	(39,039)	-
Khat	-	16,919	-	(16,919)	-
Synthetic Marijuana	-	526	(1)	(525)	-
Fentanyl	-	1,555	44	(1,599)	-
Other Drugs	1,918	55,300	2,495	(57,792)	1,921
Firearms and Explosives (in number of case line items)	1,549	5,078	(3,045)	(1,293)	2,289
Counterfeit Currency (US/Foreign, in number of items)	4,612,397	7,402,533	(8,646,587)	-	3,368,343
Counterfeit Goods (in number of case line items)	37,102	69,549	(8,882)	(57,649)	40,120

Forfeited Property:	Beginning Balance	New Forfeitures	Transfers and Adjustments	Destroyed	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	97,746	272,074	(123,725)	(155,472)	90,623
Cocaine	40,098	121,513	(71,501)	(32,236)	57,874
Heroin	4,842	3,659	(818)	(2,231)	5,452
Methamphetamine	37,239	39,039	(1,943)	(24,743)	49,592
Khat	824	16,919	(2,622)	(13,358)	1,763
Synthetic Marijuana	5,441	525	(3,199)	(1,304)	1,463
Fentanyl	1,876	1,599	(45)	(860)	2,570
Other Drugs	13,735	57,792	(17,977)	(17,799)	35,751
Firearms and Explosives (in number of case line items)	1,327	1,293	(1,392)	(1)	1,227
Counterfeit Goods (in number of case line items)	21,112	57,649	229	(58,265)	20,725

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

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. Schedule I and II drugs are presented as summarily forfeited[5]. 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.

[5] 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, 2019:	Useful Life	Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	$ 305	N/A	$ 305
Improvements to Land	2-50 yrs	2,379	1,123	1,256
Construction in Progress	N/A	4,512	N/A	4,512
Buildings, Other Structures and Facilities	10-50 yrs	8,797	4,652	4,145
Equipment:				
Information Technology Equipment	5 yrs	1,063	816	247
Aircraft	20 yrs	6,451	3,301	3,150
Vessels	5-30 yrs	10,894	4,464	6,430
Vehicles	5-15 yrs	1,105	872	233
Other Equipment	5-15 yrs	7,193	5,002	2,191
Assets Under Capital Lease	2-20 yrs	69	57	12
Leasehold Improvements	2-50 yrs	2,579	1,714	865
Internal Use Software	2-13 yrs	4,702	3,719	983
Internal Use Software - in Development	N/A	344	N/A	344
Total General Property, Plant, and Equipment, Net		**$ 50,393**	**$ 25,720**	**$ 24,673**

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	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**

12. Stewardship Property, Plant, and Equipment

DHS's Stewardship PP&E is comprised of items held by DHS. These heritage assets are 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:

2019	Beginning Balance	Additions	Withdrawals	Total
Collection-type Assets				
USCG	9	-	-	9
CBP	2	-	-	2
USCIS	5	-	-	5
TSA	11	-	(1)	10
MGMT	-	1	-	1
S&T	1	-	-	1
USSS	2	-	-	2
Non-Collection-type Assets				
USCG	71	-	(2)	69
S&T	1	-	-	1
FLETC	1	-	-	1
Multi-use Heritage Assets				
USCG	101	-	(5)	96
CBP	4	-	-	4
FEMA	1	-	-	1
ICE	1	-	-	1
Total Stewardship PP&E	**210**	**1**	**(8)**	**203**

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**	**-**	**(4)**	**210**

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.

MGMT has one collection-type heritage asset, the World Trade Center Façade, which was received from TSA. It is kept at the DHS Headquarters Gallery at St. Elizabeths to educate visitors why TSA was established.

TSA collection-type heritage assets include five 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 three individual artifacts related to both 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 non-collection-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):

	2019	2018
Intragovernmental:		
Advances and Prepayments	$ 542	$ 755
Total Intragovernmental	542	755
Public:		
Advances and Prepayments	929	788
Other Assets	2	2
Total Public	931	790
Total Other Assets	**$ 1,473**	**$ 1,545**

14. Liabilities Not Covered by Budgetary Resources

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

	2019	2018
Intragovernmental:		
Debt (Note 15)	$ 20,525	$ 20,525
Due to the General Fund (Note 18)	-	-
Accrued FECA Liability (Note 18)	489	370
Other	83	71
Total Intragovernmental	21,097	20,966
Public:		
Federal Employee and Veterans' Benefits:		
Actuarial FECA Liability (Note 16)	3,095	2,963
Military Service and Other Retirement Benefits (Note 16)	62,012	58,901
Environmental and Disposal Liabilities (Note 17)	622	472
Other:		
Accrued Payroll and Benefits (Note 18)	1,616	1,330
Contingent Legal Liabilities (Note 21)	423	677
Capital Lease Liability (Note 19)	18	23
Other	129	169
Total Public	67,915	64,535
Total Liabilities Not Covered by Budgetary Resources	89,012	85,501
Total Liabilities Not Requiring Budgetary Resources	7,929	5,003
Liabilities Covered by Budgetary Resources	15,968	15,386
Total Liabilities	**$ 112,909**	**$ 105,890**

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 liabilities for clearing accounts, non-fiduciary deposit funds, and custodial collections, including amounts due to the general fund. The remaining liabilities are substantially covered by current budgetary resources.

15. Debt

Debt at September 30 and activity for fiscal years ended FY 2019 and 2018 consisted of the following (in millions):

Debt to the Treasury General Fund:	2019	2018
NFIP:		
Beginning Balance	$ 20,525	$ 30,425
New Borrowing	-	6,100
Interest Payable	-	-
Canceled Debt	-	(16,000)
Ending Balance	20,525	20,525
DADLP (Credit Reform):		
Beginning Balance	16	15
New Borrowing	67	5
Interest Payable	-	-
Repayments	(12)	(4)
Ending Balance	71	16
Total Debt	**$ 20,596**	**$ 20,541**

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 2.875 percent as of September 30, 2019, and from 1.125 percent to 2.375 percent as of September 30, 2018. Interest is paid semi-annually on March 31 and September 30. The total interest paid for the year was $415 million and $368 million as of September 30, 2019 and 2018, 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 provided debt relief and additional borrowing authority for the NFIP by cancelling $16,000 million of the NFIP's debt to Treasury in FY 2018.

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 2019 and FY 2018 were 2.33 percent and 3.22 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):

	2019	2018
USCG Military Retirement and Healthcare Benefits	$ 57,445	$ 53,998
USSS Uniformed Division and Special Agent Pension	4,567	4,903
Actuarial FECA Liability	3,095	2,963
Total Federal Employee and Veterans' Benefits	**$ 65,107**	**$ 61,864**

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, 2019:	**USCG Military Retirement System**	**USCG Military Health System**	**USSS Uniformed Division and Special Agent Pension**	**Total**
Beginning Liability Balance:	$ 47,527	$ 6,471	$ 4,903	$ 58,901
Expenses:				
Normal Cost	1,410	277	-	1,687
Interest on the Liability Balance	1,750	222	119	2,091
Actuarial Losses/(Gains):				
From Experience	209	35	23	267
From Assumption Changes	1,450	(176)	(350)	924
Other	-	-	132	132
Total Expense	4,819	358	(76)	5,101
Less Amounts Paid	1,476	254	260	1,990
Ending Liability Balance	**$ 50,870**	**$ 6,575**	**$ 4,567**	**$ 62,012**

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
Total Expense	105	-	-	105
	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**

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 the BRS.

In FY 2019, several changes were made to the USCG actuarial assumptions. The major changes include (1) decrease of the current discount rate from 3.65% to 3.51% resulting in a liability increase of $1.22 billion, (2) lower assumed cost of living adjustments, decreasing the liability by $305 million and (3) a change in BRS opt-in assumption: this resulted in a switch to actual opt-in data that increased the obligation by $319.2 million.

The significant actuarial assumptions used to compute the accrued pension and healthcare liability at September 30, 2019, 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 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 2.29 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 3.51 percent for the retirement system and 3.43 percent for the health system.
5. Rates of salary increases are 1.90 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 2019, using actual USCG experience over the past six years.
6. Post-Retirement health benefit assumptions include a single equivalent medical cost trend rate of 3.93 percent and an ultimate medical trend rate of 4.0 percent after 25 years.

Comparatively, the significant actuarial assumptions used to compute the accrued pension and healthcare liability at September 30, 2018, 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 Uniformed Division and Special Agent 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 Federal Employee and Veterans' 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.

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 Federal Employee and Veterans' 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.

In FY 2019, several changes were made to the USSS actuarial assumptions resulting in significant fluctuations from FY 2018. The major changes include (1) an increase in the discount rate from 2.50% to 3.02%, resulting in a liability decrease of $300.9 million; (2) the COLA for survivors decreased from 3.0% to 2.57% resulting in a liability decrease of $15.3 million; (3) the Equalization pay for all annuitants decreased from 2.5% to 2.17% resulting in a liability decrease of $168.9 million; (4) the change in mortality assumption resulted in a liability increase of $128 million; and (5) the change in survivor continuation percentage resulted in a liability increase of $6.5 million.

The primary actuarial assumptions used to determine the liability at September 30, 2019, are as follows:

1. The mortality assumption was changed from OPM Mortality Tables for healthy/disabled annuitants as described in the 2016 CSR report to the new OPM non-USPS mortality tables projected using the OPM projection scale.
2. Annuitants receive an annual cost of living increase in their retirement benefit based on equalization pay, which is the actual pay increase award to active members effective February 1, payable to retirees in March. To be consistent with the discount rate method we have changed the assumption to equal the average of the last 10 equalization pays for each category (General Service, Uniformed Division, Senior Executive Service). The equalization pay assumption is equal to the CPI assumption. The equalization pay assumption is 2.17% for all annuitants.
3. The assumption for future survivors' cost of living awards was changed to be based on the implicit 10-year average inflation assumption built into Treasury security prices plus the average number of survivor COLA awards over the last 10 years. The implicit inflation from Treasury securities is derived from a 10-year average of the Treasury Breakeven Inflation (TBI) curve. Each time three percent award is granted an extra 100 basis point is added to the COLA award. Because there were 4 such awards over the last ten years we added 40 basis points to the results. The basis point adjustment is reviewed annually based on the number of COLA awards over the past 10 years. The COLA for survivors is 2.57%. As for the discount rate determination, the rounding of the COLA was changed from the nearest 0.25% to the nearest 0.01%.
4. The discount rate calculated in accordance with SFFAS No. 33 is 3.02%. The methodology in calculating this rate changed from using a 5-year of the average of the Treasury spot rates published on October 1 to a 10-year Treasury average ending March 31, 2019. This is consistent with DOD, OPM, and the USCG. The rounding of the discount rate is to the nearest 0.01%.
5. 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.
6. Family composition assumption used to determine survivor benefits is 85% based on the probability of marriage at commencement of benefits. Retired participants are assumed to have no eligible children.
7. 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.

Comparatively. 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 $3,095 million and $2,963 million at September 30, 2019 and 2018, respectively.

17. Environmental and Disposal Liabilities

Environmental and disposal liabilities at September 30, 2019 and 2018 are $624 million and $474 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, 2019:	Current	Non-Current	Total
Intragovernmental:			
Due to the General Fund (Note 14)	$ 7,727	$ -	$ 7,727
Accrued FECA Liability (Note 14)	215	274	489
Advances from Others	111	-	111
Employer Benefits Contributions and Payroll Taxes	276	-	276
Other Intragovernmental Liabilities	145	3	148
Total Intragovernmental Other Liabilities	**$ 8,474**	**$ 277**	**$ 8,751**
Public:			
Accrued Payroll and Benefits (See B. below)	$ 2,889	$ -	$ 2,889
Deferred Revenue and Advances from Others (See B. below)	2,591	410	3,001
Insurance Liabilities (Note 20)	3,154	235	3,389
Refunds and Drawbacks	328	-	328
Contingent Legal Liabilities (Note 21)	191	290	481
Capital Lease Liability (Note 19)	5	13	18
Other	1,475	1,786	3,261
Total Other Liabilities with the Public	**$ 10,633**	**$ 2,734**	**$ 13,367**
Total Other Liabilities	**$ 19,107**	**$ 3,011**	**$ 22,118**

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**

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 $221 million and $215 million, respectively, for the fiscal years ended September 30, 2019 and 2018.

B. Other Liabilities with the Public

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

	2019	2018
Accrued Funded Payroll and Benefits	$ 1,169	$ 1,005
Accrued Unfunded Leave	1,615	1,329
Unfunded Employment Related Liabilities	1	1
Other	104	97
Total Accrued Payroll and Benefits	**$ 2,889**	**$ 2,432**

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

	2019	2018
USCIS Application Fees	$ 2,213	$ 2,149
FEMA Unearned NFIP Premiums	624	2,557
Advances from Others	164	31
Total Deferred Revenue	**$ 3,001**	**$ 4,737**

USCIS' deferred revenue relates to fees received at the time of filing for applications or petitions for immigration and naturalization benefits that are recognized as revenue 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.

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, 2019.

As of September 30, 2019, estimated future minimum lease commitments for non-cancellable operating leases were as follows (in millions):

	Land and Buildings		
	Federal	Non-Federal	Total
FY 2020	$ 458	$ 46	$ 504
FY 2021	423	27	450
FY 2022	384	7	391
FY 2023	343	4	347
FY 2024	310	2	312
After FY 2024	1,919	1	1,920
Total Future Minimum Lease Payments	**$ 3,837**	**$ 87**	**$ 3,924**

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):

	2019	2018
Land and Buildings	$68	$ 68
Software	-	-
Vehicles and Equipment	1	1
Accumulated Amortization	(57)	(53)
Assets under Capital Lease, Net	**$ 12**	**$ 16**

The estimated future lease payments for capital leases are based on lease contract terms. As of September 30, 2019, estimated future minimum lease payments under capital leases, were as follows (in millions):

	Land and Buildings		
	Federal	Non-Federal	Total
FY 2020	$ -	$ 6	$ 6
FY 2021	-	6	6
FY 2022	-	6	6
FY 2023	-	3	3
FY 2024	-		-
After FY 2024	-		-
Total Future Minimum Lease Payments	-	21	21
Less: Imputed Interest and Executory Costs	-	(3)	(3)
Total Capital Lease Liability	**$ -**	**$ 18**	**$ 18**

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):

	2019
Beginning Balance	$ 1,658
Incurred Claim Losses	1,674
Incurred Claim Loss Adjustment Expenses	144
Less Payments to Settle Claims	(2,119)
Claim Losses	(1,959)
Loss Adjustment Expenses	(160)
Recoveries and Other Adjustments	3
Claim Losses	3
Loss Adjustment Expenses	-
Ending Balance	**1,360**
Liability for Unearned Insurance Premiums	**2,029**
Total Insurance Liability	**$ 3,389**

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.

The total premiums collected as of September 30, 2019 is approximately $3.3 billion. The total amount of coverage provided through insurance in-force[6] as of September 30, 2019 is $1,330 billion. However, it is unlikely that there would be flooding events across the United States requiring the entire insurance in force amount to be filed at one time.

The liability for losses on remaining coverage as of September 30, 2019 is zero. The Department evaluated the unearned premium reserve, net of operating expenses, to determine if it is 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 subsidized (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. 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.

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
As of September 30, 2019:			
Legal Contingencies			
Probable	$ 472	$ 472	$ 509
Reasonably Possible	-	$ 325	$ 948
Environmental Contingencies			
Probable	9	9	32
Reasonably Possible	-	29	360

[6] "In-force" refers to arrangements that are unexpired as of a given date.

As of September 30, 2018:	Accrued Liabilities	Estimated Range of Loss Lower End	Upper End
Legal Contingencies			
Probable	$ 732	$ 732	$ 769
Reasonably Possible	-	$ 458	$ 1,064
Environmental Contingencies			
Probable	7	7	8
Reasonably Possible	-	-	-

The claims above generally relate to the Federal Tort Claims Act (28 U.S.C. 2671, et seq), OSLTF, personnel grievances, and various customs laws and regulations. Beginning in FY 2019, OSLTF claims amount are required to be disclosed separately. The total estimated contingent liability recorded in the accompanying financial statements as of September 30, 2019, and 2018, was $481 million and $739 million, respectively, of which $58 million and $62 million, respectively, was funded.

As of September 30, 2019, and 2018, 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.

Once a claim is either settled or a court judgment is assessed against DHS, and the Judgment Fund, which is maintained by Treasury, is determined to be the appropriate source for the payment of the claim, the liability would be removed from the DHS financial statements and an "other financing source" amount (which represents the amount to be paid by the Judgment Fund) would be recognized. If the Judgment Fund is responsible for only a portion of the claim or settlement, the other financing source amount would reflect only that amount to be paid by the Judgment Fund on behalf of DHS.

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, 2019 and 2018 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, 2019 and 2018, CBP had 16 aircraft on loan from DOD with a total replacement value of up to $23 million per aircraft. As of September 30, 2019, and 2018 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 (P.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, 2019, and 2018, the Department estimates total payments related to cancelled appropriations to be $217 million and $165 million, respectively, of which $178 million and $135 million, respectively, may require future funding.

TSA maintains one letter of intent (LOI) 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 Explosive Detection Systems (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, 2019, and 2018, TSA received invoices or documentation for costs incurred totaling $11 million and $18 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 compiled this review and identified up to $217.9 million of potential costs eligible for reimbursement. In FY 2019, Congress has appropriated $40 million to begin reimbursing airports for these costs, leaving a future funded liability of $127.9 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, 2019								
ASSETS								
Fund Balance with Treasury	$ 606	$ 26	$ 2,575	$ 5,532	$ (16)	$ 1,195	$ 1,644	$ 11,562
Investments, Net	-	2,011	-	1,504	6,836	-	1	10,352
Accounts Receivable	435	110	4	1	1,254	-	120	1,924
Other	-	-	793	698	2	8	51	1,552
Total Assets	**$ 1,041**	**$ 2,147**	**$ 3,372**	**$ 7,735**	**$ 8,076**	**$ 1,203**	**$ 1,816**	**$ 25,390**
LIABILITIES								
Other Liabilities	$ 26	$ 1,347	$ 2,690	$ 24,638	$ 200	$ 207	$ 71	$ 29,179
Total Liabilities	**$ 26**	**$ 1,347**	**$ 2,690**	**$ 24,638**	**$ 200**	**$ 207**	**$ 71**	**$ 29,179**
NET POSITION								
Cumulative Results of Operations	$ 1,015	$ 800	$ 682	$ (16,903)	$ 7,876	$ 996	$ 1,745	$ (3,789)
Total Liabilities and Net Position	**$ 1,041**	**$ 2,147**	**$ 3,372**	**$ 7,735**	**$ 8,076**	**$ 1,203**	**$ 1,816**	**$ 25,390**
Statement of Net Cost for the Year Ended September 30, 2019								
Gross Program Costs	$ 830	$ 116	$ 4,143	$ 3,965	$ 121	$ 239	$ 1,616	$ 11,030
Less: Earned Revenue	-	-	(3,869)	(4,381)	(79)	(250)	(774)	(9,353)
Net Cost of Operations	**$ 830**	**$ 116**	**$ 274**	**$ (416)**	**$ 42**	**$ (11)**	**$ 842**	**$ 1,677**
Statement of Changes in Net Position for the Year Ended September 30, 2019								
Net Position Beginning of Period	$ 863	$ 808	$ 722	$ (17,325)	$ 7,713	$ 1,117	$ 1,651	$ (4,451)
Net Cost of Operations	(830)	(116)	(274)	416	(42)	11	(842)	(1,677)
Non-exchange Revenue	939	679	-	2	321	-	484	2,425
Other	43	(571)	234	4	(116)	(132)	452	(86)
Change in Net Position	152	(8)	(40)	422	163	(121)	94	662
Net Position, End of Period	**$ 1,015**	**$ 800**	**$ 682**	**$ (16,903)**	**$ 7,876**	**$ 996**	**$ 1,745**	**$ (3,789)**

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, 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)**

Customs User Fees

When signed in April 1986, Consolidated Omnibus Budget Reconciliation Act (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 Appropriation 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 non-reimbursable 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 inspection 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.

On October 22, 2004, the American Jobs Creation Act of 2004 (Pub. L. 108–357) was signed into law. Section 892 of the American Jobs Creation Act amended 19 U.S.C. 58c to renew the fees provided under COBRA, which would have otherwise expired March 1, 2005, and to allow the Secretary of the Treasury to increase such fees by an amount not to exceed 10 percent in the period beginning fiscal year 2006. The 10 percent increase took effect on April 1, 2007. See 72 Fed. Reg. 3730 (Jan. 26, 2007).

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.

On December 4, 2015, the Fixing America's Surface Transportation Act (FAST Act, Pub. L. 114-94) was signed into law. Section 32201 of the FAST Act amends section 13031 of the COBRA of 1985 (19 U.S.C. 58c) by requiring certain customs COBRA user fees and corresponding limitations to be adjusted by the Secretary of the Treasury to reflect certain increases in inflation. The customs COBRA user fees and limitations were first eligible to be adjusted on April 1, 2016, and at the beginning of each fiscal year to reflect the percent increase (if any) in the average of the Consumer Price Index (CPI) for the preceding 12-month period compared to the CPI for fiscal year 2014. The statute permits the Secretary to ignore any CPI increase of less than one (1) percent from the time of the previous adjustment. The increases first took effect on January 1, 2018 for fiscal year 2018, see 82 Fed. Reg. 50659 (Nov. 1, 2017), then on October 1, 2018 for fiscal year 2019, see 83 Fed. Reg. 37509, and are slated to take effect on October 1, 2019 for fiscal year 2020.

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).

<u>Immigration Examination Fees</u>

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

The primary sources of revenue are the application and petition fees that are collected during the course of the fiscal year and deposited into the IEFA (TAFS 70X5088). In addition, USCIS provides specific services to other federal agencies, such as 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.

<u>National Flood Insurance Program</u>

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 prohibiting 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.

Under the NFIP, the Department pays claims to policyholders who 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.

<u>Oil Spill Liability Trust Fund</u>

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 and the collection of revenue necessary for its maintenance.

OPA defined fund uses 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 Operations and Support; Procurement, Construction and Improvement; and Research and Development 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 conveyor systems related to aviation security, (2) reconfigure terminal baggage areas as needed to install 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. Available Borrowing Authority

For the Years Ended September 30:	2019	2018
Beginning Borrowing Authority	$ 6	$ 4
Current Year Borrowing Authority Realized	9,983	6,138
Decrease in Current Year Borrowing Authority Realized	(9,916)	(28)
Net Current Year Borrowing Authority Realized	67	6,110
Less: Borrowing Authority Converted to Cash	(67)	(6,105)
Less: Borrowing Authority Withdrawn	-	(3)
Ending Borrowing Authority	**$ 6**	**$ 6**

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, 2019, and 2018, net current year borrowing authority realized presented in the Statement of Budgetary Resources (SBR) totaled $67 million and $6,110 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, 2019, and 2018, FEMA had drawn from Treasury $20,525 million, leaving $9,900 million available to be borrowed.

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 2019, FEMA requested borrowing totaling $83 million. As of September 30, 2019, the ending available borrowing authority of $6 million was to cover current obligations for CDLs still disbursing.

24. 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 $1,769 million and $1,480 million at September 30, 2019, and 2018, 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.

25. 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 2018 Statement of Budgetary Resources and the actual amounts reported for FY 2018 in the Budget of the Federal Government. Since the FY 2019 financial statements will be reported prior to the release of the Budget of the Federal Government, DHS is reporting for FY 2018 only. Typically, the Budget of the Federal Government with the FY 2019 actual data is published in February of the subsequent year. Once published, the FY 2019 actual data will be available on the OMB website.

	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
FY 2018 Actual Balances per the FY 2020 Budget of the U.S. Government (in millions)	**$ 150,088**	**$ 105,554**	**$ 11,900**	**$ 80,275**
Reconciling Items:				
Accounts that are expired that are not included in Budget of the United States	1,626	-	-	-
Distributed Offsetting Receipts not included in the Budget of the United States, Net Outlays	-	-	-	(11,900)
Refunds and drawbacks not included in the Budget of the United States	1,954	1,954	-	1,797
Byrd Program (Continued Dumping and Subsidy Offset) not included in the Budget of the United States	169	46	-	46
Undelivered Order Deobligations	931	322	-	-
Miscellaneous Differences	5	4	-	-
Per the 2018 Statement of Budgetary Resources	**$ 154,773**	**$ 107,880**	**$ 11,900**	**$ 70,218**

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

26. 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, 2019:	Federal	Non-Federal	Total
Undelivered Orders – Unpaid	$ 9,551	$ 43,918	$ 53,469
Undelivered Orders - Paid	$ 634	$ 928	$ 1,562

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

27. Net Adjustments to Unobligated Balance, Brought Forward, October 1

	2019
Unobligated Balance, Prior Year	$ 46,893
Other balances withdrawn from Treasury	(641)
Recoveries of prior year obligations	4,527
Other	(11)
Unobligated Balance from Prior Year Budget Authority, Net	**$ 50,768**

The FEMA Disaster Relief program was the primary contributor to Recoveries of prior year obligations.

28. 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, 2019 and 2018 (in millions):

2019 Tax Disbursements	**Tax Year**			
	2019	2018	2017	Prior Years
Total tax refunds and drawbacks disbursed	**$ 1,561**	**$ 799**	**$ 127**	**$ 344**

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

Total tax refunds and drawbacks disbursed consist of non-exchange customs duties revenue refunded. The disbursements include interest payments of $65 million and $44 million for the fiscal years ended September 30, 2019 and 2018, 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.

29. Reconciliation of the Net Cost to Net Outlays

The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information.

The first section, Components of Net Operating Cost Not Part of the Net Outlays, includes items such as property, plant and equipment depreciation and year-end credit reform subsidy re-estimates. These items are generally subtracted from the Net Cost of Operations.

The second section, Increase/(Decrease) in Assets, consists of items such as Accounts Receivable and Investment. These items are generally added to the Net Cost of Operations.

The third section, (Increase)/Decrease in Liabilities, consists of items such as Accounts Payable, Salaries and Benefits and Environmental and Disposal Liabilities. These items are generally subtracted from the Net Cost of Operations.

The fourth section, Other Financing Sources, consists of items such as Transfers out (in). These items are generally subtracted to the Net Cost of Operations.

