



U.S. Department of Homeland Security Annual Financial Report Fiscal Year 2009



Homeland
Security

About this Report

The *U.S. Department of Homeland Security Annual Financial Report for Fiscal Year (FY) 2009* presents the Department's detailed financial information relative to our mission and the stewardship of those resources entrusted to us. It also provides readers with a sense of the Department's priorities, strengths, and challenges in implementing programs to enhance the safety of our Nation.

For FY 2009, the Department is using an alternative approach as identified in the Office of Management and Budget's Circular A-136 to produce its Performance and Accountability Reports consisting of the following three reports:

- ***DHS Annual Financial Report*** –
Original Publication Date: November 16, 2009
Correction Published (Page 12): March 17, 2010
- ***DHS Annual Performance Report*** –
Planned Publication Date: March 22, 2010
- ***DHS Summary of Performance and Financial Information*** –
Planned Publication Date: March 22, 2010

All three reports are located at our public website at the address to the left of this box.

The *U.S. Department of Homeland Security FY 2009 Annual Financial Report* is available at the following website:

http://www.dhs.gov/xabout/budget/editorial_0430.shtm

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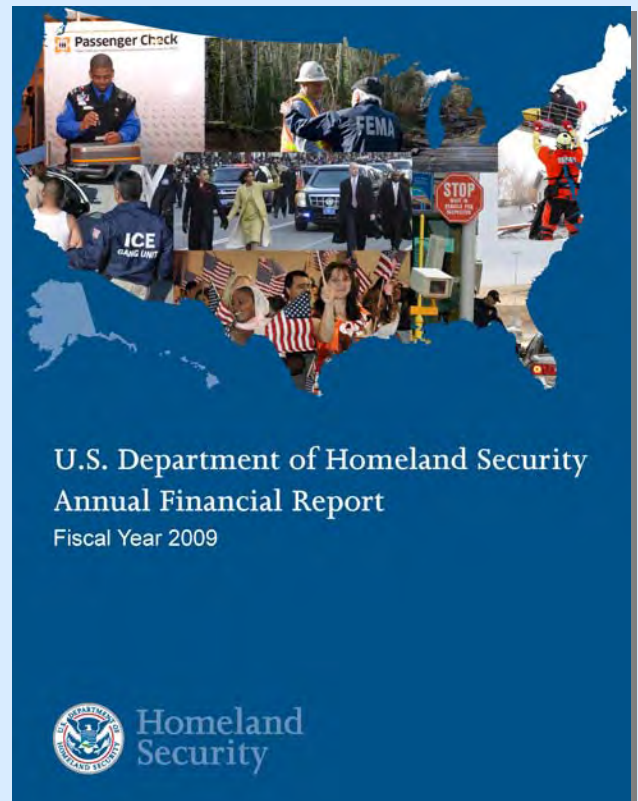


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November 16, 2009



I am pleased to submit the Department of Homeland Security's (DHS) Annual Financial Report for Fiscal Year (FY) 2009. This report provides an assessment of the Department's detailed financial information and our stewardship of taxpayer resources in support of our mission of securing the United States. The report outlines our major priorities for protecting the country—from guarding against terrorism and securing our borders to preparing for and responding to disasters of all kinds. It also highlights key strengths and challenges as we work to build a more ready and resilient Nation.

Since it was established over six years ago, the Department has made tremendous progress in protecting our Nation. By integrating key offices and functions in a single Department, we have improved collaboration across our 230,000-member workforce, while streamlining operations and creating greater efficiencies. Our partnership with Federal, state, local, tribal, and territorial entities and the international community have contributed outstanding talent and resources to our mission. It is my intent to build on these successes and continue to focus on the key priorities that will direct our energy and assets as we plan for the future.

Priority Areas

During my first weeks in office, I established five main priority areas, described below, to focus the Department's efforts as we move forward.

Counterterrorism and Domestic Security

Protecting the American people from terrorist threats is the Department's founding purpose and our highest priority. The Department's efforts to battle terrorism include detecting explosives in public spaces and transportation networks; protecting critical infrastructure and cyber networks from attack; detecting agents of biological or nuclear warfare; ensuring a safe and secure financial system; protecting heads of state; and building information-sharing partnerships with state and local law enforcement that improve our ability to find and mitigate threats to our Nation.

Securing Our Borders

DHS prevents and investigates illegal movement of people and contraband across our borders while facilitating legitimate international travel and trade. The Department is strengthening border security by deploying the right mix of technology, infrastructure, personnel, and other key assets to the border to reduce cross-border illegal activity. On the Southwest border, we are increasing our efforts to disrupt the drug, cash, and weapon smuggling that fuels cartel violence in Mexico by adding manpower and technology. The Department is also working with the Mexican government to develop key relationships to help identify and reduce this threat to our Nation.

Smart and Tough Enforcement of Immigration Laws

The Department provides immigration-related services and benefits, such as naturalization and work authorization, and is developing new automated processes to deliver effectively those benefits to those who are legally entitled to enter our country. DHS also provides the investigative and enforcement resources to ensure our Federal immigration laws are followed. We will continue to strengthen our employment eligibility verification systems and crack down on illegal aliens and those who hire them.

Preparing for, Responding to, and Recovering from Disasters

The Department aids first responders and provides coordination support in all stages of a natural or manmade disaster, including preparing for worst-case scenarios, responding to a disaster that has occurred, and recovering over the long term. Providing post-disaster benefits to ensure individuals and communities can get back to a normal life is a key piece of the support the Department provides. DHS also provides grants and training to state, local, tribal, and territorial entities to ensure they are better prepared to respond to a disaster.

Maturing and Unifying DHS

Six years since the Department's creation, our goal is simple: one DHS, one enterprise, and a shared vision for securing America. Through a consolidated headquarters, we will bring many locations together to function in a more integrated fashion. In the interim, we have implemented a series of wide-ranging efficiency initiatives—from consolidating DHS software licenses to building environmentally responsible “green” facilities for our Border Patrol agents—that leverage the economies of scale to save millions of dollars and create a culture of responsibility and fiscal discipline.

To drive continued improvement in each of our mission areas, I have directed the Department to undertake the following cross-cutting initiatives:

- Increase collaboration with its partners, including state, local, and tribal law enforcement agencies, the private sector, and other Federal agencies. The effort to secure America requires close coordination and collaboration.
- Invest in the science and technology portfolio. This will lead to the development of new techniques and technologies to aid in solving some of our toughest problems, allowing the Department to perform security tasks more quickly and with greater accuracy.
- Aim for greater efficiency in its operations. Through the Department-wide Efficiency Review Initiative launched in March 2009, DHS is taking bold steps to ensure its resources are used in the most effective way possible to secure the Nation.
- Focus on the international aspects of homeland security and work toward new and enhanced collaboration with key international stakeholders in support of all missions.

Quadrennial Homeland Security Review

The Department will conclude its first Quadrennial Homeland Security Review (QHSR) by December 31, 2009. The QHSR will comprehensively examine our homeland security strategy, make recommendations regarding long-term priorities, and provide guidance on our programs, assets, capabilities, budget, policy, and authorities. One of the review's primary objectives will be to better align DHS programs and resources to the QHSR's mission priorities using performance measures, more systematic cost models for major programs, and analytical tools that support fiscally responsible decision-making. I look forward to the results of the QHSR as we continue to mature and unify the Department.

Management Assurances

Pursuant to the *Department of Homeland Security Financial Accountability Act*, the Department focused its efforts on corrective actions to design and implement Department-wide internal controls. Although DHS cannot provide an assertion about the operating effectiveness of internal controls over financial reporting, between FY 2005 and FY 2009, DHS reduced the number of conditions that comprise the Department's material weakness structure by more than half. In addition, in FY 2009, the Department completed a limited scope evaluation of processes that provide internal control over the Balance Sheet and Statement of Custodial Activity. The Department is aggressively addressing the remaining material weaknesses and making progress toward a clean audit opinion.

I am able to provide assurance that the performance measures reported for the Department are complete and reliable, with the exception of the measures identified in the forthcoming Annual Performance Report. DHS's performance and accountability reports for this and previous years are available at our public website: http://www.dhs.gov/xabout/budget/editorial_0430.shtm.

The men and women of the Department of Homeland Security remain focused on achieving our objectives in the coming year while continuing to be responsible stewards of taxpayer resources. The scope of our mission is broad, challenging, and vital to the security of the Nation. We will continue to meet these and other challenges head-on, with a sense of urgency and purpose that the American people expect and that our mission requires. Thank you for your partnership and collaboration.

Yours very truly,



Janet Napolitano



Management's Discussion and Analysis

The *Management's Discussion and Analysis* (MD&A) section explains the Department's mission, goals, and organization, and summarizes program and financial performance.

See *inside front cover* for a description of the DHS approach to performance and accountability reporting.

