U.S. Department of Homeland Security Agency Financial Report

Fiscal Year 2014

Homeland Security

About this Report

The *U.S. Department of Homeland Security Agency Financial Report for Fiscal Year (FY) 2014* 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 2014, the Department is using the alternative approach—as identified in the Office of Management and Budget's Circular A-136—to produce its Performance and Accountability Reports, which consists of the following three reports:

- ***DHS Agency Financial Report***: Delivery date: November 17, 2014.
- ***DHS Annual Performance Report***: Delivery date: February 2, 2015. The *DHS Annual Performance Report* is submitted with the Department's Congressional Budget Justification.
- ***DHS Summary of Performance and Financial Information:*** Delivery date: February 16, 2015.

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

For more information, contact:

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Information may also be requested by sending an email to par@hq.dhs.gov.

Certificate of Excellence in Accountability Reporting

In May 2014, the U.S. Department of Homeland Security received the Certificate of Excellence in Accountability Reporting (CEAR) from the Association of Government Accountants (AGA) for its FY 2013 Agency Financial Report. 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.

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Message from the Secretary

November 13, 2014

The Department of Homeland Security's (DHS) Agency Financial Report for Fiscal Year (FY) 2014 provides an assessment of the Department's detailed financial information and illustrates how we ensure every dollar we were provided was used to best support our primary mission areas in securing the U.S. homeland. This report also outlines our major goals and priorities within the framework of the Quadrennial Homeland Security Review and DHS Strategic Plan.

Homeland Security is built upon a foundation of ensuring security and resilience, as well as facilitating the normal, daily activities of society and interchange with the world. Accomplishing the complex mission of securing the homeland and protecting the American people is extremely challenging in the current fiscal environment in which DHS faces funding challenges across several sizeable and wide-ranging programs. With that as part of the current and projected landscape in mind, the Department prioritizes our essential programs and core capabilities to provide the most critical capabilities necessary for the Department to carry out its missions and responsibilities to keep our Nation safe.

National and international events of the past year provided other significant challenges for DHS and the Nation. Civil war and unrest in the Middle East and the Ebola outbreak in Africa challenged our transportation security. The surge in unaccompanied children in the Rio Grande Valley challenged our border security. Devastating wildfires across the western United States and continued drought challenged our National resilience. Cyberthreats and intrusions challenged our information and financial security. Lives were lost. International norms were challenged. Through it all, DHS continued to provide the bedrock of homeland security that the American public have grown to rely upon.

But we continue to strive for improvements in the way we operate together as a Department. That is why I launched the "Unity of Effort" initiative in April 2014. The rationale behind this initiative is to improve DHS's planning, programming, budgeting, and execution processes through strengthened Departmental structures and increased capability. In other words, strengthen DHS's existing business processes, develop new ones in areas of need, review our organization structure, and re-orient and strengthen a number of headquarters functions to ensure a transparent process vetting DHS-wide requirements that is clearly traceable to my upfront strategic guidance. We have made tremendous progress already—transforming the way we act and think from an organization managing 22 distinct Components to one with a unity of purpose living the adage that together we are stronger than our individual parts.

Through our improved business processes and advances we are making in operating together as a Department, we will successfully meet new and emerging threats and other challenges, making significant progress by focusing on the Department's five key mission areas: preventing terrorism and enhancing security; securing and managing our borders; enforcing and administering our immigration laws; safeguarding and securing cyberspace; and strengthening national preparedness and resilience. In each mission area, we have continued to grow and mature as a Department by strengthening and building upon our existing capabilities, enhancing partnerships across all levels of government and with the private sector, and streamlining our operations to increase efficiencies.

Mission 1: Prevent Terrorism and Enhance Security
Preventing terrorism is the cornerstone of homeland security. Within this mission we focus on the goals of preventing terrorist attacks; preventing and protecting against the unauthorized acquisition or use of chemical, biological, radiological, and nuclear materials; and reducing risk to the Nation's most critical infrastructure, key leaders, and events.

Mission 2: Secure and Manage Our Borders
Secure, well-managed borders must not only protect the United States against threats from abroad, they must also safeguard and expedite the flow of lawful trade and travel. Achieving this end requires that we focus on three interrelated goals: 1) secure U.S. air, land, and sea borders and approaches; 2) safeguard and expedite lawful trade and travel; and 3) disrupt and dismantle transnational criminal organizations and other illicit actors.

Mission 3: Enforce and Administer Our Immigration Laws
Immigration is essential to our identity as a nation of immigrants. Most American families have an immigration story, some recent, some more distant. Many immigrants have taken on great risks to work and contribute to America's prosperity or were provided refuge after facing persecution abroad. Americans are extremely proud of this tradition. Smart and effective enforcement and administration of our immigration laws remains a core homeland security mission.

Mission 4: Safeguard and Secure Cyberspace
Each and every day, the United States faces a myriad of threats in cyberspace, from the theft of trade secrets, payment card data, and other sensitive information through cyber-intrusions to denial-of-service attacks against Internet websites and attempted intrusions of U.S. critical infrastructure. DHS works closely with government and private sector partners to strengthen cybersecurity capabilities, investigate cybercrime, and share actionable information to ensure a secure and resilient cyberspace that protects privacy and civil rights and civil liberties by design, supports innovation and economic growth, and supports public health and safety.

Mission 5: Strengthen National Preparedness and Resilience
Despite ongoing vigilance and efforts to protect the United States and its citizens, major accidents, disruptions, and natural disasters, as well as deliberate attacks, will occur. The challenge is to build the capacity of American society to be resilient in the face of disruptions, disasters, and other crises. Our goals in this mission require us to: 1) enhance national preparedness; 2) mitigate hazards and vulnerabilities; 3) ensure effective emergency response; and 4) enable rapid recovery.

Mature and Strengthen Homeland Security
The Nation's experiences in the years since September 11, 2001 highlight the importance of joining efforts across all levels of society and government into a common homeland security. In considering the evolution of the Department and the ever-changing environment in which it operates, we have identified several key, cross-cutting functional areas of focus for action within the Department that must be accomplished in order for it to successfully execute its core missions.

These functions, and the critical activities associated with them, serve as the supporting foundation that underpins all homeland security missions.

Management Assurances and Performance Measurement

In FY 2014, DHS obtained its second consecutive unmodified audit opinion on all its financial statements. In addition, DHS continued to make progress toward its goal of achieving an unqualified internal control audit opinion. The Department is able to provide reasonable assurance that its internal controls over financial reporting are effective, with the exception of the material weaknesses identified in the Secretary's Assurance Statement.

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 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.

DHS has significantly improved the processes and structures in place to help ensure consistent operations for each of our financial accounting centers and financial management offices within our Components. 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.

Sincerely,

Jeh Charles Johnson
Secretary

Management's Discussion and Analysis

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

The ***Overview*** section describes the Department's organization, its missions and goals, and provides an overview of our front-line Components.

The ***Performance Overview*** section provides a summary of each homeland security mission and focus area, 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, Statement of Custodial Activities, Stewardship Assets and Investments, and Limitations of Financial Statements.

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.

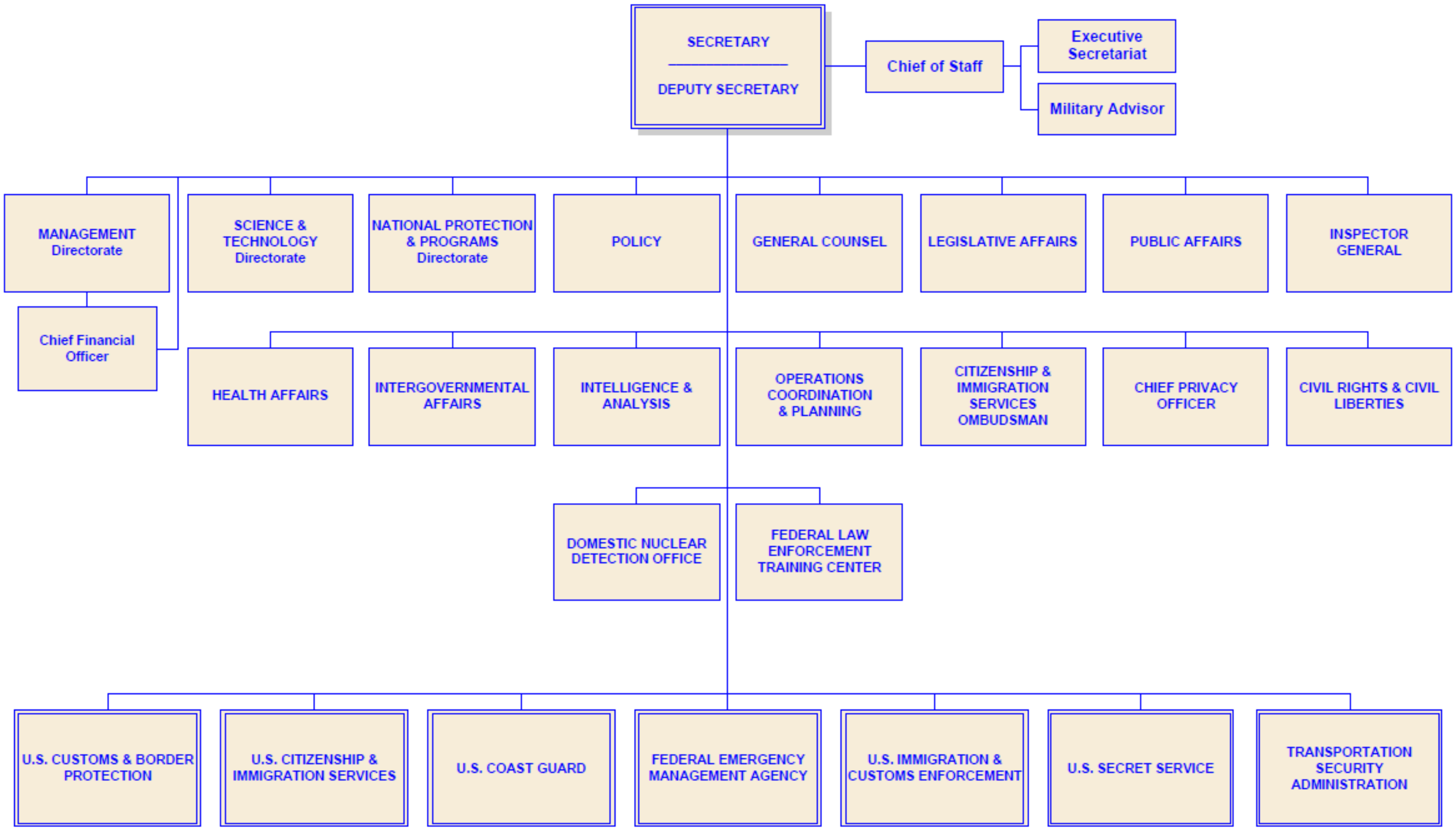
Overview

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

Our Organization

DHS's operational Components lead the Department's front-line activities to protect our Nation. The remaining DHS Components provide resources, analysis, equipment, research, policy development, and support to ensure the front-line organizations have the tools and resources to accomplish the DHS mission. For more information about the Department's structure, visit our website at http://www.dhs.gov/organization.

Fiscal Year 2014 DHS Organizational Chart



Our Components

The following is a description of the major Components that make up the Department of Homeland Security. See our Federal Program Inventory at http://www.dhs.gov/publication/federal-program-inventory for more detail regarding the major programs within the DHS Components. Components listed below are those for which Congress appropriates funds through the budgeting process, whereas the Components in the financial reporting section are those tracked in the Treasury Information Executive Repository system presented in Note 1.A in the Financial Section. Click on the Component name for more information on their website.

Operational Components

Federal Emergency Management Agency (FEMA) supports our citizens and first responders to ensure that as a nation we work together to build, sustain, and improve our capability to prepare for, protect against, respond to, recover from, and mitigate all hazards.

Transportation Security Administration (TSA) protects the Nation's transportation systems to ensure freedom of movement for people and commerce.

U.S. Citizenship and Immigration Services (USCIS) oversees lawful immigration to the United States and is responsible for granting immigration and citizenship benefits, promoting awareness and understanding of citizenship, and ensuring the integrity of our immigration system.

U.S. Coast Guard (USCG) is one of the five armed forces of the United States and safeguards our Nation's maritime interests and natural resources, defends our maritime borders, and saves those in peril. Additionally, the USCG is a law enforcement and regulatory agency with broad domestic legal authorities.

U.S. Customs and Border Protection (CBP) is responsible for securing America's borders to protect the United States against threats and prevent the illegal entry of inadmissible persons and contraband, while facilitating lawful travel and trade.

U.S. Immigration and Customs Enforcement (ICE) is the largest investigative arm of DHS and the second largest investigative agency in the Federal Government. ICE's primary mission is to promote homeland security and public safety through the criminal and civil enforcement of federal laws governing illegal immigration, customs, and trade within our borders.

U.S. Secret Service (USSS) carries out a unique dual mission of protection and investigations. The Service protects the President, Vice President, designated national leaders, other visiting heads of State and Government, and National Special Security Events; safeguards the Nation's financial infrastructure and payment systems to preserve the integrity of the economy; and investigates electronic and cybercrimes.

Remaining Components

Analysis and Operations (AO) manages the intelligence, information sharing, and operations coordination functions for DHS. Analysis and Operations includes the Office of Intelligence and Analysis (I&A) and the Office of Operations Coordination and Planning (OPS).

Departmental Management and Operations (DMO) provides support to the Secretary and Deputy Secretary in the overall leadership, direction, and management to the Department and all of its Components, ensuring the delivery of effective and efficient business and management services. DMO is responsible for Department budgets and appropriations, expenditure of funds, accounting and finance, procurement, human resources, information technology systems, facilities and equipment, and the identification and tracking of performance measurements.

Domestic Nuclear Detection Office (DNDO) works to enhance the nuclear and radiological detection efforts of federal, state, territorial, tribal, and local governments, and the private sector to ensure a coordinated response to such threats. DNDO is also responsible for advancing and integrating U.S. Government technical nuclear forensics efforts.

Federal Law Enforcement Training Centers (FLETC) provides career-long training to law enforcement professionals to help them fulfill their responsibilities safely and proficiently.

National Protection and Programs Directorate (NPPD) leads the Department's mission to reduce risk to the Nation's critical physical and cyber-infrastructure through partnerships that foster collaboration and interoperability and through regulation of security of high-risk facilities.

Office of Health Affairs (OHA) serves as DHS's principal authority for all medical and health issues. OHA provides medical, public health, and scientific expertise to the Department in support of the DHS mission to prepare for, respond to, and recover from all threats.

Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Pub. L. 107-296) by an amendment to the *Inspector General Act of 1978*. OIG has a dual reporting responsibility to the Secretary of DHS and to Congress. OIG serves as an independent and objective audit, inspection, and investigative body to promote economy, effectiveness, and efficiency in DHS programs and operations, and to prevent and detect fraud, waste, and abuse.

Science and Technology (S&T) Directorate's mission is to strengthen America's security and resilience by providing knowledge products and innovative technology solutions for the Homeland Security Enterprise.

Our Strategic Framework

The DHS Strategic Plan for FY 2012-2016 presents the Department's missions, goals, and objectives in place during the FY 2014 financial reporting period. On June 18, 2014, DHS published a new Quadrennial Homeland Security Review (QHSR), which continues the Department's efforts to prioritize front-line operations while maximizing the effectiveness and efficiency of every taxpayer dollar the Department receives. The new QHSR is available at http://www.dhs.gov/publication/2014-quadrennial-homeland-security-review-qhsr.

The Performance Overview section of the Agency Financial Report is aligned to the new QHSR strategic framework and provides a clear path to the Department's forthcoming strategic plan. The financial information presented in this report is structured around the DHS FY 2012-2016 Strategic Plan.

Although there is significant continuity between the DHS FY 2012-2016 Strategic Plan and the DHS 2014 QHSR within the core missions, the following adjustments characterize the relationship:

- The focus area of *Providing Essential Support to National and Economic Security* was eliminated from the DHS FY 2012-2016 Strategic Plan and the corresponding programs and their related activities were integrated into the following QHSR missions:
  - *Mission 2: Secure and Manage our Borders;*
  - *Mission 5: Strengthen National Preparedness and Resilience; and*
  - *Mature and Strengthen Homeland Security.*
- A portion of *Mission 1: Preventing Terrorism and Enhancing Security* was realigned to *Mission 4: Safeguard and Secure Cyberspace*.
- A portion of *Maturing and Strengthening DHS* was realigned to *Mission 5: Strengthen National Preparedness and Resilience*.

The QHSR missions of the Department are:

Mission 1: Prevent Terrorism and Enhance Security

Preventing terrorism is the cornerstone of homeland security. Within this mission we focus on the goals of preventing terrorist attacks; preventing and protecting against the unauthorized acquisition or use of chemical, biological, radiological, and nuclear materials and capabilities; and reducing risk to the Nation's most critical infrastructure, key leaders, and events.

Mission 2: Secure and Manage Our Borders

Secure, well-managed borders must not only protect the United States against threats from abroad, they must also safeguard and expedite the flow of lawful trade and travel. Achieving this end requires that we focus on three interrelated goals: 1) secure U.S. air, land, and sea borders and approaches; 2) safeguard and expedite lawful trade and travel; and 3) disrupt and dismantle transnational criminal organizations and other illicit actors.

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Each and every day, the United States faces a myriad of threats in cyberspace, from the theft of trade secrets, payment card data, and other sensitive information through cyber-intrusions to denial-of-service attacks against Internet websites and attempted intrusions of U.S. critical infrastructure. DHS works closely with government and private sector partners to strengthen cybersecurity capabilities, investigate cybercrime, and share actionable information to ensure a secure and resilient cyberspace that protects privacy and civil rights and civil liberties by design, supports innovation and economic growth, and supports public health and safety.

Mission 5: Strengthen National Preparedness and Resilience

Despite ongoing vigilance and efforts to protect the United States and its citizens, major accidents, disruptions, and natural disasters, as well as deliberate attacks, will occur. The challenge is to build the capacity of American society to be resilient in the face of disruptions, disasters, and other crises. Our goals in this mission require us to: 1) enhance national preparedness; 2) mitigate hazards and vulnerabilities; 3) ensure effective emergency response; and 4) enable rapid recovery.

Mature and Strengthen Homeland Security

The Nation's experiences in the years since September 11, 2001 highlight the importance of joining efforts across all levels of society and government into a common homeland security. In considering the evolution of the Department and the ever-changing environment in which it operates, we have identified several key, cross-cutting functional areas of focus for action within the Department that must be accomplished in order for it to successfully execute its core missions. These functions, and the critical activities associated with them, serve as the supporting foundation that underpins all homeland security missions.

These activities also support the Unity of Effort Initiative, which builds important linkages between the Department's planning, programming, budgeting, and execution processes, ensuring that the Department invests and operates in a cohesive, unified fashion, and makes decisions that are transparent and collaborative to drive the Secretary's strategic guidance to results.

In the Secretary's April 22nd memorandum on "Strengthening Departmental Unity of Effort," he directed specific activities across four main lines of effort: inclusive senior leader discussion and decision-making forums that provide an environment of trust and transparency; strengthened management processes for investment, including requirements, budget, and acquisition processes, that look at cross-cutting issues across the Department; focused, collaborative Departmental strategy, planning, and analytic capability that supports more effective DHS-wide decision-making and operations; and enhanced coordinated operations to harness the significant resources of the department more effectively. Our goal is better understanding of the broad and complex DHS mission space and empowering DHS components to effectively execute their operations.

Enhancing the effectiveness and unity of DHS operations to better fulfill our mission responsibilities is the primary reason for making these important changes. This approach represents a departure in some ways from current DHS and Component level approaches to management and operations. But in adding structure and transparency, combined with collaborative, forthright senior leader engagement we will build together a stronger, more unified, and enduring DHS.

Two new senior leader forums, the Secretary's Senior Leader Council and the Deputy's Management Action Group, will drive the decision making and synchronization of all these activities. The Department has not had a forum for its most senior leadership-Component and Deputy Component heads, Under Secretaries, and the heads of select other offices-to gather regularly with me and the Deputy Secretary in an environment of trust, and openly place on the table issues, arguments, and disagreements concerning our most challenging issues. These two new forums, which have each been meeting at least every two weeks since their inception, change that.

Additional details on this initiative are contained in the "Performance Overview" section of the report under "Mature and Strengthen Homeland Security."

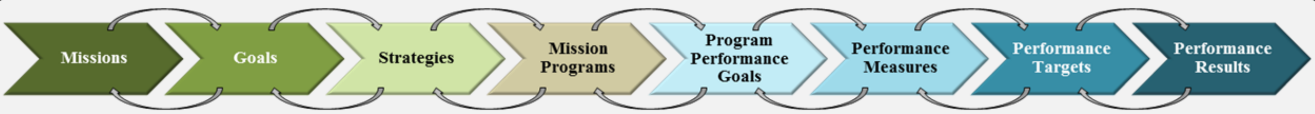
Performance Overview

The Performance Overview provides a summary of each homeland security mission, selected accomplishments, key performance measures, 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 2014-2016 Annual Performance Report with the FY 2016 Congressional Budget and can be accessed at http://www.dhs.gov/performance-accountability.

Performance Management in DHS

DHS is committed to strengthening our ability to report on performance results in achieving our goals and delivering value to the American public. The figure below shows our performance management progression in support of our strategic framework. As the figure depicts, each segment is influenced by items before and after in our performance progression. As such, how and what we measure is directly influenced by our missions and goals. Likewise, our performance results influence our strategies, goals, and missions.

Department-wide measurement occurs each quarter and results are made available to DHS internal stakeholders. A subset of results is made available in the Agency Financial Report and detailed end-of-year results are made available to our external stakeholders through our Annual Performance Report.



Missions:	Describes at the highest level what the Department aims to achieve.
Goals:	A goal is a statement of aim or purpose included in the Department's Strategic Plan to achieve the mission. Goals are the overarching structure used to group multiple strategies and associated program performance goals to influence achievement of the Department's missions.
Strategies:	A strategy is a statement in the Department's Strategic Plan that describes a targeted area of action to support achievement of the related Department goal.
Mission Programs:	A group of activities acting together to accomplish a specific high-level outcome external to DHS. Programs contain the operational processes, skills, technology, human capital, and other resources needed to achieve program performance goals and the Department's missions and goals.
Program Performance Goals:	This is an outcome-oriented statement for each major DHS program that describes the value the program intends to deliver to its beneficiaries and the American public. Program performance goals are understood in terms of their associated performance measures and performance targets, which express the tangible objective against which actual achievement can be compared.
Performance Measures:	This is an indicator, statistic, or metric used to gauge program performance and assess progress in meeting the program performance goal, and in turn the missions, goals, and strategies of the Department.
Performance Targets:	A target is the projected level of performance for each performance measure during a fiscal year. A target is a measureable characteristic that communicates at what level a program aspires to perform.
Performance Results:	A result is the actual level of performance for each performance measure achieved during a fiscal year. Results are compared to targets to determine if planned performance was achieved.

Mission 1: Prevent Terrorism and Enhance Security

Preventing a terrorist attack in the United States remains the cornerstone of homeland security. Our vision is a secure and resilient nation that effectively prevents terrorism in ways that preserve our freedom and prosperity. Achieving this vision requires us to focus on the core goal of preventing terrorist attacks, highlighting the challenges of preventing attacks using chemical, biological, radiological, and nuclear weapons and managing risks to critical infrastructure.

Our goals for this mission are:

- Goal 1.1: Prevent Terrorist Attacks;
- Goal 1.2: Prevent and Protect Against the Unauthorized Acquisition or Use of Chemical, Biological, Radiological, and Nuclear Materials and Capabilities; and
- Goal 1.3: Reduce Risk to the Nation's Critical Infrastructure, Key Leaders, and Events.