The fifth section, Components of Net Outlays Not Part of Net Cost, consists of items such as Acquisition of Capital Assets and Acquisition of Inventory. These items are generally added to the Net Cost of Operations.

As of September 30, 2019 (in millions):

	Intragovernmental	With the Public	Total
Net Cost of Operations	$ 16,119	$ 49,968	$ 66,087
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant, and Equipment Depreciation	-	(2,099)	(2,099)
Property, Plant, and Equipment Disposal and Revaluation	-	(96)	(96)
Year-end credit reform subsidy re-estimates	(12)	63	51
Unrealized Valuation Loss/(Gain) on Investments			
Other	(24)	262	238
Increase/(Decrease) in Assets:			
Accounts Receivable	(63)	(62)	(125)
Loans Receivable	-	1	1
Investments	21	-	21
Other Assets	(222)	47	(175)
(Increase)/Decrease in Liabilities:			
Accounts Payable	(20)	(1)	(21)
Salaries and Benefits	78	(170)	(92)
Environmental and Disposal Liabilities	-	(150)	(150)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	(79)	(3,388)	(3,467)
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	$ (1,827)	$ -	$ (1,827)
Transfers Out (In) Without Reimbursement	(606)	-	(606)
Total Components of Net Cost That Are Not Part of Net Outlays	**$ (2,754)**	**$ (5,593)**	**$ (8,347)**
Components of Net Outlays That Are Not Part of Net Operating Cost:			
Acquisition of Capital Assets	$ 48	$ 2,992	$ 3,040
Acquisition of Inventory	97	398	495
Other	2,486	(4,667)	(2,181)
Total Components of Net Outlays That Are Not Part of Net Operating Cost	**$ 2,631**	**$ (1,277)**	**$ 1,354**
Other Temporary Timing Differences	**(5)**	**-**	**(5)**
Net Outlays	**$ 15,991**	**$ 43,098**	**$ 59,089**

30. Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for Financial Reporting Compilation Process

To prepare the Financial Report (FR) of the U.S. Government, the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, a Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows the Department's financial statements and the Department's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2018 FR can be found here: https://www.fiscal.treasury.gov/reports-statements/ and a copy of the 2019 FR will be posted to this site as soon as it is released.

The term "non-Federal" is used in this note to refer to Federal Government amounts that result from transactions with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments.

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet for the Year Ending September 30, 2019

FY 2019 DHS Balance Sheet		Line Items Used to Prepare FY 2019 Government-wide Balance Sheet	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
ASSETS			**ASSETS**
Intra-Governmental Assets			**Intragovernmental Assets**
Fund Balance with Treasury	**108,971**	**108,971**	**Fund Balance With Treasury (Note 3)**
Investments, Net	10,352	10,325	Federal Investments
		27	Interest Receivable – Investments
Total Investments, Net	**10,352**	**10,352**	***Total Reclassified Investments, Net***
Accounts Receivable	342	198	Accounts Receivable
		-	Accounts Receivable, Capital Transfers
		-	Interest Receivable – Loans and Not Otherwise Classified
		144	Transfers Receivable
		-	Benefit Program Contributions Receivable
		-	Asset for Agency Custodial and Non-Entity Liabilities – Other than the General Fund
Total Accounts Receivable	***342***	***342***	***Total Reclassified A/R***
Loans Receivable, Net	-	-	Loans Receivable, Net
Other	542	542	Advances to Others and Prepayments
		-	Other Assets
Total Other	**542**	**542**	***Total Reclassified Other***
Total Intra-Governmental Assets	**120,207**	**120,207**	**Total Intragovernmental Assets**
Cash and Other Monetary Assets	67	67	Cash and Other Monetary Assets
Investments, Net	-	-	Debt and Equity Securities
		-	Investments in Government Sponsored Enterprises
Accounts Receivable, Net	2,121	2,121	Accounts and Taxes Receivable, Net
Taxes Receivable, Net	7,732	7,732	Accounts and Taxes, Receivable, Net
Direct Loans and Loan Guarantees, Net	73	73	Loans Receivable, Net
Inventory and Related Property, Net	2,295	2,295	Inventory and Related Property, Net
General PP&E, Net	24,673	24,673	PP&E, Net
Other Assets	931	931	Other Assets
Total Assets	**158,099**	**158,099**	**Total Assets**

FY 2019 DHS Balance Sheet		Line Items Used to Prepare FY 2019 Government-wide Balance Sheet	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
LIABILITIES			**LIABILITIES**
Intra-Governmental Liabilities			**Intragovernmental Liabilities**
Accounts Payable	2,064	717	Accounts Payable
		1,347	Transfers Payable
		-	Interest Payable–Loans and not Otherwise Classified
Total Accounts Payable	*2,064*	*2,064*	*Total Reclassified Accounts Payable*
Debt	20,596	20,596	Loans Payable
		-	Federal Debt
		-	Interest Payable, Debt
		-	Interest Payable-Loans and Not Otherwise Classified
Total Debt	*20,596*	*20,596*	*Total Reclassified Debt*
Due to General Fund	7,727	7,727	Liability to General Fund for Custodial and Other Non-Entity Assets
		-	Other Liabilities
Accrued FECA Liability	489	489	Benefit Program Contributions Payable
		-	Other Liabilities (Without Reciprocals)
Other	535	70	Accounts Payable
		-	Accounts Payable Capital Transfers
		-	Transfers Payable
		219	Benefit Program Contributions Payable
		111	Advances from Other & Deferred Credits
		121	Liability to agency Other Than the General Fund of the U.S. Government for custodial and other non-entity assets
		14	Other Liabilities without Reciprocals
Total Other Liabilities	535	535	*Total Reclassified Other–Liabilities*
Total Intra-Governmental Liabilities	**31,411**	**31,411**	**Total Intragovernmental Liabilities**
Accounts Payable	2,400	2,400	Accounts Payable
Debt Held by the Public	-	-	Federal Debt
Loan Guarantee Liability	-	-	Loan Guarantee Liabilities
Federal Employee and Veteran Benefits	65,107	65,107	Federal Employee and Veteran Benefits Payable
Environmental and Disposal Liabilities	624	624	Environmental and Disposal Liabilities
Benefits Due and Payable	-	-	Benefits Due and Payable
Insurance Liabilities	3,389	3,389	Insurance and Guarantee Program Liabilities
Accrued Payroll	2,889	31	Federal Employees and Veteran Benefits
		2,858	Other Liabilities
Deferred Revenue and Advances from Others	3,001	3,001	Other Liabilities
Refunds and Drawbacks	328	328	Other Liabilities
Other	3,760	3,760	Other Liabilities
Total Public Liabilities	**81,498**	**81,498**	***Total Public Liabilities***
Total Liabilities	**112,909**	**112,909**	**Total Liabilities**
NET POSITION			
Unexpended Appropriations – Funds from Dedicated Collections	-	-	Net Position – Funds from Dedicated Collections
Unexpended Appropriations – All Other Funds	87,723	87,723	Net Position – Funds Other than those from Dedicated Collections
Cumulative Results of Operations – Funds from Dedicated Collections	(3,789)	(3,789)	Net Position – Funds from Dedicated Collections
Cumulative Results of Operations – All Other Funds	(38,744)	(38,744)	Net Position – Funds Other than those from Dedicated Collections
Total Net Position	**45,190**	**45,190**	**Total Net Position**
Total Liabilities & Net Position	**158,099**	**158,099**	**Total Liabilities & Net Position**

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ending September 30, 2019

FY 2019 DHS SNC		Line Items Used to Prepare FY 2019 Government-wide SNC	
Financial Statement Line	**Amounts**	**Amounts**	**Reclassified Financial Statement Line**
Gross Costs	80,818		***Non-Federal Costs***
		63,028	Non-Federal Gross Cost
		63,028	***Total Non-Federal Costs***
			Intragovernmental Costs
		5,715	Benefit Program Costs
		1,827	Imputed Costs
		8,409	Buy/Sell Costs
		417	Borrowing and Other Interest Expense
		1,422	Other Expenses (w/o Reciprocals)
		17,790	***Total Intragovernmental Costs***
Total Gross Costs	**80,818**	**80,818**	***Total Reclassified Gross Costs***
Earned Revenue	(15,655)	(13,984)	Non-Federal Earned Revenue
		(13,984)	***Total Non-Federal Earned Revenue***
			Intragovernmental Revenue
		(1,646)	Buy/Sell Revenue
		(25)	Federal Securities Interest Revenue Including Associated Gains/Losses (Exchange)
		(1,671)	***Total Intragovernmental Earned Revenue***
Total Earned Revenue	**(15,655)**	**(15,655)**	***Total Reclassified Earned Revenue***
Gain/Loss-Pension/ORB/OPEB Assumptions	924	924	Gain/Loss on Changes in Actuarial Assumptions (Non-Federal)
Net Cost	**66,087**	**66,087**	**Net Cost**

Reclassification of Statement of Changes in Net Position to Line Items Used for Government-wide Statement of Operations and Changes in Net Position for the Year Ending September 30, 2019

FY 2019 DHS SCNP		Line Items Used to Prepare FY 2019 Government-wide SCNP	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
UNEXPENDED APPROPRIATIONS			
Unexpended Appropriations, Beginning Balance	84,662	84,662	Net Position, Beginning of Period
Changes in Accounting Principles	-	-	Changes in Accounting Principles
Corrections of Errors	-	-	Corrections of Errors
		-	Corrections of Errors – Years Preceding the Prior Year
Total Corrections of Errors	-	-	*Total Reclassified Corrections of Errors*
Appropriations Received	62,710	62,710	Appropriations Received as Adjusted
Other Adjustments	(754)	(754)	Appropriations Received as Adjusted
Appropriations Transferred In/Out	(151)	4	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources (Federal)
		(155)	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources (Federal)
Total Appropriations Transferred In/Out	(151)	(151)	*Total Reclassified Appropriations Transferred In/Out*
Appropriations Used	(58,744)	(58,744)	Appropriations Used (Federal)
Total Unexpended Appropriations	**87,723**	**87,723**	
CUMULATIVE RESULTS OF OPERATIONS			
Cumulative Results, Beginning Balance	(41,866)	(41,866)	Net Position, Beginning of Period
Changes in Accounting Principles	-	-	Changes in Accounting Principles
Correction of Errors	-	-	Corrections of Errors
		-	Corrections of Errors – Years Preceding the Prior Year
Other Adjustments	(1)	(1)	Collections for others transferred to the General Fund of the U.S. Government (RC 44)
Appropriations Used	58,744	58,744	Appropriations Expended
Non-Exchange Revenues	2,424		*Non-Federal Non-Exchange Revenues*
		404	Excise Taxes
		63	Customs Duties
		1,444	Other Taxes and Receipts
		1,911	***Total Non-Federal Non-Exchange Revenues***
		188	Federal Securities Interest Revenue, including Associated Gains/Losses (Non-Exchange)
		325	Other Taxes and Receipts
		513	***Total Intragovernmental Non-Exchange Revenue***
Total Non-Exchange Revenues	**2,424**	**2,424**	*Total Reclassified Non-Exchange Revenues*
Donations and Forfeitures of Property	1	1	Other Taxes and Receipts (Non-Federal)
Transfers In/Out w/o Reimbursement – Budgetary	59	30	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-In
		(507)	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-Out
		(758)	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
		615	Expenditure Transfers-In of Financing Sources
		679	Expenditure Transfers-Out of Financing Sources
		59	***Total Reclassified Transfers In/Out w/o***
Total Transfers-In/Out w/o Reimbursement – Budgetary	**59**	**59**	***Total Reclassified Transfers-In/Out w/o Reimbursement – Budgetary***
Other	2,222		*Non-Federal Other*
		3,661	Other Taxes and Receipts
		3,661	***Total Non-Federal Other***
			Intragovernmental Other
		-	Miscellaneous Earned Revenues
		-	Federal Securities Interest Revenue including Associated Gains/Losses (Non-Exchange)
		-	Borrowing and Other Interest Revenue (Non-Exchange)
		2	Accrual of Collections Yet to be Transferred to a TAS Other than the General Fund

FY 2019 DHS SCNP		Line Items Used to Prepare FY 2019 Government-wide SCNP	
Financial Statement Line	**Amounts**	**Amounts**	**Reclassified Financial Statement Line**
		(1,503)	Non-Entity Collections Transferred To The General Fund of the U.S. Government (RC 44)
		62	Accrual for Non-Entity Amounts to Be Collected and Transferred To The General Fund of the U.S. Government (RC 48)
			Other Budgetary Financing Sources
			Other Taxes and Receipts
		(1,439)	***Total Intragovernmental Other***
Total Other	2,222	2,222	*Total Reclassified Other*
Donations and Forfeitures of Cash and Cash Equivalents	4	4	Other Taxes and Receipts (Non-Federal)
Imputed Financing	1,827	1,827	Imputed Financing Sources (Federal)
Transfers In/Out without Reimbursement	140	146	Transfers-in w/o Reimbursement
		(6)	Transfers-out w/o Reimbursement
Total Financing Sources	**65,420**	**65,420**	
Net Cost of Operations	**(66,087)**	**(66,087)**	**Net Cost of Operations**
Ending Balance – Cumulative Results of Operations	**(42,533)**	**(42,533)**	**Net Position – Ending Balance**
Total Net Position	**45,190**	**45,190**	**Total Net Position**
Statement of Custodial Activity			
Custom Duties	**71,902**	**71,902**	Custom Duties
User Fees	**1,678**	**1,678**	Non-Federal Other Taxes and Receipts
Excise Taxes	**3,889**	**3,889**	Excise Taxes
Fines and Penalties	**130**	**130**	Non-Federal Other Taxes and Receipts
Interest	**44**	**44**	Non-Federal Other Taxes and Receipts
Miscellaneous	**206**	**205**	Non-Federal Other Taxes and Receipts
		1	Other Non-Budgetary Financing Sources (RC 29)
Accrual Adjustments	**2,952**	**44**	Excise Taxes
		2,870	Custom Duties
		38	Non-Federal Other Taxes and Receipts
Reclassified Non-Exchange Custodial Collections	**80,801**	**80,801**	**Reclassified Non-Exchange Custodial Collections**
Disposition of Custodial Collections			
Transferred to Federal Entities			
Department of Agriculture	**21,779**	**21,779**	Collections Transferred to a TAS other than the General Fund of the U.S. Government (RC 15)
Treasury General Fund Accounts	**51,468**	**51,468**	NonEntity Collections Transferred to the General Fund (RC 44)
United States Army Corps of Engineers	**1,556**	**1,556**	Collections Transferred to a TAS Other Than the General Fund of the U.S. Government (RC 15)
Other Federal Agencies	**41**	**41**	Collections Transferred to a TAS Other Than the General Fund of the U.S. Government (RC 15)
Total Transferred to Federal Entities	**74,844**	**74,844**	
Transferred to Non-Federal Entities			
Transferred to Non-Federal Entities	**170**	**170**	Non-Federal Other Taxes and Receipts
(Increase)/Decrease in Amounts Yet to be Transferred	**2,956**	3,017	Non-Federal Other Taxes and Receipts
		4	Accrual of Collections Yet to be Transferred to a TAS Other Than the General Fund of the U.S. Government - Nonexchange
		(1)	Accrual for non-entity amounts to be collected and transferred to the General Fund of the U.S. Government
		(64)	Other Non-Federal Taxes and Receipts
Total (Increase)/Decrease in Amounts Yet to be Transferred	**2,956**	**2,956**	
Refunds and Other Payments	**2,831**	121	Excise Taxes
		2,128	Customs Duties
		518	Other Taxes and Receipts

FY 2019 DHS SCNP		Line Items Used to Prepare FY 2019 Government-wide SCNP	
Financial Statement Line	**Amounts**	**Amounts**	**Reclassified Financial Statement Line**
		64	Non-Federal Other Taxes and Receipts
Total Refunds and Other Payments	2,831	2,831	
Total Transferred To Non-Federal Entities	5,957	5,957	
Total Disposition of Non-Exchange Custodial Collections	80,801	80,801	*Total Reclassified Disposition of Non-Exchange Custodial Collections*

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 2019) in human capital, research and development, and non-federal physical property are shown below.

<u>**A. DHS Component Funding**</u>

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 2019	*FY 2018*	*FY 2017*	*FY 2016*	*FY 2015*
S&T	$ 831	$ 973	$ 962	$ 878	$ 785
CWMD	49	59	63	29	76
USCG	19	19	22	21	25
Total Research & Development	$ 899	$ 1,051	$ 1,047	$ 928	$ 886

The mission of S&T is to strengthen America's security and resiliency by providing knowledge products and innovative technology solutions for the Homeland Security Enterprise (HSE). S&T monitors evolving threats, capitalizes on technological advancements at a rapid pace, develops solutions, and bridges capability gaps to equip operational end-users with the best tools available to achieve mission success. S&T also develops innovative solutions to protect the Nation's people and critical infrastructure from biological, explosive, and cyber security threats, as well as provide new solutions to protect our borders. Significant accomplishments in development include:

- *Counter Terrorism:* Counter S&T Detection Canine Program support to TSA Passenger Screening Canine concepts of operations (CONOPS): The Detection Canine Program conducted independent test and evaluation on TSA's Open Queue CONOPS for their Passenger Screening Canines (PSC) employed at the airport checkpoint. This effort, chartered by the TSA Administrator, collected nearly 500 data points encompassing five domestic airports in a scientifically rigorous and statistically significant process. Results provided the TSA Administrator with validation and basis for TSA policy regarding PSC Canines.
- *Border Security:*
    - Counter Unmanned Aircraft Systems (CUAS) Coverage of United Nations General Assembly (UNGA): S&T worked closely with USSS and USCG providing CUAS coverage at the UNGA meeting and met all congressional mandates necessary to provide this first-ever CUAS implementation under the newly established DHS CUAS authority.

    - In February 2019, the Opioid Detection Prize Challenge was launched by S&T, in collaboration with CBP, the Office of National Drug Control Policy, and the U.S. Postal Inspection Service, to help address the opioid crisis. The Challenge seeks novel, automated, nonintrusive, user-friendly and well-developed plans for tools and technologies that have the potential to quickly and accurately detect opioids in parcels, without disrupting the flow of mail.
- *First Responder/ Disaster Resilience*: Next Generation First Responder – Birmingham Shaken Fury Operational Experimentation (OpEx): The OpEx brought together 12 public safety agencies, 110 first responders, 21 transports, and 30 technologies from 24 performer and industry partners. This OpEx provided first responders the opportunity to identify capability gaps that Birmingham needs to resolve prior to hosting the World Games in July 2021, and for multi-agency coordinated response in general.

CWMD continued to spearhead new and innovative technology to enhance our research and development programs. CWMD strives to produce revolutionary and transformational products that will progressively improve on the technologies use to detect nuclear and other radioactive materials and include:

- Continued funding of 18 research efforts at 12 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. CWMD awarded 4 new grants in FY 2019 for the following universities; Carnegie Melon, University of Tennessee, Southern Methodist University and George Mason University in the amount of $4.3million. These projects focused on data analytics and anomaly detection techniques to integrate sensor data with other information streams.
- Continued research and development activities into next generation prototype radioisotope identification devices 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.

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 Research and Development 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:

- Improved Efficiency for Domestic Inspection: This project will result in an algorithm to classify a barge's violation risk based off the vessel's characteristics and produce a report detailing the development methodology of the algorithm and potential efficacy of applying the algorithm in the field.
- Performance Test Results of New London Polar Scout Ground Station: This product is a report discussing the process used to build the New London, CT Mobile CubeSat Command and Control ground station. The sponsor will use this report to better

understand the process of building a CubeSat ground station, and to validate the expected performance of the Naval Postgraduate School's prototype Mobile CubeSat Command and Control ground station.

- Asset Tracking and Tasking Capability Refinement Summit Report: This report is a summary of the information presented/discussed and recommendations resulting from the Asset Tracking and Tasking Capability Refinement Summit held in Washington, DC in March 2019. The report captures both the current and desired end state of CG asset tracking and tasking, identifies the gaps, and recommendations for options for a path forward.
- Fixed Wing Siting Tool: For Assessment of Fixed Wing Siting Alternatives: This study generated a fixed wing siting tool that allows the sponsor to compare fixed wing siting alternatives to two baseline siting alternatives. The sponsor may use this tool to determine which siting alternative best meets the Coast Guard's mission objectives while maintaining required coverage of the Coast Guard's operational areas.
- Electronic Equipment and Dry Suit Human Modeling (Brief): The product will be used by Ice Rescue teams and units coordinating Ice Rescues to provide data-driven information regarding the exposure limits of personnel in various extreme cold environments for use in risk assessments.
- ICECON Update (2019): The product will be an interim brief for D9, the "Council of Experts", and the sponsor to update them on the development of the ice condition classification and the ship, ice, capability classification tool.
- USCG/DOD/DISA Mobile Data Solutions (Report): The report will include a summary of products and services that are available from DISA and other DOD agencies, the results of the Limited User Evaluation(s), and a technology roadmap proposing the way forward to transition applicable capability into the CG Enterprise.
- Enhanced Firearms Training Systems: The product provides results of Research & Development Center (RDC) tasking to examine Enhanced Firearms Training Systems and investigate previously unknown or untried techniques for operational use.
- Digital Forensics Technology Evolution Capability Final Report: This product is a final report outlining the results of market research, functional requirements development, Courses of Action, and test results. The report will be used by the sponsor to aid in decision-making towards the best path forward for Document and Media Exploitation (DOMEX) technology evolutionary capability.
- Low Cost ROV Solutions: The product is an Application (APP) Note detailing the results of RDC tasking to research Low Cost ROV Solutions. Sponsor will utilize the APP Note to justify the purchase and use of Low Cost ROV's as an additional tool to conduct hull and running gear inspections prior to contracting a dive team.

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 2019	FY 2018	FY 2017	FY 2016	FY 2015
FEMA	$ 103	$ 101	$ 104	$ 101	$ 101
S&T	2	2	3	4	3
Total Human Capital	$ 105	$ 103	$ 107	$ 105	$ 104

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, delivering educational and training courses with a national focus to supplement and support state and local fire service training programs. In FY 2019, NFA provided training to 89,300 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 2019, EMI provided training to 1,090,055 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 2019, CDP provided training to 60,697 state, local, tribal, and territorial emergency responders.

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

C. Investments in Non-Federal Physical Property

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

	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
TSA	$ 249	$ 237	$ 227	$ 271	$ 311
FEMA[7]	1	-	21	69	53
Total Non-Federal Physical Property	$ 250	$ 237	$ 248	$ 340	$ 364

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

TSA purchases and installs in-line EDS equipment through a variety of funding mechanisms, including congressionally authorized LOIs, 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 one LOI to provide for the facility modifications necessary to accommodate in-line EDS screening solutions. In addition, under the airport renovation program, TSA employs OTAs to fund the installation of integrated and non-integrated EDS and explosive trace detection equipment as well as improvements to be made to the existing systems in the baggage handling area. These OTAs establish the respective cost-sharing obligations and other responsibilities of TSA and the specific entity (board, port, or authority) conducting the installations or improvements.

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

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, 2019, $1,771 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 $223 million.

Deferred maintenance and repairs for FY 2019, by asset class, consisted of (in millions):

	Ending	Beginning
Active:		
Buildings, Structures, and Facilities	$ 1,626	$ 1,383
Furniture, Fixtures, and Equipment	85	117
Other General PP&E	49	37
Heritage assets	6	6
Total Active	**$ 1,766**	**$ 1,543**
Inactive and Excess:		
Buildings, Structures, and Facilities	$ 3	$ 3
Heritage assets	2	2
Total Inactive and Excess	**$ 5**	**$ 5**
Total Deferred Maintenance	**$ 1,771**	**$ 1,548**

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 2019. 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, 2019 (in millions)

	CBP	FEMA	ICE	TSA	USCG	USCIS	USSS	CISA	Dept Ops. and Others	TOTAL
BUDGETARY RESOURCES										
Unobligated Balance from Prior Year Budget Authority, October 1	$ 2,666	$ 38,700	$ 769	$ 973	$ 3,770	$ 1,494	$ 193	$ 804	$ 1,399	$ 50,768
Appropriations	21,358	17,487	8,244	5,143	12,690	4,116	2,485	1,676	3,313	76,512
Borrowing Authority	-	67	-	-	-	-	-	-	-	67
Spending Authority from Offsetting Collections	3,090	3,750	119	2,993	439	43	23	1,523	758	12,738
TOTAL BUDGETARY RESOURCES	$ 27,114	$ 60,004	$ 9,132	$ 9,109	$ 16,899	$ 5,653	$ 2,701	$ 4,003	$ 5,470	$ 140,085
STATUS OF BUDGETARY RESOURCES										
New Obligations and Upward Adjustments	$ 22,738	$ 24,334	$ 8,490	$ 8,327	$ 13,083	$ 4,537	$ 2,567	$ 3,290	$ 4,185	$ 91,551
Unobligated Balance, End of Year										
Apportioned, Unexpired	3,766	35,399	415	494	3,532	455	71	519	1,051	45,702
Exempt from Apportionment, Unexpired	1	-	-	-	3	-	-	-	-	4
Unapportioned, Unexpired	259	105	34	74	(5)	647	20	64	33	1,231
Unexpired Unobligated Balance, End of Year	4,026	35,504	449	568	3,530	1,102	91	583	1,084	46,937
Expired Unobligated Balance, End of Year	350	166	193	214	286	14	43	130	201	1,597
Total Unobligated Balance, End of Year	4,376	35,670	642	782	3,816	1,116	134	713	1,285	48,534
TOTAL BUDGETARY RESOURCES	$ 27,114	$ 60,004	$ 9,132	$ 9,109	$ 16,899	$ 5,653	$ 2,701	$ 4,003	$ 5,470	$ 140,085
Outlays, Net	17,786	17,871	7,713	5,289	11,351	4,129	2,334	1,625	3,408	71,506
Distributed Offsetting Receipts	(5,053)	(893)	(215)	(1,631)	(133)	(4,497)	-	-	5	(12,417)
Agency Outlays, Net	$ 12,733	$ 16,978	$ 7,498	$ 3,658	$ 11,218	$ (368)	$ 2,334	$ 1,625	$ 3,413	$ 59,089

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 2019 and FY 2018, CBP had the legal right to collect $7,732 million and $4,768 million of receivables, respectively. In addition, there were $2,768 million and $2,455 million representing records still in the protest phase for FY 2019 and FY 2018, respectively. CBP recognized as write-offs $1 million and $4 million, respectively, of assessments that the Department had statutory authority to collect at September 30, 2019, and 2018, but have no future collection potential. Most of this amount represents duties, taxes, and fees.