Mission and Organization

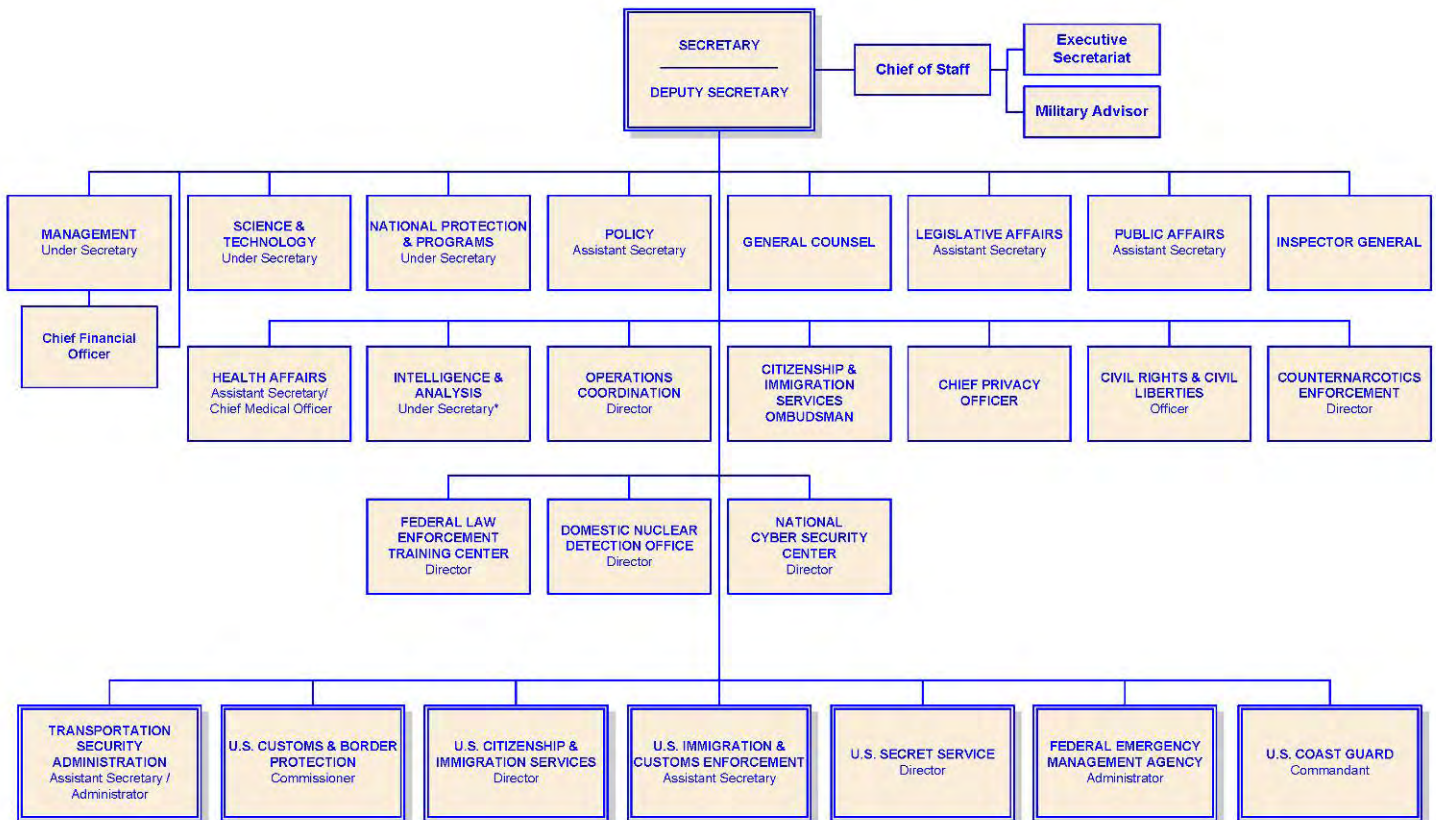
Our Mission

We will lead efforts to achieve a safe, secure, and resilient homeland where American values, aspirations, and way of life can thrive. We will counter terrorism and enhance our security; secure and administer our borders; enforce and administer our immigration laws; and ensure resilience from disasters.

Our Organization

Homeland Security leverages resources within Federal, state, local, territorial, and tribal governments, coordinating the transition of multiple agencies and programs into a single, integrated agency focused on protecting the American people and their homeland. The seven Operating Components, listed along the bottom of the chart below, lead the key operational activities the Department puts forth on a daily basis to protect our Nation. The remaining Components of the Department provide resources, analysis, equipment, research, policies, and support to ensure the front-line organizations have the means to accomplish the DHS mission. For more information visit our website at <http://www.dhs.gov/xabout/structure>.

Figure 1. DHS Organization Chart



DHS and its many Components fulfill a broad mandate and conduct many different activities within a single, unified security mission. DHS performs critical tasks from protecting transportation hubs to conducting maritime rescues, from aiding disaster victims to enforcing immigration laws while welcoming lawful immigrants and new citizens into the United States. Within this broad portfolio, the Department aims to secure the American people from all hazards—including terrorist threats and natural or accidental disasters—and to work effectively with its many partners to lead the collaborative effort to secure the Nation.

Once appointed, Secretary Napolitano reviewed our existing strategic goals as a means to frame her roadmap and articulate her priorities. As part of the Department's planning activities, Secretary Napolitano sponsored the Quadrennial Homeland Security Review ([QHSR](#)). The QHSR is the Department's first comprehensive strategic review and will shape our future strategic direction. The QHSR is driven by the priorities set forth by Secretary Napolitano which are:

- **Counterterrorism and Domestic Security** focuses on protecting the American people from terrorist threats which is the founding purpose of the Department and our highest priority.
- **Securing Our Borders** prevents illegal movement of people and contraband across our borders while facilitating legitimate international trade and travel.
- **Smart and Tough Enforcement of Immigration Laws** ensures our Federal immigration laws are followed while welcoming those who are legally entitled to enter our country.
- **Preparing for, Responding to, and Recovering from Disasters** focuses on the readiness of resources and individuals and then rapidly deploying those resources in the event of a disaster to ensure individuals and communities quickly get back to their normal lives.
- **Maturing and Unifying DHS** concentrates on creating a cohesive enterprise with a shared vision to deliver integrated results-based operations to maximize the safety of the Nation in a cost efficient manner.

To ensure we meet our priorities, DHS is working to increase collaboration with its partners. Working closely with international allies, other Federal agencies, state, local, territorial, and tribal entities, and the private sector are key to our success.

The remainder of this section of the report is devoted to a summary of performance and financial information of the Department followed by management assurances.

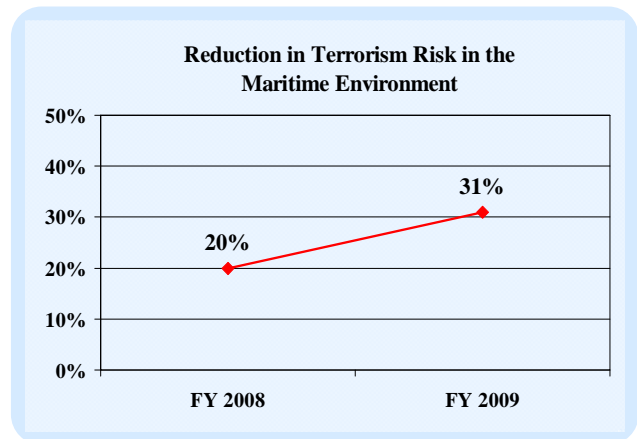
Performance Overview

Our performance overview provides selected accomplishments for FY 2009 categorized by the Department's priorities. A full discussion of the Department's performance results and challenges can be found in our Annual Performance Report, which will be published February 1, 2010, on the DHS public website at http://www.dhs.gov/xabout/budget/editorial_0430.shtm.

Counterterrorism and Domestic Security

- **Reducing Risk in the Maritime Environment** –

Using a risk-based modeling technique incorporating subject matter expertise across multiple domains, the [United States Coast Guard](#) is able to estimate the percent reduction in maritime terrorism risk through various activities, programs, and regulatory efforts. In FY 2009, the U.S. Coast Guard achieved a 31 percent reduction in risk, building upon their FY 2008 result of 20 percent. Based on assessments and projected resource allocation, the U.S. Coast Guard is targeting at least an additional 19 percent risk reduction in FY 2010.



- **Cybersecurity** – The Department, through its [National Protection and Programs Directorate](#) (NPPD), is working across the Government to put in place Einstein sensors. These sensors identify unusual computer network traffic patterns and trends that signal unauthorized computer network traffic so security personnel are able to quickly identify and respond to potential threats. The program exceeded its planned installations by 25 percent in FY 2009. In FY 2010, the program is introducing three new measures to increase effectiveness in measuring cybersecurity in the Federal information technology environment.
- **Protecting our National Leaders** – The [United States Secret Service](#) (USSS) has provided a long legacy of protecting our Nation's leaders. As always, success is the only option in the United States Secret Service, in protecting our Nation's leaders, foreign dignitaries, and others. In FY 2010, the Secret Service intends to maintain its performance target of 100 percent incident-free protection.

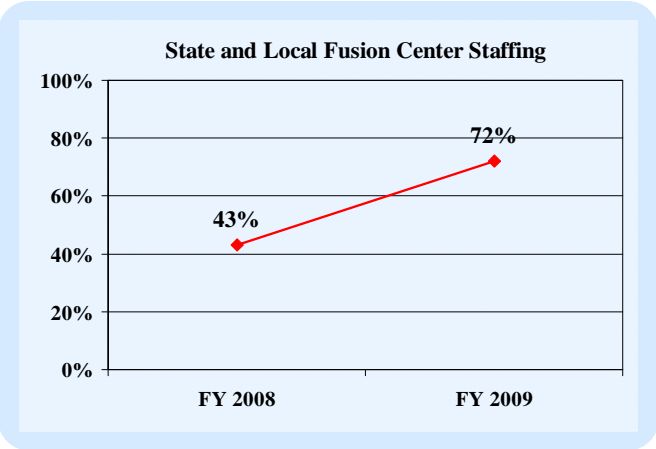


Protecting Our Nation's Leaders: When a National Security Special Event is designated by the Department of Homeland Security, the U.S. Secret Service becomes the lead agency for the security planning that involves the coordination of Federal and local law enforcement partners, state and local governments, and the military.

A History of Protection

The Secret Service was the lead agency to provide security at the 2009 Presidential Inauguration. The Presidential Inauguration was designated and segmented into five National Security Special Events. The first three events included President-elect Obama's and Vice President-elect Biden's Pre-Inaugural whistle stop train ride attended by over 51,000 individuals. The fourth event was the Inaugural Celebration at the Lincoln Memorial with estimates of over 500,000 individuals in attendance. The final event was Inauguration Day in which the Secret Service, along with other law enforcement partners, secured multiple sites such as the U.S. Capitol, the Inaugural Parade Route from the U.S. Capitol to the White House, and the Inaugural Balls. It is estimated that over 1.5 million individuals attended the swearing-in ceremony and 68,000 attended the Inaugural Balls.

- Building Information Sharing Relationships** – Staffing at state and local [Fusion Centers](#) with personnel from the [Office of Intelligence and Analysis](#) increased dramatically in FY 2009 to facilitate information sharing and collaboration with state and local partners to address emerging threats to the Nation, but narrowly missed its target of 77 percent due to staffing attrition. Plans are in place to have all functioning designated fusion centers staffed with DHS representatives by the end of FY 2010. DHS is also working with the Department of Defense (DOD) to beef up the integration of information sharing for specific classified information. Select fusion center personnel with a Federal security clearance will be able to access specific terrorism-related information resident on specified DOD computer systems. DHS will be responsible for ensuring that proper security procedures are followed.