Preventive Radiological and Nuclear Detection Program

On December 3 and 4, 2013, DNDO worked with the Tampa Bay, Florida region to conduct a full-scale exercise called Operation Radiological Operations Preparedness Exercise (ROPE). Operation ROPE assessed Tampa Bay's Preventive Radiological and Nuclear Detection Program's ability to investigate a known or suspected radiological and nuclear threat. A total of 22 federal, state, and local emergency management and first responder agencies participated in the event, in addition to observers from 10 different Florida state and local agencies.

The exercise scenario involved the investigation of suspicious activities after receiving information from a confidential informant that a group's leader claimed to have obtained a radiological and nuclear source for use in an attack against the public.

The exercise successfully demonstrated the Tampa Bay area's capability to conduct joint tactical radiological and nuclear detection operations including wide-area search, primary and secondary screening and inspection, and alarm adjudication. The exercise also assessed the agency's ability to implement a command and control structure over organizations in response to a radiological and nuclear event per established procedures. DNDO supported over 40 exercises with state and local partners in FY 2014 and plans to increase exercise support in FY 2015. Exercise events like Operation ROPE allow operators to work in a multi-jurisdictional environment to share and analyze information and plan tactical responses with critical federal partners.

The following five highlighted measures gauge our efforts to prevent terrorism and enhance security. Explanations of results, trend analysis, and corrective actions are provided for each measure as appropriate.

Percent of international air enplanements vetted against the terrorist watch list through Secure Flight (TSA)

FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
---	100%	100%	100%	100%	100%

TSA has maintained a 100 percent vetting of international travelers against the terrorist watch list for the past four years. Airlines submit passenger information to the Secure Flight Program which performs watch list matching in order to prevent individuals on the No Fly List from boarding an aircraft and to identify individuals for enhanced screening. After matching passenger information against government watch lists, Secure Flight transmits the matching results back to airlines so they can issue boarding passes to cleared passengers.

Percent of inbound air cargo screened on international passenger flights originating from outside the United States and Territories (TSA)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
---	---	93.0%	99.5%	100%	100%

TSA reached the legislatively mandated target of 100 percent of inbound cargo screened beginning in January 2013 and has maintained 100 percent performance since that date. FY 2014 represents the first full year TSA has screened 100 percent of inbound air cargo on international passenger flights originating from outside the United States and territories. TSA's Air Cargo Division is responsible for working within TSA, across DHS, and with other governmental agencies—domestic and international—to develop air cargo regulations, technological solutions, and policies that continuously enhance the security of the air cargo supply chain while maintaining our commitment to ensure the flow of commerce.

Percent of overall compliance of domestic airports with established aviation security indicators (TSA)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
96.0%	95.9%	95.0%	94.4%	100%	94.0%

The performance results indicate the percentage which all airports, indirect air carriers, and aircraft operators have been found to comply with transportation security regulations through inspections. The target of 100 percent compliance by all regulated entities is not attainable in FY 2014 based on intelligence and security priorities that have led to an increased focus on high-risk areas for targeted inspections and testing activities. TSA has taken action to increase the rate of compliance, including increased industry outreach and Compliance Security Enhancement Through Testing (COMSETT) activities, a risk-based testing program for leading security indicators. TSA's intelligence-driven, risk-based COMSETT activities focus on security outcomes through testing and mitigation with airports and aircraft operators to close the gap in any identified security weaknesses. Improving airport compliance to meet aviation security indicators is part of our multi-layered approach to overall risk reduction.

Percent of performance standards implemented by the highest risk chemical facilities and verified by DHS (NPPD)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
---	---	---	46%	97%	78%

NPPD works with high-risk chemical facilities to implement security measures to improve site security compliance with the Chemical Facility Anti-terrorism Standards (CFATS) regulation. High-risk chemical facilities submit existing and planned security measures through their site security plans. Upon authorization, CFATS Chemical Security Inspectors conduct an authorization inspection of each covered facility to verify that the site security plan is compliant with the CFATS regulation and the applicable 18 risk-based performance standards. In FY 2014, the highest risk chemical facilities (Tiers 1 and 2) have implemented 78 percent of the required security measures in order to meet the CFATS performance standards. This is a significant improvement from FY 2013.

Due to the fluctuation in the risk-based classification for facilities and the significant amount of time required for approval of the performance standards, the program did not meet its target. The program is on track to continue its upward trend and will continue to authorize, inspect, and approve site security plans for the highest risk chemical facilities.

Security compliance rate for high risk maritime facilities (USCG)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
---	99.9%	98.7%	99.3%	100%	99.3%

This measure is a leading indicator of maritime facility security and resilience in our Nation's ports. Compliance of high-risk facilities is determined based on whether a major problem is found during an inspection, requiring a notice of violation or civil penalty. High-risk maritime facilities are a subset of the entire national waterfront facility population which pose a greater risk for significant loss of life, environmental damage, or economic disruption if attacked. In total, 23 of the approximately 3,400 high-risk facilities were not in compliance. While performance did not fully achieve the aspirational target of 100 percent, the FY 2014 results are consistent with prior year results while remaining above 99 percent for three of the past four years.

$4.5 Million in Fake U.S. Currency Seized in Peru

In May 2014, the U.S. Secret Service and the Peruvian National Police, Vetted Anti-Counterfeiting Forces, obtained information regarding an ongoing counterfeit U.S. currency printing operation in Lima, Peru. The investigation identified a Peruvian national, Pedro Sosa Inca Casana, as the primary suspect. Through investigative interviews, surveillance operations, and the execution of a search warrant, agents uncovered the scheme to operate a counterfeit currency manufacturing plant inside a storefront location in Lima. The Peruvian police arrested Inca Casana as he was driving through Lima and a search of the suspect's vehicle uncovered the equivalent of $1.95 million in counterfeit U.S. Federal Reserve Notes. After further investigation, law enforcement authorities seized a combined total equivalent of $4.5 million in counterfeit U.S. Federal Reserve Notes from Inca Casana's vehicle and illicit manufacturing plant. They also seized a printing press, 21 printing plates bearing counterfeit images, uncut sheets of counterfeit $100 bills, inks, glues, and other counterfeiting paraphernalia.

Established in 1865, the U.S. Secret Service's original mandate was to investigate the counterfeiting of U.S. currency and the enforcement of counterfeiting statutes to preserve the integrity of United States currency, coin, and financial obligations.

Looking Forward

The United States has made significant progress in securing the Nation from terrorism. Nevertheless, the evolving and continuing threat from terrorists remains, as is witnessed in the Middle East over the past year. DHS and its many partners, internationally, across the federal, state, and local governments, tribal and territorial, public and private sectors, and communities across the country have strengthened the homeland security enterprise to better mitigate and defend against dynamic threats. Below are a few areas that advance our efforts to achieve the Department's mission of preventing terrorism and enhancing security.

Information Sharing

Protecting the country from evolving transnational threats requires a strengthened homeland security enterprise that shares information across organizational boundaries while ensuring that information is available to all stakeholders. Four key elements of the homeland security information sharing architecture bring to bear the strength of the entire homeland security enterprise: 1) the National Network of Fusion Centers which serve as focal points within the state and local environment for the receipt, analysis, gathering, and sharing of threat-related information; 2) the Nationwide Suspicious Activity Reporting Initiative which is a unified process for reporting, tracking, and accessing suspicious activity in coordination with the Department of Justice; 3) the National Terrorism Advisory System to communicate information about terrorist threats by providing timely, detailed information to the public, government agencies, first responders, airports and other transportation hubs, and the private sector; and 4) the If You See Something, Say Something nationwide public awareness campaign which is a simple and effective program to raise public awareness of indicators of terrorism and violent crime, and to emphasize the importance of reporting suspicious activity to the proper state and local law enforcement authorities. Moving forward, concerted efforts are being placed on working with our European and other allied governments to improve our information sharing based on the increase in international terrorist related activities. In addition, we are continuing to look at enhancements to our information sharing tactics about suspicious individuals with our interagency partners in law enforcement and the intelligence community.

Risk-Based Security through Trusted Traveler Programs

To enable our agents to focus on the highest risk passengers, TSA and CBP continue to expand the use of trusted traveler programs, such as TSA Pre✓™ and CBP Global Entry which are pre-screening initiatives for travelers to expedite screening at domestic checkpoints. These programs improve and strengthen the security of the Nation's transportation systems while ensuring the freedom of movement for people and commerce. As of the end of FY 2014, 44 percent of the traveling public was receiving expedited screening through TSA Pre✓™ while Global Entry membership increased 81 percent. Both programs have dramatically improved wait times for qualified travelers. Future plans to accommodate the growth of these programs are to continue expansion of enrollment centers to improve the registration process and to increase the airport locations that employ expedited screening operations to better serve the public.

Radiological and Nuclear Material Detection

DHS seeks to evolve the Global Nuclear Detection Architecture in coordination with other DHS Components, the U.S. Attorney General, the intelligence community, and the Departments of State, Defense, and Energy. The architecture provides a comprehensive framework for detecting (through technical and nontechnical means), analyzing, and reporting on nuclear and other radioactive materials that are out of regulatory control. DNDO is working to ensure that capabilities to scan for radiological and nuclear threats at ports of entry can be maintained and sustained, including conducting an analysis of alternatives for radiation portal monitors and providing CBP with handheld radiation detectors. DNDO also continues to support DHS operational Component requirements and build upon efforts that integrate law enforcement, intelligence, and nuclear detection technologies. To enhance radiological and nuclear detection capabilities of state and local law enforcement, DNDO implements the Securing the Cities program, which was expanded in FY 2014 to include a third urban region, and supports the delivery of radiological and nuclear detection training courses with an annual target of 3,750 state and local participants. DNDO functions related to implementing the Global Nuclear Detection Architecture include: integrating interagency efforts to develop and acquire radiological and nuclear detection technologies; evaluating detector performance; ensuring effective response to detection alarms; and conducting transformational research and development for radiological and nuclear detection and forensics technologies.

Mission 2: Secure and Manage Our Borders

A safe and secure homeland requires that we secure our air, land, and sea borders and disrupt and dismantle transnational criminal and terrorist organizations while facilitating lawful travel and trade.

Our goals for this mission are:

- Goal 2.1: Secure U.S. Air, Land, and Sea Borders and Approaches;
- Goal 2.2: Safeguard and Expedite Lawful Trade and Travel; and
- Goal 2.3: Disrupt and Dismantle Transnational Criminal Organizations and Other Illicit Actors.

Dismantlement of Transnational Criminal and Human Smuggling Organization

ICE's Homeland Security Investigations (HSI) office in Chicago, in coordination with its Panama, Ecuador, and Colombia field offices, conducted an investigation into the Fabian transnational criminal and human smuggling organization based in Turbo, Colombia, led by Colombian national Fabian Barrios. The investigation resulted in the disruption and dismantlement of the Fabian organization which was responsible for smuggling approximately 100 special interest aliens into the United States on a monthly basis from countries including Pakistan, Afghanistan, Syria, Cuba, Colombia, India, Bangladesh, Nepal, Somalia, Eritrea, Sudan, and Kenya.

During FY 2013 and continuing through FY 2014, investigators discovered several smuggling routes through Ecuador, Colombia, Panama, and Guatemala and obtained information about a maritime smuggling event involving the transportation of 14 individuals across the Gulf of Uraba (between Colombia and Panama) and the accidental sinking of the vessel, which killed seven people. HSI coordinated an international enforcement and arrest operation which resulted in the arrest of 26 Fabian organization members, including seven in Panama, eight in Colombia, and eleven in Ecuador. The investigation also led to 81 foreign administrative arrests and the seizure of 10 foreign bank accounts.

Fabian Barrios pleaded guilty in September 2014 to human smuggling, conspiracy, and seven counts of negligent homicide under Colombian law. Other co-conspirators were charged with human smuggling, conspiracy, and public corruption. Prosecution for all members of the former human smuggling organization is ongoing in Panama, Colombia, and Ecuador, with assistance from the Department of Justice.

The following four highlighted measures gauge our efforts to secure and manage our borders. Explanations of results, trend analysis, and corrective actions are provided for each measure as appropriate.

Percent of people apprehended multiple times along the southwest border (CBP)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
---	---	---	16%	≤ 17%	14%

This measure observes the percent of deportable individuals who have been apprehended multiple times by the U.S. Border Patrol. In FY 2014, there was a reduction in individuals being apprehended multiple times. The U.S. Border Patrol has implemented a more effective and efficient consequence delivery system over the past two years which has improved the deterrence factor for multiple entry violations.

Rate of interdiction effectiveness along the southwest border between ports of entry (CBP)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
---	---	---	---	77%	79%

This measure reports the percent of detected illegal entrants who were apprehended or turned back after illegally entering the United States between the ports of entry on the southwest border. The U.S. Border Patrol achieves this desired strategic outcome by maximizing the apprehension of detected illegal entrants or confirming that illegal entrants return to the country from which they entered. In FY 2014, DHS exceeded the target achieving a 79 percent interdiction effectiveness rating.

Percent of imports compliant with U.S. trade laws (CBP)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
98.89%	97.67%	96.46%	97.66%	97.50%	97.99%

This measure reports the percent of imports that are compliant with U.S. trade laws including customs revenue laws. The FY 2014 results improved from FY 2013 and have improved year-over-year for the past two years. CBP works with our international trade partners through several trade programs to build a solid and efficient trade relationship to accomplish safer, faster, and more compliant trade. Through the Importer Self-Assessment program, the Customs-Trade Partnership program, and the Centers of Excellence and Expertise, CBP closely monitors importers to reduce non-compliance rates.

Percent of transnational child exploitation or sex trafficking investigations resulting in the disruption or dismantlement of high threat child exploitation or sex trafficking organizations or individuals (ICE)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
---	---	---	23.5%	25.0%	59.0%

Transnational child exploitation and sex trafficking investigations are a priority area for ICE. These crimes are some of the most heinous crimes that ICE investigates and in their worst manifestation, are akin to modern-day slavery. The focus of ICE's effort is to disrupt or dismantle entire organizations and high-threat individuals. These cases can become complex and many times take years to build a case and prosecute. In FY 2014, ICE achieved its goal and improved from their FY 2013 results by prioritizing resources on high-threat cases.

In addition to ICE's investigative activities, ICE counts on tips from the public to dismantle these organizations and encourages individuals to keep their eyes and ears open to suspicious activity.

Trafficking victims are often hidden in plain sight, voiceless, and scared. To report suspicious activity, call ICE's Tip Line at 1-866-DHS-2-ICE or report tips online.

Looking Forward

The protection of the Nation's borders—land, air, and sea—from the illegal entry of people, weapons, drugs, and other contraband while facilitating lawful travel and trade is vital to homeland security, as well as the Nation's economic prosperity. The global economy is increasingly a seamless economic environment connected by systems and networks that transcend national boundaries. The United States is deeply linked to other countries through the flow of goods and services, capital and labor, and information and technology across our borders. As much as these global systems and networks are critical to the United States and our prosperity, they are also targets for exploitation by our adversaries, terrorists, and criminals. Thus, border security cannot begin simply at our borders.

Southern Border and Approaches Campaign Plan

DHS Components, including U.S. Customs and Border Protection, U.S. Immigration and Customs Enforcement, and the Coast Guard, already perform at an extremely high level in the border environment. However, to best accomplish our border security goals with respect to the Southern border and its approaches, the Secretary directed in his April 22, 2014 memo on "Strengthening Unity of Effort," the development of a campaign plan to set the Department on a different path than in the past to plan and organize ourselves as a Department to meet these challenges.

In the short history of DHS, this is the first time that the Department has engaged in a deliberate, steady-state, day-to-day campaign planning effort involving all of our Components to meet true cross-Departmental strategic goals. In constructing our campaign plan, both the Secretary and the Deputy Secretary met repeatedly with the heads of our Components and debated our overall goals, the metrics by which we would measure ourselves, and the priorities on which we would focus. As a result of these debates and discussions, the leaders across the Department of Homeland Security have a greater understanding what we need to accomplish together, and how we will need to accomplish it. These steps on their own represent a tremendous enhancement in our Department's ability to act in a true Unity of Effort manner.

To that end, the Secretary has directed the establishment of new Departmental task forces, directed by senior Component operational officials, to direct assets and activities in our maritime borders and approaches and across the Southern land border. A third Departmental task force is to be established to support the other two with investigation capability from across DHS.

Together, these efforts—unified strategic guidance, cross-Departmental campaign planning, and joint operational structures—will enable more effective, more efficient, and more unified homeland security operations today across our Southern border and approaches and allow us to better assess our requirements and invest together, as a Department, in the future.

Below are a few additional areas that advance our efforts to secure and manage our borders.

Risk-Based Border Patrol Strategy and Geospatial Intelligence

CBP's Border Patrol will continue to seek opportunities to ensure maximum impact through risk-based strategies. Border Patrol will continue to expand activities to implement its

FY 2012-FY 2016 strategic plan that places risk management at the core of strategic planning and ensures it can put the greatest capabilities in place to combat the greatest threats. Moving forward, this new strategy involves the Border Patrol moving from a resource-dependent approach to a risk-based approach that enables rapid response to areas of greatest risk in the immediate border area. This is an ongoing process that will continue to adapt as the threat environment changes. In areas characterized as low risk, Geospatial Intelligence (GEOINT) resources will be used to enhance and maintain situational awareness along the U.S. border. GEOINT gathers and analyzes imagery and geospatial information for the purpose of detecting change within specific geographical areas of the border environment. This allows the Border Patrol to continue focusing capabilities on areas where the highest risk exists, but ensures that any threat adaptation can be identified quickly through information and intelligence culminating in appropriate steps being taken to rapidly minimize any new risk.

Surveillance Technology on the Southwest Border
In FY 2014, CBP awarded a major contract to acquire and deliver Integrated Fixed Tower (IFT) systems to priority areas of the southwest border. An IFT system is a network of surveillance towers that will serve as a force multiplier that increases border agent safety, situational awareness, and operational effectiveness. For remote areas, the IFTs were selected to enhance security of high-traffic corridors that are tactically advantageous to the smugglers and traffickers, but also to maintain security and situational awareness with persistent, wide-area surveillance. By detecting and identifying the threat from a safe distance, CBP's Border Patrol agents are able to determine the time, method, and location of an interdiction. An increase in situational awareness translates into more accurate and timely information that contributes to an agent's ability to rapidly respond to threats as they appear. The initial delivery of IFTs is forecasted to be completed by June 2015. Once installed, the use of information from IFTs will be integrated into daily operations and will enhance our risk-based border patrol tactics to improve our ability to secure the border.

Automated Commercial Environment
By December 2016, CBP will deliver critical upgrades to the information technology system called Automated Commercial Environment that supports imports and exports of cargo in the United States. The upgrades will comply with the President's Executive Order on Streamlining the Export/Import Process for America's Businesses (signed February 19, 2014). Meeting this goal requires all federal agencies with roles in export/import processes to transition from paper-based to electronic data collection, allowing businesses to transmit, through an electronic "single-window," the data required by the U.S. Government to import or export cargo. Currently, businesses must submit data to multiple agencies through various means. Implementation of this Executive Order will save businesses time and money, and dramatically reduce the number of forms they must fill out in order to import or export cargo.

Mission 3: Enforce and Administer Our Immigration Laws

A fair and effective immigration system enriches American society, unifies families, and promotes our security. Our Nation's immigration policy plays a critical role in advancing homeland security.

Our goals for this mission are:

- Goal 3.1: Strengthen and Effectively Administer the Immigration System; and
- Goal 3.2: Prevent Unlawful Immigration.

USCIS International Operations Division Wins 2014 Award for Customer Focus

USCIS' International Operations Division won the 2014 *Government Contact Services Excellence Award* in the category of Customer Focus. Each year, the Government Contact Services Community of Practice (Cgov) recognizes organizations that excel in teamwork, technical excellence, customer focus, and overall excellence.

Cgov recognized USCIS' international offices for their excellent customer service practices such as providing timely and accurate customer responses, treating customers with the highest level of respect, and assisting customers in their native languages, which resulted in a high level of customer satisfaction as shown by the results of a 2013 survey.

The survey was a collaborative effort between the USCIS Office of Policy and Strategy and the Refugee, Asylum and International Operations Directorate. The international offices scored 89 out of 100 on the survey, which is 23 points higher than the American Customer Satisfaction Index aggregated Federal Government benchmark. This high score, along with the large volume of positive survey comments, demonstrated how the international office's customer service practices made a significant positive impact on staff, customers, and service quality.

The following four highlighted measures gauge our efforts to enforce and administer our immigration laws. Explanations of results, trend analysis, and corrective actions are provided for each measure as appropriate.

Overall customer service rating of the immigration process (USCIS)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
---	80%	93%	87%	85%	86%

Accuracy of information, responsiveness to customer inquiries, accessibility to information, and customer satisfaction are the factors that comprise the evaluation criteria for this measure. USCIS is dedicated to proactively providing information and guidance to USCIS applicants, petitioners, and advocates regarding immigration benefits. USCIS achieved an 86 percent customer service rating in FY 2014, similar to FY 2013 results. Over the past four years, USCIS has exceeded industry averages for customer service by listening to our customers and taking deliberative action.

Average of processing cycle time (in months) for naturalization applications (N 400) (USCIS)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
4.5	4.6	4.6	4.7	≤ 5.0	5.5

An N-400, Application for Naturalization, is filed by an individual applying to become a U.S. citizen. Although not the most common form filled out for USCIS administered benefits, it constitutes the most important benefit—American citizenship—and thus requires a significant amount of time to adjudicate properly. The average processing time for an N-400 in FY 2014 was 5.5 months—missing the FY 2014 target. The upward trend over the past few years is attributed to an increase in overall applications for benefits and the need to shift immigration officer adjudication hours across application types with the greatest pending volumes. USCIS will continue to focus on quality, employee training, and supervisory engagement to increase the efficiency of case processing.

Percent of initial mismatches for authorized workers that are later determined to be "Employment Authorized" (USCIS)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
---	0.28%	0.24%	0.22%	≤ 1.0%	0.19%

U.S. law requires companies to employ only individuals who may legally work in the United States; either U.S. citizens, or foreign citizens who have the necessary authorization. This diverse workforce contributes greatly to the vibrancy and strength of our economy, but that same strength also attracts unauthorized employment. E-Verify is a fast and free internet-based system that allows businesses to determine the eligibility of their employees to work in the United States. This measure gauges the accuracy of the E-Verify process by assessing the percent of employment verification requests that result in a confirmation that are not positively resolved during initial review. USCIS continues to improve its processes through E-Verify enhancements such as mismatch notices to employees and Self Check, a free online service that allows an individual to check his or her employment eligibility prior to applying for a job. FY 2014 results met the target and the overall trend for the past four years is a steady positive improvement.

Number of employers audited, sanctioned, or arrested for violating immigration related employment laws or otherwise brought into compliance with those laws (ICE)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
---	---	---	4,743	1,854	2,191

One area of focus within this mission is to reduce the demand for illegal labor. This measure assesses the number of enforcement-related actions against employers that hire illegal labor including criminal arrests, audits, and final orders of fines. This measure demonstrates the impact of worksite enforcement operations to ensure that employers do not violate immigration-related employment laws. Although below FY 2013 results, the FY 2014 results met their target. Results are indicative of effective efforts to focus resources in the worksite enforcement program on the criminal prosecution of employers who knowingly hire illegal workers in order to target the root cause of illegal immigration.

Worksite Enforcement

In FY 2014, ICE's Homeland Security Investigations (HSI) office in St. Paul, Minnesota, closed their investigation of Ali Bayram and Ali Sengul following a guilty plea for harboring illegal aliens and making false statements on tax returns. The investigation started in August 2011, when HSI received information that Ali Bayram and Ali Sengul, the owners of six Oskaloosa Family Restaurants in Iowa and Illinois were employing undocumented aliens at their restaurants and harboring them at residences near their places of employment. The undocumented aliens worked approximately sixty hours per week and received neither sick leave nor vacation days. Bayram and Sengul did not pay an appropriate amount of taxes and deductions to the appropriate federal, state, and local authorities.

HSI Des Moines executed search warrants at the six locations owned by the Bayram and Sengul families. The warrants and subsequent judicial proceedings impacted the organization's ability to continue its normal business operations and interrupted their ability to profit from their illegal workforce. The guilty pleas of both Ali Bayram and Ali Sengul for harboring illegal aliens and making false statements on tax returns represent a successful disruption.