Independent Auditors' Report

OFFICE OF INSPECTOR GENERAL

Independent Auditors' Report on DHS' FY 2019 Financial Statements and Internal Control over Financial Reporting

Homeland Security

November 15, 2019

OIG-20-03

DHS OIG HIGHLIGHTS

Independent Auditors' Report on DHS' FY 2019 Financial Statements and Internal Control over Financial Reporting

November 15, 2019

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 28 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 for fiscal years 2019 and 2018. KPMG noted that the financial statements present fairly, in all material respects, DHS' financial position as of September 30, 2019 and 2018.

KPMG issued an adverse opinion on DHS' internal control over financial reporting as of September 30, 2019. KPMG identified material weaknesses in internal control in two areas and other significant deficiencies in three areas. KPMG also reported two instances of noncompliance with laws and regulations.

Material Weaknesses

- Information Technology Controls and Financial Systems
- Financial Reporting

Other Significant Deficiencies

- Property, Plant, and Equipment
- Custodial Activities: Entry Processing, Refunds and Drawbacks, and Seized and Forfeited Property
- Grants Management

Noncompliance with Laws and Regulations

- *Federal Managers' Financial Integrity Act of 1982*
- *Federal Financial Management Improvement Act of 1996*

Management's Response

DHS concurred with all of the recommendations.

www.oig.dhs.gov OIG-20-03

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

November 15, 2019

MEMORANDUM FOR: The Honorable Chad Wolf
Acting Secretary
Department of Homeland Security

FROM: Jennifer L. Costello
Deputy Inspector General

SUBJECT: *Independent Auditors' Report on DHS' FY 2019 Financial Statements and Internal Control over Financial Reporting*

The attached report presents the results of an audit of the Department of Homeland Security's (DHS) consolidated financial statements for fiscal years (FY) 2019 and 2018 and internal control over financial reporting as of September 30, 2019. This audit is required by the *Chief Financial Officers Act of 1990*, as amended by the *Department of Homeland Security Financial Accountability Act of 2004*. We contracted with the independent public accounting firm KPMG LLP (KPMG) to conduct the audit. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget audit guidance, and the GAO/CIGIE *Financial Audit Manual*. This report is incorporated into the Department's FY 2019 *Agency Financial Report*.

The Department continued to improve financial management in FY 2019 and achieved an unmodified (clean) opinion on all financial statements. However, KPMG issued an adverse opinion on DHS' internal control over financial reporting because of material weaknesses in internal control.

Summary

KPMG identified material weaknesses in internal control in two areas and other significant deficiencies in three areas. KPMG also reported two instances of noncompliance with laws and regulations.

Below are the material weaknesses and other significant deficiencies and two instances of noncompliance with laws and regulations:

Material Weaknesses

- Information Technology Controls and Financial Systems
- Financial Reporting

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OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Other Significant Deficiencies

- Property, Plant, and Equipment
- Custodial Activities: Entry Processing, Refunds and Drawbacks, and Seized and Forfeited Property
- Grants Management

Noncompliance with Laws and Regulations

- *Federal Managers' Financial Integrity Act of 1982*
- *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 14, 2019, 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. 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 DHS' financial statements or internal control over financial reporting or provide conclusions on compliance with laws and regulations. Our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

We request that the Department provide us with a corrective action plan that demonstrates progress in addressing the report's recommendations.

Please call me with any questions, or your staff may contact Sondra F. 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

Table of Contents

Appendixes

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

Independent Auditors' Report

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

Report on the Financial Statements and Internal Control

We have audited the accompanying consolidated financial statements of the U.S. Department of Homeland Security (DHS), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, 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, 2019, 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 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 *Management's Report on Internal Control over Financial Reporting*.

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. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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.

We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Opinion on Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Homeland Security as of September 30, 2019 and 2018, 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.

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. Material weaknesses have been identified in the following areas as described in the accompanying Exhibit I and included in the accompanying *Management's Report on Internal Control over Financial Reporting*.

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

We considered the material weaknesses identified above in determining the nature, timing, and extent of audit procedures applied in our audit of the fiscal year 2019 consolidated financial statements, and these material weaknesses do not affect our opinion on the financial statements.

Adverse Opinion on Internal Control over Financial Reporting

In our opinion, because of the effect of the material weaknesses described in the Basis for Adverse Opinion paragraph above on the achievement of the objectives of the control criteria, DHS has not maintained effective internal control over financial reporting as of September 30, 2019, based on criteria established in *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States.

KPMG

Emphasis of Matter

As discussed in Note 15 to the consolidated financial statements, DHS had intragovernmental debt used to finance the *National Flood Insurance Program* (NFIP) of approximately $21 billion as of September 30, 2019 and 2018. The loan and interest payments are financed by the flood premiums from policyholders. Given the current rate structure, DHS will not be able to pay its debt from the premium revenue alone; therefore, DHS does not anticipate repaying the debt. Congress enacted the *Additional Supplemental Appropriations for Disaster Relief Requirements Act* on October 26, 2017. This act provided debt relief by cancelling $16 billion of DHS's debt to the U.S. Department of the Treasury in fiscal year 2018. Our opinion is not modified with respect to this matter.

Other Matters

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

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

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

governance. We consider the deficiencies in the following areas as described in Exhibit II to be significant deficiencies.

C. Property, Plant, and Equipment
D. Custodial Activities: Entry Processing, Refunds and Drawbacks, and Seized and Forfeited Property
E. Grants Management

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DHS's consolidated financial statements as of and for the year ended September 30, 2019 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, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03, and is described in Exhibit III.

F. Federal Managers' Financial Integrity Act of 1982

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

DHS's Responses to Findings

DHS's responses to the 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 consolidated financial statements and, accordingly, we express no opinion on the 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 deficiencies we consider to be significant deficiencies, and the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 14, 2019

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Independent Auditors' Report
Exhibit I – Material Weaknesses

The weaknesses in internal control existed as of September 30, 2019 and the instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements were identified during the year ended September 30, 2019. The determination of which control deficiencies rise to the level of a material weakness or a 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 U.S. Department of Homeland Security (DHS) consolidated financial statements as of September 30, 2019. The associated entity level controls, as defined by the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book), are also identified in relation to the control activities in the corresponding areas of the following Exhibits.

The 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. DHS has material weaknesses within the following areas:

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

Exhibit II Significant Deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by DHS management and others in positions of DHS oversight. DHS has significant deficiencies within the following areas:

C. Property, Plant, and Equipment
D. Custodial Activities: Entry Processing, Refunds and Drawbacks, and Seized and Forfeited Property
E. Grants Management

Exhibit III Compliance and Other Matters. The compliance and other matters identified included 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. 19-03, *Audit Requirements for Federal Financial Statements*. DHS has instances of noncompliance as follows:

F. *Federal Managers' Financial Integrity Act of 1982*
G. *Federal Financial Management Improvement Act of 1996*

Criteria DHS's internal control over financial reporting is based on the criteria established by the 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. There are two main types of IT controls: IT general controls (ITGCs) and application controls. ITGCs operate over entire or large portions of systems and represent the foundation of an IT control structure. They are applied at the entity-wide, operating system, database, or application level, and include controls over access control, configuration management, segregation of duties, and contingency planning. Effective ITGCs are necessary to create the foundation for the operation of application controls. Application controls are those controls that directly relate to specific IT applications and ensure completeness, accuracy, validity, confidentiality, and availability of data. The deficiencies indicated in this Exhibit are representative of ITGC and application control deficiencies at various Components across DHS.

Conditions:

DHS did not design and implement the entity's information systems and related control activities to achieve objectives and respond to risks as required by Green Book principles 11, *Design Activities for the Information System*, and 12, *Implement Control Activities*. Specifically, DHS had:

- Ineffective design, implementation, and operating effectiveness of ITGCs over IT operating systems, databases, and IT applications supporting financial reporting processes across DHS in the following areas:

  Access control and segregation of duties

  - User, service, privileged, and generic (including emergency, temporary, developer, and migrator) accounts not properly authorized, recertified, and revoked timely;
  - The principles of least privilege and segregation of duties not applied;
  - Password security not properly configured for data protection and inactivity;
  - Audit logging activity requirements not defined;
  - Audit logs not generated, reviewed, analyzed, and protected;
  - Development and production environment duties not segregated between conflicting roles;

  Configuration management

  - Configuration management processes including documented policies and procedures; and systems not properly configured;
  - System changes including change implementation, testing, and approval dates not documented; and
  - Periodic reviews of the results of vulnerability scans not performed.

- Ineffective ITGCs performed by service organizations that provide infrastructure support for various IT systems.
- Ineffective application controls and manual controls that are dependent upon the information derived from DHS financial reporting systems.

DHS continued to have deficiencies in its design and implementation of controls over IT Controls and Financial Systems. These deficiencies have persisted since the inception of DHS. As a

I.2

result, DHS did not remediate identified internal control deficiencies on a timely basis as required by Green Book principle 17, *Evaluate Issues and Remediate Deficiencies*. Specifically, DHS had:

- Ineffective design and implementation of controls to remediate IT findings, including insufficient corrective action to address deficiencies that have existed for several years in multiple information systems.

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 7 requires that "Management should identify, analyze, and respond to risks related to achieving the defined objectives." DHS did not effectively implement and operate Green Book principle 7. Specifically,

- DHS did not fully implement a robust risk assessment of ITGCs that is necessary to identify weaknesses, nor did it assess the resulting risks created by IT deficiencies.
- DHS did not resolve the risks created by historic limitations in the functionality of DHS's financial systems.
- DHS did not successfully mitigate the risk created by implementing manual controls to compensate for risks created by decentralized systems and records management processes or utilities with limited automated capabilities.

Green Book principle 16 requires that "Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results." DHS did not effectively implement and operate Green Book principle 16. Specifically,

- DHS did not implement a formalized process to monitor the third party service organizations responsible for maintaining the infrastructure support for various IT systems.
- DHS established corrective action plans, but had not monitored them to ensure they were tracking the progress toward remediation of deficiencies in a timely manner.

Effects:

Deficiencies in access controls and segregation of duties increase the risk that current employees, separated employees, or contractors may obtain unauthorized or inappropriate access to financial systems or data. Such access could lead to unauthorized activities or inappropriate disclosures of sensitive data. Deficiencies in 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.

In addition, system limitations contribute to deficiencies in multiple financial process areas across DHS. Many key DHS financial systems are not compliant with Federal financial management system requirements as defined by the *Federal Financial Management Improvement Act of 1996* (FFMIA), as noted in Exhibit III. These functionality limitations cause a greater risk of error and result in inconsistent, incomplete, or inaccurate control execution.

Collectively, DHS not performing an appropriate risk assessment to identify and mitigate the ITGC and application control deficiencies limits DHS's ability to process, store, and report financial data in a manner that ensures accuracy, confidentiality, integrity, and availability. In response to these deficiencies, DHS intended to utilize manual controls; however, these manual controls often were not properly designed or implemented, or did not operate effectively as reported in Exhibits I and II.

Recommendations:

We recommend that DHS:

1. 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, complete a comprehensive risk analysis and develop a mitigation plan to reduce risks related to ITGC and application control deficiencies;

2. OCFO, in coordination with the OCIO, the OCISO, and Component IT and financial management, design and implement an effective internal control process, including manual controls, to ensure that the risk of errors due to IT system functionality issues and the inability to rely on application controls are compensated for until system deficiencies are remediated;

3. OCFO, in coordination with the OCIO, the OCISO, and Component IT and financial management, make the necessary improvements to DHS's ITGC and application controls. Specific, detailed recommendations were provided in individual limited distribution Notices of Findings and Recommendations to DHS and Component management; and

4. OCISO, the OCIO, and Component IT management sufficiently monitor IT vulnerabilities and limitations, and coordinate with the OCFO and Component financial management to implement manual controls 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, and is designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles.

Conditions:

DHS did not design control activities to achieve objectives and respond to risks as required by Green Book principle 10, *Design Control Activities*, or implement the entity's information systems and related control activities through policies as required by Green Book principles 11, *Design Activities for the Information System*, and 12, *Implement Control Activities*. Specifically, DHS had:

- Ineffective design, implementation, and operating effectiveness of controls supporting financial reporting processes across DHS in the following areas:

  Beginning balances

  - Beginning balances not reviewed for completeness and accuracy at the transaction level;

  Journal entries

  - Manual journal entries not reviewed and approved;
  - Journal entry amounts not validated with appropriate supporting documentation;
  - Transactions not reviewed for correct U.S. Standard General Ledger (USSGL) accounts;

Independent Auditors' Report
Exhibit I – Material Weaknesses

- Transaction codes not reviewed and approved prior to permitting the transaction codes to be used in the system;
- Journal entry descriptions of the business events not aligned to the supporting documentation provided for the entry;

Actuarially derived estimates

- The underlying data used in the valuation of the pension liability not validated for completeness and accuracy;
- Assumptions used in the valuation of the actuarial liabilities not reviewed at an appropriate level of precision or evaluated for reasonableness at fiscal year-end;

Service organization control (SOC) reports

- Service provider risks not addressed by obtaining and effectively reviewing a SOC report, or by assessing the risks when a SOC report does not exist; and

Application Controls and Information Produced by the Entity

- Baseline assessments of application controls and information produced by the entity not reviewed for completeness and accuracy.

DHS continued to have deficiencies in its design and implementation of controls over Financial Reporting. The deficiencies have persisted since the inception of DHS. As a result, DHS did not remediate identified internal control deficiencies on a timely basis as required by Green Book principle 17, *Evaluate Issues and Remediate Deficiencies*.

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 4 requires that "Management should demonstrate a commitment to recruit, develop, and retain competent individuals." DHS did not effectively implement and operate Green Book principle 4. Specifically,

- DHS did not provide timely training on requirements for supporting documentation to individuals with responsibilities to review journal entries.
- DHS did not sufficiently develop and retain individuals responsible for the recording of journal entries.

Green Book principle 5 requires that "Management should evaluate performance and hold individuals accountable for their internal control responsibilities." DHS did not effectively implement and operate Green Book principle 5. Specifically,

- DHS did not enforce accountability of control operators responsible for the review of the SOC reports.

Green Book principle 7 requires that "Management should identify, analyze, and respond to risks related to achieving the defined objectives." DHS did not effectively implement and operate Green Book principle 7. Specifically,

- DHS did not fully implement a robust risk assessment of ITGCs that is necessary to identify weaknesses, nor did it assess the resulting risks created by IT deficiencies.
- DHS did not assess the resulting risks created by IT deficiencies and their impact on other controls.

Independent Auditors' Report
Exhibit I – Material Weaknesses

- DHS did not perform a risk assessment to design standard operating procedures to perform a robust review of the actuarial pension report.

Green Book principle 13 requires that "Management should use quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 13. Specifically,

- DHS did not process data into quality information that was useable for operating controls effectively.
- DHS did not perform baseline testing of information generated by applications prior to relying on that information as part of a control.
- DHS did not identify the appropriate information requirements to support proposed journal entries.
- DHS did not obtain quality information from its Components to achieve the entity's objectives.

Green Book principle 16 requires that "Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results." DHS did not effectively implement and operate Green Book principle 16. Specifically,

- DHS did not monitor the status of corrective action plans.
- DHS did not monitor the assigned processes and controls performed by service organizations.
- DHS did not monitor the service organization's controls surrounding the compilation of the National Flood Insurance Program (NFIP) financial statements and the related IT systems used to process insurance policies.
- DHS did not design and implement sufficient procedures to review SOC reports.

Effects:

The failure to adequately design, implement, and operate internal controls over beginning balances increases the risk that beginning balances could contain undetected misstatements.

The failure to adequately design, implement, and operate internal controls over journal entries increases the risk that misstatements can occur without being prevented, or detected and corrected in a timely fashion.

The failure to develop and retain individuals and provide timely training increases the risk that unsupported or incorrect journal entries will be recorded.

The failure to adequately design, implement, and operate internal controls over actuarially derived estimates increases the risk that misstatements can occur without being prevented, or detected and corrected in a timely fashion. This resulted in over $1.2 billion of auditor-identified errors, approximately 2% of estimated actuarial pension and other retirement benefits liabilities.

The failure to adequately design, implement, and operate internal controls related to oversight of service organizations increases the risk that misstatements can occur without being prevented, or detected and corrected in a timely fashion.

The failure to adequately design, implement, and operate internal controls related to the baseline assessment of application controls and information produced by the entity prevents management from relying on application controls. It also prevents management from relying on the information produced by the entity that is used in the recording of journal entries and performance of manual controls.

I.6

In addition, the lack of compensating controls for IT deficiencies results in noncompliance with Federal financial management system requirements as defined by FFMIA, and reported in Exhibit III.

Recommendations:

We recommend that DHS:

5. develop new policies, or improve and reinforce existing policies, procedures, and related internal controls, that:
    a. beginning balances are recorded at the transaction level in the correct underlying general ledger systems in order to improve the quality of information in each system;
    b. journal entries are adequately researched, supported, and reviewed before and after recording in the general ledger;
    c. assumptions used in significant estimates are sufficiently reviewed on a timely basis with an appropriate level of precision, and that the results of the reviews are properly documented;
    d. reviews of assumptions used in significant estimates are maintained and the validity of those assumptions are routinely evaluated; and
    e. the underlying census data to actuarially derived estimates is reviewed at least annually; and
    f. information used in the operations of controls is determined to be complete and accurate;
6. provide training and enforce accountability for adherence to policies and procedures and provide the necessary financial reporting oversight;
7. improve the process for identification, analysis, and response to risks related to financial reporting;
8. align knowledgeable resources to monitor and 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
9. improve monitoring controls over remediating internal control deficiencies.

Independent Auditors' Report
Exhibit II – Significant Deficiencies

II-C Property, Plant, and Equipment

Conditions:

DHS did not design control activities to achieve objectives and respond to risks as required by Green Book principle 10, *Design Control Activities*, or implement control activities through policies as required by Green Book principle 12, *Implement Control Activities*. Specifically, DHS had:

- Ineffective design and implementation of control activities to ensure completeness of capitalized assets, appropriate tracking of asset activity at a transaction level, and timely and accurate recording of asset additions, deletions, or other adjustments to property, plant, and equipment.

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 5 requires that "Management should evaluate performance and hold individuals accountable for their internal control responsibilities." DHS did not effectively implement and apply Green Book principle 5. Specifically,

- DHS did not hold personnel accountable for performing assigned responsibilities related to the timely capitalization of real property assets.
- DHS failed to enforce policies and procedures in regards to timely and accurate recording of asset additions and retirements.

Green Book principle 9 requires that "Management should identify, analyze, and respond to significant changes that could impact the internal control system." DHS did not effectively implement and operate Green Book principle 9. Specifically,

- DHS did not identify risks related to new or changing business operations and their impact on the capitalization of real property.

Green Book principle 13 requires that "Management should use quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 13. Specifically,

- DHS did not completely identify all of the appropriate information requirements to support the adjustment of capitalization of real property assets.

Effects:

DHS experienced 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 DHS results in a risk that misstatements related to the completeness, existence, and accuracy 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 $124 million, approximately 0.5% of General Property, Plant, and Equipment, Net.

II.1

Independent Auditors' Report
Exhibit II – Significant Deficiencies

Recommendations:

We recommend that DHS:

10. enforce accountability for adherence to policies and procedures and provide the necessary financial reporting oversight;
11. reinforce controls over the timely recording of asset addition and retirement activity to ensure personnel respond to risks when new or changing business operations are identified; and
12. identify the appropriate information requirements to support the recording of asset addition and retirement activity.

II-D Custodial Activities: Entry Processing, Refunds and Drawbacks, and Seized and Forfeited Property

Background:

The majority of DHS's custodial collections are from merchandise entering the United States from foreign ports of origin, against which DHS assesses import duties, taxes, and fees.

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, all of which could eliminate some of the conditions identified below. TFTEA was implemented in February 2019. All drawback claims filed after the implementation date are filed under the regulations in Code of Federal Regulations (CFR) 190. Drawback claims filed prior to the TFTEA implementation date were filed under the regulations in CFR 191.

DHS is also responsible for reporting seized and forfeited property that is in its custody. DHS seizes various items, including prohibited drugs and counterfeit goods. DHS relies on several of its Components to enter case information, including weights and measures, into the seized and forfeited property system.

Conditions:

DHS did not design and implement control activities to achieve objectives and respond to risks as required by Green Book principles 10, *Design Control Activities*, and 11, *Design Activities for the Information System*, or implement control activities through policies as required by Green Book principle 12, *Implement Control Activities*. Specifically, DHS had:

- Ineffective design, implementation, and operating effectiveness of controls supporting custodial activities in the following areas:

  Entry processing:

  - Policies and procedures over the review of entry edit and exception reports not established;

II.2

Refunds and drawbacks:

- Policies and procedures not updated for the review and approval of refunds prior to disbursement;
- System configuration not designed to properly calculate the interest for refund payments;
- Application controls not designed to prevent, or detect and correct, excessive drawback claims;
- Drawback claims not configured to link to imports at a sufficiently detailed level;
- Essential information on drawback claims not compared, verified, and tracked to the related underlying consumption entries and export documentation upon which the drawback claims were based;
- Policies and procedures not documented that require timely coordination with all applicable parties for drawback claims;

Seized and forfeited property:

- Seized and forfeited asset transactions not recorded properly and timely in the seized and forfeited assets tracking system; and
- Input, extraction, and reporting of seized and forfeited property activity, including identification of unusual weight and measure variances needing further investigation not reviewed.

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 3 requires that "Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 3. Specifically,

- DHS did not document its internal control to meet its operational needs related to refunds.

Green Book principle 4 requires that "Management should demonstrate a commitment to recruit, develop, and retain competent individuals." DHS did not effectively implement and operate Green Book principle 4. Specifically,

- DHS did not sufficiently train individuals to develop competencies for key roles in executing the internal control objectives related to the custodial revenue note to the financial statements and the seized and forfeited property note to the financial statements.

Green Book principle 7 requires that "Management should identify, analyze, and respond to risks related to achieving the defined objectives." DHS did not effectively implement and operate Green Book principle 7. Specifically,

- DHS did not analyze and respond to identified risks related to drawback claims submitted prior to the implementation of TFTEA.
- DHS did not complete a thorough risk assessment related to seized and forfeited property.

Green Book principle 13 requires that "Management should use quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 13. Specifically,

- DHS did not process data into quality information that was useable for operating controls effectively.

Independent Auditors' Report
Exhibit II – Significant Deficiencies

Green Book principle 14 requires that "Management should internally communicate the necessary quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 14. Specifically,

- DHS did not improve and update interim policy documents, which prevented the communication of quality information to enable its personnel to perform key roles.

Green Book principle 15 requires that "Management should externally communicate the necessary quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 15. Specifically,

- DHS did not communicate quality information to claimants and brokers related to the document retention period for drawback claims.

Green Book principle 16 requires that "Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results." DHS did not effectively implement and operate Green Book principle 16. Specifically,

- DHS did not identify compensating controls to detect and correct material data input errors prior to the preparation of the seized and forfeited property note to the financial statements.
- DHS did not effectively monitor the internal control system over interest calculations for refund requests.

Effects:

The failure to fully establish and define control activities related to the entry process could lead to potential misstatements of net taxes, duties and trade receivables on the Balance Sheet and total cash collections on the Statement of Custodial Activity.

Until all CFR 191 drawback claims are processed, DHS's failure to implement effective controls over the drawback process may subject DHS 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 filed under CFR 191 to be completed.

Failure to fully establish and define control activities related to seized and forfeited property results in misstatements of the Seized and Forfeited Property note to the financial statements. The errors in the seized and forfeited property data resulted in overstatements of 5,011 kg in seized property, and 9,538 kg in forfeited property, of which management subsequently corrected 3,497 kg and 4,168 kg, respectively, in the Seized and Forfeited Property note to the consolidated financial statements.

Recommendations:

We recommend that DHS:

Entry processing:

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

Refunds and drawbacks:

15. update policies and procedures over the review and approval of refunds;

Independent Auditors' Report
Exhibit II – Significant Deficiencies

16. update the system configuration to properly calculate interest on refunds;
17. conduct a robust risk assessment over the drawback claims process, and document responses to the identified risks;
18. continue to enhance manual controls to prevent, or detect and correct excessive drawback claims filed before the implementation of TFTEA as they are processed through the drawback lifecycle;
19. track and monitor the progress made in reducing the risk caused by the backlog of drawback claims;
20. communicate the appropriate retention period to claimants and brokers to ensure supporting documentation is maintained;

Seized and forfeited property:

21. design and implement succession and contingency plans for operational staff responsible for completing destruction of seized and forfeited property;
22. sufficiently train individuals to develop competencies for key seized and forfeited property accounting roles;
23. improve internal communication of the policies and procedures over seized and forfeited property; and
24. improve controls to monitor that the input of weights and measures into the seized and forfeited property system are complete and accurate.

II-E Grants Management

Background:

DHS manages multiple Federal disaster and non-disaster grant programs. In fiscal year (FY) 2018, DHS began implementation of the process to standardize all grant management activities, which continued into FY 2019. This included coordination among the grant regional offices and central management as well as among the various grant programs. In order to monitor the spending of the disaster and non-disaster grant funding, DHS performs site visits and monitors Federal Financial Reports submitted by grantees. The internal control deficiencies related to grants management were reported in prior years and persisted in FY 2019.

Conditions:

DHS did not design control activities to achieve objectives and respond to risks as required by Green Book principle 10, *Design Control Activities*. Specifically, DHS had:

- Insufficient design of the controls over the completeness and accuracy of the site visit monitoring tracking tool responsible for monitoring grantees and related corrective action plans from the findings identified from site visits; and
- Insufficient design of the controls over the completeness and accuracy of the Cash Analysis Reporting Template (CART) responsible for monitoring grantee's Federal Financial Reports.

DHS did not implement control activities through policies as required by Green Book principle 12, *Implement Control Activities*. Specifically, DHS had:

- Inconsistent implementation of procedures over the delegation of authority for and the review of disaster and non-disaster grant obligations and deobligations;

II.5

- Inconsistent implementation of procedures over the review of the non-disaster grant obligations and deobligations to ensure that evidence of grant recipient acceptance was received in a timely manner; and
- Inconsistent implementation of procedures over grant close-outs, including the untimely close-out and failure to notify grantees upon close-out of non-disaster grants.