- Safety in Our Federal Buildings** – DHS is responsible for mitigating risk to more than 9,000 Federal facilities and its occupants throughout the Nation. Key to that success is having effective countermeasures to ensure people and facilities are safe. Since FY 2006, the [Federal Protective Service](#) has maintained a 90 percent effectiveness rating or better for the countermeasures it currently has in place. In FY 2009, 94.4 percent of countermeasures in Federal buildings were rated effective, slightly below the target of 95 percent. Recent independent tests by the Government Accountability Office of the effectiveness of these countermeasures highlighted the need to tighten Federal facility security. As such, the program conducted extensive testing on specific countermeasures in the second and third quarters of FY 2009 to determine which were in need of urgent replacement. Based on these results, a prioritized list of specific equipment needing replacement was developed. The program's goal for FY 2010 is to achieve at least a 95 percent countermeasure effectiveness rating.
- Passenger and Baggage Screening at Airports** – Every year, the [Transportation Security Administration](#) (TSA) Aviation Screening Assessment Program measures passenger and baggage-screening performance using covert test scenarios. TSA has improved its processes and continues to meet its goal of identifying various threats in ongoing covert testing. The results of these tests are used to identify system weaknesses so new procedures can be developed to counter current and future threats.

Explosive Detection Systems

Ever wonder what happens to your bag once you check it with your airline? TSA screens every bag placed on an airplane, whether taken as carry-on or checked with an airline. With nearly 2 million people flying each day, it is a formidable task.

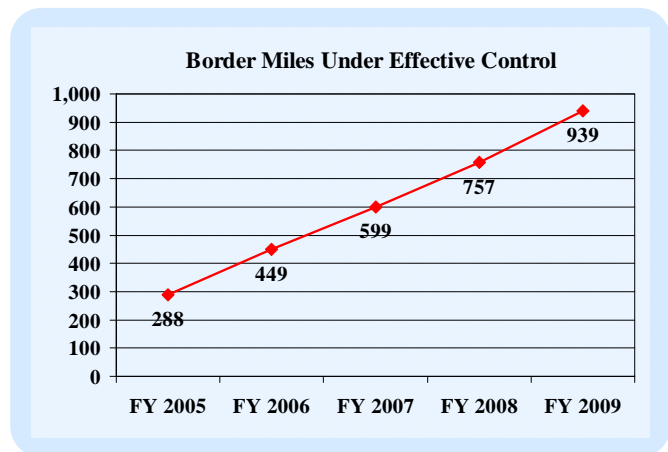
TSA is able to meet this requirement by relying on Explosive Detection System (EDS) machines, which work like the magnetic resonance imaging machines in hospitals. Through a sophisticated analysis of each checked bag, the EDS machines can quickly determine if a bag contains a potential threat or not. If a weapon or explosive is detected, the machines alert our security officers so they can manage the bag appropriately. In some cases, law enforcement and the bomb squad may be called in.



Explosive Detection System (EDS): EDS machines can quickly determine if a bag contains a potential threat.

Securing Our Borders

- Border Control** – [Border control](#) is more than building a fence. In fact, effective border control takes a combination of people, technology, and infrastructure (fencing, roads, and lighting) to be able to identify and detain individuals trying to cross our Nation's border illegally. During FY 2009, DHS attained more than 939 miles of effective control at the highest risk sections of our border. The Department continues to reprioritize where it places agents, technology solutions, and infrastructure based on the latest threats and trends and plans to maintain or improve the number of border miles under effective control in FY 2010.
- Radiological/Nuclear Detection** – The percent of cargo, by weight, that passes through radiation detection systems upon entering the Nation reached 91.6 percent in FY 2009, up from 90.3 percent in FY 2008. As DHS moves toward meeting the Department's goals for screening containerized and other forms of cargo, the [Domestic Nuclear Detection Office](#) is implementing three new measures in FY 2010. These measures will broaden the focus of deterrence along alternative pathways for bringing nuclear devices or radiological materials into the country and will help us assess our effectiveness as we address vulnerabilities as defined in the Global Nuclear Detection Architecture.
- Compliance with Laws, Rules, and Regulations** – The percent of air and land border passengers compliant with laws, rules, and regulations was 98.1 and 99.8 percent, respectively, in FY 2009, both slightly below their targets due to more thorough inspections and document checks. International air passengers and border vehicle passengers complying with agricultural quarantine regulations continued their high compliance rates in FY 2009, achieving 96.1 and 97.1 percent, respectively. [U.S. Customs and Border Protection](#) (CBP) works with industry to develop new approaches for improved traveler processing to facilitate entry of [travelers](#) into the United States. CBP also works to educate the traveling public on U.S. laws, rules, regulations, and quarantine restrictions.



Tunnel Vision

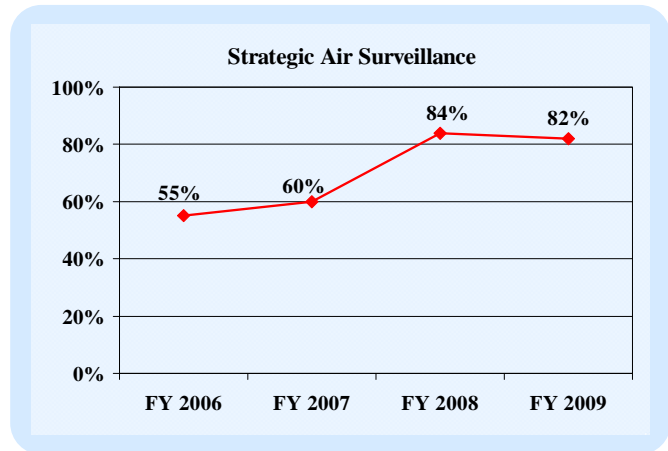
In a recent technology [snapshot](#), the Science and Technology Directorate (S&T) highlighted a project that, if successful, could help find and plug smuggling tunnels as fast as criminals can dig them. The Tunnel Detection Project is working on a design that places radar antennas in a trailer towed by a truck. Electromagnetic waves penetrate the earth, and what shows up on a monitor inside the truck is a picture of what's beneath it, composed of red, yellow, and aquamarine dots. Civil engineers already use ground-penetrating technology to find pipes or cable a few meters beneath the earth. S&T is taking this idea and giving it some oomph. This technology uses much lower frequency waves to penetrate deeper into the ground, and the sophisticated imaging technology produces surprisingly clear pictures of tunnels that are found.

[Click here for more Science and Technology snapshots.](#)



Groundbreaking: An early prototype of S&T's ground-penetrating radar on display at a demonstration. Engineers tested the technology in a giant sandbox to simulate conditions along areas of the southern U.S. border.

- Strategic Air Surveillance** – With the integration of unmanned aerial surveillance systems in support of traditional manned aircraft, CBP's use of [aerial surveillance](#) is an important part of our overall border control strategy. The percent of at-risk miles under strategic air surveillance has continued to increase, from 55 percent in FY 2006 to 82 percent in FY 2009. Although there was a slight decrease from FY 2008, the program exceeded its target of 80 percent. CBP plans to achieve a 90 percent surveillance rate in FY 2010.



- Container Security Initiative** – The [Container Security Initiative](#) (CSI), which is part of CBP's overall [cargo security program](#), allows CBP, working with host government Customs Services, to examine high-risk maritime cargo containers at foreign seaports before they are loaded on board vessels destined for the United States. In FY 2009, the program met its target, prescreening at CSI ports of 86.1 percent of all worldwide cargo destined for the United States through CSI ports. CBP plans to maintain the current rate of containerized cargo container examinations in FY 2010.
- People Screening** – On a typical day, CBP welcomes more than 1.1 million international travelers into the United States at land, air, and sea ports. CBP officers use the [latest technologies](#) and procedures to assure that travelers from throughout the world are processed rapidly, while assuring that individuals who have ties to terrorism or have a criminal background are barred from entry. The percent of individuals who enter the United States through ports of entry and are screened against law enforcement databases continues to increase every year, achieving 83.4 percent, up from 73.5 percent in FY 2008. The program plans to screen 85 percent of international travelers in FY 2010.



Unmanned Aerial Systems: Unmanned aircraft have a significant advantage over manned aircraft, with the ability to fly more than 20 hours without refueling to support existing manned aircraft, help maintain current ground assets, and monitor remote portions of the border that are often difficult to reach safely.

Unmanned Aircraft Aids Border Surveillance

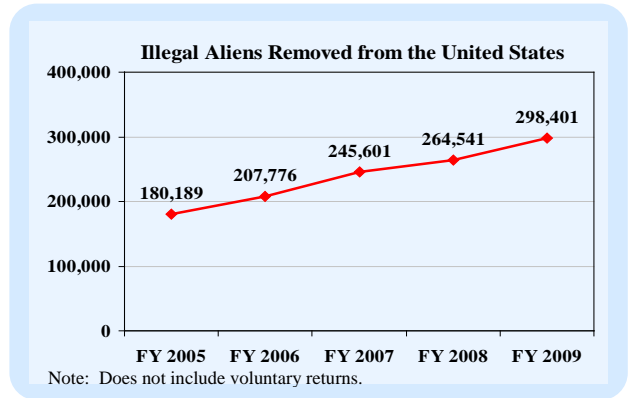
The MQ-9 Predator B unmanned aerial system (UAS) is a strategic asset for homeland security. Since the start of operations in 2004, UASs have been instrumental in the apprehension of undocumented aliens, the seizure of drugs, and the recovery of stolen vehicles. The remotely piloted UAS allows the Department to safely conduct missions in areas that are difficult to access or otherwise considered too high-risk for manned aircraft or for personnel on the ground. This risk-reducing capability, unique to a UAS, is increasingly critical to personnel safety and mission success, especially in hazardous environments and against ever-changing threats that are so prevalent at the border.

In addition to its border security mission, the UAS is leveraged as a force multiplier during National Special Security Events and emergency and disaster response efforts. The flexibility of the UAS, and the developing flexibility of the program, allowed DHS to provide an unprecedented level of support to disaster relief partners during last year's hurricane season. During the devastating floods in the Red River Valley of North Dakota and

Minnesota, the UAS completed more than 30 hours of flight time mapping the flooded areas, which provided vital information for disaster efforts on the ground.

Smart and Tough Enforcement of Immigration Laws

- Removing Illegal Aliens¹** – [U.S. Immigration and Customs Enforcement](#) (ICE) is responsible for [enforcing immigration laws](#) within the interior of the United States. The number of illegal aliens removed from the United States by ICE in FY 2009 was 298,401 individuals, up from 264,541 in FY 2008. ICE will strive to achieve a similar or higher level of removals for FY 2010.