Looking Forward

The success of our Nation's immigration policy plays a critical role in advancing homeland security. DHS is focused on smart and effective enforcement of U.S. immigration laws while streamlining and facilitating the legal immigration process. Effective administration of the immigration system depends on ensuring that immigration decisions are impartial, lawful, and sound; that the immigration system is interactive and user friendly; that policy and procedural gaps are systematically identified and corrected; and that those vulnerabilities that would allow persons to exploit the system are eliminated. Enforcement efforts must prioritize the identification and removal of dangerous foreign nationals who threaten our national security or the safety of our communities and must include safe and humane detention conditions and respect for due process and civil rights as accorded by law. Below are a few initiatives that advance our efforts to achieve the Department's immigration enforcement and administration goals.

U.S. Citizenship and Immigration Services Customer Service Initiatives

USCIS secures America's promise as a nation of immigrants by granting citizenship and immigration benefits, promoting awareness and understanding of citizenship, ensuring the integrity of the immigration system, and providing accurate and useful information to its customers. Below are a few of USCIS' recent efforts to improve the customer experience each with future plans for improvement:

- **Redesigned Website:** Debuting in early FY 2014, the new and improved USCIS website offers a simplified and streamlined approach to Web design, incorporates current Web best practices, and introduces a new content management system to improve functionality. Two enhancements were implemented in FY 2014 to E-Verify based on suggestions posted by employers. Plans include an expansion of the E-Verify search tool to include a new search category for E-Verify employer agents.
- **USCIS Electronic Immigration System (ELIS):** USCIS continues to modernize the process for receiving and adjudicating immigration benefits. USCIS is using USCIS ELIS to change from a paper-based process to an electronic one. Regular releases will add benefit

types and functionality to the system, which will gradually expand to cover all USCIS immigration benefits.
- **National Customer Service Center (NCSC):** Through the NCSC, USCIS provides nationwide telephone assistance to customers calling from within the United States about immigration services and benefits. Service is available in English and Spanish. During the next fiscal year, the NCSC will significantly improve how customers interact with the agency, including Web chat and email.
- **Customer Engagement Center:** USCIS is moving toward a new customer service model, evolving from traditional call centers to a full-scale customer engagement center. The Customer Engagement Center is an initiative that expands customer communication channels—such as live chat and secure messaging—and offers self-service tools to create a more user-friendly experience. In FY 2015, USCIS plans to integrate multiple tools into a new customer service model.

Detention and Removal of Criminal Illegal Aliens

ICE Enforcement and Removal Operations (ERO) is responsible for ensuring that every alien ordered to leave the United States does so. ERO identifies, arrests, details, prosecutes, and removes aliens who present a danger to national security or are a risk to public safety, as well as those who otherwise undermine the integrity of our immigration laws and our border control efforts. These include, but are not limited to aliens engaged in or suspected of terrorism or espionage, violent criminals, felons and repeat offenders, and organized criminal gang members. This strategy allows ICE to place low-risk, nonmandatory detainees in lower cost alternatives to detention programs, such as electronic monitoring and intensive supervision. During FY 2015, ICE will continue to focus on delivering results associated with the Agency Priority Goal to prioritize the detention and removal activities of criminal aliens. This will be accomplished through targeted Criminal Alien Program Surge Enforcement Team and Fugitive Operations Team operations both regionally and nationwide. ICE is also pursuing improvements in the handling of cases involving alternate removal methods such as stipulated and reinstated orders of removal. More information on ICE's Agency Priority Goal is available at www.performance.gov.

Mission 4: Safeguard and Secure Cyberspace

Our economic vitality and national security depend on a vast array of interdependent and critical cybernetworks, systems, services, and resources. By statute and Presidential Directive, DHS is the lead for the Federal Government to secure civilian government computer systems, works with industry to defend privately owned and operated critical infrastructure, and works with state, local, tribal, and territorial governments to secure their information systems.

Our goals for this mission are:
- Goal 4.1: Strengthen the Security and Resilience of Critical Infrastructure;
- Goal 4.2: Secure the Federal Civilian Government Information Technology Enterprise;
- Goal 4.3: Advance Law Enforcement, Incident Response, and Reporting Capabilities; and
- Goal 4.4: Strengthen the Ecosystem.

DHS Launches the C^3 Voluntary Program

To help address both physical and cyber-infrastructure risks including acts of terror, natural disasters, and cyberattacks, President Obama signed Executive Order 13636 on Improving Cybersecurity Critical Infrastructure, and Presidential Policy Directive-21 on Critical Infrastructure Security and Resilience. The Executive Order directed DHS to establish a voluntary program for critical infrastructure cybersecurity to serve as a federal coordination point for cybersecurity resources and support cyberresilience by promoting use of the Cybersecurity Framework developed by the National Institute for Standards and Technology.

On February 12, 2014, NPPD announced the creation of the Critical Infrastructure Cyber Community C^3 Voluntary Program. The C^3 Voluntary Program emphasizes three Cs: ***Converging*** critical infrastructure community resources to support cybersecurity risk management and resilience through use of the Cybersecurity Framework; ***Connecting*** critical infrastructure stakeholders to the national resilience effort through cyberresilience advocacy, engagement and awareness; and ***Coordinating*** critical infrastructure cross sector efforts to maximize national cyberresilience.

The C^3 Voluntary Program gives state and local governments as well as companies that provide critical services (e.g., cell phones, email, banking, and energy) direct access to cybersecurity experts within DHS who have knowledge about specific threats we face, ways to counter those threats, and how, over the long term, we can design and build systems that are less vulnerable to cyberthreats. Read more about the C^3 Voluntary Program at www.dhs.gov/ccubedvp.

The following four highlighted measures gauge our efforts to safeguard and secure cyberspace. Explanations of results, trend analysis, and corrective actions are provided for each measure as appropriate.

Percent of intelligence reports rated "satisfactory" or higher in customer feedback that enable customers to manage risks to cyberspace (I&A)

FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
---	---	88%	94%	94%	94%

Providing timely and actionable intelligence is a key element to DHS's success in identifying, mitigating, and responding to potential threats to homeland security. This measure gauges the extent to which the DHS Intelligence Enterprise is satisfying their customers' needs related to understanding threats to cyberspace so they can manage risks and respond effectively to incidents. In FY 2014, results remained high and met expectations.

Percent of organizations that have implemented at least one cybersecurity enhancement after receiving a cybersecurity vulnerability assessment or survey (NPPD)

FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
---	---	---	100%	55%	63%

This measure demonstrates the percent of assessed asset owners and operators that are not only developing a better understanding of their cybersecurity posture, but also implementing cybersecurity enhancements to improve that posture following a cybersecurity assessment or survey. The FY 2014 result met the target and is in line with expected results based on the voluntary nature of this program and the current fiscal environment. In total, 24 out of 38 responses indicated a cybersecurity enhancement was made following an onsite assessment. FY 2013 results were unexpectedly high, primarily due to a small survey response.

Percent of traffic monitored for cyber intrusions at civilian Federal Executive Branch agencies (NPPD)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
---	---	73.0%	82.4%	85.0%	88.5%

This measure assesses DHS's scope of coverage for potential malicious cyber-activity across participating civilian Federal Government Agencies.[1] Federal Executive Branch network monitoring uses EINSTEIN network flow and intrusion detection system sensors which are deployed to trusted internet connection locations at agencies or internet service providers. These sensors capture network flow information and provide alerts when signatures, indicative of malicious activity, are triggered by inbound or outbound traffic. In FY 2014, the target was exceeded, achieving 88.5 percent of traffic monitored. The long-term trend is positive for this measure as there continues to be an aggressive plan to consolidate internet traffic of the civilian Federal Government Agencies through the EINSTEIN intrusion detection system sensors.

Percent of planned cybersecurity products and services transitioned to commercial and open sources (S&T)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
---	---	---	89%	65%	93%

This measure reflects the percent of S&T's projects that identify and complete planned transitions of a cybersecurity product and/or service to a commercial or open source. S&T's Cyber Security Division identifies, funds, and coordinates cybersecurity research and development resulting in deployable security solutions. These solutions include user identity and data privacy technologies, end system security, research infrastructure, law enforcement forensic capabilities, secure protocols, software assurance, and cybersecurity education. In FY 2014, S&T exceeded expectations, completing 93 percent of planned cybersecurity product and service transitions. The measure outperformed its target due to continued process maturity in the Cyber Security Division. The target was set to prevent risk aversion in research and development while still enforcing realistic performance expectations.

Looking Forward

Cyberspace and critical infrastructure across the country are vulnerable to a wide range of physical and cyberthreats and hazards that transcend traditional borders and boundaries. Given these wide risks and the potential consequences associated with an attack, strengthening the security and resilience of cyberspace is critical to homeland security. This requires partnerships and engagement with all of society—from government and law enforcement to the private sector and most importantly, members of the public—to mitigate malicious activities while bolstering defensive capabilities. Below are a few areas that advance our efforts to achieve the Department's Safeguard and Secure Cyberspace mission.

Securing Federal Civilian Agencies' Networks

The Continuous Diagnostics and Mitigation (CDM) program provides hardware, software, and services designed to implement cybersecurity tools and services to improve the monitoring and

[1] Defined as Chief Financial Officers (CFO) Act agencies (other than the Department of Defense) as well as non-CFO Act agencies that are Trusted Internet Connection Access Provider agencies.

defense of all federal civilian networks. CDM involves the procurement, operations, and maintenance of monitoring equipment, diagnostic sensors and tools, and dashboards to provide situational awareness at federal enterprise and agency levels. Providing the tools for near real-time risk information, federal agency officials will be able to rapidly detect and respond to information security events and prioritize and mitigate risks. In FY 2015, the Department will expand this capability across federal networks in support of mitigation activities designed to strengthen the operational security posture of federal civilian networks to better mitigate advanced, persistent cyberthreats that are emerging in a dynamic threat environment. In addition, the National Cybersecurity Protection System (NCPS) serves as an integrated intrusion detection, analytics, information sharing, and intrusion prevention system that uses hardware, software, and other components to support DHS responsibilities. NCPS will continue to expand traffic protocols covered by intrusion prevention services and acquire failover capabilities at internet services providers to ensure system redundancy and improve service to geographically distributed federal networks. In addition, NCPS will support the expansion of multi-directional information sharing capabilities in support of government and private sector cybersecurity operations.

Critical Infrastructure Cybersecurity

As physical and cyber-infrastructure become increasingly connected, critical infrastructure and emergency response functions are inseparable from the information technology systems that support them. The government's role in this effort is to share information and encourage enhanced security and resilience, while identifying and addressing gaps not filled by the private sector. The Department will work with critical infrastructure, on a voluntary basis, to support private sector risk management at the nexus of physical and cyber-infrastructure. The Industrial Control Systems Cyber Emergency Response Team (ICS-CERT) will continue to reduce risks within and across all critical infrastructure sectors by collaborating with law enforcement agencies and the intelligence community and coordinating efforts among federal, state, local, and tribal governments and control systems owners, operators, and vendors. Over the next two years, ICS-CERT is planning to conduct more than 100 voluntary cybersecurity assessments across the Nation's critical infrastructure and key resources sectors. ICS-CERT will also revise and update the cybersecurity evaluation tool, a self-assessment tool provided freely to critical infrastructure partners that identifies potential cybersecurity vulnerabilities within a network. Through the DHS Loaned Executive Program, the Department will continue working with the private sector on innovative solutions to homeland security challenges, including cybersecurity.

Cybercrime Law Enforcement and Incident Response

Cybercrime remains the fastest growing criminal activity worldwide and law enforcement capabilities are critical to safeguarding and securing cyberspace. DHS is actively working to mitigate cybercrime by focusing on identity theft, financial crime, and national security-related crimes committed over the internet. In FY 2015, ICE and USSS will continue to provide computer forensics support and training for investigations into domestic and international criminal activities including computer fraud, network intrusions, financial crimes, access device fraud, bank fraud, identity crimes and telecommunications fraud, benefits fraud, arms and strategic technology, money laundering, counterfeit pharmaceuticals, child pornography, and human trafficking occurring on or through the internet.

Agents Coordinate Arrest in the Maldives of Most Prolific Russian Cybercriminal

The USSS's Cyber-Intelligence Section tracked the activities of Roman Seleznev, a senior member of organized online criminal networks operating within the former Soviet Union. Over several years and through numerous court orders, search warrants, review of email accounts, computer servers, and business records, agents identified Seleznev as the computer hacker behind multiple network intrusions of over 100 businesses as well as the marketing and selling of hundreds of thousands of stolen credit card account numbers on multiple underground internet forums. In January 2012, the Secret Service indicted 50 suspects involved in the "Carder.su" criminal organization, to include Seleznev, who was a vendor on that website. The indictment charged Seleznev with multiple offenses to include violations of the Racketeer Influence and Corrupt Organization Act. Unlike many cybercriminals, Seleznev made the theft and sale of financial data his long-term profession—investigations indicate actual losses of over $20 million.

In June 2014, USSS discovered Seleznev was located in the Republic of the Maldives which is a location from which he could be extradited. The USSS coordinated with many federal law enforcement partners to allow the government of the Republic of the Maldives to turn over Seleznev to the United States. The Maldivian authorities turned over Seleznev to Secret Service agents for multiple violations: aggravated identity theft, access device fraud; computer fraud; bank fraud; and participation in a racketeer influenced corrupt organization. This case continues pending adjudication.

Mission 5: Strengthen National Preparedness and Resilience

Despite ongoing vigilance and efforts to protect this country and its citizens, major accidents and disasters, as well as attacks, may occur. The challenge is to build the capacity of American communities to be resilient in the face of disasters and other threats. Our vision of a resilient nation is one with the capabilities required across the whole community to prevent, protect against, mitigate, respond to, and recover from the threats and hazards that pose the greatest risk.

Our goals for this mission are:

- Goal 5.1: Enhance National Preparedness;
- Goal 5.2: Mitigate Hazards and Vulnerabilities;
- Goal 5.3: Ensure Effective Emergency Response; and
- Goal 5.4: Enable Rapid Recovery.

National Fire Academy Training

During FY 2014, the National Fire Academy actively worked on the development and delivery of a number of Wildland-Urban Interface (WUI) courses directed at both company officers that primarily respond to structural fires as well as fire service personnel who have organizational responsibility for WUI risk reduction operations in their agency or jurisdiction. WUI areas are defined as areas where homes are built near or among lands prone to wildland fire. Depending on the area of the country, fire departments might refer to wildland fires as brush fires, forest fires, rangeland fires, or something else; however, they are all part of the WUI and all pose the same threat to local assets. The increase in the WUI threat has been steep because of continued development and increased fire hazard conditions of fuel, weather, and topography.

WUI courses are designed to prepare responders to address fires that occur in these areas. Individual courses range in duration from two to six days in length and topics include: WUI Interface Firefighting, Command and Control of WUI Fire Operations, Cooperative Leadership Issues in WUI, and WUI Fire Adapted Communities. In addition to these courses, the National Fire Academy, in cooperation with the National Fire Programs Division, has developed a series of "coffee break" style training vignettes that are available on-line.

The following five highlighted measures gauge our efforts to strengthen national preparedness and resilience. Explanations of results, trend analysis, and corrective actions are provided for each measure as appropriate.

Percent of communities in high earthquake, flood, and wind prone areas adopting disaster resistant building codes (FEMA)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
---	48%	56%	57%	57%	61%

For every dollar spent on mitigation, four dollars are saved during post-storm cleanup. Mitigation also saves lives. This measure assesses the number of communities adopting building codes containing provisions that adequately address earthquake, flood, and wind hazards. FEMA works with code adoption and enforcement organizations to support community implementation of disaster resistant building codes. FEMA also conducts training and outreach efforts to communities and businesses. Expectations were exceeded in FY 2014 with 61 percent of communities adopting disaster-resistant building codes and year-over-year results show a steady positive trend.

Percent of states and territories with a Threat and Hazard Identification and Risk Assessment (THIRA) that meets current DHS guidance (FEMA)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
---	---	---	86%	100%	71%

The National Preparedness System outlines an organized process for everyone in the whole community to move forward with their preparedness activities to achieve the National Preparedness Goal. Developing and maintaining an understanding of risks faced by communities and the Nation is an essential component of the National Preparedness System. The THIRA is a tool that enables a community to maintain a baseline understanding of the risks that they face, facilitates efforts to identify capability and resource gaps, focuses capability improvements, and informs the community of actions they can take to manage their risks. For FY 2014, FEMA updated the Comprehensive Preparedness Guide 201 to support the more specific requirements that states and territories estimate the resources needed to meet capability targets. States and territories experienced challenges estimating resources, as well as with development of measurable targets consistent with core capability definitions in the National Preparedness Goal. Moving forward, FEMA will continue to provide technical assistance to states and territories to improve their resource estimations to achieve alignment with guidance in FY 2015.

Percent of incident management and support actions necessary to stabilize a jurisdiction within 72 hours or by the agreed upon time (FEMA)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
---	---	---	100%	100%	100%

As part of the National Response Framework, FEMA is responsible for effectively responding to any threat or hazard, with an emphasis on saving and sustaining lives within 72 hours, in support of state, local, tribal, and territorial governments. Actions necessary to stabilize an incident in order to ensure the best outcomes for survivors are defined as those functions that must be initiated immediately following an incident such as: interoperable communications between FEMA-supported incident sites; deploying urban search and rescue resources; rapidly activating response coordination centers; and issuing timely alerts, warnings, operations orders, and situation reports. In FY 2014—for the second year in a row—FEMA achieved its target of 100 percent.

Percent of people in imminent danger saved in the maritime environment (USCG)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
74.4%	77.3%	77.3%	79.0%	100%	79.0%

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 the U.S. Coast Guard. 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. While the U.S. Coast Guard has set an aspirational goal of saving 100 percent of people in imminent danger, the results for FY 2014 are in line with long-term results. "Always Ready," the U.S. Coast Guard will continue to plan, train, develop better technologies, and invest in capable assets to continue their exemplary performance in saving lives in the maritime environment.

Percent of recovery services through Individual Assistance delivered to disaster survivors gauging the quality of program services, supporting infrastructure, and customer satisfaction following a disaster (FEMA)					
FY10 Result	FY11 Result	FY12 Result	FY13 Result	FY14 Target	FY14 Result
---	---	---	94.5%	92.0%	91.5%

This measure reflects FEMA's role in delivering quality services to disaster survivors based on several factors: housing assistance cases; call center timeliness; staffing levels; grants management system availability; disaster case management; and customer satisfaction. In the aftermath of a disaster, taking steps toward restoring safety and comfort can make a big difference in a survivor's ability to recover. Recovery assistance helps individuals affected by disasters and emergencies return to normal quickly and efficiently. In FY 2014, FEMA narrowly missed its target, achieving a 91.5 percent quality rating, down from FY 2013. FEMA did not meet its targeted performance for one of the disaster case management cases and has already implemented improved procedures and quality controls to monitor disaster case management applications in FY 2015.

Disability Support during Disasters

Mr. Mike Houston, Disability Integration Advisor with the FEMA National Incident Management Assistance Team (IMAT), and members of FEMA's Disaster Survivor Assistance Team, assisted disaster survivor, Paul Barnes, Jr. in applying for federal disaster assistance after torrential rain from a pair of thunderstorms triggered major flash flooding in his Pensacola, Florida neighborhood in May of 2014. They communicated in their shared first language—American Sign Language.

Mr. Houston is deaf, and was raised by deaf parents. His full-time role with the IMAT is coordinated with the FEMA Office of Disability Integration and Coordination and their national Disability Integration Cadre. Disability Integration Advisor Cadre members are experts on disability inclusive emergency management. The Cadre has grown to almost 70 members in 2014 whose efforts are to guide equal access to FEMA programs and services. These subject matter experts advise and provide technical assistance on providing effective communication access for disaster survivors with disabilities and others with access and functional needs. There are 20 sign language interpreters in the Cadre and all are deployable in disasters. In addition, the Office of Disability Integration and Coordination works with the FEMA Individual Assistance program to ensure that Disaster Recovery Centers are accessible to survivors with disabilities. This includes physical accessibility, assistive technology devices, materials in alternate formats, symbol signage, and on-site and remote qualified sign language interpreters as tools for meeting the accessibility requirements of disaster survivors with disabilities. Disability Integration Advisors have deployed to over 80 disasters since 2011 and on virtually every FEMA deployment in 2014.

Looking Forward

DHS coordinates comprehensive federal efforts to prepare for, protect against, respond to, recover from, and mitigate a terrorist attack, natural disaster or other large-scale emergency, while working with individuals, communities, the private and nonprofit sectors, faith-based organizations, and federal, state, local, tribal, and territorial partners to ensure a swift and effective recovery effort. The Department's efforts to build a ready and resilient nation include fostering a whole community approach to emergency management nationally; building the Nation's capacity to stabilize and recover from a catastrophic event; bolstering information sharing and building unity of effort and common strategic understanding among the emergency management team; building plans and providing training to our homeland security partners; and promoting preparedness within the private sector. Below are a few initiatives that advance our efforts to achieve our resilience goals.

Increasing Preparedness through America's PrepareAthon!

Ensuring the American public is informed about the steps needed to be prepared for all hazards is critical to our Nation's resilience. Through America's PrepareAthon!— a national, grassroots campaign for individuals, organizations, and communities—DHS provides tools and resources for people across the country to take action to prepare for specific hazards through group discussions, drills and exercises. DHS is challenging all Americans to learn more about the hazards that could threaten our communities—from tornadoes and wildfires to floods and hurricanes—and to practice preparedness actions before a disaster or emergency strikes. Twice a year, a national day of action, National PrepareAthon! Day, focuses attention on the importance of creating a more resilient nation by bringing stakeholders, communities, and individuals together to take action and join the conversation on resilience. National PrepareAthon! Day takes place every spring and every fall, with the fall day of action culminating in National Preparedness Month in September. Moving forward, the Department will continue to support America's PrepareAthon! and other efforts to improve readiness through action.

Developing Prepared Online Communities through Social Media
With the increasing connectivity of Americans on social media, DHS is connecting with the whole community online to ensure preparedness information is available. Discussing topics such as community resilience, building codes, emergency plans, pet preparedness, and more—FEMA is, and will continue to reach out to ensure we are connected on Facebook, YouTube, Twitter, IdeaScale, and Thunderclap. Spreading accurate information before, during, and following a disaster is crucial to having a more resilient Nation.

Improving Assessment of Disaster Recovery Assistance
To improve the administration of disaster recovery assistance, the DHS Office of the Inspector General is increasing its involvement in projects earlier in the process of awarding public assistance. This early involvement can reduce the misuse of funds awarded from the Disaster Relief Fund, clarifying the eligible projects and costs for state and local governments who are recovering from a disaster. Audits of disaster funding in recent years have found billions of dollars of potentially misused funds, ultimately decreasing the effectiveness of federal disaster assistance and increasing the burden on recovering communities. Moving forward, FEMA and the Inspector General will improve the administration of recovery funding and help communities spend assistance wisely and effectively by partnering early in the award process.

Mature and Strengthen Homeland Security

The strategic aims and objectives for maturing and strengthening DHS are drawn from the common themes that emerge from each of the mission areas. Ensuring a shared awareness and understanding of risks and threats, building capable communities, creating unity of effort, and enhancing the use of science and technology underpin our national efforts to prevent terrorism and enhance security, secure and manage our borders, enforce and administer our immigration laws, safeguard and secure cyberspace, and ensure resilience to disasters.

Our mature and strengthen goals are:

- Integrate Intelligence, Information Sharing, and Operations;
- Enhance Partnerships and Outreach;
- Conduct Homeland Security Research and Development;
- Train and Exercise Frontline Operators and First Responders; and
- Strengthen Service Delivery and Manage DHS Resources.