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 13 requires that "Management should use quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 13. Specifically,

- DHS failed to maintain reliable data throughout the monitoring of the Federal Financial Reports and site visits.

Green Book principle 14 requires that "Management should internally communicate the necessary quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 14. Specifically,

- DHS lacked consistent lines of communication to ensure that the appropriate authorities review disaster grant obligations and deobligations.
- DHS lacked consistent lines of communication for the review, approval, and notification of non-disaster grant obligations and deobligations.
- DHS failed to establish internal lines of communication to facilitate the tracking of grantee site visits and grantee Federal Financial Reports.

Effects:

The failure to use quality information and internally communicate policies and procedures to implement standardized internal controls within DHS during FY 2019 caused ineffective monitoring of grantees. Ineffective monitoring may result in inaccurate or unauthorized expense reporting by grantees and increases the risk that DHS may not identify corrective actions for grantees in a timely manner. In addition DHS's failure to use quality information and internally communicate that grants are eligible for closeout elevates the risk of invalid obligations due to untimely closure of grants. The failure to effectively communicate also increases the risk that obligations are improperly created and elevates the risk of *Antideficiency Act* violations.

Recommendations:

We recommend that DHS:

25. improve the quality of information used in the 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 grants eligible for closeout; and
26. identify and correct barriers to effectively communicate policies and procedures implemented as a result of the grants management standardization process throughout DHS.

III-F *Federal Managers' Financial Integrity Act of 1982*

The *Federal Managers' Financial Integrity Act of 1982* (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 14, 2019, as presented in *Management's Discussion and Analysis* of DHS's FY 2019 *Agency Financial Report*, 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, 2019. Management's findings were similar to the control deficiencies 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 DHS progressed toward full compliance with FMFIA, DHS did not fully establish effective systems, processes, policies, and testing procedures to ensure that internal controls were operating effectively throughout DHS. Deficiencies related to monitoring the internal control system are discussed in Exhibit I, Comments **I-A**, *Information Technology Controls and Financial Systems* and **I-B**, *Financial Reporting*.

Recommendations:

We recommend that DHS:

27. continue its corrective actions to address internal control deficiencies in order to ensure full compliance with FMFIA, and implement the recommendations provided in Exhibits I and II.

III-G *Federal Financial Management Improvement Act of 1996*

The *Federal Financial Management Improvement Act of 1996* (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 USSGL at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability.

As of September 30, 2019, DHS's financial management systems do not comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and application of the USSGL at the transaction level, as described in Exhibits I and II. The DHS Secretary stated in the *Secretary's Assurance Statement*, dated November 14, 2019, 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 Table 3 of *Management's Discussion and Analysis* in the FY 2019 *Agency Financial Report*.

Recommendation:

We recommend that DHS:

28. 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

November 15, 2019

MEMORANDUM FOR: Jennifer Costello
Deputy Inspector General

FROM: Stacy Marcott
Acting Chief Financial Officer

SUBJECT: Fiscal Year 2019 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) 2019 and 2018. We concur with the Independent Public Accountant's conclusions. We are pleased to have earned an unmodified financial statement audit opinion for the seventh consecutive year.

We acknowledge the internal control challenges noted in the report. We have implemented multi-year corrective action plans which have strengthened controls and lessened the severity of conditions noted in prior years. We are pleased that the audit report recognizes our progress.

Many of the information technology control challenges noted in the report are the result of outdated financial and business systems, some of which have been in operation longer than the Department has been in existence. We continue to implement and monitor compensating controls to mitigate systems risks. Furthermore, we are in midst of a long-term financial systems modernization effort which when complete will ensure that all DHS Components have modern, compliant financial systems and follow standard business practices.

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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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 4: Entry Summary of Trade Compliance Measurement

($ in millions)

	FY 2019 (Preliminary)	FY 2018 (Final)
Estimated Revenue Gap	$870 mil	$635 mil
Estimated Revenue Gap of all collectable revenue for year (%)	1.07%	1.28%
Estimated Over-Collection	$309 mil	$87 mil
Estimated Under-Collection	$1,179 mil	$723 mil
Estimated Overall Trade Compliance Rate (%)	98.46%	98.53 %

The preliminary overall compliance rate for FY 2019 is 98.46 percent. The final overall trade compliance rate and estimated revenue gap for FY 2019 will be issued in March, FY 2020.

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, the Federal Law Enforcement Training Centers (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 Cybersecurity and Infrastructure Security Agency (CISA)[8], 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.

- ***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,

[8] The National Protection and Programs Directorate was renamed to Cybersecurity and Infrastructure Security Agency as a result of the enactment of the *Cybersecurity and Infrastructure Security Agency Act of 2018.*

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, 2019 and 2018
(In Millions)

	2019	2018
What Money is Available to Spend?		
Total Resources	$ 140,085	$ 154,773
Less Amount Available but Not Agreed to be Spent	(44,706)	(43,815)
Less Amount Not Available to be Spent	(2,828)	(3,078)
TOTAL AMOUNT AGREED TO BE SPENT	**$ 91,551**	**$ 107,880**
How Was the Money Spent/Issued?		
U.S. Customs and Border Protection		
Personnel Compensation and Benefits	$ 12,285	$ 11,717
Contractual Services and Supplies	4,911	4,445
Acquisition of Assets	2,752	2,527
Grants, Subsidies, and Contributions	-	-
Insurance, Refunds, and Other Spending	2,790	2,080
Total Spending	**22,738**	**20,769**

(Continued)

Department of Homeland Security
Combined Schedule of Spending
For the Years Ended September 30, 2019 and 2018
(In Millions)

	2019	2018
U.S. Coast Guard		
Personnel Compensation and Benefits	6,240	5,847
Contractual Services and Supplies	4,997	5,092
Acquisition of Assets	1,733	798
Grants, Subsidies, and Contributions	106	114
Insurance, Refunds, and Other Spending	7	10
Total Spending	**13,083**	**11,861**
Federal Emergency Management Agency		
Personnel Compensation and Benefits	1,762	1,723
Contractual Services and Supplies	5,635	14,714
Acquisition of Assets	493	1,480
Grants, Subsidies, and Contributions	12,231	16,544
Insurance, Refunds, and Other Spending	4,213	10,266
Total Spending	**24,334**	**44,727**
U.S. Immigration and Customs Enforcement		
Personnel Compensation and Benefits	3,537	3,419
Contractual Services and Supplies	4,700	4,141
Acquisition of Assets	214	281
Grants, Subsidies, and Contributions	-	-
Insurance, Refunds, and Other Spending	40	43
Total Spending	**8,490**	**7,884**
Transportation Security Administration		
Personnel Compensation and Benefits	5,354	5,141
Contractual Services and Supplies	2,605	2,681
Acquisition of Assets	285	250
Grants, Subsidies, and Contributions	79	79
Insurance, Refunds, and Other Spending	4	3
Total Spending	**8,327**	**8,154**
Directorates and Other Components		
Personnel Compensation and Benefits	5,514	5,273
Contractual Services and Supplies	8,164	8,437
Acquisition of Assets	785	612
Grants, Subsidies, and Contributions	112	159
Insurance, Refunds, and Other Spending	4	4
Total Spending	**14,579**	**14,485**

(Continued)

Department of Homeland Security
Combined Schedule of Spending
For the Years Ended September 30, 2019 and 2018
(In Millions)

	2019	2018
Department Totals		
Personnel Compensation and Benefits	34,692	33,120
Contractual Services and Supplies	31,012	39,510
Acquisition of Assets	6,261	5,948
Grants, Subsidies, and Contributions	12,528	16,896
Insurance, Refunds, and Other Spending	7,058	12,406
TOTAL AMOUNT AGREED TO BE SPENT	**$ 91,551**	**$ 107,880**
Who Did the Money Go To?		
Non-Federal Governments, Individuals and Organizations	$ 69,433	$ 81,034
Federal Agencies	22,118	26,846
TOTAL AMOUNT AGREED TO BE SPENT	**$ 91,551**	**$ 107,880**

Summary of Financial Statement Audit and Management Assurances

The tables below provide a summary of the financial statement audit results and management assurances for FY 2019.

Table 5: Summary of Financial Statement Audit

Audit Opinion	Unmodified				
Restatement	N/A				
Areas of Material Weaknesses	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**

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 2020; however, no additional material weaknesses were identified as a result of the assessment work performed in FY 2019. The following table provides those areas where material weaknesses were identified, and remediation work continues.

Table 6: Summary of Management Assurances

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

CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS (FMFIA SECTION 4)						
Statement of Assurance	Systems do not fully conform with financial system requirements					
Areas of Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Federal Financial Management Systems Requirements, including Financial Systems Security & Integrate Financial Management Systems.	1	0	0	0	0	1
Noncompliance with the U.S. Standard General Ledger	1	0	0	0	0	1
Federal Accounting Standards	1	0	0	0	0	1
Total Non-Conformances	**3**	**0**	**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[9]) (P.L. 107-300), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) (P L. 111-204) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA); (P.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[10], estimate the annual amount of improper payments, and submit those estimates to Congress. In accordance with Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement,* federal agencies are required to assess improper payments and report[11] annually on their efforts. In addition to this report, more detailed information on the Department's improper payments and information reported in previous Agency Financial Reports (AFRs) can be found at https://paymentaccuracy.gov/.

In 2019, the Department continued to make significant progress to improve its processes to comply with IPIA and reduce improper payments. The Department has successfully reduced estimated improper payment rates over the years from an average estimated improper payment rate of 1.3 percent in 2013 to 0.43 percent in 2019. DHS met established reduction targets for all applicable programs[12] 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. Payment Reporting

The OMB Circular A-123, Appendix C defines an improper payment and provides guidance to agencies to comply with IPIA, as amended, and for agency improper payments efforts. Following the OMB, A-123, Appendix C guidance and accounting for the requirements within the Supplemental Appropriations for Disaster Relief Requirements, the Department has identified the following programs or activities susceptible to significant improper payments and is able to provide results and reporting this year[13].

FEMA - Flood Hazard Mapping & Risk Analysis (FHMRA) Program

FEMA's Flood Hazard Mapping and Risk Analysis program[14] identifies flood hazards, assesses flood risks and partners with states and communities to provide accurate flood hazard and risk data to guide them to mitigation actions. FEMA is working with federal, state, tribal and local partners across the nation to identify flood risk and help reduce that risk through the Risk Mapping, Assessment, and Planning (Risk MAP) program. Risk MAP provides high quality flood

[9] Unless otherwise indicated, the term "IPIA" will imply "IPIA, as amended by IPERA and IPERIA."
[10] A program with significant improper payments has both a 1.5 percent improper payment rate of program outlays and at least $10 million in improper payments of all program or activity payments made during the year or exceeds $100 million dollars in improper payments regardless of the improper payment rate percentage of total program outlays.
11 Due to rounding throughout all following figures and tables, amounts and percentages may not exactly total to the respective summary amounts and percentages reported.
[12] This excludes the Federal Protective Service Payroll program as the program has not been fully baselined and thus has not established a formal reduction target.
[13] Due to the burden of testing and reporting the ten programs related solely to disaster supplemental appropriation disbursements, DHS will be reporting statistical testing results two years in arrears. For additional information, please refer to the additional detail around the Supplemental Appropriations for Disaster Relief Requirements supplied later in this section.
[14] Alternate names for the program include the FEMA Flood Risk Map (FRM) program and the FEMA Risk Mapping, Assessment, and Planning (Risk MAP) program.

maps and information, tools to better assess the risk from flooding and planning and outreach support to communities to help them take action to reduce flood risk.

For the testing conducted in 2019, FEMA incorporated the associated FY 2018 disaster supplemental funding disbursements of over $25 million applicable for review under IPIA. Despite the increased program size with the inclusion of the disaster supplemental funding disbursed in FY 2018, due to continued focus and diligent FEMA efforts, the FEMA FHMRA program has been able to reduce its reported improper payment rate from 3.27 percent in 2017 down to 0.005 percent in 2019.

Table 7: FEMA FHMRA Improper Payment Results

	Testing Conducted in 2017	Testing Conducted in 2018	Testing Conducted in 2019
Outlays ($M)	$132.02	$144.16	$174.91
Proper Payments ($M)	$127.70	$143.91	$174.90
Proper Payments (%)	96.73%	99.83%	99.995%
Improper Payments ($M)	$4.32	$0.25	$0.009
Improper Payments (%)	3.27%	0.17%	0.005%
Applicable Reduction Target Rate (%)	5.00%	5.00%	0.50%
Reduction Target Met?	Yes	Yes	Yes

Breakout of 2019 Improper Payment Totals					
	Monetary Loss: Within the Agency's Control	*Monetary Loss: Outside the Agency's Control*	Total Monetary Loss	Total Non-Monetary Loss	Total Unknown / Unable to Discern
Amount ($M)	$0.00	$0.00	$0.00	$0.009	$0.00
Percentage (%)	0.00%	0.00%	0.00%	0.005%	0.00%
	Improper Payments Made by the Federal Government			Improper Payments Made by the Recipient of Federal	
Amount ($M)	$0.009			$0.00	
Percentage (%)	0.005%			0.00%	

The FEMA FHMRA program utilized the 95/3 guidance for a statistically valid and robust sampling plan and had an achieved precision rate of 1.19%. As such, the 2019 improper payment rate of 0.005% met the applicable reduction target rate of 0.50% established in 2018.

The following table summarizes, by program, the improper payment root causes as described in Appendix C to OMB Circular A-123.

Table 8: FEMA FHMRA Root Cause of Improper Payments

Reason for Improper Payment		Overpayment Amount ($M)	Overpayment Percentage (%)	Underpayment Amount ($M)	Underpayment Percentage (%)	Unknown / Unable to Discern Amount ($M)	Unknown / Unable to Discern Percentage (%)	Total Amount ($M)	Total Percentage (%)
Program Design or Structural Issue		-	-	-	-	N/A	N/A	$0.00	0.00%
Inability to Authenticate Eligibility	Inability to Access Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Data Does Not Exist	-	-	-	-	N/A	N/A	$0.00	0.00%
Failure to Verify Data	Death Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Financial Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Excluded Party Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Prisoner Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Other Data	-	-	-	-	N/A	N/A	$0.00	0.00%
Administrative or Process Errors Made by:	Federal Agency	-	-	$0.009	0.005%	N/A	N/A	$0.009	0.005%
	State or Local Agency	-	-	-	-	N/A	N/A	$0.00	0.00%
	Other Party	-	-	-	-	N/A	N/A	$0.00	0.00%
Medical Necessity		-	-	-	-	N/A	N/A	$0.00	0.00%
Insufficient Documentation to Determine		N/A	N/A	N/A	N/A	-	-	$0.00	0.00%
Total		$0.00	0.00%	$0.009	0.005%	$0.00	0.00%	$0.009	0.005%

FEMA - National Flood Insurance Program (NFIP)

The NFIP aims to reduce the impact of flooding on private and public structures. It does so by providing affordable insurance, through insurers participating in the NFIP, to property owners, renters, and businesses and by encouraging communities to adopt and enforce floodplain management regulations. These efforts help mitigate the effects of flooding on new and improved structures. Overall, the program reduces the socio-economic impact of disasters by promoting the purchase and retention of general risk insurance, but also of flood insurance, specifically.

Over the past years, the NFIP has continued to display a strong administrative process to include monitoring and internal controls and has continued testing and reporting improper payment rates substantially below the OMB threshold for a program to be considered susceptible to significant improper payments.

Table 9: FEMA NFIP Improper Payment Results

	Testing Conducted in 2017	Testing Conducted in 2018	Testing Conducted in 2019
Outlays ($M)	$2,339.82	$3,742.61	$9,310.28
Proper Payments ($M)	$2,339.53	$3,742.44	$9,309.97
Proper Payments (%)	99.99%	99.995%	99.997%
Improper Payments ($M)	$0.29	$0.17	$0.31
Improper Payments (%)	0.01%	0.005%	0.003%
Applicable Reduction Target Rate (%)	0.17%	0.17%	0.10%
Reduction Target Met?	Yes	Yes	Yes

Breakout of 2019 Improper Payment Totals

	Monetary Loss: Within the Agency's Control	*Monetary Loss: Outside the Agency's Control*	Total Monetary Loss	Total Non-Monetary Loss	Total Unknown / Unable to Discern
Amount ($M)	$0.31	$0.00	$0.31	$0.00	$0.00
Percentage (%)	0.003%	0.00%	0.003%	0.00%	0.00%

	Improper Payments Made by the Federal Government	Improper Payments Made by the Recipient of Federal
Amount ($M)	$0.00	$0.31
Percentage (%)	0.00%	0.003%

The FEMA NFIP utilized the 95/3 guidance for a statistically valid and robust sampling plan and had an achieved precision rate of 2.57%. As such, the 2019 improper payment rate of 0.003% met the applicable reduction target rate of 0.10% established in 2018.

The following table summarizes, by program, the improper payment root causes as described in Appendix C to OMB Circular A-123.

Table 10: FEMA NFIP Root Cause of Improper Payments

Reason for Improper Payment		Overpayment Amount ($M)	Overpayment Percentage (%)	Underpayment Amount ($M)	Underpayment Percentage (%)	Unknown / Unable to Discern Amount ($M)	Unknown / Unable to Discern Percentage (%)	Total Amount ($M)	Total Percentage (%)
Program Design or Structural Issue		-	-	-	-	N/A	N/A	$0.00	0.00%
Inability to Authenticate Eligibility	Inability to Access Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Data Does Not Exist	-	-	-	-	N/A	N/A	$0.00	0.00%
Failure to Verify Data	Death Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Financial Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Excluded Party Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Prisoner Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Other Data	-	-	-	-	N/A	N/A	$0.00	0.00%
Administrative or Process Errors Made by:	Federal Agency	-	-	-	-	N/A	N/A	$0.00	0.00%
	State or Local Agency	-	-	-	-	N/A	N/A	$0.00	0.00%
	Other Party	$0.31	0.003%	-	-	N/A	N/A	$0.31	0.003%
Medical Necessity		-	-	-	-	N/A	N/A	$0.00	0.00%
Insufficient Documentation to Determine		N/A	N/A	N/A	N/A	-	-	$0.00	0.00%
Total		$0.31	0.003%	$0.00	0.00%	$0.00	0.00%	$0.31	0.003%

FEMA - Public Assistance (PA) Program

The Robert T. Stafford Disaster Relief and Emergency Assistance Act, as Amended (Stafford Act), Title 42 of the United States Code (U.S.C.) § 5121 et seq., authorizes the President to provide federal assistance when the magnitude of an incident or threatened incident exceeds the affected state, territorial, tribal, and local government capabilities to respond or recover.

The purpose of the PA Grant Program is to support communities' recovery from major disasters by providing them with grant assistance for debris removal, life-saving emergency protective measures, and restoring public infrastructure. Local governments, states, tribes, territories, and certain private nonprofit organizations are eligible to apply. The FEMA PA Grant Program relies on Regional Offices to manage, operate, and maintain program activities and operations. For the breakout of FEMA Regions, please refer to the map below.

Figure 2: Map of FEMA regions

Public Assistance is FEMA's largest grant program. Since 2017, FEMA has given over five billion dollars through PA grants to help communities clear debris and rebuild roads, schools, libraries, and other public facilities.

Through the Department's risk assessment process, the PA program was initially identified as a program susceptible to significant improper payments. The PA program has made significant and consistent improvements to its administrative process, grant monitoring, internal controls, and has continued testing and reporting improper payment rates below the OMB threshold.

Table 11: FEMA PA Improper Payment Results

	Testing Conducted in 2017	Testing Conducted in 2018	Testing Conducted in 2019
Outlays ($M)	$3,410.75	$3,428.17	$3,764.07
Proper Payments ($M)	$3,376.64	$3,395.10	$3,737.34
Proper Payments (%)	99.00%	99.04%	99.29%
Improper Payments ($M)	$34.11	$33.07	$26.72
Improper Payments (%)	1.00%	0.96%	0.71%
Applicable Reduction Target Rate (%)	1.30%	1.00%	0.90%
Reduction Target Met?	Yes	Yes	Yes

Breakout of 2019 Improper Payment Totals

	Monetary Loss: Within the Agency's Control	*Monetary Loss: Outside the Agency's Control*	Total Monetary Loss	Total Non-Monetary Loss	Total Unknown / Unable to Discern
Amount ($M)	$26.72	$0.00	$26.72	$0.00	$0.00
Percentage (%)	0.71%	0.00%	0.71%	0.00%	0.00%

	Improper Payments Made by the Federal Government	Improper Payments Made by the Recipient of Federal
Amount ($M)	$0.00	$26.72
Percentage (%)	0.00%	0.71%

Due to the size and changes to the payment populations, the FEMA PA program uses a non-statistically valid plan and alternative measurement methodology utilizing a three-year assessment cycle, previously approved by OMB on September 23, 2011. This approach is structured to assess the top states within specific regions on a cyclical basis. To calculate the national error rate for 2019, the error rate from the regions tested in 2019[15], 2018[16], and 2017[17] were applied to the payment populations from the 2019 tested regions 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 2019 national average improper payment rate of 0.71% was determined to meet[18] the applicable reduction target rate as it is lower than the reduction target rate of 0.90% established in 2018.

The following table summarizes, by program, the improper payment root causes as described in Appendix C to OMB Circular A-123.

[15] The 2019 scope included Regions V, VI, and VII
[16] The 2018 scope included Regions IV, VIII, and IX
[17] The 2017 scope included Regions I, II, III, and X
[18] Per OMB Circular A-123, Appendix C a program using a non-statistically valid plan "should count reduction targets as being met only if their estimated improper payment rate is lower than or equal to the reduction target."

Table 12: FEMA PA Root Cause of Improper Payments

Reason for Improper Payment		Overpayment Amount ($M)	Overpayment Percentage (%)	Underpayment Amount ($M)	Underpayment Percentage (%)	Unknown / Unable to Discern Amount ($M)	Unknown / Unable to Discern Percentage (%)	Total Amount ($M)	Total Percentage (%)
Program Design or Structural Issue		-	-	-	-	N/A	N/A	$0.00	0.00%
Inability to Authenticate Eligibility	Inability to Access Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Data Does Not Exist	-	-	-	-	N/A	N/A	$0.00	0.00%
Failure to Verify Data	Death Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Financial Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Excluded Party Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Prisoner Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Other Data	-	-	-	-	N/A	N/A	$0.00	0.00%
Administrative or Process Errors Made by:	Federal Agency	-	-	-	-	N/A	N/A	$0.00	0.00%
	State or Local Agency	$26.72	0.71%	-	-	N/A	N/A	$26.72	0.71%
	Other Party	-	-	-	-	N/A	N/A	$0.00	0.00%
Medical Necessity		-	-	-	-	N/A	N/A	$0.00	0.00%
Documentation to Determine Insufficient		N/A	N/A	N/A	N/A	-	-	$0.00	0.00%
Total		$26.72	0.71%	$0.00	0.00%	$0.00	0.00%	$26.73	0.71%

FEMA – Vendor Payment (VP) Program

FEMA strives to disburse prompt payments for goods and services that are covered by the Prompt Payment Act. Most of the payments falling under the VP program are contractual, to include rental and lease agreements, purchase orders, delivery orders, blanket purchase agreements, etc., invoice payments based on the receipt of satisfactory performance of contract terms.

For the testing conducted in 2019, FEMA incorporated the associated FY 2018 disaster supplemental funding disbursements of over $3 billion applicable for review under IPIA. Despite the increased program size with the inclusion of the disaster supplemental funding disbursed in FY 2018, due to continued focus and diligent FEMA efforts, the FEMA VP program has been able to reduce its reported improper payment rate from 1.70 percent in 2018 down to 1.02 percent in 2019.

Table 13: FEMA VP Improper Payment Results

	Testing Conducted in 2017	Testing Conducted in 2018	Testing Conducted in 2019
Outlays ($M)	$974.11	$1,540.46	$4,383.97
Proper Payments ($M)	$931.07	$1,514.35	$4,339.39
Proper Payments (%)	95.58%	98.30%	98.98%
Improper Payments ($M)	$43.04	$26.12	$44.58
Improper Payments (%)	4.42%	1.70%	1.02%
Applicable Reduction Target Rate (%)	5.00%	4.00%	1.60%
Reduction Target Met?	Yes	Yes	Yes

Breakout of 2019 Improper Payment Totals

	Monetary Loss: Within the Agency's Control	*Monetary Loss: Outside the Agency's Control*	Total Monetary Loss	Total Non-Monetary Loss	Total Unknown / Unable to Discern
Amount ($M)	$6.96	$0.00	$6.96	$35.69	$1.92
Percentage (%)	0.16%	0.00%	0.16%	0.81%	0.04%

	Improper Payments Made by the Federal Government	Improper Payments Made by the Recipient of Federal
Amount ($M)	$44.58	$0.00
Percentage (%)	1.02%	0.00%

The FEMA VP program utilized the 95/3 guidance for a statistically valid and robust sampling plan and had an achieved precision rate of 0.77%. As such, the 2019 improper payment rate of 1.02% met the applicable reduction target rate of 1.60% established in 2018.

The following table summarizes, by program, the improper payment root causes as described in Appendix C to OMB Circular A-123.

Table 14: FEMA VP Root Cause of Improper Payments

Reason for Improper Payment		Overpayment		Underpayment		Unknown / Unable to Discern		Total	
		Amount ($M)	Percentage (%)	Amount ($M)	Percentage (%)	Amount ($M)	Percentage (%)	Amount ($M)	Percentage (%)
Program Design or Structural Issue		-	-	-	-	N/A	N/A	$0.00	0.00%
Inability to Authenticate Eligibility	Inability to Access Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Data Does Not Exist	-	-	-	-	N/A	N/A	$0.00	0.00%
Failure to Verify Data	Death Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Financial Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Excluded Party Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Prisoner Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Other Data	-	-	-	-	N/A	N/A	$0.00	0.00%
Administrative or Process Errors Made by:	Federal Agency	$39.10	0.89%	$3.56	0.08%	N/A	N/A	$42.66	0.97%
	State or Local Agency	-	-	-	-	N/A	N/A	$0.00	0.00%
	Other Party	-	-	-	-	N/A	N/A	$0.00	0.00%

Reason for Improper Payment	Overpayment		Underpayment		Unknown / Unable to Discern		Total	
	Amount ($M)	Percentage (%)	Amount ($M)	Percentage (%)	Amount ($M)	Percentage (%)	Amount ($M)	Percentage (%)
Medical Necessity	-	-	-	-	N/A	N/A	$0.00	0.00%
Insufficient Documentation to Determine	N/A	N/A	N/A	N/A	$1.92	0.04%	$1.92	0.04%
Total	$39.10	0.89%	$3.56	0.08%	$1.92	0.04%	$44.58	1.02%

Federal Protective Service (FPS) – Payroll

The U.S. Department of Homeland Security is the primary federal agency responsible for the protection of all federal property owned or occupied by the Federal Government, whether it is owned or leased by the General Services Administration. The authority to carry out this mission has been delegated to FPS.