- Detention Facilities** – ICE performs custody operations for an average of 32,000 detained aliens every day, ensuring safe and humane conditions for those confined while minimizing the risk posed to the Nation. ICE assessed its overall compliance with the National Detention Standards in FY 2009 and aspired to attain a 100 percent compliance rate. While ICE fell short of its ambitious, unadjusted performance goal by achieving a 90 percent compliance rate, it still improved over the 79 percent compliance rate in FY 2008.
- Investigations** – For ICE, the percent of closed investigations with an enforcement consequence increased in FY 2009 to 47.7 percent, meeting the target of 47 percent. ICE plans to meet its target of 48 percent in FY 2010. Although many investigations arise that are worth pursuing, it is not known at their inception whether any law has been broken. Therefore, many cases will be closed each year without enforcement. The percent of investigations that have an enforcement consequence also depends on the decision of the Department of Justice to accept and prosecute cases referred by ICE.

Operation Honeymoon's Over

A Federal grand jury returned indictments on August 5, 2009, against 50 individuals for committing, or conspiring to commit, marriage fraud, a crime punishable by up to five years imprisonment, a fine of up to \$250,000, and three years of supervised release. Those who are in the country illegally also face deportation. These arrests are part of an ongoing investigation dubbed [Operation Honeymoon's Over](#).

Agents with U.S. Immigration and Customs Enforcement (ICE) led the investigation into a Cincinnati-based scheme to arrange sham marriages to evade U.S. immigration laws. Those indicted include 23 people who are in the United States illegally and the 27 U.S. citizens they married.

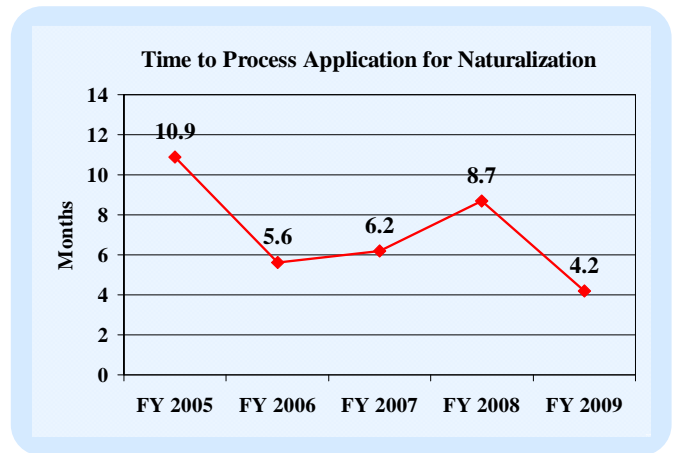
“The investigation has unraveled a scheme to arrange marriages between Eastern European aliens and U.S. citizens,” said Gregory G. Lockhart, U. S. Attorney for the Southern District of Ohio. “The Eastern Europeans paid a fee to the U.S. citizens and the leaders of the conspiracy to arrange the marriage. They created false documents indicating that the marriages were legal and presented the false documents to immigration officials.”



“Marriage fraud poses a major vulnerability that must not go unchallenged,” ICE Assistant Secretary John Morton said. “The significant number of indictments today as well the previous convictions that have been handed down as a result of Operation Honeymoon’s Over should send the unambiguous message that ICE will not tolerate the exploitation of our country’s immigration system.”

1. Correction: Data for FY 2009 was originally reported for “Removing Illegal Aliens” as 387,790 due to incorrectly including voluntary returns in the calculation. Data for FY 2005 through FY 2008 has also been updated due to reconciliations of prior year data. Narrative and chart updated to reflect these changes.

- Applications for Naturalization** – The estimated average cycle time to process an application for naturalization (Form N-400) saw dramatic improvement in FY 2009, achieving an estimated 4.2 months and meeting the targeted processing time of 5 months or less. The [U.S. Citizenship and Immigration Services](#) (USCIS) saw a huge spike in applications at the end of FY 2007, predominantly due to a record number of applications in advance of fee increases enacted in late FY 2007, creating a large backlog.



USCIS has implemented several business process improvements that are facilitating its rapid success in adjudicating applications and plans to meet its ongoing target of 5 months or less.

- Asylum Applications** – USCIS receives more than 27,000 [asylum applications](#) every year. Individuals often seek asylum because they fear they may experience an oppressive or dangerous situation if they return to their home country. The United States welcomes those individuals who are legitimately in harm's way and provides a means for them to reach a safe haven through the asylum application process. However, applicants sometimes attempt to use the asylum process to fraudulently gain legal status in the United States, or for the sole purpose of obtaining employment authorization. In an effort to combat this type of fraud, USCIS ensures that applicants in local offices who are not eligible for asylum are referred to an immigration court within 60 days of the receipt of their application. In FY 2009, USCIS processed 88 percent of ineligible applications within the 60-day window, surpassing the goal of 75 percent. For FY 2010, USCIS has raised its target to 85 percent.
- E-Verify** – Managed by USCIS, [E-Verify](#) provides a free and voluntary tool to help employers determine if a new hire is legally authorized to work in the United States. The program tracks the percent of E-Verify queries in comparison to annual hires in the United States recorded by the Bureau of Labor Statistics. In FY 2009, the program exceeded its target of 11 percent, achieving 15.9 percent as of the end of third quarter (reflects most recent data available from the Bureau of Labor Statistics), and expects more than 13 percent of all hires in the United States will be verified in FY 2010 using E-Verify.



E-Verify: E-Verify, which compares information from the Employment Eligibility Verification Form (I-9) against Federal government databases to verify workers' employment eligibility, is a free web-based system operated by DHS in partnership with the Social Security Administration. The system facilitates compliance with Federal immigration laws and helps to deter unauthorized individuals from attempting to work and also helps employers avoid employing unauthorized aliens.

E-Verify – Protecting American Jobs

E-Verify is a free internet-based system that allows employers to confirm the legal working status of new hires in seconds. With one click, E-Verify can match a new hire's Social Security Number and other Form I-9 information within 3 to 5 seconds. E-Verify reduces unauthorized employment of people not legally in the country, minimizes verification-related discrimination, is quick and non-burdensome to employers, and protects civil liberties and employee privacy.

Since its beginnings, E-Verify has grown substantially. There are currently more than 162,000 employers using E-Verify. More than 8.5 million queries for employment eligibility were run in FY 2009. Does it work? The simple answer is a resounding "Yes." Last year alone, more than 200,000 individuals were identified as not

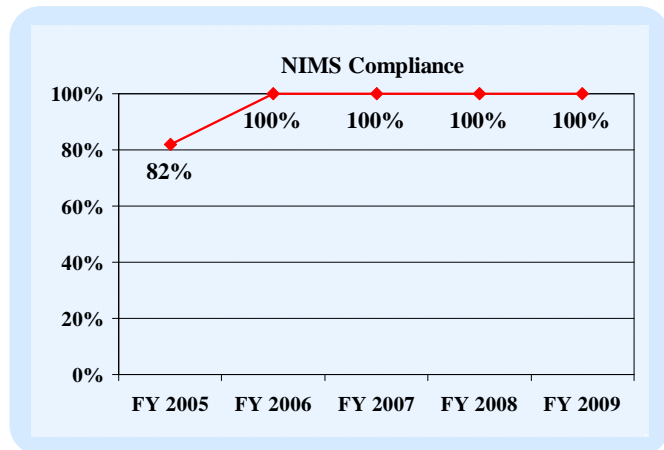
employment eligible, thus ensuring that jobs can be filled by those who are legally eligible. E-Verify continues to grow in popularity as 1,000 new employers are signing up each week.

Preparing for, Responding to, and Recovering from Disasters

- **National Incident Management System** –

The percent of Federal, state, local, tribal, and territorial governments compliant with the [National Incident Management System](#) (NIMS) has achieved 100 percent for the past four years. Critical partners include Federal agencies, state, local, tribal, and territorial governments who have implemented the NIMS to enhance the ability of the United States to manage domestic incidents by establishing a single, comprehensive incident management system. NIMS is designed to cover the

prevention, preparation, response, and recovery from terrorist attacks, major disasters, and other emergencies to allow all levels of government throughout the Nation to work efficiently and effectively together. The program plans to maintain 100 percent compliance in FY 2010.



- **Individual Assistance** – The goal of the [Federal Emergency Management Agency's](#) (FEMA) Individual Assistance program is to help individuals and communities affected by Federally declared disasters return to normal function quickly and efficiently, while planning for catastrophic disaster recovery operations. Every year, FEMA conducts a random survey of those applying for individual assistance, and in FY 2009 sustained a 90 percent satisfaction rating. While the results of the survey are slightly below the FY 2008 rating of 92.7 percent, the results are consistent with the customer satisfaction scores for the past five years. The program will examine its future targets to determine if any adjustments are needed and will continue to use the results of the survey to identify opportunities to improve the way it provides individual assistance.

FEMA Lends A Hand

Some call it the worst series of storms to hit Kentucky in 100 years. Floyd and Pike Counties were among the hardest hit areas from flooding due to heavy rains in May 2009. "It's just a tremendous amount of water that no one's seen the likes of," one man said.

Although small in comparison to some of the recent hurricanes our Nation has seen, this is the type of disaster that most Americans are likely to be involved in during their lifetime. However, we are less likely to remember these events as they do not get the level of media attention hurricanes and earthquakes get.

Disasters are not all the same. But the Federal Emergency Management Agency (FEMA) and other Federal emergency responders are always there to help places like Floyd and Pike Counties when a disaster is declared. FEMA remained on the scene long after the storms ended and the waters receded to ensure those needing individual assistance were given the help they needed to get back on their feet.

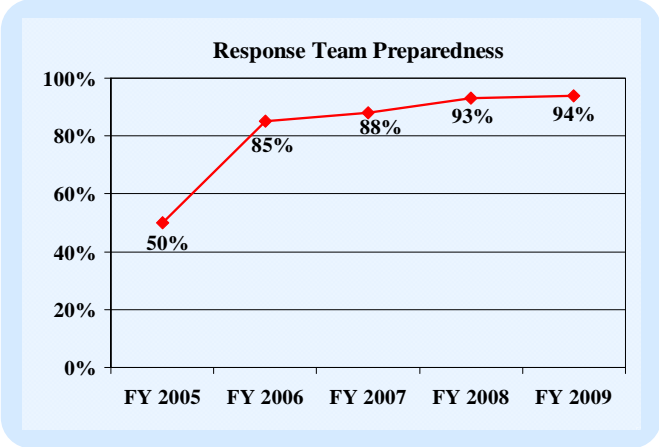
In FY 2009, FEMA provided more than \$8.7 billion dollars of assistance to hundreds of communities which experienced the type of devastation Kentucky endured this past May.