Unity of Effort Initiative

The strategic decisions of the Department's senior leadership are only as good as the processes that support and give effect to those decisions through investments and in the conduct of operations. Historically, DHS has generally developed and executed Component-centric requirements, which has resulted in inefficient use of limited resources. Much work has been done to date in the areas of joint requirements analysis, program and budget review, and acquisition oversight, including an effort over the past four years by the DHS Management Directorate to improve the Department's overall acquisitions process, reforming even the earliest phase of the investment life cycle where requirements are first conceived and developed. To make further progress, the Department will make use of existing structures and create new capability, where needed, as revealed by the recent Integrated Investment Life Cycle Management pilot study. That effort tested process linkages and underscored the need to further strengthen all elements of the process, particularly the up-front development of strategy, planning, and joint requirements so that these elements are developed based on DHS-wide missions and functions, rather than focusing on those of an individual Component.

The Department is capitalizing on these previous efforts and broadening them in the Unity of Effort Initiative. This effort focuses on improving the DHS planning, programming, budgeting, and execution processes through strengthened Departmental structures and increased capability. In making these changes, the Department will have better traceability between strategic objectives, budgeting, acquisition decisions, operational plans, and mission execution to improve Departmental cohesiveness and operational effectiveness—realizing the vision of a true "guidance to results" framework for DHS. Individual components have taken this commitment to heart, as evidenced, for example, by the U.S. Coast Guard Unity of Effort Management Imperative.

Specifically, the Department is prioritizing its efforts on the following focus areas that are intended to build organizational capacity to develop action plans and implement change:

Departmental Leadership Forums: The Secretary (Senior Leaders Council) and Deputy Secretary (Deputy's Management Action Group) chair twice-monthly forums of the DHS Components and select headquarters counterparts, gathering in an environment of trust, and openly placing on the table issues, arguments, and disagreements concerning the Department's most challenging issues. These meetings, convened to discuss issues of overall policy, strategy, operations, and Departmental guidance, are already moving forward specific initiatives in joint requirements development, program and budget review, acquisition reform, operational planning, and joint operations.

Departmental Management Processes for Investments: The DHS Chief Financial Officer is strengthening and enhancing the Department's programming and budgeting process by incorporating the results of strategic analysis and joint requirements planning into portfolios for review by cross-Component issue teams. Substantive, large-scale alternative choices have been presented to the Deputies Management Action Group as part of the annual budget development. This review process also includes the Department's existing programmatic and budgetary structure, not just new investments, as well as the ability for DHS to project the impact of current decisions on resource issues such as staffing, capital acquisitions, operations and maintenance, and similar issues that impact the Department's future ability to fulfill its mission responsibilities.

In addition, the Department has established a joint requirements council to lead an enhanced DHS joint requirements process. This new council has already begun to identify priority gaps and overlaps in Departmental capability needs, and will use DHS's analytic capabilities to develop feasible technical alternatives to meet capability needs, and provide them, along with recommendations for creation of joint programs and joint acquisitions to meet Departmental mission needs, where appropriate, for senior leader decision.

Finally, Under Secretary of Management has conducted a full review of the Department's acquisition oversight framework and is taking action to update the processes, ultimately resulting in a transparent, comprehensive continuum of activities that link and integrate Departmental strategy and planning, development of joint requirements, programming and budgeting decisions, capital investment planning, and the effective and efficient execution of major acquisitions and programs.

DHS Headquarters Strategy, Planning, and Analytical Capability: The Department has taken action to focus its Departmental level strategy, planning, and analytical capability to more robustly understand and coordinate with DHS Component level functions to support more effective DHS-wide operations. This enhanced capability better supports the Secretary in executing the responsibility to understand from a Departmental perspective how the activities, operations, and programs of each individual Component fit together in order to best meet Departmental mission responsibilities in a constrained resource environment. The goal in focusing the collective DHS Headquarters capability, which will harness a number of existing analytic cells throughout DHS, is not to eliminate the need for Component-level planning or analysis. To the contrary, this new, focused DHS Headquarters capability will work together with the planning and analytical organizations within each Component to develop a comprehensive picture of the Department's mission responsibilities and functional capabilities, and to identify points of friction or gaps, thus framing the corresponding choices that must be made. This capability will be integrated into, not created and employed in isolation from, existing Departmental functions that are critical to day-to-day mission execution and mission support activities.

Departmental Processes for Enhancing Coordinated Operations: The strategic decisions of the Department's senior leadership and the investments our Department makes in current and future capabilities will only be effective if cross-Department operations are planned and executed in a coordinated fashion. Many DHS operations are conducted solely by a single Component, although successful examples of joint operational activities exist in seaports such as Charleston, South Carolina, Miami, Florida, San Diego, California, and Seattle, Washington, and through organizations chartered under the National Interdiction Command and Control Plan such as Joint Interagency Task Force-South in Key West, Florida, the El Paso Intelligence Center in El Paso, Texas, and the Air and Marine Operations Center in Riverside, California.

Supporting this objective, the Department is exploring, concurrent with the development of joint operational plans, additional strategic alternatives for future coordinated operations. Enhancing the effectiveness and unity of DHS operations to better fulfill the Department's mission responsibilities is the primary reason for making these important changes, which represent a degree of departure from current DHS and Component level approaches to management and operations. But in adding structure and transparency, combined with collaborative, forthright senior leader engagement the Department will build together a stronger, more unified, and enduring DHS.

FLETC Expands Active Threat Training

Acts of violence resulting in multiple casualties—such as the recent random shootings in schools, theaters, and shopping malls—have increasingly alarmed Americans. While they continue to constitute a small proportion of overall crime, the fear they inflict on the national consciousness has compelled researchers and policymakers to take action to deter and better respond to this type of violence.

FLETC—in collaboration with its law enforcement partner organizations—developed and deployed highly effective and dynamic active shooter training programs for law enforcement officers and instructors nationwide to enhance the ability of law enforcement to effectively respond to calls of "shots fired/active shooter." To support President Obama's plan to reduce gun violence, FLETC received $4.5 million in FY 2014 to expand delivery of active threat training across the public security sector.

FLETC trained over 2,400 law enforcement officers, instructors, and leadership from across the Nation to recognize pre-incident indicators to mitigate threats, to properly respond to an active threat event, and to save the lives of officers and citizens through the tactical medical response. FLETC will continue to improve its active shooter training programs and offer courses for our Nation's law enforcement officers.

Looking Forward

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

Unity of Effort

As noted above, the Secretary directed in his April 22nd memorandum on "Strengthening Departmental Unity of Effort" specific activities to mature and strengthen DHS. The establishment of inclusive senior leader discussion and decision-making forums that provide an environment of trust and transparency; strengthening of management processes for investment, including requirements, budget, and acquisition processes, that look at cross-cutting issues across the Department; focusing of collaborative Departmental strategy, planning, and analytic capability supporting more effective DHS-wide decision-making and operations; and enhancing coordinated operations harnessing the significant resources of the department more effectively allows DHS to better understand the broad and complex DHS mission space and empowers DHS components to more effectively execute their operations.

Below are a few additional areas that advance our efforts to mature and strengthen the Department.

Workforce Initiatives

The Office of the Chief Human Capital Officer (OCHCO) continued to strengthen the human capital line-of-business throughout FY 2014 by building on the goals set forth in the DHS Workforce Strategy, FY 2011-2016. FY 2014 efforts included an OCHCO-led review of DHS's current and future human capital needs and the completion of a new Human Capital Strategic Plan for FY 2015-2019. Moving forward under the framework of the new human capital strategy, OCHCO will conduct quarterly performance reviews (HRStat) and deploy a human capital dashboard with key indicators to senior leadership to support informed decision-making and enhanced program performance. In addition, OCHCO will continue to enhance workforce planning guidance and accessibility to tools and resources. In order to foster a Departmental culture of excellence through inclusion and engagement, OCHCO will execute the DHS Coordinated Recruiting and Outreach Strategy to address short and long-term staffing gaps, including diversity, and documenting recruiting events and associated costs. OCHCO will also continue to: advance its leadership development framework to educate supervisors, managers and executive on ways to enhance organizational effectiveness, employee engagement and recognize/reward employees; provide guidance to Components on assessing and documenting their learning and development needs and publish information on policies and programs to address them; educate employees on strategies to successfully navigate the selection process for promotional and developmental opportunities; and focus on achieving efficient and effective human resource operations and systems.

Consolidated Asset Portfolio and Sustainability Information System

The Consolidated Asset Portfolio and Sustainability Information System (CAPSIS) is an information repository designed to capture data and report on DHS's entire portfolio of assets and their related performance and sustainability activities and costs. This asset portfolio includes real property, fleet vehicles, aviation, marine, personal property, and their environmental and sustainability programs. CAPSIS is designed to provide a foundation to consolidate Departmental information for reporting, analysis, and decision-making purposes.

Much of the system development and Real Property data migration was completed in FY 2013. In FY 2014, a vast majority of the remaining asset types and functions were moved into CAPSIS. Through the CAPSIS system in FY 2014, the Chief Readiness Support Office (CRSO) was able to generate each Component's Asset Portfolio (Real and Personal Property) for the Departmental CFO Profile and met the Federal Real Property reporting requirements to the General Services Administration (GSA) and the Office of Management and Budget (OMB). In addition, data and reporting capabilities from the CAPSIS system supported two exercises (Alaska Shield and Eagle Horizon) to geographically depict impacted assets.

In FY 2015, CRSO will expand CAPSIS reporting capabilities and improve data quality and accuracy through rigorous data validation processes. CAPSIS will also be matured to include operational and sustainability data for facilities, motor vehicle, and aviation assets to allow for lifecycle, enterprise wide portfolio level analysis.

Strategic Sourcing

DHS's Strategic Sourcing Program Office, within the Office of the Chief Procurement Officer, enhances mission efficiency and effectiveness by critically analyzing relevant data across the Department to identify ways to leverage spending, reduce redundancy, increase standardization, and streamline the acquisition of products and services. Through the development of Department-wide contracts, strategic sourcing consolidates resources (both dollars and people) to save millions in taxpayer dollars. Since the program's inception in 2005, DHS has saved more than $2 billion. These savings accomplishments are a direct result of effective collaboration among stakeholders across the Department, and support the DHS Secretary's "Unity of Effort" initiative by convening working groups comprised of DHS subject matter experts, acquisition professionals, legal staff, and other stakeholders that are focused on developing shared solutions that effectively leverage the

Department's buying power, reduce administrative costs through the elimination of redundant contracts and processes, and foster continuous cooperation on future challenges and events.

The impact of strategic sourcing is rapidly growing as the program continues to evolve and become more institutionalized across the Department. With over 56 active strategic sourcing initiatives covering 493 individual contracts, the program's current challenge is to further increase utilization of the strategic sourcing vehicles by spreading awareness of their availability and benefits to the DHS acquisition community. In addition, over the course of the next one to two years, the program will be establishing or renewing approximately 27 initiatives that will cover a range of products and services such as detection equipment, cybersecurity skills, software licenses, language services, ammunitions, and uniforms.

Financial Stewardship

Through the development and implementation of policies, procedures, and internal controls, the Department has been able to achieve substantial progress in ensuring the efficient and effective use of the Department resources and stewardship of taxpayer dollars. We continued to execute our strategy of targeted risk assessment and strong oversight of corrective actions, ultimately earning an unmodified audit opinion on all five financial statements. Also in FY 2014, the Department was able to provide reasonable assurance that its internal controls over financial reporting are effective, with the exception of the material weaknesses identified in the Secretary's Assurance Statement.

The Department continues working toward our audit goals for FY 2015 and beyond, to include obtaining an unqualified audit opinion of internal controls over financial reporting. DHS will continue to implement a risk-based approach to audit remediation, working closely with Components to mitigate any risk of new material weaknesses or audit qualifications and to sustain prior-year successes. The Department will monitor critical corrective action milestones to ensure they are completed on schedule and assist Components with implementation efforts to remediate and downgrade the severity of internal control deficiencies.

DHS Veterans Hiring

Creating pathways to civilian employment for our veterans and service members returning home has been a high priority for President Obama and members of Congress given that the Department of Defense (DOD) estimates over 250,000 service members will transition out of the military each year for the next several years.

DHS is widely recognized as a leader across the Federal Government in veterans' employment. For the past several years, only DOD and the Department of Veterans Affairs hired more veterans than DHS across the Federal Government. More than 54,000 veterans are employed across DHS, comprising 28 percent of the civilian workforce. Of this total, 14,000 are disabled veterans. For FY 2014, DHS continued its commitment to hiring both veterans and disabled veterans.

DHS was recognized by the Office of Personnel Management Director, Katherine Archuleta, who announced a new government-wide initiative to enhance employment opportunities for women veterans and asked DHS's Chief Human Capital Officer (CHCO) to lead the initiative. Earlier in FY 2014, DHS's CHCO also had a leading role in developing the new government-wide Veterans Employment Performance Model for FY 2015-2019 which was formally adopted by the Council on Veterans Employment which will enable greater assessment of performance in this area across the Federal Government. DHS recognizes the unique talents contributed by veterans and is proud to be a leader in the employment of those who have served our country.

Priority Goals

Agency Priority Goals

In the FY 2014 Budget, the Obama Administration defined Agency Priority Goals (APGs) which represent areas in which the Administration has identified opportunities to significantly improve near-term performance. DHS's FY 2014-2015 APGs are a set of focused initiatives that support the Agency's longer-term strategic framework. A brief overview of each of the Department's APGs is provided below. Additional detail is available at www.performance.gov.

Agency Priority Goal 1: Strengthen Aviation Security Counterterrorism Capabilities and Improve the Passenger Experience by Using Intelligence Driven Information and Risk Based Decisions	
Goal Statement	Strengthen aviation security counterterrorism capabilities and improve the passenger experience by using intelligence driven information and risk-based decisions. By September 30, 2015, TSA will expand the use of risk-based security initiatives to increase the percentage of travelers eligible for expedited screening at airports to 50 percent and enhance the passenger experience.
Agency Priority Goal 2: Enforce and Administer our Immigration Laws through Prioritized Detention and Removal of Criminal Aliens	
Goal Statement	Enforcing and administering our immigration laws through prioritized detention and removal of criminal aliens. By September 30, 2015, ICE will increase criminal alien removals, as a percentage of total removals, by 5 percent.
Agency Priority Goal 3: Ensure Resilience to Disasters by Strengthening Disaster Preparedness and Response Capabilities	
Goal Statement	Ensure resilience to disasters by strengthening disaster preparedness and response capabilities. By September 30, 2015, 39 states and territories will demonstrate improvement towards achieving their core capability targets established through their Threat and Hazards Identification and Risk Assessment.

Cross-Agency Priority Goals

Cross-Agency Priority (CAP) goals were established and are being led by the Administration with participation from the relevant federal agencies to address cross-cutting issues of importance to government stakeholders. Fifteen CAP Goals were announced in the 2015 Budget, comprised of seven mission-oriented and eight management-focused goals with a four-year time horizon.

One of the mission-oriented CAP Goals where DHS plays a major role is focused on improving cybersecurity. DHS is also a contributor, along with many other federal agencies, for the following management-oriented CAP goals to: improve energy efficiency to affect climate change; mitigate insider threat risks; identify job-creating opportunities; modernize infrastructure permitting modernization; and improve science, technology, engineering, and mathematics education opportunities.

Each of the CAP goals has goal leads, co-leads, and collaboration from other federal agencies. They are in various stages of developing and implementing their project plans, establishing performance measures and targeted levels of performance, and processes for the regular reporting of progress and results. The CAP goal leads direct the activities of agencies and their staffs to drive cross-cutting results. For more information on both the mission and management CAP goals, see www.performance.gov for the latest information.

Financial Overview

DHS's budgetary resources were approximately $85.3 billion for FY 2014, about $9.8 billion less than in FY 2013, primarily due to a significant decrease in FEMA's disaster funding levels. The budget represents our plan for efficiently and effectively 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 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. These financial statements provide the results of our operations and financial position, including long-term commitments and obligations. Budgetary accounting principles require recognition of the obligation of funds according to legal requirements, which in many cases occurs prior to the occurrence of a 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, and are reported in the Statement of Budgetary Resources. 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. The audit of the Department's principal financial statements was performed by KPMG LLP.

Balance Sheet

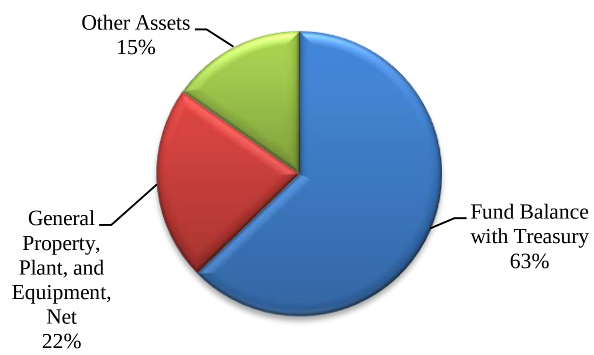
The Balance Sheet presents the resources owned or managed by DHS that have future economic benefits (assets) and the amounts owed by DHS that will require future payments (liabilities). The difference between DHS's assets and liabilities is the residual amount retained by DHS (net position) that is available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

Assets – What We Own and Manage

Assets represent amounts owned or managed by DHS that can be used to accomplish its mission. As of September 30, 2014, DHS had $94 billion in assets, representing a $2 billion increase from FY 2013.

Total Assets

As of September 30 (in Millions)	FY 2014	FY 2013
Fund Balance with Treasury	$ 59,041	$ 58,002
General Property, Plant, and Equipment, Net	20,783	19,878
Other Assets	14,334	14,022
Total Assets	$ 94,158	$ 91,902



Fund Balance with Treasury (FBwT), the Department's largest asset, comprises 63 percent of the total assets. Included in FBwT is the remaining balance of DHS's unspent prior-year budgets plus miscellaneous receipts.

Property, Plant, and Equipment (PP&E) is the second largest asset, comprising 22 percent of total assets. The major items in this category include buildings and facilities, vessels, aircraft, construction in progress, and other equipment. In acquiring these assets, DHS 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, DHS reports these items as assets rather than expenses. PP&E is recorded at cost, and depreciated over the estimated useful life of the asset. PP&E is presented net of accumulated depreciation.

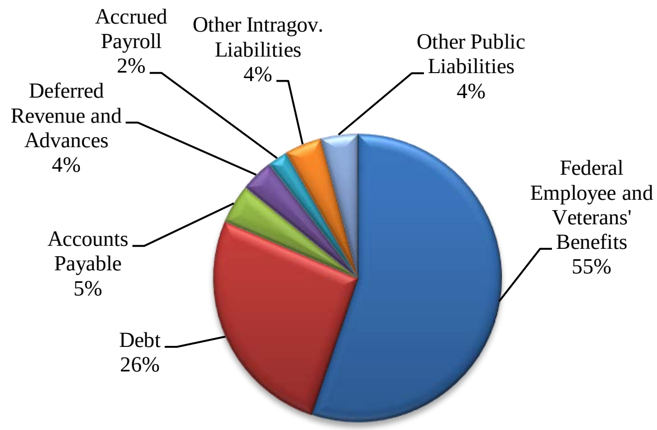
Other Assets represents 15 percent of total assets, and includes investments, accounts receivable, cash and other monetary assets, taxes, duties and trade receivables, direct loans, inventory and related property, and other.

Liabilities – What We Owe

As of September 30, 2014, DHS reported approximately $92 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.

Total Liabilities

As of September 30 (in Millions)	FY 2014	FY 2013
Federal Employee and Veterans' Benefits	$ 50,700	$ 51,223
Debt	24,081	24,076
Accounts Payable	4,019	3,923
Deferred Revenue and Advances	3,363	3,180
Accrued Payroll	2,053	1,807
Other Intragovernmental Liabilities	3,826	3,558
Other Public Liabilities	3,774	3,986
Total Liabilities	$ 91,816	$ 91,753



DHS's largest liability is for *Federal Employee and Veterans' Benefits*, representing 55 percent of total liabilities. 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. For more information, see Note 16 in the Financial Information section. This liability is not covered by current budgetary resources, and DHS will use future appropriations to cover these liabilities (see Note 14 in the Financial Information section).

Debt is DHS's second-largest liability, representing 26 percent of total liabilities. This debt results from Department of 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 pay its debt from the premium revenue alone; therefore, legislation will need to be enacted to provide funding to repay the Bureau of Fiscal Service. This is discussed further in Note 15 in the Financial Information section.

Accounts Payable, representing 5 percent of total liabilities, includes amounts owed to other federal agencies and the public for goods and services received by the Department.

Deferred Revenue and Advances represents amounts received by the Department for goods or services that have not been fully rendered, which are 4 percent of total liabilities.

Accrued Payroll includes unpaid wages and benefits for current DHS employees, and represents 2 percent of total liabilities. The increase in accrued payroll in FY 2014 is due to an additional weekday in September during the last pay period of the fiscal year, compared to FY 2013. Because the pay period spans across fiscal years, the Department accrues the liability until it is paid in the following fiscal year.

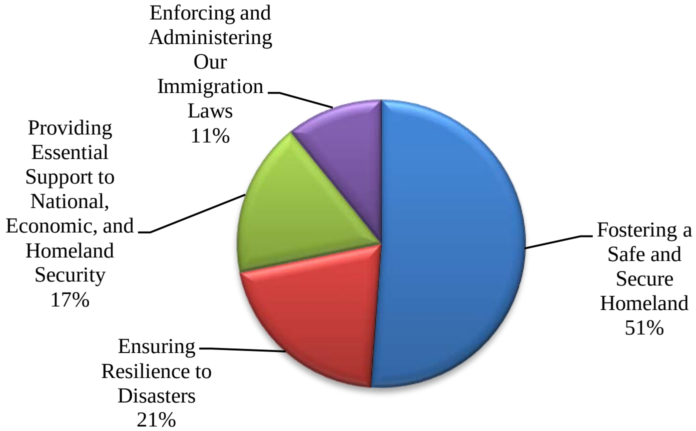
Other Intragovernmental Liabilities, comprising 4 percent of the Department's liabilities, includes amounts due to the Treasury's general fund, and other. *Other Public Liabilities* includes insurance liabilities, environmental liabilities, refunds and drawbacks, and other, and represents 4 percent of total liabilities.

Statement of Net Cost

Net Cost of Operations represents the difference between the costs incurred and revenue earned by DHS programs. The Statement of Net Cost groups the five missions and two focus areas described in the DHS FY 2012-2016 Strategic Plan into four major missions to allow the average reader of the Statement of Net Cost to clearly see how resources are spent towards the common goal of a safe, secure, and resilient Nation. Note 1.B, Basis of Presentation, shows the relationship between the Department's five missions and two focus areas in the DHS Strategic Plan and the major missions presented in the Statements of Net Cost and related footnotes.

Net Cost of Operations Before Gains and Losses

For the Year Ended September 30 (in Millions)	FY 2014	FY 2013
Fostering a Safe and Secure Homeland	$ 25,220	$ 26,264
Ensuring Resilience to Disasters	10,126	22,682
Providing Essential Support to National, Economic, and Homeland Security	8,396	8,728
Enforcing and Administering Our Immigration Laws	5,288	5,277
Net Cost Before (Gain)/Loss	$ 49,030	$ 62,951



Fostering a Safe and Secure Homeland, includes Strategic Plan Missions 1, 2, and 4, *Preventing Terrorism and Enhancing Security*, *Securing and Managing Our Borders*, and *Safeguarding and Securing Cyberspace, respectively*. This major mission involves the security and prevention aspects of the DHS Strategic Plan, representing 51 percent of the Department's net cost. *Ensuring Resilience to Disasters* is Mission 5 of the strategic plan and represents 21 percent of total net costs. *Providing Essential Support to the National, Economic, and Homeland Security* consists of the two focus areas of the DHS Strategic Plan: Providing Essential Support to National and Economic Security and Maturing and Strengthening DHS, and represents 17 percent of the Department's net cost. *Enforcing and Administering Our Immigration Laws* is Mission 3 of the strategic plan and represents 11 percent of total net costs. Note 23 in the Financial Information section shows costs by responsibility segment aligned to the major missions.