To achieve that mission, FPS employees law enforcement security officers, criminal investigators, and police officers along with contract guard staff to conduct security screenings at federal buildings.

When the Homeland Security Act of 2002 was passed, FPS was transferred from GSA to the newly formed U.S. Department of Homeland Security, structured within U.S. Immigration and Customs Enforcement. In 2009, DHS transferred FPS to the National Protection and Programs Directorate[19, 20]. During the 2018 IPIA review process, FPS Payroll was identified as susceptible to significant improper payments based on the comprehensive risk assessment results. As such, in 2019, the FPS program conducted statistical sampling under IPIA with results reported below.

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[19] The Cybersecurity and Infrastructure Security Agency (CISA) was established on November 16, 2018 when the Cybersecurity and Infrastructure Security Agency Act of 2018 was signed into law.
[20] In May 2019, DHS announced its decision to transfer FPS from its Cybersecurity and Infrastructure Security Agency (CISA) to its Management Directorate, and to report to the Under Secretary for Management.

Table 15: FPS Payroll Improper Payment Results

	Testing Conducted in 2017	Testing Conducted in 2018	Testing Conducted in 2019
Outlays ($M)			$205.08
Proper Payments ($M)			$200.15
Proper Payments (%)			97.60%
Improper Payments ($M)			$4.93
Improper Payments (%)			2.40%
Applicable Reduction Target Rate (%)			N/A
Reduction Target Met?			N/A

Breakout of 2019 Improper Payment Totals

	Monetary Loss: Within the Agency's Control	*Monetary Loss: Outside the Agency's Control*	Total Monetary Loss	Total Non-Monetary Loss	Total Unknown / Unable to Discern
Amount ($M)	$1.28	$0.00	$1.28	$0.37	$3.27
Percentage (%)	0.62%	0.00%	0.62%	0.18%	1.60%

	Improper Payments Made by the Federal Government	Improper Payments Made by the Recipient of Federal
Amount ($M)	$4.93	$0.00
Percentage (%)	2.40%	0.00%

The FPS Payroll program utilized the 95/3 guidance for a statistically valid and robust sampling plan and had an achieved precision rate of 2.35%. FPS Payroll does not have reduction target percentage provided as 2019 was the first year that the program conducted IPIA sampling and reporting and, in accordance with OMB Circular A-123, Appendix C, has an allowance of 24 months of reporting to establish a baseline before establishing a reduction target.

The following table summarizes, by program, the improper payment root causes as described in Appendix C to OMB Circular A-123

Table 16: FPS Payroll Root Cause of Improper Payments

Reason for Improper Payment		Overpayment		Underpayment		Unknown / Unable to Discern		Total	
		Amount ($M)	Percentage (%)	Amount ($M)	Percentage (%)	Amount ($M)	Percentage (%)	Amount ($M)	Percentage (%)
Program Design or Structural Issue		-	-	-	-	N/A	N/A	$0.00	0.00%
Inability to Authenticate Eligibility	Inability to Access Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Data Does Not Exist	-	-	-	-	N/A	N/A	$0.00	0.00%
Failure to Verify Data	Death Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Financial Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Excluded Party Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Prisoner Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Other Data	-	-	-	-	N/A	N/A	$0.00	0.00%
Administrative or Process Errors Made by:	Federal Agency	$1.28	0.62%	$0.37	0.18%	N/A	N/A	$1.65	0.80%
	State or Local Agency	-	-	-	-	N/A	N/A	$0.00	0.00%

Reason for Improper Payment	Overpayment		Underpayment		Unknown / Unable to Discern		Total	
	Amount ($M)	Percentage (%)	Amount ($M)	Percentage (%)	Amount ($M)	Percentage (%)	Amount ($M)	Percentage (%)
Other Party	-	-	-	-	N/A	N/A	$0.00	0.00%
Medical Necessity	-	-	-	-	N/A	N/A	$0.00	0.00%
Insufficient Documentation to Determine	N/A	N/A	N/A	N/A	$3.27	1.60%	$3.27	1.60%
Total	$1.28	0.62%	$0.37	0.18%	$3.27	1.60%	$4.93	2.40%

The table below summarizes improper payment amounts for all DHS programs deemed to be susceptible to significant improper payments. It provides a breakdown of estimated proper as well as improper payments and associated rates for each applicable DHS program or activity.

Table 17: DHS Improper Payment Results and Reduction Outlook

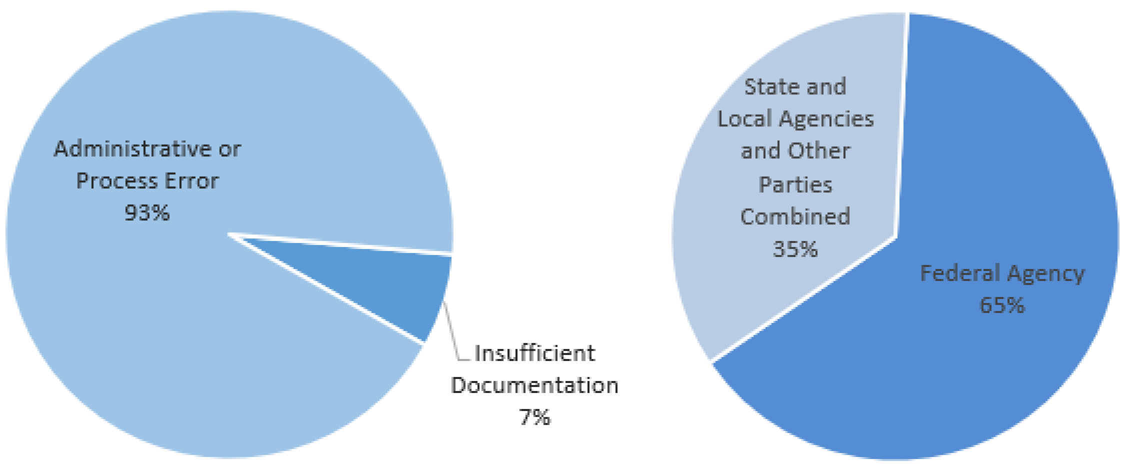
DHS Program Name	Testing Conducted in FY 2018			Testing Conducted in FY 2019					Testing to be Conducted in FY 2020
	Outlays ($M)	Improper Amount ($M)	Improper Rate (%)	Outlays ($M)	Proper Amount ($M)	Proper Rate (%)	Improper Amount ($M)	Improper Rate (%)	Reduction Target (%)
DHS Programs Reporting on Disbursements from One Fiscal Year Prior									
Federal Emergency Management Agency (FEMA) – Flood Hazard Mapping & Risk Analysis (FHMRA) Program	$144.16	$0.25	0.17%	$174.91	$174.90	99.995%	$0.009	0.005%	0.20%
FEMA – National Flood Insurance Program (NFIP)	$3,742.61	$0.17	0.005%	$9,310.28	$9,309.97	99.997%	$0.31	0.003%	0.10%
FEMA – Public Assistance (PA) Program	$3,428.17	$33.07	0.96%	$3,764.07	$3,737.34	99.29%	$26.72	0.71%	1.00%
FEMA – Vendor Pay (VP) Program	$1,540.46	$26.12	1.70%	$4,383.97	$4,339.39	98.98%	$44.58	1.02%	1.50%
Federal Protective Service (FPS) – Payroll	*N/A - Program identified to begin reporting in FY 2019*			$205.08	$200.15	97.60%	$4.93	2.40%	*N/A*[21]
DHS Programs Granted OMB Relief from Reporting Effective in FY 2019									
Customs and Border Protection (CBP) – Refund and Drawback Program	$1,871.28	$0.35	0.02%	*N/A - Program was granted OMB relief from reporting*					
FEMA – Assistance to Firefighters Grant	$306.47	$4.06	1.32%	*N/A - Program was granted OMB relief from reporting*					
FEMA - Homeland Security Grant Program	$851.77	$6.30	0.74%	*N/A - Program was granted OMB relief from reporting*					
Immigration and Customs Enforcement (ICE) – Enforcement & Removal Operations Program	$2,132.45	$0.29	0.01%	*N/A - Program was granted OMB relief from reporting*					
TOTAL[22]	$14,017.38	$70.62	0.50%[23]	$17,838.30	$17,761.75	99.57%	$76.55	0.43%[24]	N/A

Upon analysis, it was determined that, for the programs testing in 2019, the improper payments were due to administrative or process errors (approximately 93%), and insufficient documentation to determine (approximately 7%). In addition, approximately 65 percent of

[21] FPS Payroll does not have reduction target percentage provided as 2019 was the first year that the program conducted IPIA sampling and reporting and, in accordance with OMB Circular A-123, Appendix C, has an allowance of 24 months of reporting to establish a baseline before establishing a reduction target.
[22] The total does not represent a true statistical improper payment estimate for the Department.
[23] The estimated DHS improper payment rate is not a true statistical estimate for the Department and was calculated using estimated total outlays as well as the estimated total improper payment amount as reported for testing conducted in 2018.
[24] The estimated DHS improper payment rate is not a true statistical estimate for the Department and was calculated using estimated total outlays as well as the estimated total improper payment amount as reported for testing conducted in 2019.

improper payments were attributed to payments made by the Federal agency and 35 percent due to payments made by recipients of federal funding (to include States, local agencies, and other parties). These root causes were identified through improper payments testing conducted in 2019 and categorized using the error categories as defined in OMB Circular A-123, Appendix C.

Improper Payment Error Categories



The following table summarizes, consolidated for DHS, the improper payment root causes as described in Appendix C to OMB Circular A-123 for the DHS programs found susceptible to significant improper payments. In addition, the improper payment amounts are broken out to reflect the total overpayment, underpayment, and unknown / unable to discern improper payment amounts and summary associated rates. For program specific breakouts, please refer to the tables reported within each program section above.

Table 18: DHS Root Cause of Improper Payments

Reason for Improper Payment		Overpayment		Underpayment		Unknown / Unable to Discern		Total	
		Amount ($M)	Percentage (%)	Amount ($M)	Percentage (%)	Amount ($M)	Percentage (%)	Amount ($M)	Percentage (%)
Program Design or Structural Issue		-	-	-	-	N/A	N/A	$0.00	0.00%
Inability to Authenticate Eligibility	Inability to Access Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Data Does Not Exist	-	-	-	-	N/A	N/A	$0.00	0.00%
Failure to Verify Data	Death Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Financial Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Excluded Party Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Prisoner Data	-	-	-	-	N/A	N/A	$0.00	0.00%
	Other Data	-	-	-	-	N/A	N/A	$0.00	0.00%
Administrative or Process Errors Made by:	Federal Agency	$40.38	0.23%	$3.94	0.02%	N/A	N/A	$44.32	0.25%
	State or Local Agency	$26.72	0.15%	-	-	N/A	N/A	$26.72	0.15%
	Other Party	$0.31	0.002%	-	-	N/A	N/A	$0.31	0.002%
Medical Necessity		-	-	-	-	N/A	N/A	$0.00	0.00%
Insufficient Documentation to Determine		N/A	N/A	N/A	N/A	$5.19	0.03%	$5.19	0.03%
Total[25]		$67.42	0.38%	$3.94	0.02%	$5.19	0.03%	$76.55	0.43%[26]

[25] The total does not represent a true statistical improper payment estimate for the Department.
[26] The estimated DHS improper payment rate is not a true statistical estimate for the Department and was calculated as a summation of the improper rates associated with the error categories listed.

Supplemental appropriations were designated as an emergency requirement in the Supplemental Appropriations for Disaster Relief Requirements, 2017 (P.L. 115-56, the Additional Supplemental Appropriations for Disaster Relief Requirements Act of 201 7 (P.L. 115-72), and the Further Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2018 (P.L. 115-123) were issued to specific agencies to provide the resources needed to recover and rebuild following recent hurricanes and other applicable natural disasters. Within these supplemental appropriations, DHS received a total supplemental appropriation amount of $50.72 billion[27]. The breakout of DHS Components receiving this supplemental funding is documented in the table below.

Table 19: DHS Breakout of Supplemental Appropriation Funding Received

Public Law	Component	Program	Period of Availability (FY)	Appropriated Value ($M)	Transfer-In Value ($M)	Transfer-Out Value ($M)	Value for Program Use ($M)
115-56	Federal Emergency Management Agency	Disaster Relief Fund	No-Year	$7,400.00	$0.00	$0.00	$7,400.00
115-72		Disaster Relief Fund	No-Year	$18,670.00	$0.00	$10.00	$18,660.00
115-123		Operations and Support	18-19	$58.80	$0.00	$0.00	$58.80
115-123		Procurement, Construction, and Improvements	18-20	$1.20	$0.00	$0.00	$1.20
115-123		Disaster Relief Fund	No-Year	$23,500.00	$0.00	$0.00	$23,500.00
115-123	Federal Law Enforcement Training Center	Operations and Support	18-19	$5.37	$0.00	$0.00	$5.37
115-123		Procurement, Construction, and Improvements	18-22	$5.00	$0.00	$0.00	$5.00
115-72	Office of the Inspector General	Operations and Support	No-Year	$0.00	$10.00	$0.00	$10.00
115-23		Operations and Support	18-20	$25.00	$0.00	$0.00	$25.00
115-23	Transportation and Security Administration	Operations and Support	18-19	$10.32	$0.00	$0.00	$10.32
115-23	U.S. Customs and Border Protection	Operations and Support	18-19	$104.49	$0.00	$0.00	$104.49
115-23		Procurement, Construction, and Improvements	18-22	$45.00	$0.00	$0.00	$45.00
115-23	U.S. Immigration and Customs Enforcement	Operations and Support	18-19	$30.91	$0.00	$0.00	$30.91
115-23		Procurement, Construction, and Improvements	18-22	$33.05	$0.00	$0.00	$33.05
115-23	United States Coast Guard	Operating Expenses	18-19	$112.14	$0.00	$0.00	$112.14
115-23		Environmental Compliance and Restoration	18-22	$4.04	$0.00	$0.00	$4.04
115-23		Acquisition, Construction, and Improvements	18-22	$718.92	$0.00	$0.00	$718.92
						TOTAL:	$50,724.24

P.L. 115-123 requires any agency receiving funds under P.L. 115-123 as well as P.L. 115-72 and P.L. 115-56 to consider any programs expending more than $10 million of funds in any one fiscal year highly susceptible to improper payments for the purposes of the IPIA. In accordance with that requirement, the Department rolled all FY 2018 funding received and disbursed from the supplemental appropriations into individual programs for tracking disbursement amounts that are applicable for review under IPIA. Once these disaster supplemental funded programs met or exceeded the $10M threshold in payments applicable for IPIA review, the program was deemed susceptible to significant improper payments and thus applicable for statistical sampling and reporting.

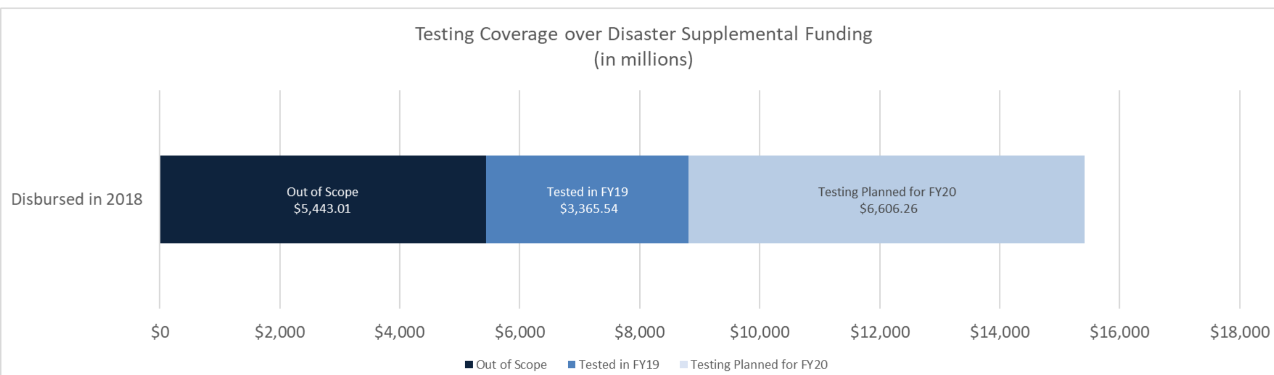
[27] Due to rounding, amounts may not reflect exact appropriated values.

For 2019 testing and reporting, DHS is able to include statistical testing results for the FEMA FHMRA and FEMA VP programs, both of which incorporated their applicable FY 2018 disaster supplemental appropriations disbursements into the pre-existing program. However, due to the burden of testing and reporting the remaining ten programs related solely to disaster supplemental appropriation disbursements, DHS will be reporting statistical testing results two years in arrears. Therefore, FY 2018 disbursement testing and results will be reported in 2020 for the following programs:

- CBP Operations & Support (O&S) - Disaster Supplemental Funds
- FEMA Commercial Bill of Lading - Disaster Supplemental Funds
- FEMA Disaster Case Management - Disaster Supplemental Funds
- FEMA Disaster Relief Fund (DRF) - Individuals and Households Program - Disaster Supplemental Funds
- FEMA Payroll - Disaster Supplemental Funds
- FEMA Public Assistance - Disaster Supplemental Funds
- FEMA Travel - Disaster Supplemental Funds
- FEMA Urban Search & Rescue - Disaster Supplemental Funds
- ICE O&S - Disaster Supplemental Funds
- USCG Coast Guard Operating Expense - Disaster Supplemental Funds

Based on the FY 2018 disbursements made from the supplemental appropriation funding, the following table highlights the amount determined to be out of scope[28], the amount tested and reported in 2019, and the amount to be tested and reported in 2020.

Table 20: Supplemental Appropriation Testing Breakout



2. Recapture of Improper Payments Reporting

During FY 2019, the Department did not have any recapture audit activities conducted. DHS has conducted multiple cost analysis reviews over the past several years and determined that payment recapture audit programs are not cost-effective. The determination regarding cost-effectiveness considered recovery amounts, costs of audits exceeding recovery amounts

[28] Out of Scope determination includes amounts that were disbursed as an intragovernmental payment as these are not applicable for IPIA review, other disbursements excluded from IPIA (to include non-disbursements, net $0.00 payments, Journal Vouchers, etc.), and IPIA applicable disbursements that were deemed to be not applicable as the program did not meet or exceed the $10M threshold of IPIA applicable disbursements.

identified for recapture, and no major changes to payment operations to justify performing a recapture audit.

The following table identifies funds recaptured outside of the recapture audit program, as reported by the respective Components[29]. These overpayments were identified though grant and contract closeout processes, high dollar overpayments reporting to include significant amounts identified during IPIA reviews, vendor identification, etc.

Table 21: Overpayments Recaptured Outside of Payment Recapture Audits

DHS Component	Amount Identified ($M)	Amount Recaptured ($M)	Percentage Recaptured (%)
CWMD	$0.38	$0.02	5.52%
FEMA	$3.47	$0.48	13.97%
FLETC	$0.11	$0.05	44.12%
ICE	$0.19	$0.19	100.00%
MGA	$0.03	$0.01	49.47%
MGMT[30]	$0.53	$0.53	100.00%
S&T	$0.01	$0.01	100.00%
TSA	$2.59	$2.57	99.10%
USCG	$0.32	$0.23	72.75%
USCIS	$0.91	$0.59	64.42%
DHS Total	$8.55	$4.69	54.87%

3. Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

The Do Not Pay (DNP) Initiative is a government-wide initiative mandated by OMB Memorandum M-12-11 dated April 12, 2012, Reducing Improper Payments through the “Do Not Pay List,” and IPERIA to match payments against DNP databases, prior to any payment of a grant or contract award. The Treasury Department performs post-payment matches on DHS disbursements using the General Service Administration’s System for Awards Management and Social Security Administration’s Death Master File to identify improper payments. Treasury also performs post-payment matches using System for Award Management (SAM), Debt Check, Credit Alert Interactive Voice Response System, List of Excluded Individuals/Entities, and the Prisoner Update Processing System.

The Department continues its efforts to prevent and detect improper payments via the DNP Business Center portal by implementing the screening of payments through the Treasury Do Not Pay Portal and, as appropriate, screen payments via the DNP databases directly. Specifically, the Office of the Chief Procurement Officer (OCPO) ensures that its contracting staff complies with Federal Acquisition Regulation (FAR), applicable areas of the DHS Homeland Security Acquisition Regulation (HSAR) and Homeland Security Acquisition Manual (HSAM) through its internal control processes and procedures. OCPO supplements the DHS HSAR and HSAM through the issuance of internal operating procedures for the review and approval of specific pre-award, award, and post-award documentation to ensure that acquisition staff checks data in

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[29] All DHS payment processing Components, to include CBP, FEMA, FLETC, ICE, USCG, and USSS, reported the respective amounts identified and recaptured for their respective Component and any applicable serviced Components. Components not specifically listed did not report overpayment amounts identified and/or recaptured applicable for reporting.

[30] Amounts reported for the Management Directorate include amounts reported for OBIM. The Office of Biometric Identity Management (OBIM) was transferred to DHS’s Management Directorate following the signing of the Cybersecurity and Infrastructure Security Agency (CISA) Act of 2018.

SAM and the Federal Awardee Performance and Integrity Information System (FAPIIS). DHS and its finance centers' program managers work with Treasury to leverage the Portal's capabilities including analyzing current end-to-end payment processes and controls and engaging with Treasury to ensure additional DNP databases are utilized effectively.

Accordingly, DHS complies with the DNP initiative through its internal control and oversight practices and review procedures. From the period of October 2018 through September 2019, DHS conducted reviews on over 3.9 million payments, totaling over $33.36 billion dollars in disbursements under DNP. Based on this review, there were no payments stopped and 1,257 payments with matches flagged. The total amount associated with matches flagged equated to a dollar value of $3.06 million with matches, well under 0.1% of the total payments reviewed.

Table 22: DNP Review Results

	Reviewed for Possible Improper Payments	Payments with Matches	Percentage of Payments Reviewed
Number of Payments	3,901,108	1,257	0.03%
Dollars of Payments ($M)	$33,362.34	$3.06	0.009%

Based on the 311 payments adjudicated as of September 2019, only 19 payments out of the flagged matches have been found to be improper.

Table 23: Breakout of DNP Adjudicated Payments

	Adjudicated Payments	Percentage of Total Payments Adjudicated as of September 2019
Number of Improper Payments	19	6.11%
Dollars of Improper Payments ($M)	$0.20	26.86%
Number of Proper Payments	292	93.89%
Dollars of Proper Payments ($M)	$0.54	73.14%

4. Barriers

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 these criteria, no DHS programs identified as susceptible to significant improper payments exceeded the statutory threshold. As such, the Department has no statutory or regulatory barriers identified that will impact the ability of DHS to successfully maintain and continue to reduce improper payment rates.

5. Accountability

The goals and requirements of IPIA are 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, to include Component Chief Financial Officers (CFOs), programs, States, and localities are held accountable for reducing and recapturing improper payments. The Department's CFO and

senior staff have incorporated improper payment expectations and performance 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 payments that may occur. Management's efforts, to include within DHS Headquarters as well Components, around improper payments are subject to an annual compliance review by the DHS's Office of Inspector General. These measures are designed to hold the appropriate personnel accountable for meeting applicable improper payment reduction targets and establishing and maintaining strong internal controls around payment management.

6. Agency Information Systems and Other Infrastructure

The Department has 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 year. The Department monitors Component improper payment testing in accordance with OMB Circular A-123, Appendix C. Additionally, each CFO provides an annual assurance statement attesting to the effectiveness of program controls within their Component.

7. Sampling and Estimation

The Department used a statistically valid, stratified sample design[31] performed by a statistician to select and test FY 2018 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[32].

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.

[31] The FEMA PA program used an OMB approved alternative sampling methodology for multi-year targeted sampling plan.
[32] For the certainty strata, all payments are selected for review.

8. Risk Assessment

In accordance with IPIA, 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[33]. 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 2019, the Department conducted 54 comprehensive risk assessments, please refer to the table below for specific programs assessed.

Table 24: DHS Program Performing a Comprehensive Risk Assessment in 2019

Program Name	Was the Program or Activity Susceptible to Significant Improper Payments During FY 2019 Risk Assessment?
CBP - Refund and Drawback	No
CBP - Construction	No
CBP - User Fees	No
CBP - Automation and Modernization	No
CBP - Border Security Fencing	No
CBP - Operations and Maintenance	No
CBP - Payroll	No
CBP - Operations and Support: Travel	No
CISA - NPPD Legacy	No
CISA - Office of Biometric Identity Management (OBIM)	No
CISA - Federal Protective Service (FPS)	No
CISA - Payroll: NPPD Legacy and OBIM	No
CWMD - Procurement, Construction, and Improvements	No
CWMD - Operations & Support	No
CWMD - Mission Support	No
CWMD - Chemical and Biological Readiness: Biological	No
FEMA - Emergency Management Performance Grants	No
FEMA - Federal Insurance & Mitigation Administration: Grants	No
FEMA - Federal Insurance & Mitigation Administration: Non-Claims (Write Your Own)	No
FEMA - Flood Hazard Map and Risk Analysis Program: Grants	No
FEMA - Emergency Food & Shelter	No
FEMA - National Flood Insurance Program Reinsurance	No
FEMA - Nonprofit Security Grant Program	No
FEMA - Port Security Grant Program	No
FEMA - Training Grants	No
FEMA - U.S. Fire Administration & Training	No

[33] 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.