Pike County, Kentucky, June 6, 2009:

Donald Wade, Individual Assistance Specialist, assists an applicant at the Disaster Recovery Center (DRC) in the James Creek Elementary School in Pike County, Kentucky. DRCs provide guidance to affected residents about the FEMA recovery process.

- Response Teams** – The percent of FEMA response teams reported at operational status continues to improve, achieving 94 percent in FY 2009. There are currently 28 [Urban Search and Rescue](#) teams, six [Mobile Emergency Response Support](#) detachments, two National Incident Management Assistance Teams, and four Regional Incident Management Assistance Teams. These teams spend most of the year preparing and training so they are ready when a disaster hits. FEMA anticipates that response team readiness will reach 100 percent in FY 2010.
- Interoperable Communications** – Numerous after-action reports from major incidents throughout the history of emergency management in our Nation have cited communication between responding agencies as a major challenge to policymakers. The [Office of Emergency Communications](#) has made considerable progress to ensure state and urban areas have implementation plans that identify and verify initiatives that improve interoperable emergency communications. The percent of states and urban areas whose current interoperable communications abilities have been fully assessed achieved 100 percent for FY 2009. The program is introducing a new measure to ensure all high-risk urban areas designated within the Urban Areas Security Initiative demonstrate response-level emergency communications within one hour for routine events involving multiple jurisdictions and agencies.
- Rescue Operations** – The [U.S. Coast Guard Search and Rescue](#) program has a long legacy of saving people from perilous situations. In FY 2009, the percent of people in imminent danger saved in the maritime environment by the U.S. Coast Guard was 77.3 percent, saving 4,734 lives, and meeting the target of at least 76 percent. In FY 2010, the U.S. Coast Guard plans to surpass its target of 76 percent. Since its inception, the U.S. Coast Guard has saved more than one million lives.



Fargo, North Dakota, March 26, 2009: Petty Officer 3rd Class Christopher Wheeler, a U.S. Coast Guard rescue swimmer, assists a man in a hoist basket before it is lifted to the U.S. Coast Guard HH-6575 “Dolphin” helicopter. The man had become stranded by the Red River flood waters.

Partnering to Save Lives and Property

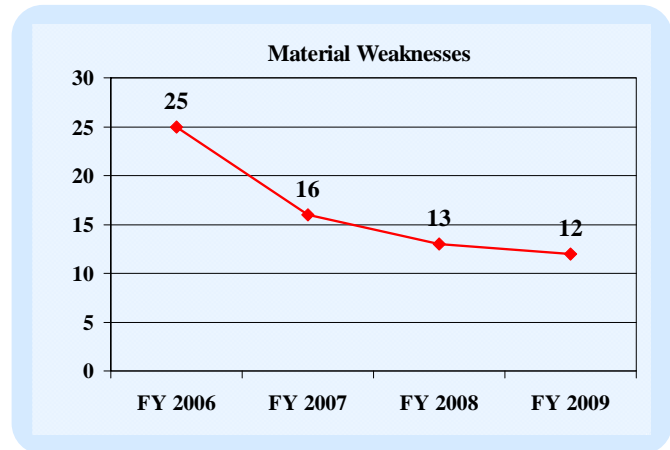
The Red River Valley in Fargo, North Dakota, experiences flooding almost every year in March and April as the snow thaws. This past year, flooding reached record levels, putting thousands of people in harm’s way. FEMA declared a [major disaster](#) on March 24, 2009.

Rescue teams comprised of the U.S. Coast Guard and other local, state, and Federal agencies saturated the area, assisted thousands of residents whose homes were flooded, and worked diligently to restore the community. In addition to saving 105 lives, the U.S. Coast Guard conducted overflight of flooded areas to help the maritime industry predict and avert future vessel casualties, which were more likely due to the high water levels.

U.S. Coast Guard rescue operations are best known for their “high-seas” rescues, but U.S. Coast Guard assets are deployed across the Nation, helping to save lives and restore communities, whenever disasters happen.

Maturing and Unifying DHS

- Material Weaknesses** – The Department has continued to reduce the number of material weaknesses identified in the independent audit report on the DHS financial statements. However, in FY 2009, DHS did not meet its target due to an increase in the number of standalone audits and scrutiny on our account balances. DHS discovered additional opportunities for financial management improvement. The 12 material weakness conditions reported in this year's audit is down from last year, and significantly down from 25 material weakness conditions in FY 2006. In FY 2010, the Department is planning to further reduce material weaknesses to less than 12, with a long-term goal of achieving a clean audit.
- Employee Satisfaction** – The percent of favorable responses by DHS employees on the [annual employee survey](#) reached 54 percent in FY 2009, exceeding our target of 51 percent. There is still a significant amount of work to address the challenges of maturing and unifying the Department. As we make improvements in many of our business and human resource processes, we expect employee satisfaction to continue to improve in the future. The employee satisfaction survey is administered at the end of each fiscal year and made available later in the next fiscal year for reporting purposes.
- Ensure Integrity of Programs and Operations** – The [Office of Inspector General](#) (OIG) adds significant value to the Department by ensuring the integrity of DHS programs and operations. Every year, the OIG conducts numerous audits of programs and operations that result in recommendations for improvement. For the past five years, more than 90 percent of all recommendations have been accepted by DHS for action. Although there was a slight decrease in FY 2009 the target was achieved with 95 percent of all recommendations being accepted. The OIG's ongoing target is for DHS to accept a minimum of 85 percent every year to ensure recommendations are strong and innovative in nature.



DHS Headquarters Consolidation

DHS Secretary Janet Napolitano and [General Services Administration](#) (GSA) Acting Administrator Paul Prouty held a ceremonial [groundbreaking](#) in September to commence consolidation of a new DHS headquarters at the St. Elizabeths Campus. DHS currently operates in more than 46 locations around the National Capital Region. The headquarters consolidation initiative expects to realize more than \$700 million net present value savings over thirty years as compared to renewing leases individually.

“The Department of Homeland Security continues to unify our many components into one cohesive agency with a shared central mission,” said Secretary Napolitano. The construction of our new headquarters at St. Elizabeths using Recovery Act funding will help consolidate more than 46 locations in the Washington area while creating thousands of local jobs. “The development of the new Department of Homeland Security campus has been an enormous undertaking and a collaborative effort involving many officials, groups, and individuals,” said Acting Administrator Prouty. “GSA’s work will preserve the key historic features of this National Historic Landmark and provide an energy efficient campus for DHS.”



September 9, 2009: Secretary Napolitano and Acting Administrator Prouty were joined by U.S. Senator Joe Lieberman, U.S. Representative Eleanor Holmes Norton, Washington Mayor Adrian Fenty, and the construction team currently working on the DHS headquarters consolidation project.

Summary of Major Management Challenges—FY 2009

This summary highlights key accomplishments for the nine major management challenge areas facing the Department of Homeland Security. For a more detailed analysis, please see page 227 for the full report on major management challenges as identified each year by the DHS OIG. Management's response to this report begins on page 264.

Major Management Challenge Areas

Acquisition Management (full response on page 265)

Major Accomplishment: DHS established the Acquisition Review Board (ARB) to review and approve all programs at key acquisition decision events that are above \$300 million in life-cycle costs. In FY 2009, the Deputy Secretary chaired 16 major ARBs and the Under Secretary for Management (USM) chaired 4 major ARBs and 8 mini-ARBs (for oversight of Recovery Act spending). In FY 2009, the Department increased the size of its contracting and procurement workforce from 1,152 to 1,281; the number of program manager certifications from 1,083 to 1,777; and the number of Contracting Officer Technical Representatives (COTR) from 6,243 to 8,359. The DHS Office of the Chief Procurement Officer (OCPO) implemented the Enterprise Procurement Information Center.

Information Technology Management (full response on page 266)

Major Accomplishment: DHS achieved 96 percent Federal Information Security Management Act (FISMA) compliance at the Department level for FY 2009. This achievement includes 93 percent compliance for Certification and Accreditation (C&A) as well as tracking and managing the closure of approximately 10,000 security weaknesses. The Office of the Chief Information Officer (OCIO) completed major large-scale migrations of four legacy data centers to two new DHS Enterprise Data Centers, resulting in increased security and reduction of overall costs.

Emergency Management (full response on page 269)

Major Accomplishment: FEMA released the 2009 Disaster Housing Plan, which serves as an operational bridge from the National Disaster Housing Strategy and describes the specific types of assistance that FEMA will provide to state, local, tribal, and territorial governments. FEMA worked with the Centers for Disease Control (CDC) and DHS Office of Health Affairs (OHA) to write new specifications for temporary housing units. FEMA evaluated alternative housing units through the Joint Housing Solutions Group, assessed numerous alternative units, and awarded a contract for seven different models. Vendors built and installed prototype units at the National Emergency Training Center in Emmitsburg, Maryland.

Grants Management (full response on page 272)

Major Accomplishment: FEMA formed an Intra-Agency Grants Program Task Force that developed a FEMA Grants Strategy to drive future enhancements in grants policies, procedures, systems, and processes. The Grant Development and Administration Division added six additional staff and expanded the use of an existing Access database monitoring tool, developed a monitoring protocol, and conducted a pilot program of monitoring visits with transit and port grantees.

Financial Management (full response on page 272)

Major Accomplishment: The DHS Financial Management Community has many initiatives underway to continue to build the 'One DHS' culture, including our commitment to strengthening

internal controls and realigning business processes for improved efficiencies and effectiveness. We value our partnership with the Office of Inspector General in implementing the *Department of Homeland Security Financial Accountability Act*. With the passage of the Act, we launched an ambitious multi-year effort to improve financial management and reporting and build assurances that internal controls are in place and working effectively. DHS has worked to standardize business practices and to execute systematic plans to correct recognized weaknesses. In FY 2009, the Independent Auditor performed the Department's first ever integrated financial statement and internal control audit. In addition, standalone financial statement audits were expanded to five DHS Components: CBP, USCIS, FLETC, ICE, and TSA. Although these audits indicate that DHS still faces serious financial management challenges, for the third consecutive year the Department has made progress by implementing effective corrective actions.