The net cost of Ensuring Resilience to Disasters decreased by $12.6 billion in FY 2014 because the Department incurred fewer expenses related to disaster relief and recovery efforts. In FY 2013, the net cost of this major mission had increased primarily to support the response to Hurricane Sandy. This decrease in FY 2014 reduced net cost before gains and losses across the Department by $13.9 billion.

During FY 2014, the Department earned approximately $11.7 billion in revenue; this is an increase of about $493 million from $11.2 billion as of September 30, 2013. The Department classifies revenue as either exchange ("earned") or non-exchange revenue. Exchange revenue arises 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 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.

Statement of Changes in Net Position

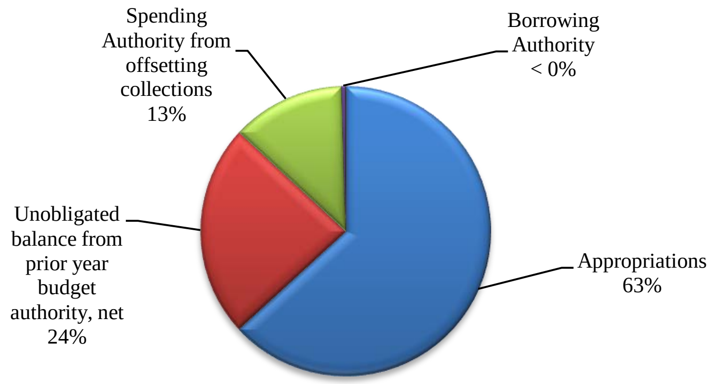
Net position represents the accumulation of revenue, expenses, budgetary, and other financing sources since inception, as represented by an agency's balances in unexpended appropriations and cumulative results of operations on the Statement of Changes in Net Position. Financing sources increase net position and include, but are not limited to, appropriations, user fees, and excise taxes. The net costs discussed in the section above as well as transfers to other agencies decrease net position. Total net position increased in FY 2014 by approximately $2.2 billion because there was a lower net cost of operations as a result of less cost incurred for relief and recovery efforts. In FY 2013, significant costs were incurred for Hurricane Sandy relief and recovery efforts.

Statement of Budgetary Resources

This statement provides information on the status of the approximately $85.3 billion in budgetary resources available to DHS during FY 2014. The authority was derived from appropriations of $54.4 billion, $20.4 billion in authority carried forward from FY 2013, and $10.9 billion in collections, and $(0.4) billion in borrowing authority. The total amount of resources available decreased by approximately $9.8 billion from FY 2013. The change is primarily due to a significant decrease in FEMA's disaster funding levels. In FY 2013, the Department's budgetary authority increased due to Hurricane Sandy relief and recovery efforts. In FY 2014, no major disasters occurred.

Budgetary Resources by Authority Type

For the Year Ended September 30 (in Millions)	FY 2014	FY 2013
Appropriations	$ 54,385	$ 64,245
Unobligated Balance from Prior Budget Authority	20,434	13,251
Spending Authority from Offsetting Collections	10,879	10,854
Borrowing Authority	(378)	6,705
Total Budgetary Resources	$ 85,320	$ 95,055



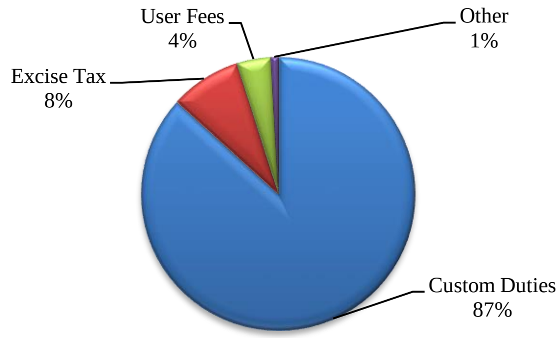
As of September 30, 2014, $17.8 billion of the $85.3 billion was not yet obligated. The $17.8 billion represents $14.3 billion in apportioned funds available for future use, and $3.5 billion in unapportioned funds. Of the total budget authority available, DHS incurred a total of $67.5 billion in obligations from salaries and benefits, purchase orders placed, contracts awarded, or similar transactions. These obligations will require payments during the same or future period.

Statement of Custodial Activities

This statement presents the revenue collected by DHS 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.

Cash Collections by Type

For the Year Ended September 30 (in Millions)	FY 2014	FY 2013
Custom Duties	$ 33,856	$ 31,663
Excise Tax	3,273	3,163
User Fees	1,576	1,586
Other	327	213
Total Cash Collections	$ 39,032	$ 36,625



Custom duties collected by CBP account for 87 percent of total cash collections. The remaining 13 percent is comprised of excise taxes, user fees, and various other fees. An example of non-exchange revenue for the Department includes user fees that CBP collects on behalf of the Federal Government. These fees are considered non-exchange because they are a result of the Federal Government's sovereign powers rather than as a result of providing goods or services for a fee. Total cash collections increased by approximately $2.4 billion in FY 2014 primarily because of an increase in importing activity and duties collection.

Stewardship Assets and Investments

DHS's stewardship assets primarily consist of USCG heritage assets, which include ship equipment, lighthouses and other aids to navigation, communication items, military uniforms, ordnance, artwork, and display models. S&T also has a fourth-order Fresnel lens from the Plum Island Animal Disease Center lighthouse that is on loan for display at the East End Seaport Museum in Greenport, New York. 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.

When a heritage asset is predominantly used for general government operations, the heritage asset is considered a multi-use heritage asset. The USCG has over 150 memorials, recreational areas, and other historical areas designated as multi-use heritage assets. CBP has four historical buildings and structures located in Puerto Rico, and FEMA has one training facility that is used by the Emergency Management Institute and the U.S. Fire Administration's National Fire Academy for training in Emmitsburg, Maryland.

In addition, CBP, USCIS, TSA, S&T, and USSS have collection-type assets that consist of documents, artifacts, immigration and naturalization files, architectural and building artifacts used for education, and a historical lighthouse at Plum Island Animal Disease Center.

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 benefits. Included are investments in research and development, human capital, and non-federal physical property.

Limitations of Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the Department, pursuant to the requirements of Title 31, United States Code, Section 3515(b) relating to financial statements of federal agencies. While the statements have been prepared from the books and records of the entity in accordance with generally accepted accounting principles for federal agencies and the formats prescribed by OMB, the 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.

Other Key Regulatory Requirements

See the Other Information section for *Prompt Payment Act* and *Debt Collection Improvement Act* information.

Management Assurances

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

DHS management is responsible for establishing, maintaining, and assessing internal control to provide reasonable assurance that the objectives of the *Federal Managers' Financial Integrity Act* (31 U.S. Code 3512, Sections 2 and 4) and the *Federal Financial Management Improvement Act* (Pub. L. 104-208) are met. In addition, the *Department of Homeland Security Financial Accountability Act* (Pub. L. 108-330) requires a separate management assertion and an audit opinion on the Department's internal controls over financial reporting.

In FY 2006, the Office of Management and Budget revised Circular A-123 to address internal control reporting changes to align with private industry regulatory requirements. At that time, DHS management prepared a multi-year plan to implement its evaluation of controls over financial reporting as required under the revised guidance. Since FY 2006, DHS management has made significant improvements in management controls across DHS operations and financial management and reporting. Staff and management at Headquarters and in the Components have worked steadily and extensively to remediate operating and financial reporting controls such that DHS will be able to sustain its financial statement opinion and to achieve an unqualified audit opinion over internal controls over financial reporting in the near future.

In FY 2011, DHS controls and financial management were improved such that DHS achieved its first opinion on the Balance Sheet and Statement of Custodial Activity. This was a major milestone for the Department. In FY 2012, DHS controls and financial management continued to improve such that DHS achieved its first qualified audit opinion on its full set of financial statements. Additionally, DHS was able to report a qualified reasonable assurance over internal controls over financial reporting. In FY 2013, DHS achieved its first unmodified audit opinion on all its financial statements, and was able to provide a second consecutive qualified assurance over internal controls over financial reporting.

In FY 2014, DHS sustained its unmodified audit opinion on the principal financial statements, and provided a third consecutive qualified assurance over financial reporting controls. Additional work remains to improve financial management and information technology by remediating the four remaining material weaknesses in: 1) Budgetary Accounting; 2) Financial Reporting; 3) Property, Plant, and Equipment; and 4) Information Technology and System Functionality; sustaining these internal controls over time, and becoming more efficient.

In FY 2014, DHS remains compliant with the Improper Payment Elimination and Recovery Improvement Act. DHS is committed to achieving the most cost effective strategy on the reduction of improper payments. Throughout the years, we have strengthened program and payment procedures and internal controls. The results of testing during FY 2014 have yielded estimated error rates fewer than three percent, well below the ten percent threshold set by the Office of Management and Budget.

In assessing the Department's operational and financial management controls, management executes annual assessments to evaluate the status of internal controls to support the Secretary's annual assurance statement. These annual assessments are part of a multi-year implementation plan and management is required to assess controls to determine the extent and materiality of the deficiencies.

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. 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.

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

The RM&A Division integrates and coordinates 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 RM&A, is comprised of senior-level financial managers assigned to carry out and direct Component-level internal control over financial reporting assessments.

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

Secretary's Assurance Statement

November 13, 2014

The Department of Homeland Security is committed to a culture of integrity, accountability, fiscal responsibility, and transparency. The Department's management team is responsible for establishing and maintaining effective internal control over the three internal control objectives: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.

In accordance with the *Federal Managers' Financial Integrity Act (FMFIA)* and the *Department of Homeland Security Financial Accountability Act*, I directed an evaluation of internal control at DHS in effect during the Fiscal Year (FY) ending September 30, 2014. This evaluation was conducted in accordance with Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Internal Control. The Department provides reasonable assurance that the objectives of FMFIA, Section 2 over non-financial operations have been achieved.

The Department has completed its FY 2014 evaluation of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with OMB Circular A-123, Appendix A, and Departmental requirements. The Department provides reasonable assurance that our internal controls over financial reporting were operating effectively as of September 30, 2014, with the exception of the four business areas: 1) Budgetary Accounting; 2) Financial Reporting; 3) Property, Plant, and Equipment; and 4) Information Technology Controls and Systems Functionality, where material weaknesses have been identified and remediation is in process, as further described in the Other Information Section. In addition, DHS financial management systems do not fully conform to the objectives of FMFIA, Section 4, and the *Federal Financial Management Improvement Act* (FFMIA). The Department will continue its efforts to ensure that management control systems are in place to achieve the mission of the Department. In accordance with OMB guidance, the Department is executing incremental Component-level financial system modernization projects in order to deliver functionality that will enable full conformance with FFMIA. The DHS financial systems modernization concept streamlines and adjusts its IT financial portfolio so that the DHS Chief Financial Officer and Components have the flexibility to meet their mission and the changing demands for financial visibility and accountability.

The Department identified two significant issues in FY 2014 surrounding internal controls over operations that warrant disclosure related to the authorization of Administratively Uncontrollable Overtime (AUO) and an IT security breach. While AUO only represents a small part of the total wages paid by DHS, the Department is cognizant of the sensitivity of the issue and has taken a series of steps to improve AUO administration including the development of a Department-wide directive to strengthen entity level controls across Components. Also, a major security breach was experienced that compromised personal identity information of DHS employees. The Chief Security Officer is continuing to work with the Office of the Chief Information Officer, the Office of Personal Management, and OMB, among others, to determine the extent of the compromise and deploy mitigation strategies to prevent reoccurrence.

The Department remains committed to financial stewardship by providing accurate, complete, and timely information to stakeholders for mission critical decisions. As a result, for the second consecutive year we have achieved an unmodified opinion on the Department's financial statements, on the FY 2014 full scope audit. We are dedicated to fully mitigating and eliminating the remaining material weaknesses so we can provide an unqualified assurance and subsequently achieve an unqualified audit opinion on internal controls over financial reporting as required by law and regulation.

We will continue to ensure taxpayer dollars are managed with integrity, diligence, and accuracy, and that the systems and processes used for all aspects of financial management demonstrate the highest level of accountability and transparency.

Jeh Charles Johnson
Secretary

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires federal agencies to implement and maintain financial management systems that comply substantially with:

- Federal financial management system requirements;
- Applicable federal accounting standards; and
- The U.S. Standard General Ledger at the transaction level.

In assessing compliance with FFMIA, DHS uses OMB guidance and considers the results of the OIG's annual financial statement audits and *Federal Information Security Management Act* (FISMA) compliance reviews. As reported in the Secretary's Management Assurance Statements, significant system improvement efforts are in progress to modernize, certify, and accredit all financial management systems to conform to government-wide requirements.

Financial Management Systems

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

DHS has adopted a hybrid approach to modernizing financial management systems across the Department. Our approach includes:

- Expanding business intelligence and standardizing data across Components to quickly provide enterprise-level reporting; and
- 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.

Appendix D to Circular No. A-123 defines new requirements effective in FY 2014 for determining compliance with the FFMIA. The goal of this Appendix is to transform our compliance framework so that it will contribute to efforts to reduce the cost, risk, and complexity of financial system modernizations. The objective of this approach will be to provide additional flexibility for federal agencies to initiate smaller-scale financial modernizations as long as relevant financial management outcomes (e.g., clean audits, proper controls, timely reporting) are maintained.

In accordance with OMB guidance, DHS is executing incremental Component-level financial system modernization projects in order to deliver functionality faster and reduce risks often associated with large, complex Information Technology (IT) projects. By splitting the projects into smaller, simpler segments with clear deliverables, DHS can ensure delivery of timely, well-managed solutions. DHS will also leverage existing infrastructure and evolving technologies, such as shared service providers and cloud-based solutions.

DHS has made great strides during the past year in our FSM initiative. The *Financial Systems Modernization Playbook* (Playbook) articulates the vision and actions DHS is undertaking to strengthen access to and the quality of financial information to support decision making. It communicates our plan for expanding business intelligence capability to provide enterprise-level information and for strengthening financial systems in a cost-effective manner. These standards will also strengthen internal controls throughout the Department to provide more efficient operations.

DHS has adopted a decentralized strategy and will modernize individual Component financial systems, as needed. This incremental approach is consistent with OMB guidance and will allow DHS to leverage existing shared service providers' proven systems and processes in concert with DHS-wide policy and standards for implementations, instead of making costly investments in new systems. DHS is working to ensure programs are planned and executed to meet reporting requirements, minimize costs for financial operations, improve compliance with financial management standards such as FFMIA, and make certain that financial management systems have management controls in place to support the DHS mission. Specific goals for FY 2015 include continuing to work with Components on FSM efforts with a focus on DNDO, TSA, USCG, FEMA, ICE, and ICE customers, as well as, FLETC. DNDO, TSA, and USCG have completed the Discovery Phase with Department of Interior's Interior Business Center to determine suitability as the service provider and feasibility of implementation. DNDO, TSA, and USCG determined that the Interior Business Center's solution is capable of meeting their requirements and began the implementation in September 2014. FLETC will complete a technical refresh of their financial management system in Q1 FY 2015.

The DHS financial systems modernization concept streamlines and adjusts its IT financial portfolio so that the DHS CFO and Components have the flexibility to be able to meet their mission and the changing demands for financial visibility and accountability. Financial systems modernization requires having an intelligent transition plan for each system and financial management capability. As part of the decentralized approach, DHS Components are conducting Alternatives Analysis prior to moving forward with their financial system modernization efforts. Through the FSM initiative, DHS is working to improve existing financial systems to better meet FFMIA requirements. Components considering a shared service provider for their financial management system modernization will consult OMB A-123, Appendix D which is effective as of FY 2014 for the minimum requirements an external provider must demonstrate including FFMIA requirements.

Federal Information Security Management Act

The *E-Government Act of 2002* (Pub. L. 107-347) *Title III Federal Information Security Management Act* (FISMA) provides a framework to ensure the effectiveness of security controls over information resources that support federal operations and assets. FISMA provides a statutory definition for information security.

The Office of Inspector General's FISMA audit is pending completion at the time of this report's issuance. As such, the audit recommendations and Management's concurrence and corrective actions will be provided when made available.

Financial Information

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

Message from the Chief Financial Officer

November 13, 2014

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

The Department has built a solid foundation of robust financial policies, processes, and internal control resulting in a clean financial statement audit opinion two years in a row. In Fiscal Year (FY) 2014, the DHS financial management community anticipated and mitigated additional audit risks as they arose, and remediated Component-level significant deficiency conditions within Financial Reporting and Information Technology. This brings us closer to our goal of an unqualified (clean) audit opinion on internal control over financial reporting as we continue strengthening our processes.

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

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

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

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

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

Sincerely,

Chip Fulghum
Chief Financial Officer

Introduction

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

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

1. The Consolidated **Balance Sheets** present, as of September 30, 2014 and 2013, those resources owned or managed by the Department of Homeland Security (DHS) that represent future economic benefits (assets), amounts owed by DHS that will require payments from those resources or future resources (liabilities), and residual amounts retained by DHS comprising the difference (net position).

2. The Consolidated **Statements of Net Cost** present the net cost of DHS operations for the fiscal years ended September 30, 2014 and 2013. DHS net cost of operations is the gross cost incurred by DHS less any exchange revenue earned from DHS activities.

3. The Consolidated **Statements of Changes in Net Position** present the change in DHS's net position resulting from the net cost of DHS operations, budgetary financing sources, and other financing sources for the fiscal years ended September 30, 2014 and 2013.

4. The Combined **Statements of Budgetary Resources** present how and in what amounts budgetary resources were made available to DHS during fiscal years 2014 and 2013, the status of these resources at September 30, 2014 and 2013, the changes in the obligated balance, and outlays of budgetary resources for the fiscal years ended September 30, 2014 and 2013.

5. The Consolidated **Statements of Custodial Activity** present the disposition of custodial revenue collected and disbursed by DHS on behalf of other recipient entities for the fiscal years ended September 30, 2014 and 2013.

6. The **Notes to the Financial Statements** provide detail and clarification for amounts on the face of the financial statements as of September 30, 2014 and 2013.

Financial Statements

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

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

(Continued)

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

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

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

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

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

(Continued)

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

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

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Table of Contents for Notes to the Financial Statements

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

B. Basis of Presentation

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

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

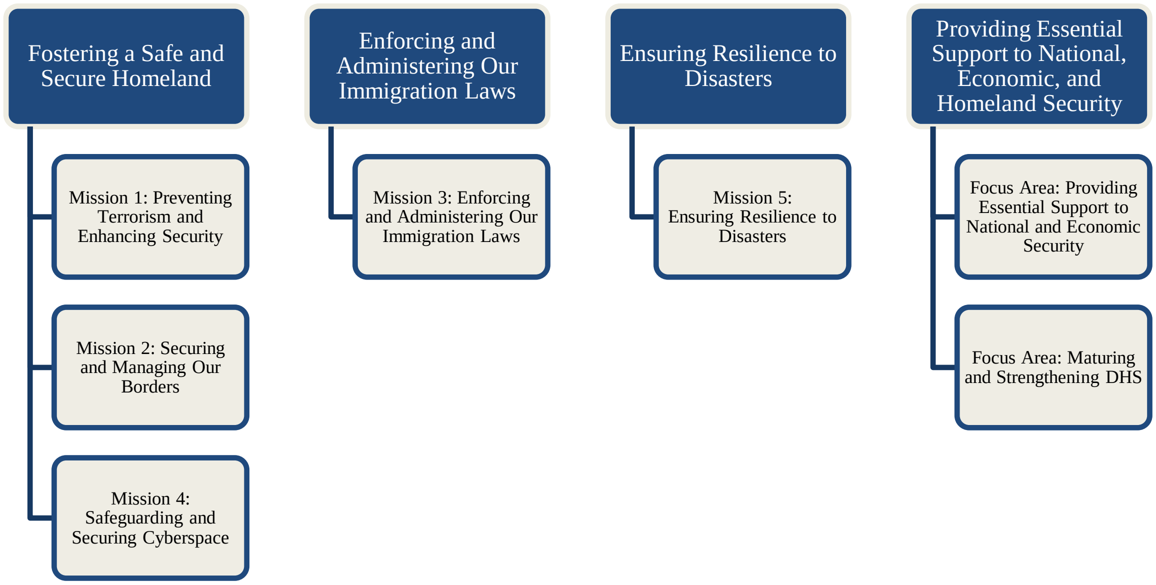
The Department's financial statements reflect the reporting of Departmental activities, including appropriations received to conduct operations and revenue generated from operations. The financial statements also reflect the reporting of certain non-entity (custodial) functions performed by the Department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

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

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

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

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



C. Basis of Accounting

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

D. Use of Estimates

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

E. Entity and Non-Entity Assets

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

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

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

F. Fund Balance with Treasury

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

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

G. Cash and Other Monetary Assets

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

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

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

H. Investments, Net

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

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

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

I. Accounts Receivable, Net

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

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

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

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

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

J. Advances and Prepayments

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

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

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

For additional information, see Note 13, Other Assets.

K. Direct Loans, Net

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

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

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

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

L. Inventory and Related Property, Net

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

OM&S managed by the USCG Inventory Control Points in Elizabeth City, North Carolina, and Baltimore, Maryland, consists of consumable and 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. Items that are no longer usable by DHS are categorized as excess, obsolete, and unserviceable OM&S, and are stated at net realizable value.

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

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

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

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

M. Seized and Forfeited Property

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

Prohibited seized property is not considered an asset of the Department and is not reported as such in the Department's financial statements. However, the Department has a stewardship responsibility until the disposition of the seized items is determined (i.e., judicially or administratively forfeited or returned to the entity from which it was seized).
Forfeited property is seized property for which the title has passed to the Federal Government. Prohibited forfeited items such as counterfeit goods, narcotics, or firearms are held by the Department until disposed of or destroyed.

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

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

N. General Property, Plant, and Equipment, Net

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

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

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

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

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

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

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

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

O. Stewardship Property, Plant, and Equipment

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

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

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

P. Liabilities

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

Q. Contingent Liabilities

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

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

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

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

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

R. Liabilities for Grants and Cooperative Agreements

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

S. Insurance Liabilities

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

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

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

T. Debt and Borrowing Authority

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

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

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

U. Accrued Payroll and Benefits

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

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

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

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

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

V. Federal Employee and Veterans' Benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

W. Funds from Dedicated Collections

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

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

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

X. Revenue and Financing Sources

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Y. Fiduciary Activities

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

Z. Taxes

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

AA. Adjustments to Beginning Balances

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

AB. Reclassifications

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

2. Non-Entity Assets

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

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

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

3. Fund Balance with Treasury

A. Fund Balance with Treasury

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

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

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

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

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

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

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

B. Status of Fund Balance with Treasury

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

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

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

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

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

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

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

4. Cash and Other Monetary Assets

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

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

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

5. *Investments, Net*

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

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

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

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

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

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

6. Accounts Receivable, Net

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

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

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

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

7. Taxes, Duties, and Trade Receivables, Net

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

As of September 30, 2014:

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

As of September 30, 2013:

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

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

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

8. Direct Loans, Net

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	2014	2013
Community Disaster Loans	**$ 57**	**$ 46**

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

Subsidy Expense for New Direct Loans Disbursed as of September 30

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

Direct Loan Modifications and Re-estimates

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

Total Direct Loan Subsidy Expense

	2014	2013
Community Disaster Loans	**$ 130**	**$ 298**

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

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

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

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

Default costs include the projected default amounts based on Moody's default curve for years 6 to10.