Program Name	Was the Program or Activity Susceptible to Significant Improper Payments During FY 2019 Risk Assessment?
FEMA - Disaster Relief Fund (DRF) Individuals and Household Program	No
FEMA - Community Disaster Loans	No
FLETC - Law Enforcement Training	No
FLETC - Mission Support	No
ICE – Service-Wide Agreements	No
ICE - Purchase Card	No
ICE - Hurricane Other	No
MGA - Analysis and Operations	No
S&T - Research & Development	No
TSA - Aviation Security	No
TSA - Intelligence & Vetting	No
TSA - Surface Transportation	No
TSA - Federal Air Marshall	No
TSA - Administration Support	No
USCG - Civilian Payroll	No
USCG - Coast Guard Acquisition Construction & Improvements	No
USCG - Retired Pay	No
USCG - Military Payroll	No
USCIS - Adjudication Services	No
USCIS - Information Customer Services	No
USCIS - Administration	No
USCIS - Systemic Alien Verification for Entitlements	No
USCIS - Employment Status Verifications	No
USSS - Protection	No
USSS - Contribution for Annuity Benefits	No
USSS - Training	No
USSS - Procurement, Construction, and Improvements	No
USSS - Field Operations	No

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, and other excluded payments to include non-disbursements, net $0.00 payments, Journal Vouchers, etc.

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 well as requirements from OMB Circular A-123, Appendix C. Based on that approach, DHS utilized the following risk factors in the 2019 comprehensive risk assessment process:

- Whether the program or activity reviewed is new to the agency (requires comprehensive risk assessment if new program or activity);
- Whether the program has completed a comprehensive risk assessment more than two years ago;
- Whether the program has received funding deemed to be susceptible to significant improper payments;

- 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 of experience, turnover, and quality of training for personnel responsible for formulating program eligibility determinations or certifying that payments are accurate;
- Significant deficiencies in the audit reports of the agency including, but not limited to, the agency Inspector General or the Government Accountability Office (GAO) audit report findings, internal control over financial reporting findings, or other relevant management findings that might hinder accurate payment certification; and,
- Recent significant changes to legislation governing this program since the last year risk assessed.

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.

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.

Fraud Reduction

On June 30, 2016, Congress enacted Public Law 114-186, 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.

For the third consecutive year, DHS continued implementation of several initiatives to comply with the FRDAA using GAO's Fraud Risk Framework, GAO Standards for Internal Control, and OMB Circular A-123. In FY 2019, the Department held several training sessions with fraud risk assessors, which improved its reliability over the fraud risk assessments that are integrated with internal control over financial reporting assessments. The focus in targeting training with fraud assessors were to enable the community to engage better stakeholder engagement across the organization, to not only assess fraud risk, to bring heightened awareness of identifying and mitigating fraud risks by process owners who are responsible for implementing these controls. The fraud risk assessments take into consideration, inherent risk and risk tolerance of the fraud, the controls in place to mitigate the risk, and the control suitability of the controls in place. The output of the assessment is the residual risk that remains after the controls in place are taken into consideration, and the related response to elevated fraud risk. Applicable Components have assessed fraud risk and a majority have assessed control suitability, as part of the continuous monitoring assessments as part of the internal control over financial reporting program.

Data Analytics

In FY 2019, the Department conducted an assessment over the use of purchase cards during the lapse in appropriations using data analysis. DHS Office of the Chief Financial Officer focused on cardholder transactions made by non-exempt Components and cardholders during the period covering December 22, 2018 through January 25, 2019, then sampled these transactions to verify that purchases had documentation to support a clear and direct relationship to activity necessary to continue during the lapse in appropriations.

While initial work has started, DHS will continue to expand upon 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 include the following:

- *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 ensuring compliance with DHS procurement requirements by promoting meaningful communications with industry.

- *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; however, none of improper payments tested in FY 2019 were attributed to fraud. As part of OMB's data call for payment accuracy, DHS is required report on confirmed fraud as reported by the OIG, which is a subset of amounts reported in the semi-annual report to Congress. In FY 2020, the OIG and DHS will work together to identify root causes of confirmed fraud instances, to the extent possible, and DHS will work towards improving its internal controls to further mitigate and reduce the risk of fraud as the Department matures in this process.

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*, included a requirement for 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 2018, the Department indicated an increase in its Reduce the Footprint (RTF) inventory due to a location misclassification for some mission essential assets as well as expansion required to accommodate increased requirements for border security and immigration enforcement activities.

Currently, the Department occupies more than 100 million square feet (SF), which is comprised of 43 million SF of owned space and 61 million SF of leased space. Approximately one-third, or 31.6 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.

From FY 2020 through FY 2024, the Department anticipates a 0.3 percent reduction from its RTF baseline of 31.1 million SF for office and warehouse space. Within this five-year plan, DHS projects to reduce its office space by approximately 90,000 SF. In FY 2019, the Secretary relocated to the St. Elizabeths campus, a major consolidation that is not reflected in the current RTF plans, because it has already occurred.

A major driver for future improvements will be led through the Field Efficiencies (FE) Program Management Office. DHS has placed Regional Coordinators throughout the country to coordinate mission support efficiencies holistically across the Department. The Regional Coordinators work closely with representatives within GSA, DHS, and Component real property programs and mission support teams in the field to improve real property coordination, planning, and execution. These efforts are resulting in additional consolidation projects being submitted to GSA, reductions in surplus property and occupied space, and an overall improvement to DHS's asset utilization. In 2019, DHS also enhanced its portfolio management and strategic planning capability with emphasis on tenancies within the National Capital Region. DHS intends to work to align our strategic plans with those of the servicing GSA regions to improve predictability and ensure the Department budgets for, and funds, relocation projects timely.

Table 25: Reduce the Footprint Baseline Comparison (square feet)

	RTF Baseline	FY 2018 Actual	Change (FY 2015 Baseline to FY 2018)
Total	31,135,962	31,557,176	421,213

Table 26: Reporting of O&M Building Costs

($ in millions)

	FY 2015 Reported Costs	FY 2018 Costs	Projected Change in Costs
Operations and Maintenance Costs	$85	$85	+0

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 2019. Additional information about these penalties and the latest adjustment is available in the Federal Register Volume 84, No. 66

Table 27: 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(b)(1)	2002	$1,394
Non-compliance with landing requirements at designated ports of entry for aircraft transporting aliens	8 USC 1224; INA Section 234; 8 CFR 280.53(b)(2)	1990	$3,788
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(b)(4)	1996	$3,195
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(b)(5)	1996	$7,987
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 INA (for each alien)	8 USC 1281(d); INA Section 251(d); 8 CFR 280.53(b)(6)	1990	$378
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(b)(6)	1990	$9,472
Failure to control, detain, or remove alien crewmen	8 USC 1284(a); INA Section 254(a); 8 CFR 280.53(b)(7)	1990	Minimum $947 Maximum $5,683
Employment on passenger vessels of aliens afflicted with certain disabilities	8 USC 1285; INA Section 255; 8 CFR 280.53(b)(8)	1990	$1,895
Discharge of alien crewmen	8 USC 1286; INA Section 256; 8 CFR 280.53(b)(9)	1990	Minimum $2,841 Maximum $5,683
Bringing into the United States alien crewmen with intent to evade immigration laws	8 USC 1287; INA Section 257; 8 CFR 280.53(b)(10)	1990	$18,943
Failure to prevent the unauthorized landing of aliens	8 USC § 1321(a); INA Section 271(a); 8 CFR 280.53(b)(11)	1990	$5,683
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(b)(12)	1990	$5,683
Bringing to the United States aliens without required documentation	8 USC § 1323(b); INA Section 273(b); 8 CFR 280.53(b)(13)	1990	$5,683
Improper entry	8 USC § 1325(b) INA Section 275(b); 8 CFR 280.53(b)(15)	1996	Minimum $80 Maximum $400

Penalty	Authority	Year Enacted	Adjusted New Penalty
Dealing in or using empty stamped imported liquor containers	19 USC 469	1879	$531
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	$798
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 $930 Maximum $2,924 plus $159 per ton
Failure to depart voluntarily	8 USC 1229(c)(d); INA Section 243(c)(1)(A); 8 CFR 280.53(b)(3)	1952	Minimum $1,597; Maximum $7,987
Failure to depart	8 USC 1324d; INA Section 274D; 8 CFR 280.53(b)(14)	1952	$799
Employing a vessel in a trade without a required Certificate of Documentation	19 USC 1706(a); 19 CFR 4.80(i)	1980	$1,329
Transporting passengers coastwise for hire by certain vessels (knows as Bowaters vessels) that do not meet specified conditions	46 USC 12118(f)(3)	1958	$531
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 $473 Maximum $3,788
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 $400 Maximum $3,195
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 $3,788 Maximum $9,472
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 $3,195 Maximum $7,987
Violation/prohibition of indemnity bonds	8 CFR 274a.8(b)	1986	$2,292
Knowingly hiring, recruiting, referral, or retention of unauthorized aliens (per unauthorized alien) (First offense)	8 CFR 274a.10(b)(1)(ii)(A)	1986	Minimum $573 Maximum $4,586
Knowingly hiring, recruiting, referral, or retention of unauthorized aliens (per unauthorized alien) (Second offense)	8 CFR 274a.10(b)(1)(ii)(B)	1986	Minimum $4,586 Maximum $11,463
Knowingly hiring, recruiting, referral, or retention of unauthorized aliens (per unauthorized alien) (Subsequent offenses)	8 CFR 274a.10(b)(1)(ii)(C)	1986	Minimum $6,878 Maximum $22,927
I–9 paperwork violations	8 CFR 274a.10(b)(2)	1986	Minimum $230 Maximum $2,292
Failure to depart voluntarily	8 USC 1229c(d); INA Section 240B(d); 8 CFR 280.53(b)(3)	1996	Minimum $1,597 Maximum $7,987
Failure to depart	8 USC 1324(d); INA Section 274D; 8 CFR 280.53(b)(14)	1996	$799
CISA			

Penalty	Authority	Year Enacted	Adjusted New Penalty
Non-compliance with CFATS regulations	6 USC 624(b)(1); 6 CFR 27.300(b)(3)	2002	$34,871
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), (5); 49 USC 46301(d)(8)	2003	$13,669 (up to a total of $68,347 total for small business, $546,774 for others)
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), (5); 49 USC 46301(d)(8)	2003	$13,669 (up to a total of $68,347 total for small business, $546,774 for others)
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), (5); 49 USC 46301(d)(8)	2003	$34,174 (up to a total of $546,774 per civil penalty action)
Violation of any other provision of title 49 USC or of 46 USC ch. 701, a regulation prescribed, or order issued under thereunder (49 CFR Ch. XII § 1503.401(b))	49 USC 114(v)	2009	$11,698 (up to a total of $58,490 for individuals and small businesses, $467,920 for others)
USCG			
Saving Life and Property	14 USC 521(c)	2014	$10,651
Saving Life and Property (Intentional Interference with Broadcast)	14 USC 521(e)	2012	$1,093
Confidentiality of Medical Quality Assurance Records (first offense)	14 USC 645(i); 33 CFR 27.3	1992	$5,350
Confidentiality of Medical Quality Assurance Records (subsequent offenses)	14 USC 645(i); 33 CFR 27.3	1992	$35,668
Aquatic Nuisance Species in Waters of the United States	16 USC 4711(g)(1); 33 CFR 27.3	1996	$39,936
Obstruction of Revenue Officers by Masters of Vessels	19 USC 70; 33 CFR 27.3	1935	$7,975
Obstruction of Revenue Officers by Masters of Vessels—Minimum Penalty	19 USC 70; 33 CFR 27.3	1935	$1,861
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; 33 CFR 27.3	2010	$11,563
Anchorage Ground/Harbor Regulations St. Mary's River	33 USC 474; 33 CFR 27.3	1946	$798
Bridges/Failure to Comply with Regulations	33 USC 495(b); 33 CFR 27.3	2008	$29,192
Bridges/Drawbridges	33 USC 499(c); 33 CFR 27.3	2008	$29,192
Bridges/Failure to Alter Bridge Obstructing Navigation	33 USC 502(c); 33 CFR 27.3	2008	$29,192
Bridges/Maintenance and Operation	33 USC 533(b); 33 CFR 27.3	2008	$29,192
Bridge to Bridge Communication; Master, Person in Charge or Pilot	33 USC 1208(a); 33 CFR 27.3	1971	$2,126
Bridge to Bridge Communication; Vessel	33 USC 1208(b); 33 CFR 27.3	1971	$2,126

Penalty	Authority	Year Enacted	Adjusted New Penalty
PWSA Regulations	33 USC 1232(a)	1978	$94,219
Vessel Navigation: Regattas or Marine Parades; Unlicensed Person in Charge	46 USC 70041(d)(1)(B); 33 CFR 27.3	1990	$9,472
Vessel Navigation: Regattas or Marine Parades; Owner Onboard Vessel	46 USC 70041(d)(1)(C); 33 CFR 27.3	1990	$9,472
Vessel Navigation: Regattas or Marine Parades; Other Persons	46 USC 70041(d)(1)(D); 33 CFR 27.3	1990	$4,735
Oil/Hazardous Substances: Discharges (Class I per violation)	33 USC 1321(b)(6)(B)(i); 33 CFR 27.3	1990	$18,943
Oil/Hazardous Substances: Discharges (Class I total under paragraph)	33 USC 1321(b)(6)(B)(i); 33 CFR 27.3	1990	$47,357
Oil/Hazardous Substances: Discharges (Class II per day of violation)	33 USC 1321(b)(6)(B)(ii); 33 CFR 27.3	1990	$18,943
Oil/Hazardous Substances: Discharges (Class II total under paragraph)	33 USC 1321(b)(6)(B)(ii); 33 CFR 27.3	1990	$236,783
Oil/Hazardous Substances: Discharges (per day of violation) Judicial Assessment	33 USC 1321(b)(7)(A); 33 CFR 27.3	1990	$47,357
Oil/Hazardous Substances: Discharges (per barrel of oil or unit discharged) Judicial Assessment	33 USC 1321(b)(7)(A); 33 CFR 27.3	1990	$1,895
Oil/Hazardous Substances: Failure to Carry Out Removal/Comply With Order (Judicial Assessment)	33 USC 1321(b)(7)(B); 33 CFR 27.3	1990	$47,357
Oil/Hazardous Substances: Failure to Comply with Regulation Issued Under 1321(j) (Judicial Assessment)	33 USC 1321(b)(7)(C); 33 CFR 27.3	1990	$47,357
Oil/Hazardous Substances: Discharges, Gross Negligence (per barrel of oil or unit discharged) Judicial Assessment	33 USC 1321(b)(7)(D); 33 CFR 27.3	1990	$5,683
Oil/Hazardous Substances: Discharges, Gross Negligence—Minimum Penalty (Judicial Assessment)	33 USC 1321(b)(7)(D); 33 CFR 27.3	1990	$189,427
Marine Sanitation Devices; Operating	33 USC 1322(j); 33 CFR 27.3	1972	$7,975
Marine Sanitation Devices; Sale or Manufacture	33 USC 1322(j); 33 CFR 27.3	1972	$21,265
International Navigation Rules; Operator	33 USC 1608(a); 33 CFR 27.3	1980	$14,910
International Navigation Rules; Vessel	33 USC 1608(b); 33 CFR 27.3	1980	$14,910
Pollution from Ships; General	33 USC 1908(b)(1); 33 CFR 27.3	1980	$74,552
Pollution from Ships; False Statement	33 USC 1908(b)(2); 33 CFR 27.3	1980	$14,910
Inland Navigation Rules; Operator	33 USC 2072(a); 33 CFR 27.3	1980	$14,910
Inland Navigation Rules; Vessel	33 USC 2072(b); 33 CFR 27.3	1980	$14,910
Shore Protection; General	33 USC 2609(a); 33 CFR 27.3	1988	$52,596
Shore Protection; Operating Without Permit	33 USC 2609(b); 33 CFR 27.3	1988	$21,039
Oil Pollution Liability and Compensation	33 USC 2716a(a); 33 CFR 27.3	1990	$47,357
Clean Hulls; Civil Enforcement	33 USC 3852(a)(1)(A); 33 CFR 27.3	2010	$43,359
Clean Hulls; False statements	33 USC 3852(a)(1)(A); 33 CFR 27.3	2010	$57,813
Clean Hulls; Recreational Vessel	33 USC 3852(c); 33 CFR 27.3	2010	$5,781
Hazardous Substances, Releases Liability, Compensation (Class I)	42 USC 9609(a); 33 CFR 27.3	1986	$57,317
Hazardous Substances, Releases Liability, Compensation (Class II)	42 USC 9609(b); 33 CFR 27.3	1986	$57,317

Penalty	Authority	Year Enacted	Adjusted New Penalty
Hazardous Substances, Releases Liability, Compensation (Class II subsequent offense)	42 USC 9609(b); 33 CFR 27.3	1986	$171,952
Hazardous Substances, Releases, Liability, Compensation (Judicial Assessment)	42 USC 9609(c); 33 CFR 27.3	1986	$57,317
Hazardous Substances, Releases, Liability, Compensation (Judicial Assessment subsequent offense)	42 USC 9609(c); 33 CFR 27.3	1986	$171,952
Safe Containers for International Cargo	46 USC 80509; 33 CFR 27.3	2006	$6,265
Suspension of Passenger Service	46 USC 70305; 33 CFR 27.3	2006	$62,656
Vessel Inspection or Examination Fees	46 USC 2110(e); 33 CFR 27.3	1990	$9,472
Alcohol and Dangerous Drug Testing	46 USC 2115; 33 CFR 27.3	1998	$7,710
Negligent Operations: Recreational Vessels	46 USC 2302(a); 33 CFR 27.3	2002	$6,974
Negligent Operations: Other Vessels	46 USC 2302(a); 33 CFR 27.3	2002	$34,871
Operating a Vessel While Under the Influence of Alcohol or a Dangerous Drug	46 USC 2302(c)(1); 33 CFR 27.3	1998	$7,710
Vessel Reporting Requirements: Owner, Charterer, Managing Operator, or Agent	46 USC 2306(a)(4); 33 CFR 27.3	1984	$12,007
Vessel Reporting Requirements: Master	46 USC 2306(b)(2); 33 CFR 27.3	1984	$2,402
Immersion Suits	46 USC 3102(c)(1); 33 CFR 27.3	1984	$12,007
Inspection Permit	46 USC 3302(i)(5); 33 CFR 27.3	1983	$2,505
Vessel Inspection; General	46 USC 3318(a); 33 CFR 27.3	1984	$12,007
Vessel Inspection; Nautical School Vessel	46 USC 3318(g); 33 CFR 27.3	1984	$12,007
Vessel Inspection; Failure to Give Notice IAW 3304(b)	46 USC 3318(h); 33 CFR 27.3	1984	$2,402
Vessel Inspection; Failure to Give Notice IAW 3309 (c)	46 USC 3318(i); 33 CFR 27.3	1984	$2,402
Vessel Inspection; Vessel ≥ 1600 Gross Tons	46 USC 3318(j)(1); 33 CFR 27.3	1984	$24,017
Vessel Inspection; Vessel <1600 Gross Tons	46 USC 3318(j)(1); 33 CFR 27.3	1984	$4,803
Vessel Inspection; Failure to Comply with 3311(b)	46 USC 3318(k); 33 CFR 27.3	1984	$24,017
Vessel Inspection; Violation of 3318(b)-3318(f)	46 USC 3318(l); 33 CFR 27.3	1984	$12,007
List/count of Passengers	46 USC 3502(e); 33 CFR 27.3	1983	$250
Notification to Passengers	46 USC 3504(c); 33 CFR 27.3	1983	$25,037
Notification to Passengers; Sale of Tickets	46 USC 3504(c); 33 CFR 27.3	1983	$1,251
Copies of Laws on Passenger Vessels; Master	46 USC 3506; 33 CFR 27.3	1983	$501
Liquid Bulk/Dangerous Cargo	46 USC 3718(a)(1); 33 CFR 27.3	1983	$62,595
Uninspected Vessels	46 USC 4106; 33 CFR 27.3	1988	$10,519
Recreational Vessels (maximum for related series of violations)	46 USC 4311(b)(1); 33 CFR 27.3	2004	$331,174
Recreational Vessels; Violation of 4307(a)	46 USC 4311(b)(1); 33 CFR 27.3	2004	$6,623
Recreational Vessels	46 USC 4311(c); 33 CFR 27.3	1983	$2,505
Uninspected Commercial Fishing Industry Vessels	46 USC 4507; 33 CFR 27.3	1988	$10,519
Abandonment of Barges	46 USC 4703; 33 CFR 27.3	1992	$1,783
Load Lines	46 USC 5116(a); 33 CFR 27.3	1986	$11,463
Load Lines; Violation of 5112(a)	46 USC 5116(b); 33 CFR 27.3	1986	$22,927
Load Lines; Violation of 5112(b)	46 USC 5116(c); 33 CFR 27.3	1986	$11,463
Reporting Marine Casualties	46 USC 6103(a); 33 CFR 27.3	1996	$39,936

Penalty	Authority	Year Enacted	Adjusted New Penalty
Reporting Marine Casualties; Violation of 6104	46 USC 6103(b); 33 CFR 27.3	1988	$10,519
Manning of Inspected Vessels; Failure to Report Deficiency in Vessel Complement	46 USC 8101(e); 33 CFR 27.3	1990	$1,895
Manning of Inspected Vessels	46 USC 8101(f); 33 CFR 27.3	1990	$18,943
Manning of Inspected Vessels; Employing or Serving in Capacity not Licensed by USCG	46 USC 8101(g); 33 CFR 27.3	1990	$18,943
Manning of Inspected Vessels; Freight Vessel <100 GT, Small Passenger Vessel, or Sailing School Vessel	46 USC 8101(h); 33 CFR 27.3	1983	$2,505
Watchmen on Passenger Vessels	46 USC 8102(a)	1983	$2,505
Citizenship Requirements	46 USC 8103(f)	1983	$1,251
Watches on Vessels; Violation of 8104(a) or (b)	46 USC 8104(i)	1990	$18,943
Watches on Vessels; Violation of 8104(c), (d), (e), or (h)	46 USC 8104(j)	1990	$18,943
Staff Department on Vessels	46 USC 8302(e)	1983	$250
Officer's Competency Certificates	46 USC 8304(d)	1983	$250
Coastwise Pilotage; Owner, Charterer, Managing Operator, Agent, Master or Individual in Charge	46 USC 8502(e)	1990	$18,943
Coastwise Pilotage; Individual	46 USC 8502(f)	1990	$18,943
Federal Pilots	46 USC 8503	1984	$60,039
Merchant Mariners Documents	46 USC 8701(d)	1983	$1,251
Crew Requirements	46 USC 8702(e)	1990	$18,943
Small Vessel Manning	46 USC 8906	1996	$39,936
Pilotage: Great Lakes; Owner, Charterer, Managing Operator, Agent, Master or Individual in Charge	46 USC 9308(a)	1990	$18,943
Pilotage: Great Lakes; Individual	46 USC 9308(b)	1990	$18,943
Pilotage: Great Lakes; Violation of 9303	46 USC 9308(c)	1990	$18,943
Failure to Report Sexual Offense	46 USC 10104(b)	1989	$10,067
Pay Advances to Seamen	46 USC 10314(a)(2)	1983	$1,251
Pay Advances to Seamen; Remuneration for Employment	46 USC 10314(b)	1983	$1,251
Allotment to Seamen	46 USC 10315(c)	1983	$1,251
Seamen Protection; General	46 USC 10321	1993	$8,678
Coastwise Voyages: Advances	46 USC 10505(a)(2)	1993	$8,678
Coastwise Voyages: Advances; Remuneration for Employment	46 USC 10505(b)	1993	$8,678
Coastwise Voyages: Seamen Protection; General	46 USC 10508(b)	1993	$8,678
Effects of Deceased Seamen	46 USC 10711	1983	$501
Complaints of Unfitness	46 USC 10902(a)(2)	1983	$1,251
Proceedings on Examination of Vessel	46 USC 10903(d)	1983	$250
Permission to Make Complaint	46 USC 10907(b)	1983	$1,251
Accommodations for Seamen	46 USC 11101(f)	1983	$1,251
Medicine Chests on Vessels	46 USC 11102(b)	1983	$1,251
Destitute Seamen	46 USC 11104(b)	1983	$250
Wages on Discharge	46 USC 11105(c)	1983	$1,251
Log Books; Master Failing to Maintain	46 USC 11303(a)	1983	$501

Penalty	Authority	Year Enacted	Adjusted New Penalty
Log Books; Master Failing to Make Entry	46 USC 11303(b)	1983	$501
Log Books; Late Entry	46 USC 11303(c)	1983	$375
Carrying of Sheath Knives	46 USC 11506	1983	$125
Documentation of Vessels	46 USC 12151(a)(1)	2012	$16,398
Documentation of Vessels; Activities involving mobile offshore drilling units	46 USC 12151(a)(2)	2012	$27,331
Engaging in Fishing After Falsifying Eligibility (fine per day)	46 USC 12151(c)	2006	$125,314
Numbering of Undocumented Vessel; Willful violation	46 USC 12309(a)	1983	$12,519
Numbering of Undocumented Vessels	46 USC 12309(b)	1983	$2,505
Vessel Identification System	46 USC 12507(b)	1988	$21,039
Measurement of Vessels	46 USC 14701	1986	$45,855
Measurement; False Statements	46 USC 14702	1986	$45,855
Commercial Instruments and Maritime Liens	46 USC 31309	1988	$21,039
Commercial Instruments and Maritime Liens; Mortgagor	46 USC 31330(a)(2)	1988	$21,039
Commercial Instruments and Maritime Liens; Violation of 31329	46 USC 31330(b)(2)	1988	$52,596
Port Security	46 USC 70119(a)	2002	$34,871
Port Security; Continuing Violations	46 USC 70119(b)	2006	$62,656
Maritime Drug Law Enforcement	46 USC 70506(c)	2010	$5,781
Hazardous Materials: Related to Vessels	49 USC 5123(a)(1)	2012	$81,993
Hazardous Materials: Related to Vessels; Penalty from Fatalities, Serious Injuries/ Illness or substantial Damage to Property	49 USC 5123(a)(2)	2012	$191,316
Hazardous Materials: Related to Vessels; Training	49 USC 5123(a)(3)	2012	$493

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 for the OMB CFO Council's Metric Tracking System. Metric statistics are reported with at least a six-week lag. DHS Components conduct periodic reviews to identify potential problems. On time-payments for FY 2019 were 93% versus the goal of 98%. Total interest paid in FY 2019 was $2,588,846.32 or $71.97 per million invoiced, an 80 percent increase over the prior year. Invoicing delays and the increase in interest penalties were primarily due to the funding lapse in FY 2019.