Infrastructure Protection (full response on page 274)

Major Accomplishment: The Regional Resiliency Assessment Program conducted five pilot assessments to mitigate vulnerabilities in the Chicago Financial District, New York State Bridges, New Jersey Turnpike Exit 14 Chemical Corridor, Raleigh-Durham Research Triangle Area, and the Tennessee Valley Authority. Multi-jurisdictional Improvised Explosive Device (IED) security plans were completed in Houston, Detroit, Oklahoma City, Norfolk, and Boston. An Evacuation Planning Guide for stadiums was prepared and field-tested. NPPD developed the initial prototype Infrastructure Information Collection System (IICS) which will greatly reduce critical infrastructure risk-management gaps.

Border Security (full response on page 275)

Major Accomplishment: The Secure Border Initiative (SBI) community increased the number of trained COTRs to accommodate future contract growth. CBP's Office of Border Patrol expanded its Analysis of Alternatives methodology as a requirements gathering tool for all tactical infrastructure projects in direct compliance with the 2009 House Appropriations Bill. CBP completed 47 of 73 originally planned rapid response Border Patrol facilities projects (up from 17 for FY 2008). The Office of Border Patrol completed pilot implementation and testing of the Vehicle Maintenance Information System (VMIS) in two large sectors. The U.S. Visitor and Immigrant Status Indicator Technology (US-VISIT) Program deployed 10-fingerprint capture devices, which increase the likelihood of correctly identifying persons of interest to DHS and law enforcement agencies.

Transportation Security (full response on page 278)

Major Accomplishment: TSA developed the Screening Procedures for Armed Personnel training program. Four Special Emphasis Inspections focusing on the most common violations of passenger air cargo security rules were devised and implemented. In FY 2009, over 500 inspections of freight, passenger, and transit operators were conducted. An Assessment Tool database was developed to automate field data collection, processing, and reporting. TSA created six Regional Security Inspectors to serve as senior-level liaisons to the rail industry and to provide leadership and oversight over the inspection process.

Trade Operations and Security (full response on page 280)

Major Accomplishment: CBP is working to field and laboratory test a handheld biodetection device. Tests using simulants provided promising results for sensitive and reliable detection of biothreat agents in international passenger luggage and hand-carry packages, as well as in international mail and cargo.

Financial Overview

Overview and Analysis of Financial Statements

DHS appropriated budgetary resources were approximately \$53 billion for FY 2009. The budget represents our plan for achieving the strategic objectives set forth by the Secretary to carry out our mission and to ensure that DHS manages its operations within the appropriated amounts using budgetary controls. DHS prepares its annual financial statements 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. DHS primarily uses the cash basis for its budgetary accounting. The cash basis is an accounting method in which income is recorded when cash is received, and expenses are recorded when cash is paid out. These financial statements provide the results of our operations and financial position, including long-term commitments and obligations. The independent accounting firm KPMG LLP was engaged to audit the Balance Sheet and Statement of Custodial Activity.

Included in the \$53 billion in appropriations is \$2.8 billion in supplemental appropriations received during FY 2009 from *The American Recovery and Reinvestment Act of 2009* (Recovery Act) (P.L. 111-5). Seven DHS Components received funding to carry out Recovery Act programs in support of the Department's mission. The Management Directorate received funding for the consolidation of DHS headquarters; CBP received funding to strengthen border patrol security; ICE received funding for information-sharing automation; TSA received funding for enhanced screening technology; U.S. Coast Guard received funding for bridge alteration construction and shore and vessel preservation; FEMA received funding for grant assistance and additional funding for emergency food and shelter; and OIG received funding for oversight and audit of programs, grants, and projects funded under the Recovery Act. Additional Recovery Act information can be found at www.recovery.gov.

DHS's FY 2009 budgetary resources decreased by approximately \$1.5 billion from FY 2008, excluding borrowing authority, which was primarily due to FEMA receiving less supplemental appropriations to fund disaster relief efforts, because fewer disasters occurred in FY 2009 compared to FY 2008. DHS restated FY 2008 balances primarily as a result of actions completed to correct financial management weaknesses reported in prior financial statement audit reports.

Balance Sheet

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

| Accounting Basics |
|---|
| Assets – What DHS owns and manages |
| Liabilities – Amounts DHS owes as a result of past transactions or events |
| Net Position – The difference between assets and liabilities (similar to net worth) |
| Net Cost of Operations – The difference between the costs incurred by DHS programs and DHS's revenue |

Assets – What We Own and Manage

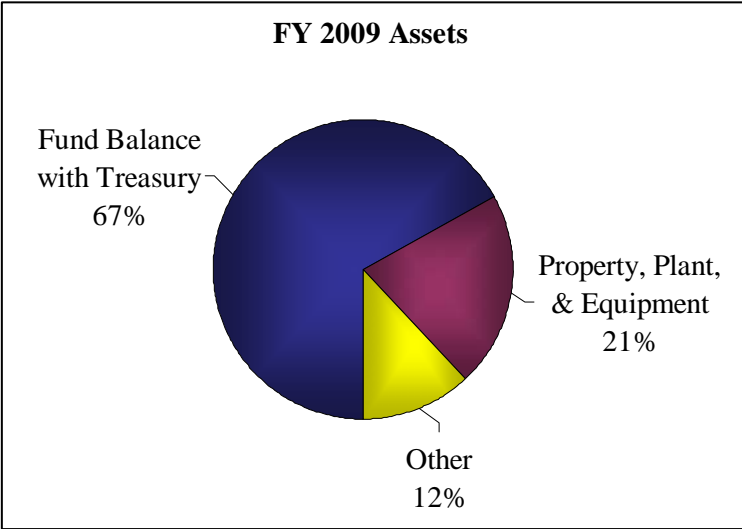
Assets represent amounts owned or managed by DHS that can be used to accomplish its mission. At September 30, 2009, DHS had \$85 billion in assets, representing a \$3 billion decrease from FY 2008 restated assets of \$88 billion.

Fund Balance with Treasury (FBwT), the Department's largest asset, comprises 67 percent, \$57 billion, of the total assets. Included in FBwT is the remaining balance of DHS unspent prior year budgets plus miscellaneous receipts. FBwT decreased approximately \$6 billion from FY 2008 due to FEMA not receiving supplemental appropriations for the Disaster Relief Fund in FY 2009.

Property, Plant, and Equipment (PP&E) is the second largest asset, comprising 21 percent of total assets. The major items in this category include construction in progress, buildings and facilities, vessels, aircraft, and other equipment. In acquiring these assets, DHS either spent cash or incurred a liability to make payment at a future date; however, because we expect these assets to provide future benefits to DHS

to help us accomplish our mission, we report these items as assets rather than expenses. PP&E is recorded net of accumulated depreciation. Recording the net value of the PP&E items is intended to

| As of September 30 (in Millions) | FY 2009 | FY 2008 (Restated) |
|---|-----------------|--------------------|
| Fund Balance with Treasury | \$57,172 | \$63,157 |
| General Property, Plant, and Equipment, Net | \$17,546 | \$14,586 |
| Other | \$10,062 | \$10,237 |
| Total Assets | \$84,780 | \$87,980 |



approximate its remaining useful life. During FY 2009, PP&E increased by \$3 billion. This increase was due to CBP completing the Southern Border fencing project and a change in ICE's capitalization threshold, which allowed vehicles to be capitalized regardless of value and lower capitalization thresholds for personal property. S&T and USSS also contributed to this increase with an increase in construction in progress related to the Bio-Hazard facility at Fort Detrick and the purchase of a new inauguration parade limousine.



June 24, 2009, Pacific Ocean: The U.S. Coast Guard Cutter Mohawk, homeported in Key West, FL., falls in behind U.S. Coast Guard Cutter Bertholf, homeported in Alameda, CA, during an at sea meeting to exchange mission-related information.

The U.S. Coast Guard accounts for more than 50 percent of the property, plant, and equipment assets of DHS.

Liabilities – What We Owe

At September 30, 2009, DHS reported approximately \$76 billion in total liabilities.

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. Eighty-three percent of these liabilities are

unfunded, meaning they will need to be paid from funds received in future appropriations. DHS's largest unfunded liability is for Federal Employee and Veterans' Benefits, arising primarily from U.S. Coast Guard personnel benefits. The National Flood Insurance Program (NFIP) administered by FEMA is the second largest unfunded liability. Both are discussed in more detail below.

Liabilities increased approximately \$1 billion from FY 2008 restated liabilities totaling \$75 billion. This increase primarily represents an increase in the U.S. Coast Guard Federal Employee and Veterans' Benefits.

DHS's largest liability is for Federal Employee and Veterans' Benefits, representing 54 percent of total liabilities. This liability increased approximately \$5 billion from FY 2008. This increase relates to U.S. Coast Guard

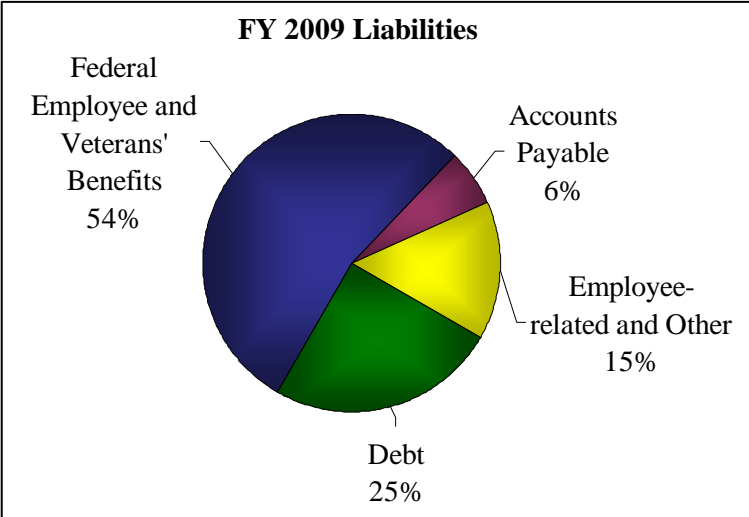
changing their assumptions used to calculate Retired Pay and Military Care Actuarial liability. DHS owes these amounts to current and past civilian and military personnel for pension and other post-employment benefits. The liability also includes medical costs for approved workers compensation cases and an estimate for incurred but not yet reported workers' compensation costs.