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

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

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

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

	2014	2013
Community Disaster Loans	**$ 1**	**$ 2**

9. Inventory and Related Property, Net

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

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

10. Seized and Forfeited Property

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

Fiscal Year Ended September 30, 2014:

Seized Property:	Beginning Balance	New Seizures	Remissions	New Forfeitures	Adjustments	Ending Balance
Illegal Drugs (in kilograms):						
Marijuana	3,104	1,039,151	-	(1,043,877)	4,635	3,013
Cocaine	211	21,975	-	(21,889)	6	303
Heroin	9	2,402	-	(2,383)	21	49
Ecstasy	17	298	-	(298)	-	17
Steroids	264	689	-	(555)	(2)	396
Methamphetamine	11	11,676	-	(11,633)	(21)	33
Khat	45	66,902	-	(66,910)	(37)	-
Firearms and Explosives (in number of items)	3,668	4,589	(361)	(1,528)	(765)	5,603
Counterfeit Currency (US/Foreign, in number of items)	5,114,837	1,974,137	(1,112,482)	-	141,058	6,117,550
Counterfeit Goods (in number of items)	31,473	55,768	(818)	(51,755)	(1,348)	33,320

Forfeited Property:	Beginning Balance	New Forfeitures	Transfers	Destroyed	Adjustments	Ending Balance
Illegal Drugs (in kilograms):						
Marijuana	143,319	1,043,877	(270)	(353,443)	(698,891)	134,592
Cocaine	19,850	21,889	(130)	(19,354)	(954)	21,301
Heroin	3,247	2,383	(20)	(1,897)	(208)	3,505
Ecstasy	1,077	298	(46)	(474)	(25)	830
Steroids	335	555	-	(836)	9	63
Methamphetamine	11,480	11,633	(9)	(8,094)	(1,736)	13,274
Khat	3,658	66,910	-	(68,165)	(161)	2,242
Firearms and Explosives (in number of items)	1,160	1,528	(1,668)	-	390	1,410
Counterfeit Goods (in number of items)	22,905	51,755	(275)	(48,323)	521	26,583

Fiscal Year Ended September 30, 2013:

Seized Property:	Beginning Balance	New Seizures	Remissions	New Forfeitures	Adjustments	Ending Balance
Illegal Drugs (in kilograms):						
Marijuana	2,051	1,224,988	-	(1,231,308)	7,373	3,104
Cocaine	83	20,528	-	(20,373)	(27)	211
Heroin	4	2,396	-	(2,392)	1	9
Ecstasy	18	720	-	(724)	3	17
Steroids	147	734	-	(613)	(4)	264
Methamphetamine	5	11,035	-	(11,054)	25	11
Khat	48	82,786	-	(82,741)	(48)	45
Firearms and Explosives (in number of items)	3,112	4,600	(564)	(3,290)	(190)	3,668
Counterfeit Currency (US/Foreign, in number of items)	4,679,797	1,933,320	(1,508,067)	-	9,787	5,114,837
Counterfeit Goods (in number of items)	39,248	56,207	(637)	(60,127)	(3,218)	31,473

Forfeited Property:	Beginning Balance	New Forfeitures	Transfers	Destroyed	Adjustments	Ending Balance
Illegal Drugs (in kilograms):						
Marijuana	141,235	1,231,308	(152)	(395,939)	(833,133)	143,319
Cocaine	24,821	20,373	(193)	(22,924)	(2,227)	19,850
Heroin	2,768	2,392	(38)	(1,818)	(57)	3,247
Ecstasy	921	724	(40)	(496)	(32)	1,077
Steroids	340	613	(1)	(596)	(21)	335
Methamphetamine	7,039	11,054	(77)	(6,210)	(326)	11,480
Khat	3,339	82,741	-	(1,021)	(81,401)	3,658
Firearms and Explosives (in number of items)	1,025	3,290	(3,285)	(3)	133	1,160
Counterfeit Goods (in number of items)	15,764	60,127	(246)	(54,438)	1,698	22,905

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

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

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

11. General Property, Plant, and Equipment, Net

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

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

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

12. Stewardship Property, Plant, and Equipment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13. Other Assets

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

	2014	2013
Intragovernmental:		
Advances and Prepayments	$ 1,009	$ 1,207
Total Intragovernmental	**1,009**	**1,207**
Public:		
Advances and Prepayments	680	657
Total Public	**680**	**657**
Total Other Assets	**$ 1,689**	**$ 1,864**

14. Liabilities Not Covered by Budgetary Resources

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

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

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

15. Debt

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

As of September 30, 2014:	Beginning Balance	Net Borrowing	Ending Balance
Debt to the Treasury General Fund:			
Debt for the NFIP	$ 24,000	$ -	$ 24,000
Debt for Credit Reform	76	5	81
Total Debt to the Treasury General Fund	$ 24,076	$ 5	$ 24,081
Total Debt	**$ 24,076**	**$ 5**	**$ 24,081**

As of September 30, 2013:	Beginning Balance	Net Borrowing	Ending Balance
Debt to the Treasury General Fund:			
Debt for the NFIP	$ 17,750	$ 6,250	$ 24,000
Debt for Credit Reform	322	(246)	76
Total Debt to the Treasury General Fund	$ 18,072	$ 6,004	$ 24,076
Total Debt	**$ 18,072**	**$ 6,004**	**$ 24,076**

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

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

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

16. Federal Employee and Veterans' Benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Actuarial FECA Liability

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

17. Environmental and Disposal Liabilities

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

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

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

18. Other Liabilities

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

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

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

A. Intragovernmental Other Liabilities

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

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

B. Other Liabilities with the Public

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

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

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

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

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

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

19. Leases

A. Operating Leases

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

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

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

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

B. Capital Leases

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

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

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

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

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

20. Insurance Liabilities

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

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

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

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

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

21. Commitments and Contingent Liabilities

A. Legal Contingent Liabilities

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

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

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

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

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

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

B. Duty and Trade Refunds

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

C. Loaned Aircraft and Equipment

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

D. Other Contractual Arrangements

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

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

22. Funds from Dedicated Collections

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

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

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

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

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

	Customs User Fees	Sport Fish Restoration Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Balance Sheet as of September 30, 2013								
ASSETS								
Fund Balance with Treasury	$ 111	$ 7	$ 2,114	$ 350	$ 9	$ 1,397	$ 817	$ 4,805
Investments, Net	-	1,869	-	-	3,277	-	1	5,147
Accounts Receivable	292	111	11	2	1,346	-	69	1,831
Other	-	-	247	604	7	-	39	897
Total Assets	**$ 403**	**$ 1,987**	**$ 2,372**	**$ 956**	**$ 4,639**	**$ 1,397**	**$ 926**	**$ 12,680**
LIABILITIES								
Other Liabilities	$ 23	$ 1,241	$ 1,266	$ 26,876	$ 252	$ 219	$ 66	$ 29,943
Total Liabilities	**$ 23**	**$ 1,241**	**$ 1,266**	**$ 26,876**	**$ 252**	**$ 219**	**$ 66**	**$ 29,943**
NET POSITION								
Cumulative Results of Operations	$ 380	$ 746	$ 1,106	$ (25,920)	$ 4,387	$ 1,178	$ 860	$ (17,263)
Total Liabilities and Net Position	**$ 403**	**$ 1,987**	**$ 2,372**	**$ 956**	**$ 4,639**	**$ 1,397**	**$ 926**	**$ 12,680**
Statement of Net Cost for the Year Ended September 30, 2013								
Gross Program Costs	$ 406	$ 131	$ 2,798	$ 10,471	$ 252	$ 262	$ 1,289	$ 15,609
Less: Earned Revenue	-	-	(2,694)	(3,632)	(137)	(250)	(604)	(7,317)
Net Cost of Operations	**$ 406**	**$ 131**	**$ 104**	**$ 6,839**	**$ 115**	**$ 12**	**$ 685**	**$ 8,292**
Statement of Changes in Net Position for the Year Ended September 30, 2013								
Net Position Beginning of Period	$ 181	$ 805	$ 1,083	$ (19,074)	$ 2,777	$ 1,213	$ 960	$ (12,055)
Net Cost of Operations	(406)	(131)	(104)	(6,839)	(115)	(12)	(685)	(8,292)
Non-exchange Revenue	448	591	-	1	1,765	-	210	3,015
Other	157	(519)	127	(8)	(40)	(23)	375	69
Change in Net Position	199	(59)	23	(6,846)	1,610	(35)	(100)	**(5,208)**
Net Position, End of Period	**$ 380**	**$ 746**	**$ 1,106**	**$ (25,920)**	**$ 4,387**	**$ 1,178**	**$ 860**	**$ (17,263)**

Customs User Fees

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

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

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

Sport Fish Restoration and Boating Trust Fund

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

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

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

Immigration Examination Fees

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

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

National Flood Insurance Program

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

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

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

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

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

The NFIP is an insurance program for which the Department pays claims to policyholders that experience flood damage due to flooding within the NFIP rules and regulations. The Write Your Own (WYO) companies that participate in the program have authority to use Departmental funds (revenue and other financing sources) to respond to the obligations to the policyholders. Congress has mandated that the NFIP funds be used only to pay claims and claims-related loss adjustment expenses caused by flooding.

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

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

Oil Spill Liability Trust Fund

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

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

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

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

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

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

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

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

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

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

Contingent Liabilities. The OSLTF, which is administered by the USCG National Pollution Funds Center (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 GCCF for Deepwater Horizon costs); if not compensated, they may then file an action in court or file a claim against the OSLTF through the NPFC.

Aviation Security Capital Fund

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

All Other Funds from Dedicated Collections

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

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

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

23. Net Costs by Sub-Organization and Major Missions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

25. Available Borrowing Authority

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

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

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

FEMA is also authorized to borrow from Treasury up to $30.4 billion to fund the payment of flood insurance claims and claims-related expenses of NFIP. While the authorizing legislation does provide a cap for amounts that can be borrowed without further authorization, the amounts borrowed at any time are not predetermined, and authority is used only as needed to pay existing obligations for claims and expenses. Insurance premiums collected are used to pay insurance claims and to repay borrowings. As of September 30, 2014, $24 billion has been drawn from Treasury, leaving $6.4 billion available to be borrowed.

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

26. Permanent Indefinite Appropriations

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

- CBP has a permanent and indefinite appropriation that is used to disburse tax and duty refunds and duty drawbacks. Although funded through appropriations, refund and drawback activity is, in most instances, reported as custodial activity of the Department. Refunds are custodial revenue-related activity in that refunds are a direct result of overpayments of taxes, duties, and fees. CBP's refunds payable at year-end are not subject to funding restrictions. Federal tax revenue received from taxpayers is not available for use in the operation of the Department and is not reported on the Statement of Net Cost. Likewise, the refunds of overpayments are not available for use by the Department in its operations.

- USSS has a permanent and indefinite appropriation that is used to reimburse the DC Pension Plan for the difference between benefits to participants in the DC Pension Plan (see Note 16) and payroll contributions received from current employees.

- USCIS has permanent authority to use immigration and naturalization application fees to pay costs of providing adjudication and naturalization services, including the costs of providing services without charge to asylum applicants and other immigrants and costs associated with the collection, safeguarding, and accounting for fees.

- USCIS also has the authority to transfer certain fees to other federal agencies, including the Department of Labor, the Department of State, and the National Science Foundation. The transferred funds, and a portion of the same fees that USCIS retains, are dedicated for immigration fraud prevention and domestic training programs intended to reduce the need for foreign workers under the H-1B visa program.

- FEMA has a permanent and indefinite appropriation that is used to pay flood claims and claims-related expenses to flood insurance policyholders as a result of flood disasters. This appropriation has indefinite borrowing authority to fulfill its commitments in the event premiums collected are insufficient to liquidate obligations. For additional information, see Note 32, Adjustments to Beginning Balances.

- The USCG has a permanent and indefinite appropriation that is used to cover costs associated with retired members' healthcare. The MERHCF is a DOD special fund that provides benefits for a Medicare-eligible member of a participating military service or other uniformed service entitled to retired or retainer pay and such member's Medicare-eligible dependents and survivors. The DOD office of the actuary determines the amount of the annual USCG contribution to the MERHCF. A Treasury warrant in a permanent indefinite appropriation is provided for the amount of the USCG payment to MERHCF each year.

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

27. Legal Arrangements Affecting the Use of Unobligated Balances

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

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

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

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

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

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

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

29. Undelivered Orders, Unpaid, End of Period

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

30. Custodial Revenue

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

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

1. **Duties:** amounts collected on imported goods collected on behalf of the Federal Government.

2. **User fees:** amounts designed to maintain U.S. harbors and to defray the cost of other miscellaneous service programs.

3. **Excise taxes:** amounts collected on imported distilled spirits, wines, tobacco products, and other miscellaneous taxes collected on the behalf of the Federal Government.

4. **Fines and penalties:** amounts collected for violations of laws and regulations.

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

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

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

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

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

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

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

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

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

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

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

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

32. Adjustments to Beginning Balances

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

Required Supplementary Stewardship Information

Unaudited, see accompanying Independent Auditors' Report

Stewardship Investments

Stewardship investments are substantial investments made by the Federal Government for the benefit of the Nation. When incurred, stewardship investments are treated as expenses in calculating net cost, but they are separately reported as Required Supplementary Stewardship Information to highlight the extent of investments that are made for long-term benefit. The Department's expenditures (including carryover funds expended in FY 2014) in human capital, research and development, and non-federal physical property are shown below.

1. Investments in Research and Development

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

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

S&T

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

Significant accomplishments in development include:

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

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

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

DNDO

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

Significant accomplishments in development include:

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

USCG

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

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

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

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

Significant accomplishments in R&D:

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

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

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

TSA

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

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

2. Investments in Human Capital

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

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

FEMA

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

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

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

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

S&T

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

3. Investments in Non-Federal Physical Property

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

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

TSA

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

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

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

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

FEMA

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

DNDO

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

Required Supplementary Information

Unaudited, see accompanying Independent Auditors' Report

1. Deferred Maintenance

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

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

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

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

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

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

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

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

2. Statement of Budgetary Resources

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

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

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

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

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

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

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

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

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

3. Statement of Custodial Activity

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

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

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

4. Risk Assumed Information

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

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

The underlying calculation estimates the amount of subsidy in the total rates, removes the expense load, and applies the results to the unearned premium reserve. A range is developed and applied to the results of the calculation of unpaid expected losses by $425 to $475 million. Actual flood losses are highly variable from year to year. For the majority of years, the unearned premium reserve for the NFIP is adequate to pay the losses and expenses associated with the unearned premium. In those years with catastrophic flooding, the reserve and the average across all years will be inadequate because of the subsidies in premium levels.

Independent Auditors' Report

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

NOV 14 2014

TO: The Honorable Jeh Johnson
Secretary

FROM: John Roth
Inspector General

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

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

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

Summary

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

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

Significant Deficiencies Considered To Be Material Weaknesses

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

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Other Significant Deficiencies

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

Laws and Regulations with Identified Instances of Noncompliance

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

Moving DHS' Financial Management Forward

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

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

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

*****

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

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

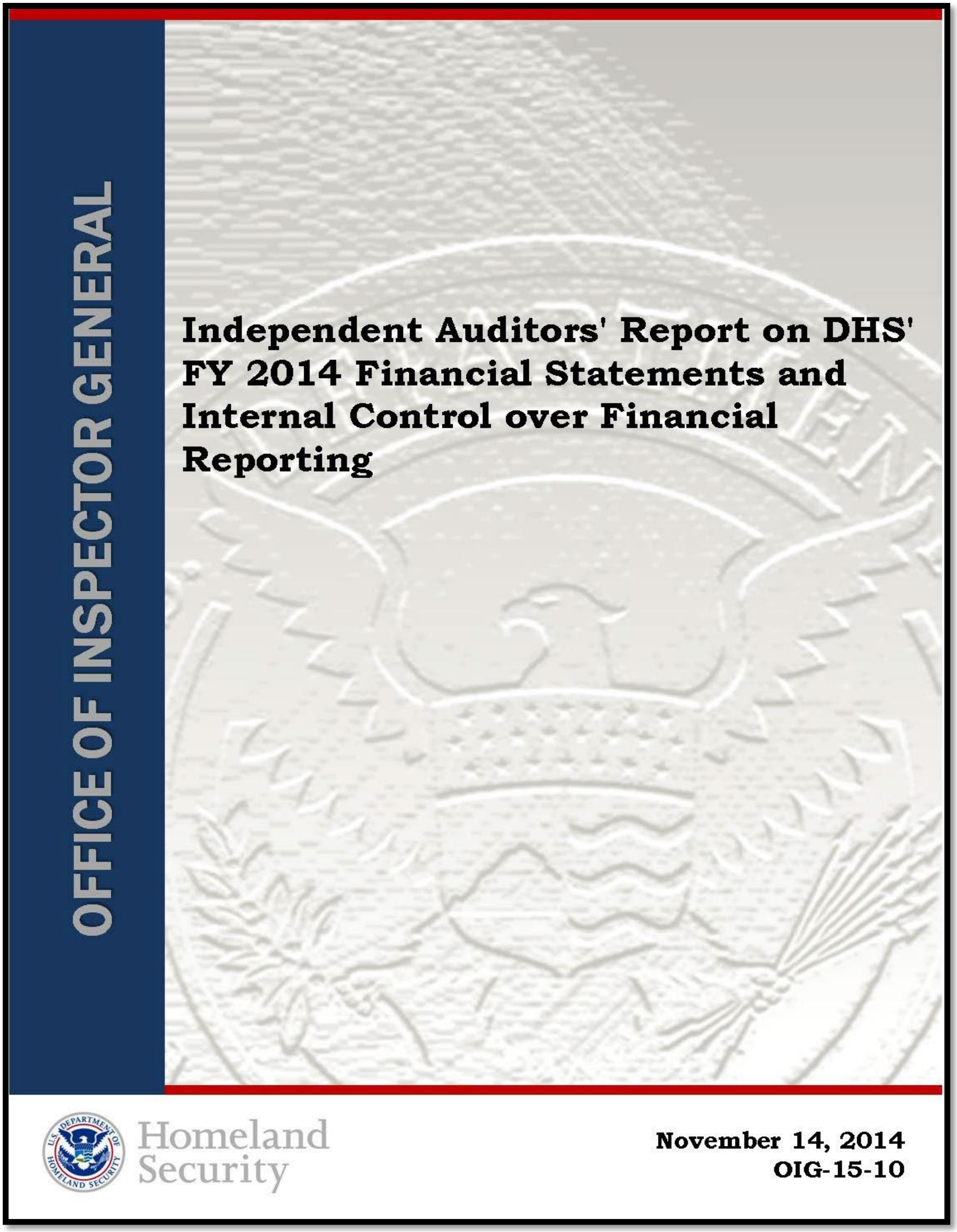
the audit's progress at key points, reviewed and accepted KPMG's report, and performed other procedures we deemed necessary. Additionally, we provided oversight of the audit of financial statements and certain accounts and activities conducted at key components in the Department. Our review, as differentiated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

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

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

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

Attachment



OFFICE OF INSPECTOR GENERAL

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

Homeland Security

November 14, 2014
OIG-15-10

Highlights

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

November 14, 2014

Why We Did This

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

What We Recommend

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

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

What We Found

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

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

Management's Response

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

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OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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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

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion on the Financial Statements

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Other Information

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

KPMG

Report on Internal Control over Financial Reporting

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

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

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

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

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

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

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

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

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

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

Other Reporting Required by *Government Auditing Standards*

Compliance and Other Matters

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

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

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

***Purpose of the Other Reporting Required by* Government Auditing Standards**

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

KPMG

DHS' Responses to Findings

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

KPMG LLP

November 13, 2014

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

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

Exhibit I Findings that individually or in aggregate that are considered material weaknesses in internal control over financial reporting affecting the DHS consolidated financial statements.

Exhibit II Findings that individually or in aggregate are considered significant deficiencies that are not material weaknesses, however, should be brought to the attention of DHS management and others in positions of DHS oversight.

Exhibit III Instances of noncompliance with certain laws, regulations, contracts, and grant agreements that are required to be reported under *Government Auditing Standards* or Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements.*

Criteria *Index of Financial Reporting and Internal Control Criteria*

Attachment Management's response to our findings

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

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

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

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

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

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

i.1

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

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

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

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

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

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

i.2

Independent Auditors' Report
Exhibit I – Material Weaknesses

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

Trend Table

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

Key – Trend Table

C	Deficiencies are corrected
N/A	No deficiencies reported
	Deficiencies are less severe*
	Deficiencies are more severe*

* See Introduction

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

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

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

1. Coast Guard:

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

I.1

Independent Auditors' Report
Exhibit I – Material Weaknesses

- Did not always maintain general ledger activity in compliance with the United States Standard General Ledger (USSGL) at the transaction level.

2. ICE:

- Controls over preparation and review of journal entries were not designed and fully implemented to ensure proper posting. Further, supporting documentation for certain journal entries did not clearly and fully explain the purpose of the entry; this also impacts journal entries posted on behalf of the serviced components NPPD and MGMT.
- Did not always adhere to or reinforce compliance with existing expense and fund balance with Treasury policies and procedures including review of invoices prior to disbursement and clearing of suspense balances.
- Controls over the calculation of imputed costs for pension and health benefits were not fully effective to ensure the proper factors were used in the calculation to properly report the balance in the financial statements.
- Internal controls over the presentation of the statement of net cost and property, plant, and equipment footnote disclosures were not fully effective to ensure gross costs and revenues were properly aligned to the correct major program and construction in progress costs were appropriately disclosed.

3. MGMT:

- Did not fully establish a financial management infrastructure, including defined roles and responsibilities that ensure consistently reliable, accurate, and timely financial reporting for all significant processes. For example, we noted:
  - Controls were not operating effectively to ensure that capital projects were properly monitored, reviewed, and costs were appropriately recorded and disclosed in the proper period; construction in process costs were recorded to the proper standard general ledger account and appropriate supporting documentation was available to evidence dates assets were placed into service; and
  - Controls were not fully effective over expenses, including review of employee set-up and certain payroll transactions, review of invoices prior to disbursement, coding of expenses to the proper trading partner and timely recording of expense.
- Internal control over financial reporting was not operating effectively, which impaired MGMT's ability to respond to audit inquiries and provide auditable transaction populations with accurate information without reliance on the general ledger service provider.

4. NPPD:

- Did not fully design internal controls to ensure accurate execution of processes and recording of transactions by the service provider. For example we noted:
  - Controls were not operating effectively to ensure that capital assets were recorded timely and accurately in the asset sub-ledger and general ledger in the proper period;
  - Controls were not designed appropriately to ensure gross costs and revenues were properly presented in the statement of net cost; and
  - Controls were not fully effective to ensure processes performed by the service provider related to recording of closing entries, timely liquidation of advances and revenue accruals were in accordance with existing policies and procedures.
- Controls were not fully effective to ensure transactions were appropriately recorded to the proper vendor and trading partner.

5. USSS:

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

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

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

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

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

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

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

Recommendations: We recommend that:

1. Coast Guard:

   a. Establish new, or improve existing, policies, procedures, and related internal controls to ensure:

      i) All non-standard adjustments (i.e., journal entries and top side adjustments) impacting the general ledger are adequately researched, supported, and reviewed prior to their recording in the general ledger;

      ii) Environmental liability schedules are updated, maintained, and reviewed;

      iii) Underlying data used in the estimation of environmental liabilities is complete and accurate;

      iv) Accrual decisions and/or calculations as well as the validation of prior year accrual amounts are properly reviewed;

v) The year-end close-out process, reconciliations, and financial data and account analysis procedures are supported by documentation, including evidence of effective management review and approval; and beginning balances in the following year are determined to be reliable and supported; and

vi) All intra-governmental activities and balances are reconciled on a timely basis, accurately reflected in the financial statements, and differences are resolved in a timely manner.

b. Adopt policies, procedures, and accounting treatments documented in ad hoc technical accounting research papers into official financial reporting guidance that is distributed agency wide; and refine financial reporting policies and procedures to prescribe process level internal controls at a sufficient level of detail to ensure consistent application to mitigate related financial statement risks;

c. Identify and employ additional skilled resources; and

d. Implement accounting and financial reporting processes and an integrated general ledger system that is FFMIA compliant.

2. ICE:

a. Emphasize and train employees on the critical aspects of key transactional and supervisory review controls including the precision of the review, the need for supporting documentation, and impact to the financial statements;

b. Reinforce compliance with existing expense and fund balance with Treasury policies and procedures including review of invoices prior to disbursement and clearing of suspense transactions;

c. Improve existing policies and procedures over the recording of imputed costs to ensure the appropriate cost factors are used; and

d. Implement additional controls over the preparation and review of financial statements and footnotes to ensure information is reported properly.