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.

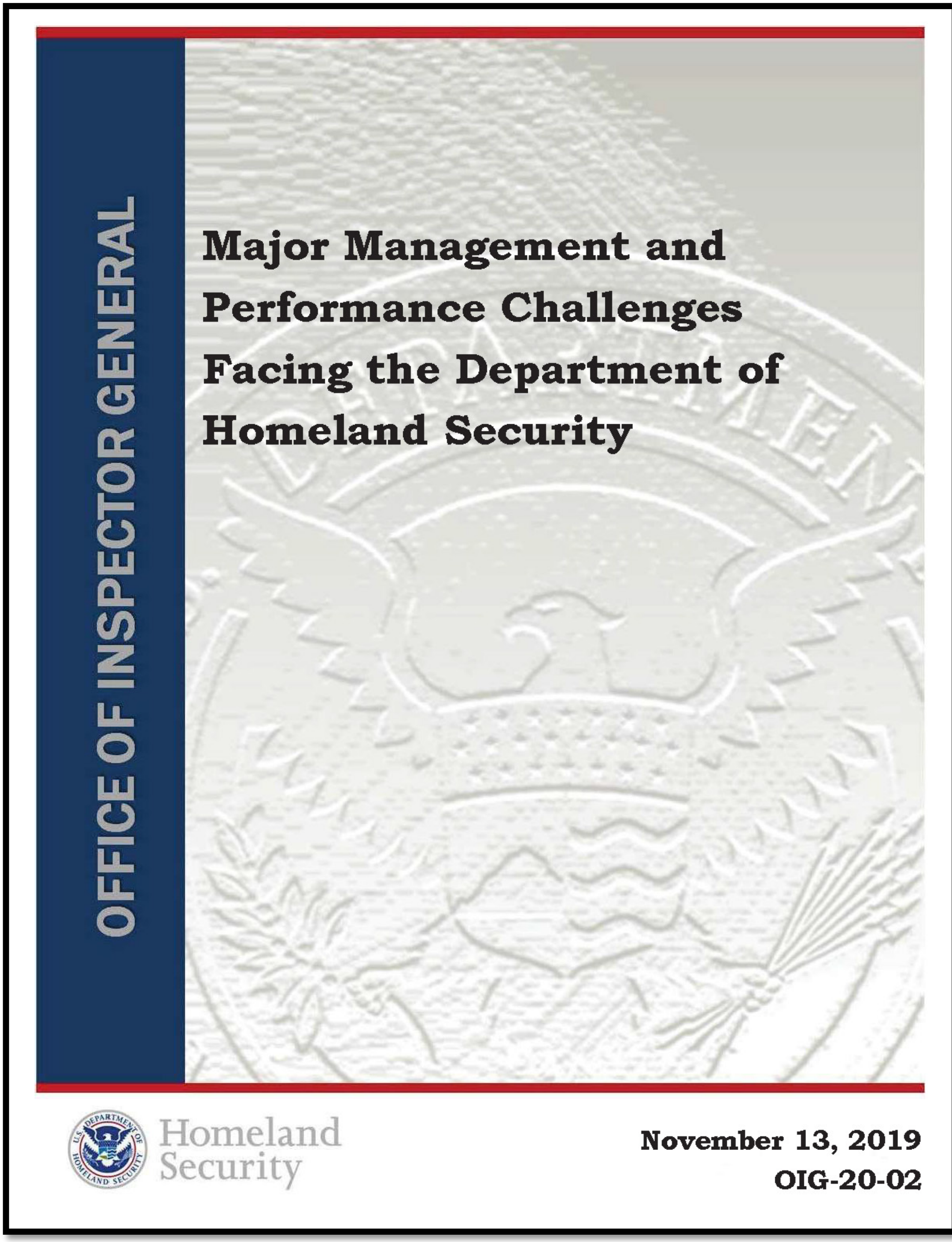
Biennial User Charges Review

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. While this is not a year for reporting results, the Department is using this opportunity to provide an update to a Government Accountability Office (GAO) report recommendation.

In FY 2019, the Department, in coordination with the Fee Governance Council, reviewed the results of the FY 2018 Biennial Fee Review (BFR), took follow-on steps to track and report on deficiencies, and made recommendations to DHS Components on what steps can be taken to achieve full cost recovery or improve fee collections. An example of a successful outcome of the BFR can be seen in the Student and Exchange Visitor Program (SEVP) fee Final Rule, which increased I-901 and I-97 fees, established a new fee for Appeals and Recertification efforts, and increased the scope of the Site Visit fee, all moving the SEVP closer towards full cost recovery.

A copy of GAO's full report (GAO-16-443) can be accessed at the following link: https://www.gao.gov/assets/680/678598.pdf.

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 13, 2019

OIG-20-02

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

November 13, 2019

MEMORANDUM FOR: Kevin K. McAleenan
Secretary (*Acting*)

FROM: Joseph V. Cuffari, Ph.D.
Inspector General

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

Attached for your information is our final 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 must issue an annual statement summarizing what the Inspector General considers the most serious management and performance challenges facing the Department of Homeland Security and assessing its progress in addressing them. This requirement is consistent with our duties under the *Inspector General Act of 1978*, as amended, to conduct audits, as well as provide leadership and recommend policies to promote economy, efficiency, and effectiveness in DHS programs and operations.

We acknowledge and appreciate your ongoing efforts to ensure our Nation and its citizens are safe, secure, and resilient against terrorism and other hazards. In evaluating the challenges facing DHS, we considered their importance relative to the Department of Homeland Security's Strategic Plan for Fiscal Years 2020–2024 (DHS' 2020–2024 Strategic Plan), as well as its Enterprise Risk Management and Immigration Data Integration initiatives. Appendix A presents the goals and objectives in *DHS' 2020–2024 Strategic Plan*; elsewhere in this report we cite specific examples of DHS' strategic progress. Appendix B contains your comments on the draft version of this report.

Based on our recent and prior audits, inspections, special reviews, and investigations, we consider the most serious management and performance challenges currently facing DHS to be:

- Managing Programs and Operations Effectively and Efficiently during times of Changes in Leadership, Vacancies, and Hiring Difficulties;
- Coordinating Efforts to Address the Sharp Increase in Migrants Seeking to Enter the United States through our Southern Border;

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- Ensuring Cybersecurity in an Age When Confidentiality, Integrity, and the Availability of Information Technology Are Essential to Mission Operations;
- Ensuring Proper Financial Planning, Payments, and Internal Controls; and
- Improving FEMA's Disaster Response and Recovery Efforts.

Addressing and overcoming these challenges requires firm leadership; targeted resources; and a commitment to mastering management fundamentals, data collection and dissemination, cost-benefit/risk analysis, and performance measurement. As we have noted in previous Major Management and Performance Challenges reports, the Secretary; Deputy Secretary; Under Secretary for Management; Under Secretary for the Office of Strategy, Policy, and Plans; and DHS Component Heads are responsible for driving necessary change. Unfortunately, many of these senior leadership positions continue to suffer from a lack of permanent, Presidentially Appointed and Senate-confirmed officials. More broadly, DHS and its roughly 240,000 employees work in an environment marked by high attrition, changing mandates, and difficulties implementing permanent plans, procedures, and programs.

It is imperative DHS develop and maintain a high performing, steadfast workforce. We have repeatedly stressed DHS must foster unity of effort, including developing and implementing strong internal controls. We are again highlighting major gaps in DHS' ability to share and manage data, coordinate intra-component activities and programs, and implement fiscally sound practices and procedures to ensure optimal use of taxpayer dollars. We are dedicated to working with DHS leaders to address these challenges and look forward to meaningful progress in the future.

Managing Programs and Operations Effectively and Efficiently During Times of Changes in Leadership, Vacancies, and Hiring Difficulties

This challenge relates to every aspect of DHS' mission. However, it is expressly captured in DHS' 2020–2024 Strategic Plan in Goal 6: Championing the Workforce and Strengthening the Department.[1]

As the third-largest Federal agency, DHS' full performance is vital to the safety and security of our Nation. DHS' 2020–2024 Strategic Plan recognizes the Department's diverse and complex mission requires integration across eight

[1] We recognize DHS' commitment to cultivate a consistent supply of senior executives and career civil servants through its Senior Executive Service Candidate Development Program; Strategic Marketing, Outreach, and Recruitment Engagement automated system; and series of FY2019 Strategic Recruitment Diversity and Inclusion outreach events.

operational components; seven support components formulating guidance on policy, management, research, training, and intelligence; and the Office of the Secretary, which coordinates and oversees the activities of the Department.[2] This need for integration is particularly important in hiring, training, and retaining staff.

Hiring, Training, and Retention

Since its inception, DHS has had difficulties ensuring it can expeditiously hire and retain highly qualified workers. This situation is exacerbated by changes and vacancies in senior leadership, which are often beyond DHS' control. As of September 21, 2019, "acting" officials filled almost one-third (18 of 58) of DHS senior leadership positions.[3]

DHS faces high attrition. At a May 21, 2019 congressional hearing, then Acting Inspector General, John V. Kelly, testified in fiscal year 2017 the Transportation Security Administration (TSA) spent nearly $75 million to train more than 9,000 new Transportation Security Officers, about 20 percent of whom left within 6 months of being hired.[4] The Government Accountability Office (GAO) has also reported concern regarding U.S. Customs and Border Protection (CBP) attrition rates.[5] More specifically, in March 2019 congressional testimony, GAO affirmed CBP staffing levels for law enforcement positions consistently fell below target levels and retaining officers in hard-to-fill locations continued to pose a problem for CBP.

On January 25, 2017, President Trump issued *Executive Order 13767: Border Security and Immigration Enforcement Improvements* (EO 13767) requiring the Department to hire 5,000 new Border Patrol Agents and 10,000 new Immigration Officers to expand immigration enforcement activities and programs.[6] Approximately 10 months later, in November 2017, CBP awarded a $297 million contract to Accenture Federal Services (Accenture) as part of its effort to meet EO 13767 hiring mandates. However, CBP did not effectively

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[2] See https://www.dhs.gov/sites/default/files/publications/19_0702_plcy_dhs-strategic-plan-fy20-24.pdf, p. 4.
[3] See https://www.dhs.gov/leadership.
[4] See https://www.oig.dhs.gov/sites/default/files/assets/TM/2019/oigtm-acting-ig-john-kelly-052119_0.pdf. This testimony was based on *TSA Needs to Improve Efforts to Retain, Hire, and Train Its Transportation Security Officers* (OIG-19-35), March 28, 2019
[5] See https://www.gao.gov/assets/700/697349.pdf.
[6] EO 13767 calls for the construction of a physical wall on the southern border of the United States, the hiring of 5,000 CBP agents, and 10,000 ICE agents, an increase in detention space and the use of expedited removal, and the hiring of more immigration judges to address removal backlogs.

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manage the Accenture contract.[7] As of October 1, 2018 — 10 months into the contract — CBP had paid Accenture approximately $13.6 million for startup costs, security requirements, recruiting, and applicant support. In return, Accenture processed two accepted job offers. CBP also paid Accenture about $500,000 for work CBP had completed in processing 14 applicants on behalf of Accenture. After we issued this management alert, CBP canceled its contract with Accenture.[8]

In February 2019, we reported Border Patrol lacked the data and procedures necessary to determine whether it was meeting workload requirements for investigative and law enforcement activities.[9] Although directed to do so by Congress in 2011, CBP had not completed or submitted a satisfactory workforce-staffing model. This occurred because Border Patrol had not prioritized or assigned adequate resources to develop and implement such a model to guide its hiring and operations. Without a complete workforce-staffing model and accurate data, Border Patrol senior managers could not definitively determine the operational need or best placement for the 5,000 agents DHS was directed to hire under EO 13767.

In addition to hiring and retaining employees, the Department must ensure staff are adequately trained. In November 2018, we reported, as the Department attempts to hire and train 15,000 law enforcement officers, it is already struggling to improve training venues and workaround scenarios to avoid degradation of training and ensure availability of preferred training venues and housing.[10] We recommended the Under Secretary of Management collaborate with Department officials to develop standards and procedures to address these problems and ensure effective expansion of capabilities for law enforcement training related to the hiring surge. The Department has implemented several of our recommendations.

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[7] *Management Alert – CBP Needs to Address Serious Performance Issues in the Accenture Hiring Contract* (OIG-19-13), December 6, 2018.
[8] DHS has expressed concern regarding our review of CBP's Accenture hiring contract, including in its response to this report. We contend that the information presented in our management alert is accurate and fairly describes the results of our review; we met with all key personnel and assessed all pertinent documentation prior to publishing the alert. Further, we believe that our review played an integral part in identifying serious performance issues and ultimately terminating the Accenture hiring contract.
[9] *Border Patrol Needs a Staffing Model to Better Plan for Hiring More Agents* (OIG-19-23), February 28, 2019.
[10] *DHS Training Needs for Hiring 15,000 Border Patrol Agents and Immigration Officers* (OIG-19-07), November 20, 2018.

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Promoting an Ethical Workplace Where Employees Are Held Accountable

In addition to being adequately trained and highly motivated, the DHS workforce must also be accountable.

In June 2019, we reported the Department lacked sufficient policies and procedures to address employee misconduct.[11] Specifically, the Department's policy did not include procedures for reporting allegations of misconduct, clear and specific supervisor roles and expectations, or clearly defined key discipline terms used across all components. DHS also was not effectively managing the misconduct program throughout the Department and lacked data monitoring and metrics to gauge program performance. Without oversight through defined policies and program management, DHS could not make informed decisions to improve the program and ensure all components managed the discipline for misconduct consistently. DHS is taking corrective actions to address our recommendations for improvement.

Coordinating Efforts to Address the Sharp Increase in Migrants Seeking to Enter the United States through Our Southern Border

Although this challenge falls clearly within DHS' 2020–2024 Strategic Plan in Goal 2: Secure U.S. Borders and Approaches, it is also related to Goal 1: Counter Terrorism and Homeland Security Threats.

In response to unprecedented migration at the U.S. Southern Border,[12] DHS is struggling to direct and deploy available resources to manage ports of entry, Border Patrol stations, and processing centers.[13] Addressing unprecedented migration and humanitarian support requires collaboration among Federal law enforcement entities such as DHS and the Department of Justice. Increased migration also requires daily inter-component coordination, most notably among CBP, U.S. Immigration and Customs Enforcement (ICE), and U.S. Citizenship and Immigration Services (USCIS) to administer and enforce

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[11] *DHS Needs to Improve Its Oversight of Misconduct and Discipline* (OIG-19-48), June 17, 2019.

[12] See https://www.hsgac.senate.gov/unprecedented-migration-at-the-us-southern-border-the-exploitation-of-migrants-through-smuggling-trafficking-and-involuntary-servitude; https://www.ice.gov/sites/default/files/documents/Speech/2019/190409tubbs.pdf; and https://www.apnews.com/cbba8ede5436460ab4f792f981ee32e2. According to DHS, in FY 2019 U.S. Border Patrol apprehended 851,508 aliens between ports of entry along our Southwest Border.

[13] See https://www.oig.dhs.gov/sites/default/files/assets/TM/2019/oigtm-deputy-inspector-general-jennifer-l-costello-073019.pdf. The Emergency Supplemental Appropriations for Humanitarian Assistance and Security at the Southern Border Act, 2019 (P.L. 116-26) was signed into law on July 1, 2019, and provided CBP with a total of $1,100,431,000 for humanitarian support, border operations, and mission support.

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immigration laws involving asylum and removal, unaccompanied alien children, victims and perpetrators of human trafficking, drug interdiction, and a range of other matters. These challenges are most evident in the Rio Grande Valley (RGV) Sector, which reported nearly a quarter million apprehensions in the first 8 months of FY 2019.[14] During the past several years, but particularly in FY 2019, we have observed and continue to document serious gaps in communication, information sharing, and effective oversight in these internal and external partnerships. These gaps have been featured in numerous congressional hearings involving OIG leaders.[15]

Coordination among CBP, ICE, and USCIS

Since we issued *DHS Needs a More Unified Approach to Immigration Enforcement and Administration* (OIG-18-07), the need for a cohesive approach to immigration enforcement and administration has become even more pressing given increased migration at the U.S. Southern Border. CBP, ICE, and USCIS must work together to apprehend, interview, transfer, release and/or repatriate noncitizens.[16] To effect removal, CBP and ICE use a range of short- and long-term detention facilities in which conditions have been a focus of our work this past year.

As part of our unannounced inspections of CBP holding facilities, during the week of May 6, 2019, we visited five Border Patrol stations and two ports of entry in the El Paso area, including greater El Paso and eastern New Mexico. We found dangerous overcrowding and adult detainees held longer than the 72 hours generally permitted under CBP's Transport, Escort, Detention, and Search (TEDS) standards at Border Patrol's El Paso Del Norte Processing Center.[17] We recommended the Acting Secretary of DHS take immediate steps to alleviate overcrowding at the Border Patrol facility. One month later, during the week of June 10, 2019, we traveled to the Rio Grande Valley Sector and again observed serious overcrowding and prolonged detention in Border Patrol

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[14] See https://www.oig.dhs.gov/sites/default/files/assets/TM/2019/oigtm-deputy-inspector-general-jennifer-l-costello-073019.pdf, at pg. 3.
[15] See https://www.oig.dhs.gov/news/testimony
[16] We recognize the role other DHS components have played in helping address challenges at the U.S. Southern Border. For example, approximately 150 Coast Guard military and civilian personnel have been deployed to support CBP task forces in the El Paso, Rio Grande, and Yuma Sectors. Their duties include assisting CBP with migrant supervision, food preparation and distribution, stock replenishment, supply transport, translation assistance, personal property documentation, interview assistance, and processing. The Office of Intelligence and Analysis has also worked across the DHS Intelligence Enterprise and engaged with local Fusion Centers to provide assistance at the U.S. Southern Border.
[17] *Management Alert – DHS Needs to Address Dangerous Overcrowding among Single Adults at El Paso Del Norte Processing Center* (OIG-19-46), May 30, 2019.

facilities. We found Border Patrol was holding about 8,000 detainees in custody across five locations, with 3,400 individuals — 826 of whom were children — held longer than the 72 hour standard.[18] We reiterated our concern that overcrowding and prolonged detention pose an immediate risk to the health and safety of DHS agents and officers, and to those detained. As a result of these unannounced inspections, DHS OIG has begun an evaluation to identify challenges CBP faces in its efforts to comply with the general requirement not to exceed the 72-hour detention threshold.

As border apprehensions have increased, so too have the number of individuals in ICE detention.[19] ICE contracts with roughly 106 facilities to detain removable aliens. Although ICE employs a multilayered system to manage and oversee detention contracts, ICE does not adequately hold detention facility contractors accountable for not meeting performance standards.[20]

In June 2019, we summarized findings from our latest round of unannounced inspections at four ICE detention facilities.[21] Although the conditions varied among the facilities and not every problem was present at each, our observations, detainee and staff interviews, and document reviews revealed several common themes. Because we observed immediate risks or egregious violations of detention standards at facilities in Adelanto, CA, and Essex County, NJ, including nooses in detainee cells, overly restrictive segregation, inadequate medical care, unreported security incidents, and significant food safety issues, we issued individual reports to ICE after our visits to those two facilities.[22]

All four facilities had issues with expired food, which puts detainees at risk for food-borne illnesses. At three facilities, we found segregation practices violated standards and infringed on detainee rights. Two facilities failed to provide recreation outside detainee housing units. Bathrooms in two facilities' detainee housing units were dilapidated and moldy. At one facility, detainees were not provided appropriate clothing and hygiene items to ensure they could properly care for themselves. Lastly, one facility allowed only non-contact visits, despite

[18] *Management Alert – DHS Needs to Address Dangerous Overcrowding and Prolonged Detention of Children and Adults in the Rio Grande Valley* (OIG-19-51), July 2, 2019.
[19] See https://www.ice.gov/detention-management.
[20] *ICE Does Not Fully Use Contracting Tools to Hold Detention Facility Contractors Accountable for Failing to Meet Performance Standards* (OIG-19-18), January 29, 2019.
[21] *Concerns about ICE Detainee Treatment and Care at Four Detention Facilities* (OIG-19-47), June 3, 2019.
[22] *Management Alert – Issues Requiring Action at the Adelanto ICE Processing Center in Adelanto, California* (OIG-18-86), September 27, 2018, and *Management Alert – Issues Requiring Action at the Essex County Correctional Facility in Newark, New Jersey* (OIG-19-20), February 13, 2019.

being able to accommodate in-person visitation. Our observations confirmed concerns identified in detainee grievances, which indicated unsafe and unhealthy conditions to varying degrees at all facilities we visited. We continue to recommend the Acting Director of ICE ensure Enforcement and Removal Operations field offices overseeing the detention facilities we have inspected address the issues we have reported and ensure facility compliance with ICE's *2011 Performance-Based National Detention Standards*.

Finally, ICE repatriates thousands of aliens every year, but not without challenges. We reviewed 3,053 cases involving detained aliens not removed within 90 days of receiving a final order and found the most significant factors delaying or preventing their repatriation to be external and beyond ICE's control. For example, detainees' legal appeals tend to be lengthy; removals depend on foreign governments cooperating to arrange travel documents and flight schedules; detainees may fail to comply with repatriation efforts; and detainees' physical or mental health conditions can delay removals. Internally, ICE's challenges with staffing and technology also diminish the efficiency of the removal process. ICE struggles with inadequate staffing, heavy caseloads, and frequent officer rotations, causing the quality of case management for detainees with final orders of removal to suffer. ICE has agreed with our recommendations to address staffing, training, web-based case management and tracking, and decision-making processes.

Ensuring Cybersecurity in an Age When Confidentiality, Integrity, and the Availability of Information Technology Are Essential to Mission Operations

This challenge directly relates to DHS' 2020–2024 Strategic Plan in Goal 3: Secure Cyberspace and Critical Infrastructure.

Current events emphasize the increasingly pervasive and potentially devastating effects of cyber-based intrusions and attacks on public and private information systems in the United States.[23] Cyber vulnerabilities exist across all Federal agencies and in nonfederal entities and organizations, such as private companies, state, local, tribal, and territorial governments. In 1997, GAO first designated information security as a government-wide high-risk area, expanding it in 2003 to include the protection of critical cyber infrastructure, or systems and assets so vital to the United States that their incapacity or destruction

[23] See https://www.lawfareblog.com/intel-chiefs-testify-global-threats-cybersecurity-and-elections, https://thehill.com/policy/cybersecurity/452901-congress-mobilizes-on-cyber-threats-to-electric-grid, and https://www.defense.gov/Newsroom/News/Article/Article/1768617/dod-leaders-brief-congress-on-it-cybersecurity-information-assurance.

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would have a debilitating impact on national security.[24] By 2015, GAO amplified this high-risk area to include protecting the privacy of personally identifiable information (PII), or "any information that can be used to distinguish or trace an individual's identity."[25] After several years of debate, Congress passed the *Cybersecurity and Infrastructure Security Agency Act of 2018*,[26] which redesignated DHS' National Protection and Programs Directorate as the Cybersecurity and Infrastructure Security Agency (CISA). CISA's responsibilities now include leading cybersecurity and critical infrastructure security programs, operations, and associated policy, and carrying out DHS' responsibilities concerning chemical facility antiterrorism standards.[27] The GAO's 2019 High-Risk List features "Ensuring the Cybersecurity of the Nation," and recognizes additional legislation may be necessary to address this area effectively.[28]

Information Security/Information Technology

OIG's Fiscal Year 2018 *Federal Information Security Modernization Act* (FISMA) evaluation of DHS' information security showed improvement compared to the prior year FISMA score.[29] The Department earned the targeted maturity rating, "Managed and Measurable" (level 4) in four of five functions.[30] We attributed

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[24] GAO-17-317, *High Risk Series: Progress on Many High Risk Areas, While Substantial Efforts Needed on Others* (Washington, DC: February 2017). On January 6, 2017, former DHS Secretary Jeh Johnson designated the U.S. election infrastructure as a critical infrastructure subsector.
[25] GAO-17-317, *High Risk Series: Progress on Many High Risk Areas, While Substantial Efforts Needed on Others* (Washington, D.C.: February 2017), p. 338
[26] See https://www.congress.gov/bill/115th-congress/house-bill/3359.
[27] CISA's Strategic Intent (issued in August 2019) is available at: https://www.dhs.gov/sites/default/files/publications/cisa_strategic_intent_s508c_0.pdf. CISA applies risk mitigation strategies and programs such as: performing Red Team Assessments; collaborating with state and local governments as well as private sector organizations to conduct training, exercises, and infrastructure evaluations; distributing machine-readable products to help domestic and international partners protect their networks and systems against ransomware threats and attacks; sharing through the DHS Enhanced Cybersecurity Services program classified and sensitive cyber threat Government Furnished Information with partnered Commercial Service Providers; and working with industry and government partners to establish and maintain the Tri-Sector Executive Working Group.
[28] GAO-19-393T, HIGH-RISK SERIES: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas (Washington, DC: March 6, 2019)
[29] *Evaluation of DHS' Information Security Program for Fiscal Year 2018* (OIG-19-60) September 19, 2019.
[30] We rated DHS' information security program according to five functions in this year's reporting instructions. (1) Identify – Although some systems lacked authority to operate and security weaknesses were not remediated quickly, DHS achieved level 4 by identifying cybersecurity risks through the systems security authorization process. (2) Protect – DHS achieved level 4 by implementing a patch management program to mitigate vulnerabilities. However, DHS did not apply patches timely to mitigate vulnerabilities, did not implement all

DHS' progress to improvements in information security risk, configuration management practices, continuous monitoring, and more effective security training. By addressing the remaining deficiencies, DHS can further improve its security program to ensure its systems adequately protect the critical and sensitive data they store and process.

However, we did identify information security or information technology problems in various DHS components. For example, in carrying out its Transitional Sheltering Assistance program, the Federal Emergency Management Agency (FEMA) improperly released to a contractor the PII and Sensitive PII of 2.3 million survivors of Hurricanes Harvey, Irma, and Maria and the California wildfires in 2017.[31] Based on our report, DHS directed a Breach Response team to conduct a security assessment of FEMA and the contractor's systems. In July 2019, FEMA began issuing notification letters and providing other remedial services, including credit monitoring, to all survivors impacted by this major privacy incident.