Halstad, Minnesota, March 29, 2009: Flooded farms and rural communities in Norman County, Minnesota, adjacent to the Red River of the North were affected by this year's record flooding in March, 2009. It was declared a major disaster on March 24, 2009.

The National Flood Insurance Program and the Disaster Assistance Direct Loan Program operations of FEMA account for 100 percent of the overall debt of DHS.

| As of September 30 (in Millions) | FY 2009 | FY 2008 (Restated) |
|---|-----------------|--------------------|
| Federal Employee and Veterans' Benefits | \$41,013 | \$36,230 |
| Debt | 19,004 | 17,719 |
| Employee-related and Other | 11,200 | 16,303 |
| Accounts Payable | 4,917 | 4,904 |
| Total Liabilities | \$76,134 | \$75,156 |



Ninety-six percent of this liability is not covered by current budgetary resources, and DHS will use future appropriations to cover these liabilities.

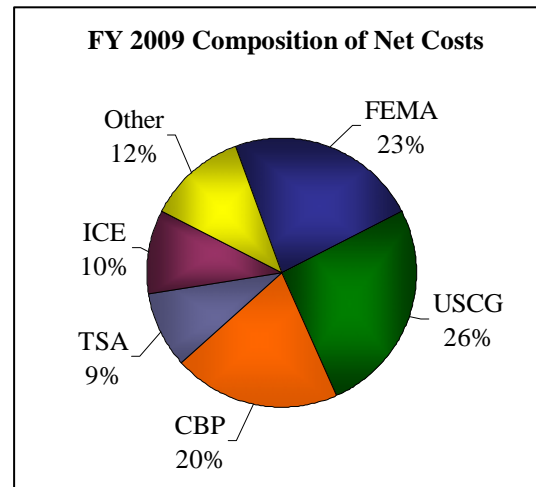
Debt is DHS's second-largest liability, representing 25 percent of total liabilities. This debt results from Treasury loans and related interest payable to fund the NFIP and Disaster Assistance Direct Loan Program operations of FEMA. Total debt increased approximately seven percent from FY 2008 due to the NFIP. Most of this debt is not covered by current budgetary resources. The premiums collected by FEMA for disaster assistance do not cover the cash outlays. This is discussed further in Note 15 in the financial section.

Employee-related and other liabilities, comprising 15 percent of the Department's liabilities, decreased approximately \$5 billion from FY 2008. This difference is primarily related to a

significant decrease in actuarial liabilities as a result of no hurricane activity in FY 2009 and fewer disasters at year-end, as compared to FY 2008. Also included in these liabilities are unpaid wages and benefits for current DHS employees. Six percent of total liabilities results from accounts payable, which are actual or estimated amounts DHS owes to vendors for goods and services provided for which we have not yet paid. These liabilities are covered by current budgetary resources.

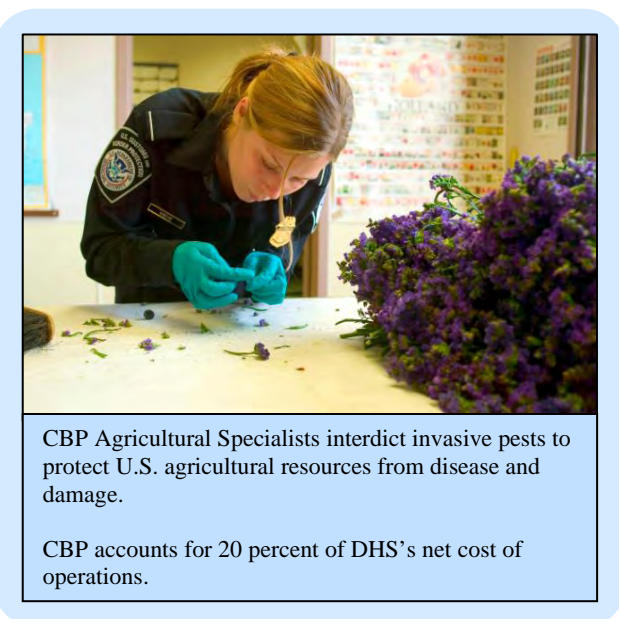
Statement of Net Cost

Net Cost of operations represents the difference between the costs incurred by our programs less revenues. FEMA represents 23 percent of the Department's net cost, a 25 percent decrease from FY 2008 resulting from a reduction in the costs associated with disasters in the current fiscal year. The U.S. Coast Guard incurred 26 percent of total net costs in ensuring maritime safety, security, and stewardship. The 49 percent increase in the U.S. Coast Guard's net cost is primarily due to current and future funded expenses for Retirement Pay, Actuarial Pension and Health Care, and Environmental Compliance and Restoration. CBP's net costs increased by approximately nine percent from FY 2008. Net costs for TSA and ICE, representing nine and 10 percent of total net costs, respectively, increased slightly from FY 2008. TSA's net costs increased 13 percent primarily due to an increase in contingent liabilities and a decrease in earned revenue from FY 2008 to FY 2009. Net costs for ICE, which includes the



Federal Protective Service, increased 18 percent due to funding changes at the Detention and Removal Office, and additional funding related to the Automation and Modernization Program under the American Recovery and Reinvestment Act.

During FY 2009, the Department earned approximately \$9.8 billion in revenues; this is an increase of about \$493 million from the restated amount of \$9.3 billion on September 30, 2008. The Department classifies revenues as either exchange ("earned") or non-exchange revenue. Exchange revenues arise from transactions in which DHS and the other party receive value and that are directly related to departmental operations. DHS also collects non-exchange duties, taxes, and fee revenues on behalf of the



Federal Government. These non-exchange revenues are presented in the Statement of Custodial Activity rather than the Statement of Net Cost. An example of non-exchange revenue is user fees that CBP collects on behalf of the Federal Government as a result of its sovereign powers rather than as a result of providing goods or services for a fee. Donations to the Department are also

reported as non-exchange revenues. Non-exchange revenues are either retained by the Department to further its mission or returned to the General Fund of the Treasury.

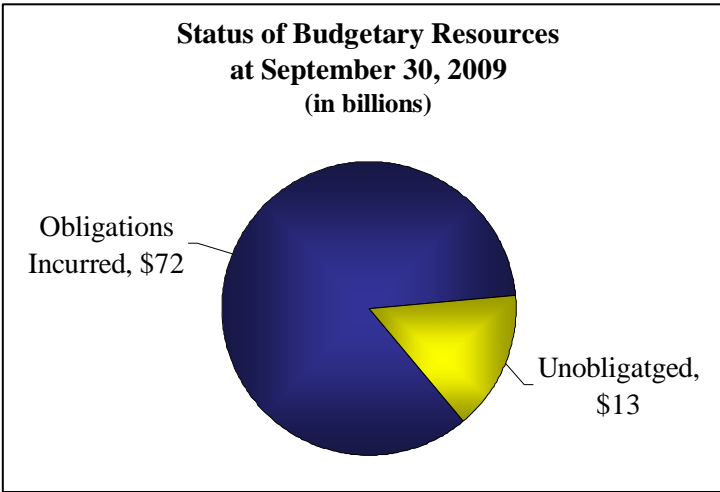
Statement of Changes in Net Position

Net Position represents the difference between assets and liabilities. It is much like a corporation's net worth in that it shows the Department's "bottom line." Financing sources increase net position and include, but are not limited to, appropriations, user fees, and excise taxes. The net costs discussed above and transfers to other agencies decrease net position. In FY 2009, FEMA had higher costs due to response to Hurricanes Gustav and Ike, and the Office of Health Affairs (OHA) increased spending to purchase vaccines, thus contributing to the change in DHS's overall net position.

Statement of Budgetary Resources

This statement provides information on the status of the approximately \$85 billion in budgetary resources available to DHS during FY 2009. This authority was derived from appropriations of \$53 billion, \$21 billion in authority carried forward from FY 2008, \$9.8 billion in collections, and \$1.2 billion of miscellaneous authority. The total amount of resources available decreased by approximately \$1.5 billion primarily due to a decrease in appropriated funds for FEMA.

Of the total budget authority available, DHS incurred a total of \$72 billion in obligations from purchase orders placed, contracts awarded, salaries and benefits, or similar transactions. These obligations will require payments during the same or future period. As of September 30, 2009, \$13 billion of the \$85 billion available was not obligated.



Statement of Custodial Activities

This statement presents the disposition of revenues collected and disbursed by DHS on behalf of other recipient entities. CBP and USCIS collect revenue from a variety of duties, excise taxes, and various other fees that are subsequently remitted to the Treasury's General Fund or to other entities. Note 31 in the financial section provides additional information on these activities. Total cash collections decreased by more than \$5 billion in FY 2009. The decrease is primarily attributable to current economic conditions creating a decrease in duties and user fees.

Stewardship Assets and Investments

DHS's stewardship assets primarily consists of U.S. Coast Guard heritage assets, which include ship equipment, lighthouse and other aids to navigation, communication items, military uniforms,

ordnance, artwork, and display models. A heritage asset is any personal property that is retained by DHS because of its historic, cultural, educational, or artistic value as opposed to its current usefulness to carrying out the mission of the Department. Of the U.S. Coast Guard buildings and structures designated as heritage assets, including memorials, recreational areas, and other historical areas, more than two-thirds are multi-use heritage assets. CBP has four multi-use heritage assets located in Puerto Rico and FEMA has one multi-use heritage asset that is used by the United States Fire Administration for training in Emmitsburg, Maryland. In addition, CBP and USCIS have collection type assets that consist of documents, artifacts, immigration and naturalization files and a Genealogy Program that allows the public to access records on a fee-for-service basis.

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 (RSSI) to highlight the extent of investments that are made for long-term benefits. Included are investments in Research and Development, Human Capital, and Non-Federal Physical Property.

Other Key Regulatory Requirements

See the Other Accompanying Information section for Prompt Payment Act, Debt Collection Improvement Act, and Biennial User Charges Review information.