3. MGMT:

a. Improve communications with its general ledger service provider to ensure that general ledger activity is accounted for timely, completely and accurately;

b. Consider changes to the financial accounting and reporting structure to improve internal control and supervisory review in key financial reporting processes; and

c. Improve the accessibility of reliable and complete financial data for use by management and to support the annual audit.

4. NPPD:

a. Continue to implement changes and enhancements to the financial reporting structure, or the service level agreement with ICE, to ensure effective control in all financial reporting processes at NPPD; and

b. Improve controls to ensure transactions are recorded to the proper vendor and trading partner.

5. USSS:

a. Evaluate the effectiveness of its review and understanding over the actuarial pension estimate, to ensure key assumptions are in compliance with the applicable standards.

Independent Auditors' Report
Exhibit I – Material Weaknesses

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

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

	2014	2013	2012
USCG			
CBP			
USCIS	C		
FEMA			
ICE	C		

See page I.1 for table explanation

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

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

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

1. *Access Controls*:

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

I.5

- Transferred and/or terminated employees' and contractors' access privileges were not always consistently or timely removed from financial systems and general support systems, and controls related to review and revocation of system access were not always implemented or finalized.

2. *Configuration Management*

- Security patch management and configuration deficiencies were identified during the vulnerability assessments on the servers, system software, and databases supporting key financial applications and general support systems.

- Vulnerability management activities, including performing internal scans of financial applications and system software and implementing vendor-recommended patches to address known vulnerabilities, were not consistently performed.

- Monitoring controls to ensure the completeness and integrity of records of implemented system changes for key financial systems were not always implemented.

- Controls to ensure that application functionality was appropriately mirrored between the test and production environments for one financial system were not effective.

- Configuration changes to financial systems were not consistently tested before deployment to production.

3. *Segregation of Duties:*

- Implementation of segregation of duties for IT and financial management personnel with access to financial systems across several platforms and environments (including development and production) was inadequate or incomplete.

Conditions Related to Financial System Functionality:

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

- System software supporting key financial applications, feeder systems, and general support systems either lacked the required functionality to implement effective controls or was outdated and no longer supported by the respective vendors, resulting in unmitigated vulnerabilities that exposed underlying data to potential unauthorized and undetected access and exploitation.

- General IT controls and financial process areas were implemented or supported by highly-manual processes, outdated or decentralized systems and records management processes, or utilities with limited automated capabilities. These limitations introduced a high risk of error and resulted in inconsistent, incomplete, or inaccurate control execution and supporting documentation.

- Multiple Components' financial system controls were not fully effective to efficiently provide readily auditable transaction populations without substantial manual intervention and additional supporting information.

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

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

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

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

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

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

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

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

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

	2014	2013	2012
USCG			
CBP			
ICE	C	**	
MGMT	**	**	C

** See Comment I-A *Financial Reporting*

See page I.1 for table explanation

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

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

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

1. Coast Guard did not:

    - Design and implement controls to appropriately track asset activity at a transaction level and ensure the timely recording of asset additions, deletions, or other adjustments.
    - Implement sufficient internal controls and related processes to support interim property, plant, and equipment balances and activity, including the identification and timely recording of leasehold improvements, asset impairments, and construction in progress activity.
    - Transfer completed assets from construction in progress to in-use assets in a timely manner.
    - Adhere to established inventory policies and procedures, such as those regarding asset identification, system mapping, and tagging processes, to clearly differentiate and accurately track personal property assets in the fixed assets system.
    - Identify and evaluate all lease agreements to ensure that they were appropriately categorized as operating or capital and properly reported in the financial statements and related disclosures.
    - Fully design and implement policies and procedures to support the completeness, accuracy, and existence of all data utilized (e.g., real property multi-use assets) in developing required financial statement disclosures, and related supplementary information, for stewardship property.

2. CBP did not:

    - Consistently adhere to policies and procedures to timely account for asset purchases, construction, depreciation, or disposal of assets in a timely manner. For example, CBP did not:
        - Ensure all asset additions were recorded completely, accurately, and timely in the financial statements;
        - Transfer certain completed assets from construction in progress to in-use assets in a timely manner; and
        - Record some asset disposals timely and in accordance with policy.

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

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

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

Recommendations: We recommend that:

1. Coast Guard:

   a. Design and implement controls to appropriately track asset activity at a transaction level and ensure the timely recording of asset additions, deletions, or other adjustments;

   b. Continue to implement controls over the transfer of completed construction in progress assets to in-use and accurately recording leasehold improvements, asset impairments, and construction in progress activity;

   c. Fully adhere to established inventory policies and procedures;

   d. Establish new or improve existing policies, procedures, and related internal controls to sufficiently support personal and real property balances, including electronics, internal-use software, land, buildings and other structures;

   e. Establish new, or improve existing, processes to identify and evaluate lease agreements to ensure they are appropriately classified as operating or capital, and are properly reported in the financial statements and related disclosures;

   f. Identify and employ additional skilled resources; and

   g. Develop and implement procedures to support the completeness, accuracy, and existence of all data utilized (e.g., real property multi-use assets) in developing required financial statement disclosures, and related supplementary information, for stewardship property.

2. CBP:

   a. Reinforce existing policies and procedures for recording asset additions and reclassifications;

   b. Modify existing policies and procedures to require formal authorization and documentation of all real property retirements; and

   c. Continue to enhance supervisory review and monitoring controls to review property, plant, and equipment transactions in a timely manner.

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

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

	2014	2013	2012
USCG			
FEMA			
ICE			
MGMT			
NPPD			N/A
FLETC	C	C	

See page I.1 for table explanation

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

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

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

Independent Auditors' Report
Exhibit I – Material Weaknesses

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

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

I.10

Independent Auditors' Report
Exhibit I – Material Weaknesses

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

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

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

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

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

Recommendations: We recommend that:

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

d. Improve process over the validation of obligations to ensure sufficient time is available for all contracts to be reviewed prior to period-end.

4. MGMT:

a. Develop and implement improved controls over budgetary accounting to ensure timely recording of obligations and timely de-obligations of invalid obligations;

b. Improve processes over recording of apportionment transactions to ensure funding is properly presented as available or unavailable in the financial statements; and

c. Develop and implement controls to ensure all possible instances of non-compliance with laws and regulations are reported to the appropriate individuals and investigated timely.

5. NPPD:

a. Improve the processes of recording apportionments to ensure amounts recorded in the general ledger do not exceed the approved SF-132;

b. Improve processes over non-contract obligations to ensure sufficient supporting documentation is maintained to support transactions recorded in the general ledger;

c. Improve processes with program offices to ensure the timely recording of obligations; and

d. Improve controls over identification and processing of contracts for close-out to ensure outstanding obligations that need to be closed out are processed timely and the funds de-obligated.

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

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

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

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

Conditions and Recommendations:

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

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

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

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

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

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

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

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

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

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

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

II-F Grants Management (FEMA only)

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

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

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

FEMA:

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

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

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

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

Recommendations: We recommend that FEMA:

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

II-G Custodial Revenue and Drawback (CBP Only)

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

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

II.3

Independent Auditors' Report
Exhibit II – Significant Deficiencies

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

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

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

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

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

Related to Drawback:

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

Related to the Entry Process:

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

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

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

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

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

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

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

Recommendations: We recommend that CBP:

1. *Related to Drawback:*

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

b. Develop and implement automated controls, where feasible, to prevent overpayment of a drawback claim; and

c. Continue to analyze current policies and procedures performed at the Drawback Centers. Determine the benefit of current procedures and revise as necessary.

2. *Related to the Entry Process:*

a. Redistribute guidance to necessary personnel regarding the appropriate CBP Directives that communicated the steps required for completing control procedures;

b. Develop policies and procedures, and provide training to port-level personnel related to the In-Bond Compliance Module;

c. Address limitations in reporting capabilities within the In-Bond Compliance Module;

d. Provide oversight and assistance at the headquarters-level to ensure that port personnel are following procedures, and monitor and review the in-bond process to ensure a high in-bond compliance rate;

e. Develop procedures to evaluate the completeness of the compliance review results submitted to CBP headquarters;

f. Continue to strengthen monitoring efforts related to bond sufficiency; and

g. Increase monitoring over the BW and FTZ compliance review program by developing a method to determine the program's overall effectiveness.

Independent Auditors' Report
Exhibit III – Compliance and Other Matters

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

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

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

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

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

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

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

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

III-J *Anti-deficiency Act* (ADA)

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

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

III.1

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

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

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

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

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

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

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

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

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

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

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

Criteria.1

Independent Auditors' Report
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(Listed Alphabetically by Criteria Source)

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

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National Institute of Standards and Technology Special Publication 800-53 Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*	Appendix F: AT-2, AT-3, AT-4, SA-3	II-E
Office of Personnel Management, Benefits Administration Letter, Number: 14-304	14-304 - Fiscal Year 2014 Cost Factors for Calculating Imputed Costs	I-A
OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, July 2014	Section 1	I-A
	Section 20.5 Appendix F	I-A, I-D
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OMB Circular No. A-133, *Revised to show changes published in the Federal Registers of June 27, 2003 and June 26, 2007 Audits of States, Local Governments, and Non-Profit Organizations*	Subparts B, D	II-F
OMB Circular No. A-136, *Financial Reporting Requirements*, Revised	Section V.2 and V.3	I-A
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Statement of Federal Financial Accounting Standards 1: *Accounting for Selected Assets and Liabilities*	Paragraphs 39, 41, 45, 77	I-A
Statement of Federal Financial Accounting Standards 5: *Accounting for Liabilities of The Federal Government*	Paragraph 19	I-A
Statement of Federal Financial Accounting Standards 6: *Accounting for Property, Plant, and Equipment*	Paragraphs 17, 18, 26, 34, 35, 39, 40	I-A
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Statement of Federal Financial Accounting Standards 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*	Paragraph 78	I-A
Statement of Federal Financial Accounting Standards 10: *Accounting for Internal Use Software*	Paragraphs 16, 18, 20	I-A

Criteria.3

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

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

Criteria.4

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

Homeland Security

November 13, 2014

MEMORANDUM FOR: John Roth
Inspector General

FROM: Chip Fulghum
Chief Financial Officer

SUBJECT: Fiscal Year 2014 Financial and Internal Controls Audit

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

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

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix A

Management Comments to the Report

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

Homeland Security

November 13, 2014

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Inspector General

FROM: Chip Fulghum
Chief Financial Officer

SUBJECT: Fiscal Year 2014 Financial and Internal Controls Audit

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OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B
Report Distribution

Department of Homeland Security

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Attention: Hotline
245 Murray Drive, SW
Washington, DC 20528-0305

Other Information

The ***Other Information*** section contains information on Tax Burden/Tax Gap, Schedule of Spending, Summary of Financial Statement Audit and Management Assurances, Improper Payments Act, Freeze 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.

Entry Summary of Trade Compliance Measurement
($ in millions)

	FY 2014	**FY 2013**
Estimated Revenue Gap	$192.5	$627.9
Preliminary Revenue Gap of all collectable revenue for year (%)	0.44%	1.51%
Estimated Over-Collection	$24.6	$108.8
Estimated Under-Collection	$217.2	$736.7
Overall Trade Compliance Rate (%)	98.0%	97.1%

The preliminary overall compliance rate for Fiscal Year (FY) 2014 is 98 percent. The final overall trade compliance rate and estimated revenue gap for FY 2014 will be issued in February 2015.

Schedule of Spending

The Schedule of Spending (SOS) presents an overview of how departments or agencies are spending money. The SOS presents total budgetary resources and total 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.

USASpending.gov reports obligations incurred for various financial assistance and contracts payment types. The major difference between information presented on the SBR and SOS versus USAspending.gov is that the SBR and SOS present all obligations incurred for the fiscal year; whereas USASpending.gov reports only a subset of those obligations related to various types of financial assistance and contracts. For example, the following types of obligations are presented in the SBR and SOS, but are not included in USASpending.gov: personnel compensation and benefits, agreements between Federal Government agencies (referred to as inter-agency agreements), and bankcard purchases below the micro-purchase threshold.

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 DHS 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 DHS was not approved to spend during the current fiscal year.
- ***Total Amounts Agreed to be Spent*** represents spending actions taken by DHS—including contracts, orders, grants, or other legally binding agreements of the Federal Government—to pay for goods or services. This line total agrees to the Obligations Incurred line in 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 Domestic Nuclear Detection Office (DNDO), the Federal Law Enforcement Training Centers (FLETC), the Office of Intelligence and Analysis (I&A), the Office of Operations Coordination and Planning (OPS), the Management Directorate (MGMT), the Office of Health Affairs (OHA), the Office of Inspector General (OIG), the National Protection and Programs Directorate (NPPD), the Science and Technology Directorate (S&T), the U.S. Citizenship and Immigration (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, 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 Obligations Incurred 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
Schedule of Spending
For the Years Ended September 30, 2014 and 2013
(In Millions)

	2014	2013
What Money is Available to Spend?		
Total Resources	$ 85,320	$ 95,055
Less Amount Available but Not Agreed to be Spent	14,316	14,916
Less Amount Not Available to be Spent	3,516	3,574
TOTAL AMOUNT AGREED TO BE SPENT	**$ 67,488**	**$ 76,565**
How Was the Money Spent/Issued?		
U.S. Customs and Border Protection		
Personnel Compensation and Benefits	$ 9,938	$ 9,661
Contractual Services and Supplies	3,494	3,142
Acquisition of Assets	785	592
Grants, Subsidies, and Contributions	-	6
Insurance, Refunds, and Other Spending	1,465	1,431
Total Spending	**15,682**	**14,832**
U.S. Coast Guard		
Personnel Compensation and Benefits	5,141	5,471
Contractual Services and Supplies	4,822	4,190
Acquisition of Assets	1,245	1,205
Grants, Subsidies, and Contributions	26	31
Insurance, Refunds, and Other Spending	151	85
Total Spending	**11,385**	**10,982**
Federal Emergency Management Agency		
Personnel Compensation and Benefits	1,073	1,189
Contractual Services and Supplies	1,527	2,309
Acquisition of Assets	179	776
Grants, Subsidies, and Contributions	9,885	10,953
Insurance, Refunds, and Other Spending	2,202	10,826
Total Spending	**14,866**	**26,053**
U.S. Immigration and Customs Enforcement		
Personnel Compensation and Benefits	2,896	2,891
Contractual Services and Supplies	3,132	2,758
Acquisition of Assets	232	123
Insurance, Refunds, and Other Spending	49	13
Total Spending	**6,309**	**5,785**

(Continued)

Department of Homeland Security
Schedule of Spending
For the Years Ended September 30, 2014 and 2013
(In Millions)

	2014	2013
Transportation Security Administration		
Personnel Compensation and Benefits	4,606	4,662
Contractual Services and Supplies	2,213	2,893
Acquisition of Assets	291	225
Grants, Subsidies, and Contributions	81	80
Insurance, Refunds, and Other Spending	3	4
Total Spending	**7,194**	**7,864**
Directorates and Other Components		
Personnel Compensation and Benefits	4,049	3,905
Contractual Services and Supplies	7,440	6,435
Acquisition of Assets	429	545
Grants, Subsidies, and Contributions	144	141
Insurance, Refunds, and Other Spending	(10)	23
Total Spending	**12,052**	**11,049**
Department Totals		
Personnel Compensation and Benefits	27,703	27,779
Contractual Services and Supplies	22,628	21,727
Acquisition of Assets	3,161	3,466
Grants, Subsidies, and Contributions	10,136	11,211
Insurance, Refunds, and Other Spending	3,860	12,382
TOTAL AMOUNT AGREED TO BE SPENT	**$ 67,488**	**$ 76,565**
Who Did the Money Go To?		
Non-Federal Obligations	$ 51,392	$ 65,240
Federal Obligations	16,096	11,325
TOTAL AMOUNT AGREED TO BE SPENT	**$ 67,488**	**$ 76,565**

Summary of Financial Statement Audit and Management Assurances

Table 1 and Table 2 below provide a summary of the financial statement audit results and management assurances for FY 2014.

Table 1: FY 2014 Summary of the Financial Statement Integrated Audit Results

Audit Opinion	**Unmodified**				
Restatement	**No**				
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Financial Reporting	1				1
IT Controls & System Functionality	1				1
Property, Plant & Equipment	1				1
Budgetary Accounting	1				1
Total Material Weaknesses	**4**	**0**	**0**	**0**	**4**

In FY 2014, the Independent Auditor's Report on the integrated financial statement audit identified four material weakness conditions at the Department level. Corrective actions were implemented by management, which resulted in several conditions at the Component levels being reduced in severity or resolved from prior year. For example, USCG strengthened its controls surrounding the accuracy of its liabilities. Specifically, USCG sustained its implemented processes to validate prior year accounts payable estimates, and the calculation and recording of contingent liabilities resulting the downgrade of the prior year significant deficiency. In addition, ICE and USCIS remediated prior year control deficiencies and strengthened its controls over Information Technology (IT) system security and improved its overall general IT control environment.

In FY 2014, the Department is providing reasonable assurance on internal controls over financial reporting, with the exception of four material weaknesses identified in Table 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 Resources, Environmental Liabilities, Fund Balance with Treasury, Human Resources and Payroll Management, Payment Management, Insurance Management, and Revenue and Receivables. DHS management has remediation work to continue in FY 2015; however, no additional material weaknesses were identified as a result of the work performed in these business process areas. The following table provides those areas where material weaknesses were identified and remediation work continues.

Table 2: FY 2014 Effectiveness of Internal Control Over Financial Reporting

Effectiveness of Internal Control Over Financial Reporting (FMFIA Section 2)					
Statement of Assurance	**Qualified**				
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Financial Reporting	1				1
IT Controls & System Functionality	1				1
Property, Plant & Equipment	1				1
Budgetary Accounting	1				1
Total Material Weaknesses	**4**	**0**	**0**	**0**	**4**
Effectiveness of Internal Control Over Operations (FMFIA Section 2)					
Statement of Assurance	**Unqualified**				
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
None noted	0				0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**
Conformance with Financial Management Systems Requirements (FMFIA Section 4)					
Statement of Assurance	**Systems do not fully conform with financial system requirements**				
Non-Conformances	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Federal Financial Management Systems Requirements, including Financial Systems Security & Integrate Financial Management Systems	1				1
Noncompliance with the U.S. Standard General Ledger	1				1
Federal Accounting Standards	1				1
Total Non-Conformances	**3**	**0**	**0**	**0**	**3**

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	DHS	**Auditor**
1. System Requirements	**Lack of substantial compliance**	**Lack of substantial compliance**
2. Accounting Standards	**Lack of substantial compliance**	**Lack of substantial compliance**
3. USSGL at Transaction Level	**Lack of substantial compliance**	**Lack of substantial compliance**

Effectiveness of Internal Control Over Financial Reporting

Pursuant to the *Department of Homeland Security Financial Accountability Act*, the Department has focused its efforts on evaluating corrective actions to assess whether previously reported material weaknesses continue to exist. In cases where material weaknesses continue to exist, the Department focused on identifying significant financial reporting areas where assurance can be provided and developed interim compensating measures to support the Secretary's commitment to obtain a clean opinion on all financial statements. Since FY 2005, DHS reduced audit qualifications from 10 to zero and material weaknesses by more than half. For the ninth consecutive year, we have made progress strengthening Department-wide internal controls over financial reporting, as evidenced by the following FY 2014 achievements:

- MGMT strengthened its internal controls over Budgetary Accounting by sustaining key processes to communicate with trading partners on a regular basis to reconcile unfilled customer/undelivered order balances.
- USCG implemented corrective actions over prior year policy and procedures weaknesses over Budgetary Accounting related to budget execution reconciliation and reporting activities. In addition, USCG strengthened its internal controls over the reporting of liabilities resulting in a downgrade of the prior year significant deficiency USCG continues to implement corrective actions over updating policies and procedures for the monthly execution reporting process, funds transfers, funds control, and reviewing aging obligations.
- The Chief Financial Officer (CFO) and Chief Information Officer partnered to provide direct assistance to Components in executing financial system security corrective actions and performing validation and verification procedures, resulting continued risk reductions of system security vulnerabilities at ICE and USCIS.

Significant internal control challenges remain in the areas of Financial Reporting; IT Controls and System Functionality; and PP&E. To support the remediation effort, the Department's CFO has initiated a financial system modernization initiative to address the Component's challenges with remediating the existing material weaknesses and non-compliance with federal financial systems requirements. The CFO conducts monthly risk management meetings with applicable Components, senior management, and staff.

Table 3 summarizes financial statement audit material weaknesses in internal controls as well as planned corrective actions with estimated target correction dates.

Table 3: FY 2014 Internal Control Over Financial Reporting Corrective Actions

Material Weakness	**Component**	**Year Identified**	**Target Correction**
	USCG, MGMT, NPPD, ICE, AND USSS	FY 2003	FY 2015
Financial Reporting	USCG did not establish an effective financial reporting process due to the lack of integrated financial processes and systems resulting in heavy reliance on manual processes. The USCG materially contributes to the Department's overall material weakness. The other Components experienced challenges in deficiencies in multiple business processes directly impacting financial reporting.		
Corrective Actions	The DHS CFO will continue to support Components in implementing corrective actions to establish effective financial reporting control activities.		

Material Weakness	Component	Year Identified	Target Correction
	CBP, FEMA, and USCG	FY 2003	FY 2015
IT Controls and System Functionality	The Department's Independent Public Auditor has identified Financial Systems Security as a material weakness in internal controls since FY 2003 due to inherited control deficiencies surrounding general computer and application controls. CBP, FEMA, and USCG primarily contribute to the Department's overall material weakness. The *Federal Information Security Management Act 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 conform to the *Federal Financial Management Improvement Act (FFMIA)*.		
Corrective Actions	The DHS CFO and CIO will support CBP, FEMA, and USCG 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, the Department will continue to move forward with financial system modernization that will provide substantial compliance with FFMIA.		

Material Weakness	Component	Year Identified	Target Correction
	USCG and CBP	FY 2003	FY 2015
Property, Plant, and Equipment (PP&E)	The controls and related processes surrounding PP&E to accurately and consistently record activity are either not in place or contain errors and omissions.		
Corrective Actions	USCG and CBP will implement and sustain policies and procedures to support completeness, existence, and valuation over its PP&E. The DHS CFO will continue efforts to support USCG and CBP implementing corrective actions to address capital asset conditions and develop policies and procedures to establish effective property management and internal controls over financial reporting activities.		

Material Weakness	Component	Year Identified	Target Correction
	USCG, FEMA, ICE, NPPD, and MGMT	FY 2004	FY 2015
Budgetary Accounting	Significant deficiencies remain within the Budgetary Resource Management process such as the lack of fully implemented policies and procedures, untimely obligations, ineffective funds controls, and the lack of effective verification and validation of obligations. USCG, FEMA, ICE, NPPD, and MGMT contribute to the overall Department level material weakness.		
Corrective Actions	The Department will continue to support the Components with implementing corrective actions to establish effective financial reporting control activities including funds controls, effective contract and obligation management, and validation of undelivered orders.		

Effectiveness of Internal Control Over Operations

The DHS Management Directorate is dedicated to ensuring that Departmental offices and Components perform as an integrated and cohesive organization, focused on the Department's frontline operations to lead efforts to achieve a safe, secure, and resilient homeland. Critical to this mission is a strong internal control structure. As we strengthen and unify DHS operations and management, we will continually assess and evaluate internal controls to ensure the effectiveness and efficiency of operations and compliance with laws and regulations. We have made tremendous progress in strengthening Department-wide internal controls over operations, as evidenced by the following FY 2014 achievements:

- The Office of the Chief Human Capital Officer (OCHCO) implemented a new strategic planning framework for the DHS human capital line of business through the cross-component Human Capital Leadership Council and integrated results of the second Quadrennial Homeland Security Review. OCHCO also implemented HRstat, the OPM/OMB-sponsored process that measures human capital line of business performance and completed Department-wide roll-out of the Balanced Workforce Assessment Tool.