During the last 13 years, we have reported on numerous IT deficiencies at FEMA. In August 2019, we reported FEMA had not implemented federally mandated IT management practices essential for effective oversight of its IT environment.[32] FEMA had not established an IT strategic plan, architecture, or governance framework to facilitate day-to-day management of its aging IT systems and equipment. Continuation of this approach impedes budgeting for long-term IT enhancements, leads to overspending, and causes unnecessary IT support efforts. Moreover, amid this management environment, FEMA has not provided its personnel with the IT systems they need to support response and recovery operations effectively. FEMA concurred with our recommendations.

We also reported USCIS had not implemented an effective process to track adjudicative decisions and ensure data integrity in its electronic system of record, Computer Linked Application Information Management System (CLAIMS3).[33] Federal standards and DHS requirements stress the importance

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configuration settings as required, and was using unsupported operating systems. (3) Detect — DHS was rated at level 4 due to its process to detect potential incidents. (4) Respond — DHS earned level 4 by taking sufficient actions to respond to detected cybersecurity incidents. (5) Recover — DHS received level 3, its lowest rating, because it did not employ automated mechanisms to test all system contingency plans or identify alternate facilities to recover processing in the event of service disruptions.

[31] *Management Alert - FEMA Did Not Safeguard Disaster Survivors' Sensitive Personally Identifiable Information* (OIG-19-32), March 15, 2019.

[32] *FEMA's Longstanding IT Deficiencies Hindered 2017 Response and Recovery Operations* (OIG-19-58), August 27, 2019.

[33] *Data Quality Improvements Needed to Track Adjudicative Decisions* (OIG-19-40), May 14, 2019.

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of internal controls over data reliability and system access to achieve effective and efficient operations. However, USCIS could not reliably back adjudicative decisions recorded in CLAIMS3 to the Immigration Services Officers responsible for those decisions. Our analysis of CLAIMS3 data from FYs 2015 to 2017 showed only 66 percent of adjudicative decisions could be tracked. Additionally, USCIS did not implement adequate monitoring and system access controls to prevent intrusions and potential fraud. Instead, staff who were not officers had the same user access and privileges as Immigration Services Officers. These weaknesses create data integrity issues and vulnerability to fraud. USCIS concurred with our recommendations for improvement.

Cybersecurity/Critical Infrastructure

From January to September 2018, we evaluated the effectiveness of the Department's efforts to coordinate with states on securing the Nation's election infrastructure.[34] We found DHS had taken some steps to mitigate risks to the Nation's election infrastructure; however, improved planning, more staff, and clearer guidance could facilitate its coordination with states. Specifically, despite Federal requirements, DHS had not completed plans and strategies critical to identifying emerging threats and mitigation activities and to establishing metrics to measure progress in securing the election infrastructure. Senior leadership turnover and a lack of guidance and administrative staff hindered DHS' ability to accomplish this planning. DHS needs to address and resolve these issues to ensure effective guidance, unity of effort, and a well-coordinated approach to securing the Nation's election infrastructure.

Additionally, the Department has not fully met the requirements in the *Cybersecurity Workforce Assessment Act* to assess its cybersecurity workforce and develop a strategy to address workforce gaps.[35] We attributed DHS' lack of progress in meeting the requirements of the *Cybersecurity Workforce Assessment Act* to both external and internal factors, including legislation that created overlapping and new requirements for cybersecurity workforce planning and reporting and DHS falling behind in responding to these mandates. Without a complete cybersecurity workforce assessment and strategy, DHS cannot provide assurance it has the appropriate skills, competencies, and expertise positioned across its components to carry out its critical cybersecurity functions in the face of ever-expanding cybersecurity threats. DHS concurred with our recommendations.

[34] *Progress Made, But Additional Efforts are Needed to Secure the Election Infrastructure* (OIG-19-24), February 28, 2019.
[35] *DHS Needs to Improve Cybersecurity Workforce Planning* (OIG-19-62), September 23, 2019.

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Ensuring Proper Financial Planning, Payments, and Internal Controls

This challenge relates to every aspect of DHS' mission, and is captured in objectives listed under DHS' 2020–2024 Strategic Plan in Goal 6: Championing the Workforce and Strengthening the Department.

Management fundamentals include having accurate, complete information about operations, their cost, and appropriate internal controls ensuring operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies.

Planning, Solicitation, and Management of Acquisitions

A vitally important part of planning and acquisition is identifying the gap that needs to be filled by a contract. In January 2019, we reported the extent to which DHS and its components had controls for identifying needed capabilities prior to acquiring goods and services.[36] The Joint Requirements Council and Joint Requirements Integration and Management System provided guidance to identify required capabilities, gaps, opportunities, and controls. However, the Department validated noncompliant capability needs documents, did not hold components accountable for failing to follow guidance, and did not provide adequate direction on implementing the guidance. As a result, the Department could not be assured capability needs were being properly identified. The Department has made significant progress in addressing our recommendations.

We subsequently determined DHS components did not always properly solicit, award, and manage low value contracts according to Federal and departmental regulations.[37] Components did not have comprehensive contract management processes for maintaining contract files and procurement personnel reviews did not ensure contract personnel performed required procurement processes. These problems resulted in misspent funds and impaired the Government's ability to take action when contractors did not comply with the procurements. The DHS Chief Procurement Officer did not agree with our recommendations to address identified deficiencies and asserted our report lacked basis to conclude a lack of contract management policy or guidance, at either the Department or contracting activity level.

[36] *DHS Needs to Improve the Process for Identifying Acquisition Planning Capability Needs* (OIG-19-19), January 30, 2019.
[37] *Inadequate Oversight of Low Value DHS Contracts* (OIG-19-50), July 2, 2019.

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Financial Management and Internal Controls

DHS has made strides in establishing certain management fundamentals, including by obtaining an unmodified, or clean, opinion on its financial statements for six consecutive years. However, DHS still cannot obtain such an opinion on its internal controls over financial reporting. This means the Department can assemble reasonably accurate financial statements at the end of the fiscal year, but it has no assurance that its financial information is accurate and up-to-date throughout the year. The Department concurred with the independent auditors' (KPMG's) conclusions and will continue to implement corrective actions to improve financial management and internal control. In all, KPMG made 61 recommendations that, when implemented, would help improve the Department's internal control.[38] Additionally, many key DHS financial systems do not comply with Federal financial management system requirements, as defined in the Federal Financial Management Improvement Act of 1996. Limitations in financial systems functionality add substantially to the Department's challenges addressing systemic internal control weaknesses and limit its ability to leverage IT systems to process and report financial data efficiently and effectively.

Improving FEMA's Disaster Response and Recovery Efforts

This challenge relates directly to DHS' 2020–2024 Strategic Plan in Goal 5: Strengthen Preparedness and Resilience.

FEMA Actions in the Immediate Aftermath of Disasters

In recent congressional testimony, OIG emphasized lessons learned from past disasters that could serve to improve FEMA's contracting and overall preparedness.[39] While acknowledging FEMA had an enormous responsibility resulting from a series of unprecedented natural disasters, OIG identified a pattern of FEMA management failures in overseeing procurements and reimbursing procurement costs. We continue to observe systemic problems and operational difficulties that contribute to FEMA not managing disaster relief grants and funds adequately.[40] At times, FEMA has not followed

[38] *Independent Auditor's Report on DHS' FY 2018 Financial Statements and Internal Controls over Financial Reporting* (OIG-19-04), November 15, 2018.
[39] *Testimony of Deputy Assistant Inspector General for Audits Katherine Trimble before the U.S. House of Representatives Committee on Homeland Security*, May 9, 2019.
[40] We recognize, as indicated by DHS, that during the last 2 years the Procurement Disaster Assistance Team has improved upon and provided interactive training to more than 200 Public Assistance staff in regional offices, Consolidated Resource Centers, and field offices, enhancing each employee's ability to review documentation associated with debris removal contracts.

procurement laws, regulations, and procedures, nor has it ensured disaster grant recipients and subrecipients understand and comply these same authorities.

For example, FEMA did not follow all procurement laws, regulations, and procedures when it awarded more than $30 million for two contracts to Bronze Star for tarps and plastic sheeting.[41] As a result of management control weaknesses, FEMA inappropriately awarded two contracts to Bronze Star, which did not meet the requirements of either contract. This deficiency delayed delivery of crucial supplies, and impeded Puerto Rico residents' efforts to protect their homes and prevent further damage. Overall, FEMA did not effectively use personnel resources, time, and taxpayer money by issuing, canceling, and reissuing contracts for tarps. FEMA did not concur with OIG's recommendations, but its planned corrective actions addressed the intent of the recommendations. Through subsequent updates, FEMA indicated it has initiated corrective actions.

In July 2019, we reported FEMA's eligibility determination of Cobra Acquisitions LLC (Cobra) contract costs for the Public Assistance grant program was not sound and lacked supporting documentation.[42] Following Hurricane Maria in 2017, Puerto Rico Electric Power Authority (PREPA) entered into a 12-month contract with Cobra to provide storm restoration services. To be eligible for Public Assistance funding, costs must be necessary and reasonable to accomplish the work properly and efficiently. FEMA conducted an analysis of the Cobra contract rates and determined contract costs were reasonable and eligible for the Public Assistance program. However, FEMA's analysis was not sound because it did not evaluate the actual time and materials costs for reasonableness and because its analyses of contract rates for labor, equipment, and other costs were not always logical, complete, and supported. As a result, FEMA reimbursed millions of dollars for Cobra contract costs based on an unsound eligibility determination. Additionally, PREPA officials and PREPA's Board of Governors relied on FEMA's conclusion of cost reasonableness to support its authorization of a fourth amendment to the Cobra contract, which raised the contract amount from $200 million to $445 million. FEMA concurred with the recommendation and proactively said that they would update the agency's policy to include information and additional guidance specific to time and materials contracts. Thus, FEMA will look at both the reasonableness of rates and the reasonableness of quantity.

[41] *FEMA Should Not Have Awarded Two Contracts to Bronze Star LLC* (OIG-19-38), May 7, 2019.
[42] *FEMA's Cost Eligibility Determination of Puerto Rico Electric Power Authority's Contract with Cobra Acquisitions LLC* (OIG-19-52), July 3, 2019.

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To ensure disaster grant recipients and subrecipients understand and comply with procurement laws, regulations, and procedures, we issued a number of reports in FY 2019 demonstrating weaknesses in FEMA's administration of the Public Assistance grant program. For example, we found FEMA did not properly oversee the Louisiana Governor's Office of Homeland Security and Emergency Preparedness (Louisiana) to ensure it complied with Federal regulations.[43] Louisiana and its Office of Community Development, in turn, did not always properly account for and expend Federal grant funds. We recommended FEMA postpone project closeout until Louisiana provides adequate documentation supporting $706.6 million in costs.

We further determined FEMA did not require disaster survivors to notify the agency when they vacated hotels participating in the Transitional Sheltering Assistance program. This enabled the hotels to continue to bill FEMA for unoccupied rooms.[44] Because FEMA was unaware when disaster survivors vacated the hotels, the component did not know the magnitude of unnecessary hotel charges. Consequently, FEMA could not account for payments it may have made for unoccupied hotel rooms related to the 2017 hurricane season and California wildfires.

FEMA and Fraud Prevention

FEMA's disaster assistance programs are highly susceptible to fraud, waste, and abuse, which poses significant risk to taxpayer investment. Therefore, we have targeted oversight work to promote fraud prevention in FEMA's disaster assistance programs. Despite some progress, we believe FEMA should take additional, proactive steps to create and sustain a culture of fraud prevention and awareness.[45] Until FEMA takes visible, substantial, and continual steps to carry out its mission programs by detecting and reporting potential fraud in a systematic and timely manner, it will continue to risk the loss and misuse of taxpayer funds. FEMA concurred with OIG's recommendations and has begun to implement corrective actions.

The Way Forward

As the Department works to implement numerous open recommendations in OIG reports, we hope it will simultaneously continue to demonstrate a

[43] *Louisiana Did Not Properly Oversee a $706.6 Million Hazard Mitigation Grant Program Award for Work on Louisiana Homes* (OIG-19-54), July 25, 2019.
[44] *Additional Controls Needed to Better Manage FEMA's Transitional Sheltering Assistance Program* (OIG-19-37), March 29, 2019.
[45] *FEMA Must Take Additional Steps to Demonstrate the Importance of Fraud Prevention and Awareness in FEMA Disaster Assistance Programs* (OIG-19-55), July 24, 2019.

commitment to overcoming the major management and performance challenges presented in this report. As indicated earlier, we believe achieving progress requires firm and stable leadership, targeted resources, unity of effort, and a commitment to mastering management fundamentals in the areas of human service, data collection and dissemination, cost-benefit/risk analysis, and performance measurement. DHS' roughly 240,000 employees deserve to work in an environment that fosters excellence, mutual support, and integration across all components and work units. By establishing a strong, overarching internal control structure to reinforce established goals and objectives, the Department will be better able to assign roles and responsibilities, promote coordination of resources and cooperation among programs and operations, promulgate necessary policies and procedures, and assert its authority to ensure compliance and accountability. We look forward to our continued partnership and future progress.

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Appendix A

GOAL 1: COUNTER TERRORISM AND HOMELAND SECURITY THREATS
OBJECTIVE 1.1: COLLECT, ANALYZE, AND SHARE ACTIONABLE INTELLIGENCE
OBJECTIVE 1.2: DETECT AND DISRUPT THREATS
OBJECTIVE 1.3: PROTECT DESIGNATED LEADERSHIP, EVENTS, AND SOFT TARGETS
OBJECTIVE 1.4: COUNTER WEAPONS OF MASS DESTRUCTION AND EMERGING THREATS

GOAL 2: SECURE U.S. BORDERS AND APPROACHES
OBJECTIVE 2.1: SECURE AND MANAGE AIR, LAND, AND MARITIME BORDERS
OBJECTIVE 2.2: EXTEND THE REACH OF U.S. BORDER SECURITY
OBJECTIVE 2.3: ENFORCE U.S. IMMIGRATION LAWS
OBJECTIVE 2.4: ADMINISTER IMMIGRATION BENEFITS TO ADVANCE THE SECURITY AND PROSPERITY OF THE NATION

GOAL 3: SECURE CYBERSPACE AND CRITICAL INFRASTRUCTURE
OBJECTIVE 3.1: SECURE FEDERAL CIVILIAN NETWORKS
OBJECTIVE 3.2: STRENGTHEN THE SECURITY AND RESILIENCE OF CRITICAL INFRASTRUCTURE
OBJECTIVE 3.3: ASSESS AND COUNTER EVOLVING CYBERSECURITY RISKS
OBJECTIVE 3.4: COMBAT CYBERCRIME

GOAL 4: PRESERVE AND UPHOLD THE NATION'S PROSPERITY AND ECONOMIC SECURITY
OBJECTIVE 4.1: ENFORCE U.S. TRADE LAWS AND FACILITATE LAWFUL INTERNATIONAL TRADE AND TRAVEL
OBJECTIVE 4.2: SAFEGUARD THE U.S. TRANSPORTATION SYSTEM
OBJECTIVE 4.3: MAINTAIN U.S. WATERWAYS AND MARITIME RESOURCES
OBJECTIVE 4.4: SAFEGUARD U.S. FINANCIAL SYSTEMS

GOAL 5: STRENGTHEN PREPAREDNESS AND RESILIENCE
OBJECTIVE 5.1: BUILD A NATIONAL CULTURE OF PREPAREDNESS
OBJECTIVE 5.2: RESPOND DURING INCIDENTS
OBJECTIVE 5.3: SUPPORT OUTCOME-DRIVEN COMMUNITY RECOVERY
OBJECTIVE 5.4: TRAIN AND EXERCISE FIRST RESPONDERS

GOAL 6: CHAMPION THE DHS WORKFORCE AND STRENGTHEN THE DEPARTMENT
OBJECTIVE 6.1: STRENGTHEN DEPARTMENTAL GOVERNANCE AND MANAGEMENT
OBJECTIVE 6.2: DEVELOP AND MAINTAIN A HIGH PERFORMING WORKFORCE
OBJECTIVE 6.3: OPTIMIZE SUPPORT TO MISSION OPERATIONS

Source: Department of Homeland Security's Strategic Plan for Fiscal Years 2020–2024 (undated)
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Appendix B
DHS Comments to the Draft Report

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

November 12, 2019

MEMORANDUM FOR: The Honorable Joseph V. Cuffari
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 [MMPC] Facing the Department of Homeland Security" (OIG-20-XX, dated October 30, 2019)

Thank you for the opportunity to comment on this draft report. The U.S. Department of Homeland Security (DHS) appreciates having the DHS Office of Inspector General's (OIG) independent perspective on the most serious management and performance challenges facing the Department and our progress in addressing these challenges.

DHS' highest priority is to protect the American people from threats to their security, and we are pleased to note OIG's efforts to tie this year's annual MMPC report to the DHS Strategic Plan for Fiscal Years (FY) 2020 – 2024. The DHS Strategic Plan comprehensively reflects the Department's complex mission. Every day, each operator and employee across the Department advances the strategic goals and objectives contained in the plan to keep Americans safe, secure, and resilient. The plan establishes a common framework to implement mission specific White House, Congressional, and internal DHS guidance (e.g., the new DHS Countering Terrorism and Targeted Violence Strategic Framework), to analyze and inform the Department's management decisions, operational requirements, budget formulation, annual performance reporting, and mission execution.

A high-level review of OIG's draft report, due to the limited time available to review and respond to the draft, disclosed that many of the OIG-identified management and performance challenges generally comport with challenges the Department is already aware of and working to address. Examples include:

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- **Managing Programs and Operations Effectively and Efficiently During Times of Changes in Leadership, Vacancies, and Hiring Difficulties**

At some level, this challenge duplicates government-wide "Strategic Human Capital Management" concerns previously identified as part of the U.S. Government Accountability Office (GAO) High-Risk List, "Strengthening DHS Management Functions," issue area. DHS has made tremendous progress addressing this area which, as of March 2019, was the only area out of 35 to meet the majority of criteria for removal from the GAO High-Risk List. Additional insights concerning our progress can be found in publicly available updates to the DHS "Integrated Strategy for High-Risk Management," which is published every six months and details (1) corrective action plans outlining steps the Department is taking to address issues, (2) select initiatives and performance measures supporting broader efforts to resolve GAO's High-Risk designation, and (3) actions taken to address root causes of DHS' management challenges.

- **Coordinating Efforts to Address the Sharp Increase in Migrants Seeking to Enter the United States through Our Southern Border**

DHS has worked relentlessly to respond to the challenge posed by a surge in migration, and to mitigate the overflow conditions at facilities along the Southwest border. Recent efforts undertaken by the current Administration and its international partners, including the Migrant Protection Protocols (MPP) initiative, as well as the emergency supplemental appropriation the U.S. Customs and Border Protection (CBP) received from Congress contributed to numerous successes in this area. For example, overall apprehensions of family units and unaccompanied alien children between ports of entry decreased by roughly 50 percent from May to July 2019. DHS believes this was due in part to the June 2019 MPP agreement with the Government of Mexico to stem the flow of illegal migration, as well as collaboration with several Central American governments to dismantle and disrupt migrant smuggling and human trafficking organizations.

The Emergency Supplemental Appropriations for Humanitarian Assistance and Security at the Southern Border Act of 2019 also provided CBP with $1.1 billion for humanitarian support, border operations, and mission supports. This included $112 million for food, water, sanitary items, blankets, and other consumables for migrants, and for medical assets and support, and $35 million for transportation of migrants in CBP custody to help alleviate overcrowding and expedite processing. Without this supplemental appropriation, the funding for these humanitarian custodial efforts provided in the Consolidated Appropriations Act of 2019 would have been exhausted before September 30, 2019.

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- **Ensuring Cybersecurity in an Age When Confidentiality, Integrity, and the Availability of Information Technology Are Essential to Mission Operations**

Since 2016, DHS has identified "Strengthening Federal Cyber Security" as one of two long-term Agency Priority Goals in accordance with the Government Performance and Result Act Modernization Act of 2010, as part of its efforts to improve the performance and management of the Federal Government. The other goal is to "Enhance Southern Border Security." DHS reports progress to achieve these goals as part of its Annual Performance Report, which is available to the public on DHS.gov.

DHS' Cybersecurity and Infrastructure Security Agency (CISA) leads the national effort to defend critical infrastructure against the threats of today, while working with partners across all levels of government and in the private sector to secure against the evolving threats of tomorrow. These activities have never been more important, as the threats against the Nation—digital and physical, manmade, technological, and natural—are more complex, and the threat actors more diverse, than at any point in our history. Ultimately, CISA seeks to defend and preserve the open society within which the Nation lives, the innovation culture America aims to foster, and the essential rights to privacy and civil liberties enshrined within the Constitution.

CISA's FY 2018 accomplishments in this challenge area include conducting ongoing cyber vulnerability scans for approximately 900 customers and detecting more than 200,000 vulnerabilities through the National Cybersecurity and Communication Integration Center. CISA also facilitated the execution of operational directives through the Federal Network Resilience office, which oversees federal agencies implementation of enhanced email and web security standards, and resulted in the removal of potentially compromised software from more than 30,000 endpoints and devices.

DHS remains committed to safeguarding our homeland, our values, and our way of life—whether it is within our country, at our borders, in cyberspace, or beyond. DHS will continue striving to fully address its management and performance challenges, and to build the toughest homeland security enterprise America has ever seen. This will help us defend the country against a range of natural disasters and man-made threats as well as implement a policy of relentless resilience; ensuring DHS can focus on today's threats, while preparing for the future.

Again, thank you for the opportunity to review and comment on this draft report. DHS previously provided technical comments under a separate cover for OIG consideration. Please feel free to contact me if you have any questions. We look forward to working with you during the coming year.

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Acronym List

Unaudited, see accompanying Auditors' Report

Acronyms

AFR – Agency Financial Report
AGA – Association of Government Accountants
APG – Agency Priority Goal
APP – Application
BOD – Binding Operational Directive
BRS – Blended Retirement System
CBP – U.S. Customs and Border Protection
CDL – Community Disaster Loans
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
CISA – Cybersecurity and Infrastructure Security Agency
COBRA – Consolidated Omnibus Budget Reconciliation Act of 1985
COTS – Commercial Off–the–Shelf
CSRS – Civil Service Retirement System
CUAS – Counter Unmanned Aircraft Systems
CWMD – Countering Weapons of Mass Destruction
DADLP – Disaster Assistance Direct Loan Program
DATA Act – Digital Accountability and Transparency Act of 2014
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
DNP – Do Not Pay
DOD – U.S. Department of Defense
DOL – U.S. Department of Labor
DRF – Disaster Relief Fund
ECTF – Electronic Crimes Task Force
EDS – Explosive Detection System
EMI – Emergency Management Institute
ERM – Enterprise Risk Management
FAA – DHS Financial Accountability Act
FBwT – Fund Balance with Treasury
FCRA – Federal Credit Reform Act of 1990
FECA – Federal Employees Compensation Act of 1916
FEMA – Federal Emergency Management Agency
FERS – Federal Employees Retirement System
FEVB – Federal Employee and Veterans' Benefits
FFMIA – Federal Financial Management Improvement Act of 1996
FHMRA – Flood Hazard Mapping & Risk Analysis
FISMA – Federal Information Security Management Act
FLETC – Federal Law Enforcement Training Centers
FMFIA – Federal Managers' Financial Integrity Act
FPS – Federal Protective Service
FRC – Fast Response Cutter
FRDAA – Fraud Reduction and Data Analytics Act
FSM – Financial Systems Modernization
FY – Fiscal Year
GAAP – Generally Accepted Accounting Principles
GAO – U.S. Government Accountability Office
GETS – Government Emergency Telecommunications Service
GSA – General Services Administration
GTAS – Government-wide Treasury Account Symbol
HSAM – Homeland Security Acquisition Manual
HSAR – Homeland Security Acquisition Regulation
HS-STEM – Homeland Security Science, Technology, Engineering, and Mathematics

I&A – Office of Intelligence and Analysis
ICE – U.S. Immigration and Customs Enforcement
ICMM – Internal Control Maturity Model
IEFA – Immigration Examination Fee Account
IHP – Individuals and Households Program
INA – Immigration Nationality Act
IPE – Information Produced by Entity
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
LOI – Letter of Intent
MERHCF – Medicare–Eligible Retiree Health Care Fund
MGMT – Management Directorate
MHS – Military Health System
MRS – Military Retirement System
NCCIC – National Cybersecurity and Communications Integration Center
NFA – National Fire Academy
NFIP – National Flood Insurance Program
NHS – National Household Survey
NPPD – National Protection and Programs Directorate
OBIM – Office of Biometric Identity Management
OCPO – Chief Procurement Officer
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
OpEx – Operational Experimentation
OPM – Office of Personnel Management
OPS – Office of Operations Coordination
ORB – Other Retirement Benefits
OSLTF – Oil Spill Liability Trust Fund
OTA – Other Transaction Agreement
PA – Public Assistance
PP&E – Property, Plant, and Equipment
PSC – Passenger Screening Canines
Pub. L. – Public Law
RDC – Research & Development Center
Risk MAP – Risk Mapping, Assessment and Planning
RTF – Reduce the Footprint
SAM – System for Award Management
SBR – Statement of Budgetary Resources
SEAR – Special Event Assessment Ratings
SEP – Special Events Program
SF – Square Feet
SFFAS – Statement of Federal Financial Accounting Standards
SFRBTF – Sport Fish Restoration Boating Trust Fund
SNC - Statement of Net Cost
SOS – Schedule of Spending
S&T – Science and Technology Directorate
TAFS – Treasury Appropriation Fund Symbol
TCM – Trade Compliance Measurement
TSA – Transportation Security Administration
UNGA – United Nations General Assembly
U.S. – United States
USC – United States Code
USCG – U.S. Coast Guard
USCIS – U. S. Citizenship and Immigration Services
USSGL – U.S. Standard General Ledger
USSS – U.S. Secret Service
VA – U.S. Department of Veterans Affairs
VP – Vendor Pay
WYO – Write Your Own

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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 2019 Agency Financial Report for their hard work and contributions.

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