Management Assurances

The Federal Managers' Financial Integrity Act, Federal Financial Management Improvement Act, and Department of Homeland Security Financial Accountability Act

DHS is responsible for establishing, maintaining, and assessing internal control to provide reasonable assurance that the internal control objectives of the *Federal Managers' Financial Integrity Act*, 31 U.S.C. 3512 Sections 2 and 4, and the *Federal Financial Management Improvement Act*, P.L. 104-208, are met. To identify material weaknesses and nonconformance conditions, management used the following criteria:

- Merits the attention of the Executive Office of the President and the relevant Congressional oversight committees;
- Impairs fulfillment of essential operations or mission;
- Deprives the public of needed services;
- Significantly weakens established safeguards against waste, loss, unauthorized use or misappropriation of funds, property, other assets, or conflicts of interest;
- Substantial noncompliance with laws and regulations; and
- Financial management systems conformance to government-wide systems requirements.

In addition, the *Department of Homeland Security Financial Accountability Act*, P.L. 108-330, requires a separate assertion of internal control over financial reporting and an audit opinion on the Department's internal controls over its financial reporting. A material weakness within internal control over financial reporting is defined as a reportable condition or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements or other significant financial reports, will not be prevented or detected.

The DHS Accountability Structure includes a Senior Management Council (SMC), an Internal Control Coordination Board (ICCB), and a Senior Assessment Team (SAT). The SMC approves the level of assurances for the Secretary's consideration and is comprised of the Department's Under Secretary for Management, Chief Financial Officer, Chief Administrative Services Officer, Chief Human Capital Officer, Chief Information Officer, Chief Information Security Officer, Chief Security Officer, and Chief Procurement Officer. The ICCB seeks to integrate and coordinate internal control assessments with other internal control related activities and includes representatives from all DHS lines of business to address crosscutting internal control issues. Finally, the SAT led by the Chief Financial Officer, is comprised of senior level financial managers assigned to carry out and direct Component-level internal control over financial reporting assessments.

Individual Component assurance statements serve as the primary basis for the Secretary's assurance statements. The assurance statements are also based on information gathered from various sources including management initiated internal control assessments, program reviews, and evaluations. In addition, the DHS Office of Inspector General (OIG) and the Government Accountability Office (GAO) conduct reviews, audits, inspections, and investigations.



Homeland
Security

November 13, 2009

SECRETARY'S ASSURANCE STATEMENTS

The Department of Homeland Security is committed to a culture of integrity, accountability, and excellence in all we do. The Department's management is responsible for establishing and maintaining effective internal control over the three internal control objectives of reliability of financial reporting; effectiveness and efficiency of operations; and compliance with applicable laws and regulations. In addition, the safeguarding of assets is a subset of these objectives. In accordance with the *Federal Managers' Financial Integrity Act* (FMFIA) and the *Department of Homeland Security Financial Accountability Act* (DHS FAA), I have directed an evaluation of internal control at the Department of Homeland Security in effect during the fiscal year (FY) ending September 30, 2009. This evaluation was conducted in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, the Department provides the following assurance statements.

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2 and DHS FAA)

FY 2009 is the last in the Department's multiyear plan for implementing Appendix A of OMB Circular No. A-123. The Department's approach focused on implementing corrective actions to strengthen Department-wide internal controls over financial reporting, reducing the number of conditions that contribute to the Department's material weaknesses in financial reporting by more than half since FY 2005 (See Exhibits I and II). In addition, in FY 2009, the Department completed a limited scope evaluation of processes that provide internal control over the financial reporting of the Balance Sheet and Statement of Custodial Activity as displayed in Exhibit I. Based on the results of the limited scope assessment the following material weaknesses were identified:

- Financial Reporting at U.S. Coast Guard, Federal Emergency Management Agency (FEMA), and Transportation Security Administration (TSA);
- Fund Balances with Treasury Management at U.S. Coast Guard;
- Financial System Security at U.S. Coast Guard, FEMA, and U.S. Immigration and Customs Enforcement (ICE);
- Budgetary Resource Management at U.S. Coast Guard;
- Property Management at U.S. Coast Guard, TSA, and U.S. Customs and Border Protection (CBP); and
- Human Resource Management at U.S. Coast Guard.

Based on the material weaknesses noted above the Department of Homeland Security provides no assurance that internal control over financial reporting was operating effectively as of September 30, 2009.

Effectiveness of Internal Control over Operations (FMFIA § 2)


Based on information provided, the Department provides reasonable assurance as to the effectiveness of internal control over operations, with the exception of the following known material weaknesses:

- Property Management, including,
 - Real and Personal Property, Equipment, and Sensitive Asset Oversight;
- Assistance Awards Policy and Oversight, including,
 - Single Audit Act Noncompliance;
- Acquisition Management, including,
 - Information Technology Investments;
- Entity Level Controls at FEMA;
- Funds Control at U.S. Coast Guard and ICE; and
- System Security at CBP, including,
 - US-VISIT Support Systems Access Controls and Financial System Service Continuity.

Conformance with Financial Management System Requirements (FMFIA § 4)

The Department's financial management systems do not substantially conform to government-wide requirements mandated by the *Federal Financial Management Improvement Act*. The following are known non-conformances:

- Federal Financial Management Systems Requirements, including:
 - Financial Systems Security at DHS Management Directorate, CBP, U.S. Coast Guard, FEMA, Federal Law Enforcement Training Center, ICE, U. S. Citizenship and Immigration Services, and TSA;
 - Integrated Financial Management Systems, including:
 - Integration of CBP Revenue System with CBP Core Financial System;
 - Integration of ICE Financial, Acquisition, and Asset Management Systems; and
 - Integration of U.S. Coast Guard Financial and Mixed Systems;
- Noncompliance with U.S. Standard General Ledger at U.S. Coast Guard; and
- Federal Accounting Standards at U.S. Coast Guard.



 Janet Napolitano
 Secretary of Homeland Security

Summary of Internal Control Accomplishments

Since the passage of the DHS FAA, DHS has worked collaboratively with Congress, GAO, OMB, DHS OIG, and our Independent Public Auditor to ensure we achieve the law's intended outcome of the design and implementation of Department-wide internal controls to support the DHS mission. The issuance of Appendix A of OMB Circular A-123 also paved the way for progress throughout the Federal Government by providing specific requirements to agencies for conducting management's assessment of internal control over financial reporting. In FY 2005, the Department developed an ambitious multi-year plan to build assurances and eliminate material weaknesses, known as the DHS Internal Control Playbook, reducing the number of conditions that comprise the Department's material weakness structure by more than half (See Exhibits I and II below).

Exhibit I: OMB Circular No. A123, Appendix A Internal Control over Financial Reporting Assessment Results FY 2009 and 2008

| Internal Control Component | Management Directorate | U.S. Customs & Border Protection | U.S. Coast Guard | Federal Emergency Management Agency | Transportation Security Administration | U.S. Immigration & Customs Enforcement | U.S. Citizenship & Immigration Services | U.S. Secret Service | National Protection and Programs Directorate | Science & Technology Directorate | Federal Law Enforcement Training Center | Inspector General | Domestic Nuclear Detection Office | Analysis and Operations | Office of Health Affairs |
|----------------------------|------------------------|----------------------------------|------------------|-------------------------------------|--|--|---|---------------------|--|----------------------------------|---|-------------------|-----------------------------------|-------------------------|--------------------------|
| Entity Level Controls | FY09 | FY09 | FY09 | FY09 | FY09 | FY09 | FY09 | FY09 | FY09 | FY09 | FY09 | FY09 | FY09 | FY09 | FY09 |
| Financial Reporting | FY09 | FY09 | | | | FY09 | FY09 | FY09 | | | FY09 | | | | |
| Fund Balance with Treasury | FY09 | FY09 | | FY09 | FY09 | FY09 | FY09 | | FY09 | FY09 | | | | | |
| Financial System Security | FY09 | FY09 | | | FY09 | | FY09 | FY09 | | | FY09 | | | | |
| Budgetary Resources | FY08 | FY08 | | FY09 | FY08 | FY08 | FY08 | FY08 | FY09 | FY08 | FY08 | | | | |
| Property Management | | | | FY09 | | FY09 | | | | | FY09 | | | | |
| Grants Management | | | | FY09 | | | | | | FY08 | | | | | |
| Payment Management | FY08 | FY08 | | | FY08 | FY08 | FY08 | | | FY08 | FY08 | | | | |
| Insurance Management | | | | FY09 | | | | | | | | | | | |
| Revenue Management | | FY09 | | | FY09 | FY09 | FY09 | | | | | | | | |
| Human Resources Management | FY09 | FY09 | | FY09 | FY09 | FY09 | FY09 | FY09 | FY09 | FY09 | FY09 | FY09 | FY09 | FY09 | FY09 |

Legend

- Material weakness condition.
- Test of design performed or corrective action taken to reduce severity of material weakness condition.
- Some test of operating effectiveness performed.
- Full test of operating effectiveness performed.
- Process determined to be immaterial no DHS level assessment work performed.

Note: Fiscal Years are noted to document the multiyear plan agreed upon with OMB (e.g., FY09 and FY08)

Exhibit II: Internal Control over Financial Reporting Assessment Results FY 2005

| Internal Control Component | Management Directorate | U.S. Customs & Border Protection | U.S. Coast Guard | Federal Emergency Management Agency | Transportation Security Administration | U.S. Immigration & Customs Enforcement | U.S. Citizenship & Immigration Services | U.S. Secret Service | National Protection and Programs Directorate | Science & Technology Directorate | Federal Law Enforcement Training Center | Inspector General | Headquarters Operational Offices |
|----------------------------|------------------------|----------------------------------|------------------|-------------------------------------|--|--|---|---------------------|--|----------------------------------|---|-------------------|----------------------------------|
| Entity Level Controls | | FY05 | | FY05 | FY05 | | FY05 | FY05 | | FY05 | FY05 | FY05 | |
| Financial Reporting | | | | | | | | | | | | | |
| Fund Balance with Treasury | | | | | | | | | | | | | |
| Financial System Security | | | | | | | | | | | | | |
| Budgetary Resources | | | | | | | | | | | | | |
| Property Management | | | | | | | | | | | | | |
| Grants Management | | | | | | | | | | | | | |
| Payment Management | | | | | | | | | | | | | |
| Insurance Management | | | | | | | | | | | | | |
| Revenue Management | | | | | | | | | | | | | |
| Receivable Management | | | | | | | | | | | | | |
| Human Resources Management | | | | | | | | | | | | | |

Legend

- Material Weakness Condition
- Test of Design Performed or Corrective Action taken to reduce severity of material weakness condition