- The Office of the Chief Information Officer (OCIO) conducted in-depth technical reviews for 10.3 percent of the Department's information technology (IT) systems to assess quality assurance and validate compliance with DHS security requirements. The OCIO executed annual IT Portfolio Reviews and conducted 13 Departmental TechStat reviews in support of the 25 Point Implementation Plan to Reform Federal Technology Management. These reviews resulted in the cancellation of two programs: 1) NPPD's Risk Assessment and Management Program and 2) ICE's Student Exchange Visitor Information System II, at a total estimated cost avoidance of more than $14 million. The OCIO completed Program Health Assessments for the 88 programs on the FY 2014 Major Acquisition Oversight List; and over 81 percent of DHS federal and contract staff users across the Nation use the Homeland Security Presidential Directive-12 smartcards for access resulting in DHS exceeding its goal by 6 percent.

- The Office of the Chief Procurement Officer (OCPO) conducted formal staff assessments of two major programs, the DHS National Protection and Programs Directorate's Contiguous Diagnostic and Mitigation program, and the United States Immigration and Customs Enforcement's TECS Modernization program. The assessments identified staffing deficiencies with impacts to each program's execution. The OCPO achieved significant progress in communications with industry. In FY 2014, DHS improved its Acquisition Planning Forecast System database that provides industry, especially small businesses, with information about upcoming DHS procurements exceeding $150,000 in value. This change will assist industry with determining which procurements to pursue and enhance DHS's competitive procurements in the future. OCPO continued building the DHS acquisition workforce with the graduation of 60 acquisition professionals from the Acquisition Professional Career Program to fill critical positions in contracting, program management, systems engineering, information technology, and cost estimating.

- The Office of the Chief Readiness Support Officer (OCRSO) completed major improvements to DHS asset data through continued implementation of Consolidated Asset Portfolio and Sustainability Information System; restructured the DHS Executive Sedan

Service using contracted drivers and General Services Administration -leased, fuel efficient/hybrid vehicles; strengthened DHS Real Property planning through publication of an Annual Portfolio Report, the new Freeze the Footprint 5 Year Plan, and the new NCR 10 Year Strategic Plan; and worked with GSA to develop an National Capital Region consolidation plan for DHS Headquarters operations.

- The Office of the Chief Security Officer (OCSO) Strengthened CSO Council mechanisms via Security Enterprise Advisory Group and Security Business Enterprise Architecture; conducted Security Compliance Reviews; reduced security clearance backlogs; hired key security lead at sensitive level III bio-hazard research facility with S&T; identified dedicated Office of General Council (OGC) support to OCSO; exercised OCSO devolution site with FLETC; and developed DHS Insider Threat Program.

- The Office of Program Accountability and Risk Management (PARM) improved decision-making and reduced the risks inherent in acquisition program management by conducting 13 Acquisition Review Boards and drafting 40 Acquisition Decision Memoranda for Under Secretary for Management/Chief Acquisition Officer signature. PARM secured USM/Chief Acquisition Officer signature on 39 key acquisition documents in accordance with Management Directive 102-01. To better track acquisition documents in DHS, PARM deployed a consolidated Acquisition Decision Memorandum Governance Library with advanced search SharePoint capabilities. Additionally, PARM implemented the High-Visibility Meeting of Major Acquisition Programs for the USM/Chief Acquisition Officer and Management Chief Executive Officers to provide the status of key DHS Major Acquisitions and to identify and address issues early.

Improper Payments Elimination and Recovery Improvement Act

The *Improper Payments Information Act of 2002* (IPIA) (Pub. L. 107-300), as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) (Pub. L. 111-204), requires agencies to annually report information on improper payments to the President and Congress (through their annual Performance and Accountability Report or Agency Financial Report). IPERA also, generally, repealed the Recovery Auditing Act (Section 831, Defense Authorization Act for FY 2002; Pub. L. 107-107). The most recent law, the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA); (Pub. L. 112-248), also amended IPIA. IPERIA strengthened the requirement for government agencies to carry out cost-effective programs to identify and recover overpayments made to contractors, also known as "recovery auditing." OMB established specific reporting requirements for agencies with programs that possess a significant risk of improper payments and for reporting on the results of recovery auditing activities. As noted below, DHS will implement corrective action plans for all programs with estimated improper error amounts above $10 million.

In FY 2014, DHS is compliant with the *Improper Payment Elimination and Recovery Improvement Act*. DHS is committed to achieving the most cost effective strategy on the reduction of improper payments. Throughout the years, we have worked together to strengthen program and payment procedures. The results of testing during FY 2014 have yielded estimated error rates under three percent, well below the ten percent threshold set by the Office of Management and Budget.

I. Risk Assessments

In FY 2014, DHS conducted risk assessments on nearly $63 billion of FY 2013 disbursements for 97 DHS programs, where disbursements exceeded $10 million. We assessed all payment types except for federal intra-governmental payments which were excluded based on the definition of an improper payment contained in IPERIA.

In late October 2012, Hurricane Sandy devastated portions of the Mid-Atlantic and northeastern United States, leaving victims of the storm and their communities in need of immediate disaster relief aid. On January 29, 2013, the President signed the Disaster Relief Appropriations Act (DRAA). According to DRAA, all federal programs or activities receiving funds under that Act are automatically considered susceptible to significant improper payments, regardless of any previous improper payment risk-assessment results, and are required to calculate and report an improper payment estimate. We tested Hurricane Sandy-related FY 2013 payments for 12 DHS programs receiving this funding. NPPD received intra-governmental funding from FEMA for guard services, therefore, they were 1 of the 12 programs tested.

The susceptibility of programs to make improper payments was determined using both qualitative and quantitative risk analysis. A weighted average of 65 percent for qualitative factors and 35 percent for quantitative risk yields the program's overall risk score. The risk conditions performed using quantitative and qualitative factors are as follows:

- <u>Payment Processing Controls</u> – Management's implementation of internal controls over payment processes, including existence of current documentation, the assessment of design and operating effectiveness of internal controls over payments, the identification of deficiencies related to payment processes and whether or not effective compensating controls are present, and the results of prior IPIA payment sample testing.

- Quality of Internal Monitoring Controls – Periodic internal program reviews to determine if payments are made properly. Strength of documentation requirements and standards to support tests of design and operating effectiveness for payment controls. Presence or absence of compensating controls.
- Human Capital – Experience, training, and size of payment staff. Ability of staff to handle peak payment requirements. Level of management oversight and monitoring against fraudulent activity.
- Complexity of Program – Complexity and variability of interpreting and applying laws, regulations, and standards required of the program.
- Nature of Payments and Recipients – Type, volume, and size of payments. Length of payment period. Quality of recipient financial infrastructure and procedures. Recipient experience with federal award requirements.
- Operating Environment – Existence of factors that necessitate or allow for loosening of financial controls. Any known instances of fraud. Management's experience with designing and implementing compensating controls.
- Additional Grant Programs Factors – Federal Audit Clearinghouse information on quality of controls within grant recipients. Identification of deficiencies or history of improper payments within recipients. Type and size of program recipients and sub-recipients. Maturity of recipients' financial infrastructure, experience with administering federal payments, number of vendors being paid, and number of layers of sub-grantees.
- Contract Payment Management – Identification of contract management weaknesses identified in previous payment testing. Discrepancies between contracting officer representatives (COR) reviewing and approving invoices with CORs listed in the contract. Contractors reviewing and approving invoices on behalf of the COR. Lack of familiarity with goods and services listed on invoices. Time available to review invoices prior to payment. Sufficiency of supporting documentation to support invoice amount prior to payment. Completeness of contract file in order to verify agreed upon amounts for goods and/or services.

Based on this year's assessment process, the following programs were deemed to be vulnerable to significant improper payments:

Table 4: Programs at High-Risk for Improper Payments Based on FY 2014 Risk Assessments and Prior Year Payment Sample Testing

($ in millions)

Component	Program	FY 2014 Disbursements (Based on FY2013 Actual Data)[2]
CBP	Refund & Drawback	$1,473
	Administratively Uncontrollable Overtime	$393
	Hurricane Sandy	$0
FEMA	Emergency Food and Shelter National Board Program	$119
	Port Security Grant Program	$558
	Assistance to Firefighters Grant Program	$336
	Individuals and Households Program – Hurricane Sandy	$1,559
	National Flood Insurance Program	$8,720
	Disaster Relief Fund - Travel for Hurricane Sandy	$179
	Government Charge Card[1]	$3
	Public Assistance Program[2]	$4,915
	Homeland Security Grant Program[2]	$2,001
	Vendor Pay - Disaster Relief Fund	$503
	Vendor Pay - Non Disaster Relief Fund	$609
	Urban Search & Rescue – Hurricane Sandy	$9
	Disaster Case Management – Hurricane Sandy	$4
	Disaster Relief Fund Hazard Mitigation Grant – Hurricane Sandy	$0
	Transit Security Grant Program[2]	$447
	Hurricane Sandy Payroll	$249
ICE	Enforcement and Removal Operations	$1,578
NPPD	Hurricane Sandy	$8
USCG	Hurricane Sandy	$19
OIG	Hurricane Sandy	$1
Total Disbursements		**$23,683**

Note 1: OMB approved alternative sampling methodology.
Note 2: Selected states and territories were tested for the state-administered programs Homeland Security Grant Program, Public Assistance, and Transportation Security Grant Program. See the notes 3, 4 and 5 in Table 5 for a listing of states and territories tested for these programs in FY 2014. Used OMB approved alternative sampling methodology.

II. Statistical Sampling

We used a statistically valid, stratified sampling design to select and test FY 2013 disbursements. The sampling design and execution was performed by a statistician. Our procedures provided an overall estimate of the percentage of improper payment dollars within ±2.5 percent precision at the 90 percent confidence level, as specified by OMB M-15-02 guidance for programs as noted above. An expected error rate of 3 to 10 percent of total payment dollars was used in the sample size calculation.

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. For the certainty strata, all payments are selected.

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.

Test results of DHS programs deemed to be vulnerable to significant improper payments are presented in the following table. Improper payment estimates are based on statistically valid estimates for FY 2013 payments. These estimates are then projected for FY 2014 and beyond, based on the timing and significance of improvements expected from completing corrective actions.

Table 5: FY 2014 IPERIA Test Results

($ in millions)

Component	Program	FY 2014 Payment Population (Based on FY 2013 Actual Data)	FY 2014 Sample Size (Based on FY 2013 Actual Data)	FY 2014 Est. Error Amount (Based on FY 2013 Actual Data)	FY 2014 Est. Error Percentage (Based on FY 2013 Actual Data)
CBP	Refund & Drawback	$1,473	$110	$0	0.01%
	Administratively Uncontrollable Overtime[1]	N/A	N/A	N/A	N/A
	Hurricane Sandy	$0	$0	$0	0.00%
FEMA	Emergency Food and Shelter National Board Program	$119	$11	$2	1.47%
	Port Security Grant Program[1]	N/A	N/A	N/A	N/A
	Assistance to Firefighters Grant Program	$336	$112	$0	0.10%
	Individuals and Households Program – Hurricane Sandy	$1,559	$10	$57	3.68%
	National Flood Insurance Program	$8,720	$60	$5	0.05%
	Disaster Relief Fund – Travel for Hurricane Sandy	$179	$2	$0	0.15%
	Government Charge Card[2]	$3	$1	$0	8.04%
	Public Assistance Program[3,7]	$2,535	$1,431	$12	1.09%
	Homeland Security Grant Program[4]	$626	$280	$1	0.31%
	Vendor Pay – Disaster Relief Fund	$503	$227	$33	6.56%
	Vendor Pay – Non Disaster Relief Fund[1]	N/A	N/A	N/A	N/A
	Urban Search & Rescue – Hurricane Sandy	$9	$9	$0	0.00%
	Disaster Case Management – Hurricane Sandy	$4	$4	$0	0.00%
	Disaster Relief Fund Hazard Mitigation Grant – Hurricane Sandy	$0	$0	$0	0.00%
	Transportation Security Grant Program[5]	$204	$110	$0	0.28%
	Hurricane Sandy Payroll	$249	$1	$2	0.61%
ICE	Enforcement and Removal Operations	$1,578	$390	$66	4.18%
NPPD	Hurricane Sandy	$8	$7	$0	0.33%
USCG	Hurricane Sandy	$19	$13	$1	4.10%
OIG	Hurricane Sandy	$1	$1	$0	0.00%
DHS	**All Programs[6]**	**$18,125**	**$2,779**	**$179**	**0.99%**
DHS	**High Risk Programs[7]**	**$6,175**	**$2,058**	**$168**	**2.72%**

Note 1: Program identified in FY 2014 risk assessment as a program susceptible to high-risk, will be reporting in FY 2015 per the OMB guidance A-123 Appendix C.

Note 2: Alternative Methodology used for FEMA Hurricane Sandy Government Charge Card program testing.

Note 3: Sample testing of the Public Assistance Program was done in two stages covering fourteen states (AK, CT, MA, MD, NJ, NY, OH, OK, OR, PA, PR, VA, VT, and WA). These states paid out $2,535 million out of a national total of $4,915 million. The totals in the table are the stage two payment populations for the states tested in FY 2013. DHS exempted Oklahoma from participating in improper payment testing during FY 2013 reporting period due to significant 2013 tornado activity, as resources were needed to support relief efforts. Therefore Oklahoma was included in FY2014 improper payment testing. See Improper Payment Reduction Outlook table below for the national estimated error rate and amount.

Note 4: Sample testing of the Homeland Security Grant Program was done in two stages covering 17 states (AL, HI, IA, ID, IL, IN, KS, ND, NY, OK, RI, SC, TN, VA, WI, WV, and WY). These states paid out $626 million out of a national total of $2,001 million. The totals in the table are the stage two payment populations for the States tested. See Improper Payment Reduction Outlook table below for the national estimated error rate and amount.

Note 5: Sample testing of the Transit Security Grant Program was done in two stages covering 10 states (AZ, GA, IA, IN, KY, LA, NE, NY, TN, and WI). These states paid out $204 million out of a national total of $447 million. The totals in the table are the stage two payment populations for the states and territories tested. See Improper Payment Reduction Outlook table below for the national estimated error rate and amount.

Note 6: Percentage figures based on cumulative totals.

Note 7: Totals for programs with estimated error amounts of $10 million or greater as listed in this table.

Several programs considered high-risk based on risk assessment grading were not confirmed as high-risk based on sample test results. Based on the results of sample testing, corrective action plans are required for the following eight programs due to a national estimated error amounts above $10 million and for FEMA's Government Charge Card Program for using an alternative testing methodology:

1. ICE's Enforcement and Removal Operations Program;
2. FEMA's Disaster Relief Vendor Payments Program;
3. FEMA's Public Assistance Grant Program;
4. FEMA's Homeland Security Grant Program;
5. FEMA's Individuals and Households Program;
6. FEMA's Transportation Security Grant Program;
7. FEMA's Government Charge Card Program; and
8. USCG Hurricane Sandy.

III. Corrective Actions

The following tables list corrective actions for programs with estimated improper error amounts above $10 million. These corrective actions are targeted at addressing the root causes behind administrative and documentation errors caused by the absence of the supporting documentation necessary to verify the accuracy of the claim; or inputting, classifying, or processing applications or payments incorrectly by DHS, a state agency, or a third party who is not the beneficiary. Authentication and medical necessity errors and verification errors were either not identified or were immaterial to the estimated error rates and amounts of DHS high-risk programs.

Status of Prior Year Corrective Action Plans for ICE High-Risk Program(s)

Table 6: Enforcement and Removal Operations Program Corrective Actions

Risk Factors	Corrective Actions	Target Completion Date	Current Status
Category of Error: Lack of contractual documentation to support disbursement			
1. Payments may be made when a proper contracting document does not exist; program offices may establish IROs to obligate for services outside of procurement channels	1. Review current guidance on Internal Recurring Obligations (IRO) and other miscellaneous obligations	December 2013	Completed
	2. Update documentation (Internal Control System, Standard Operating Procedures, etc.) as necessary	December 2013	Completed
	3. Communicate proper procurement procedures for IROs (i.e. wireless communications) and reinforce understanding of proper procurement procedures and contact info for questions	December 2013	Completed
	4. Transition inappropriately issued IROs to blanket purchase agreement calls or other modes of contracting, as necessary	March 2014	Completed
Category of Error: R&A is not performed consistently and properly			
1. Payment may be made for incorrect amounts, items/services that are out of scope, duplicate items billed and services outside the period of performance	1. Review current guidance for CORs on receiving & acceptance	September 2013	Completed
	2. Update guidance for R&A to ensure all proper elements are captured and to ensure R&A is performed by the appropriate official(s) identified in the contract	November 2013	Completed
	3. Conduct mandatory training for all CORs on proper R&A	December 2013	Completed

Risk Factors	Corrective Actions	Target Completion Date	Current Status
2. Receiving & acceptance not performed by authorized COR/Program POC, or COR/Program POC not designated in the contract	4. Distribute periodic communications to reinforce proper procedures and develop procedures for monitoring performance of receipt and acceptance by the appropriate official	April 2014	Completed
Category of Error: COR invoice review and approval is not performed consistently and accurately			
1. Payment may be made for incorrect amounts, items/services that are out of scope, duplicate items billed and services outside the period of performance 2. Invoice review & approval not performed by authorized COR/Program Point Of Contact, or COR/Program POC not designated in the contract	1. Review current guidance for CORs on invoice review and approval	August 2013	Completed
	2. Update guidance for COR invoice review and approval to ensure all proper elements are captured and to ensure invoice review and approval is performed by the appropriate official(s) identified in the contract (signature on invoice?)	December 2013	Completed
	3. Conduct mandatory training for all CORs on proper invoice review and approval	December 2013	Completed
	4. Distribute periodic communications to reinforce proper procedures and develop procedures for monitoring the reviews	June 2013	Completed
Category of Error: Improperly reviewed invoices are paid; three way match is inconsistent			
1. Payment may be made for services outside the period of performance 2. Payment may be made inaccurately due incorrect or missing information, including; contract number, vendor name, vendor address, remittance info, invoice number, invoice date, TIN, DUNS, etc.	1. Review current guidance for accounts payable (A/P) technicians	November 2013	Completed
	2. Update guidance for A/P techs to ensure it includes clear instructions on their responsibility for review	December 2013	Completed
	3. Develop invoice review checklist and reference guide.	February 2014	Completed
	4. Conduct remedial training for A/P techs.	March 2014	Completed
	5. Enhance WebView/FileOnQ and/or FFMS, if necessary to assist with only allowing authorized POCs to perform receive and acceptance (R&A) in order to meet Homeland Security Acquisition Manual requirements	September 2014	Completed
Category of Error: Lack of invoice back up documentation			
1. Lack of invoice back-up documentation, such as itemized detail and/or receipts for reimbursable expenses (line item detail)	1. Incorporate guidance regarding proper documentation and retention requirements into COR guidance and training	March 2014	Completed
	2. Implement electronic (Excel) tracking of detainees within each detention facility	March 2014	Completed
Category of Error: Contract (line items) not funded prior to payment (performance)			
1. Improper processing of contracts and obligations; not in compliance with the Federal Acquisition Regulation	1. Implement existing “Subject to Availability of Funds” guidance regarding notification to vendor for funds availability, receipt of invoice, and payment of interest	December 2013	Ongoing – New Target Date – September 2015
	2. Develop and implement a funds control tracking sheet containing the following information: 1) the amount of money expended on each contract; 2) the amount of money remaining on each contract and; 3) the amount of money carried forward from a previous modification to pay for a current invoice	March 2014	Completed
Category of Error: Updates Needed to Marshal Service Agreements (MSA) used for ICE Detainees			
1. Payment may be made for ineligible items	1. MSAs modified to include ICE in scope and updated agreement stored in system of record.	September 2014	Completed

Corrective Action Plans for FY 2014 ICE High-Risk Program(s)

Table 7: Planned Enforcement and Removal Operations Program Corrective Actions

Risk Factors	Corrective Actions	Target Completion Date
Receipts and Acceptance **Category of Error: Lack of contractual documentation to support disbursement** **Category of Error: Lack of invoice back up documentation (i.e. itemized detail and/or receipts for reimbursable expenses)** **Category of Error: Difference in price charged on the invoice and the price identified in the contract** **Category of Error: Duplicate Items billed and paid**		
1. Payments may not be made in accordance with the official contract. 2. Payment may be made for incorrect amounts, items/services that are out of scope, duplicate items billed and services outside the period of performance 3. Lack of invoice back-up documentation, such as itemized detail and/or receipts for reimbursable expenses (line item detail) 4. Receiving & acceptance not performed by authorized COR/Program POC, or COR/Program POC not designated in the contract	1. Update/clarify COR responsibilities for proper invoice review and validation, including determination of the final invoice.	March 2015
	2. Update COR Checklist, as necessary, to ensure proper support documentation exists, prices correlate with the contract, correct contract line item numbers (CLINs) is identified for disbursement, indication and approval of final invoice.	June 2015
	3. Update COR guidance as necessary with revised COR responsibilities regarding proper invoice documentation and retention requirements.	June 2015
	4. Conduct mandatory training for all CORs on proper reviews and validation of invoices and reimbursable expenses	July 2015
	5. Validate and update WebView validation table with the CORs/POCs/COs listed on the respective contracts or modification to ensure authorized invoice approvals.	June 2015
	6. Distribute periodic communications (Q2, Q3, Q4 of FY15) to reinforce proper procedures and develop procedures for monitoring performance of receipt and acceptance by the appropriate official	March 2015 June 2015 September 2015
Invoice Payment Review **Category of Error: Lack of contractual documentation to support disbursement** **Category of Error: Period of Performance (POP): 1) Invoice POP outside of contractual POP** **Category of Error: POP: 2) POP mismatch within the invoice (i.e. header vs. backup, etc.)** **Category of Error: Payment not made to the vendor identified in the contract**		
1. Payment may be made for services outside the period of performance 2. Payment may be made inaccurately due incorrect or missing information, including; contract number, vendor name, vendor address, remittance info, invoice number, invoice date, TIN, DUNS, etc.	1. Determine/clarify payment tech and certifying officer responsibilities for invoice validation prior to disbursement and guidance on proper documentation requirements	March 2015
	2. Develop invoice review checklist and reference guide. Establish criteria or decision tree to guide the payment office on what inconsistencies between the invoice and contract will require a modification of the contract or rejection of the invoice (e.g. changes to entity information will require a modification)	March 2015
	3. Update guidance for A/P techs to ensure it includes clear instructions on their responsibility for review to ensure proper validation is performed by the payment office prior to disbursement.	June 2015
	4. Conduct additional/refresher training for A/P techs on payment office invoice review.	June 2015
Category of Error: Invoice line item not found as valid CLIN within the contract		
1. Improper processing of contracts and obligations; not in compliance with the Federal Acquisition Regulation	1. Create/update guidelines for ensuring all contract costs align to the requisition as separate CLINs	December 2015
	2. Develop training with instructions for the updated process for CORs, programs, and COs.	June 2015
Category of Error: Earned discount not taken or not taken accurately **Category of Error: Interest not paid or not paid accurately**		
N/A	N/A - findings were insignificant	N/A

Status of Prior Year Corrective Action Plans for FEMA High-Risk Program(s)

Table 8: Disaster Relief Fund Vendor Payments Program Corrective Actions

Risk Factors	Corrective Actions	Target Completion Date	Current Status
Category of Error: Insufficient Policies to Prevent Improper Payments			
1. FEMA COR manual needs to be updated for revised DHS COR policy	Update FEMA COR manual to be consistent with DHS COR policy regarding the following: 1. Clarify who has the authority to approve cost reimbursable and T&M payments (DHS COR manual section 7.14); 2. Clarify impact of DCAA-DHS MOU requiring 1st invoices be routed through DCAA on cost reimbursable contracts.	March 2014	Ongoing – New Target Date – November 2014
2. Vendor payments standard operating procedures need to be strengthened	1. Add a chapter on invoice reviews required in each step of the invoice payment cycle.	March 2014	Completed – January 2014
3. Training needed on invoicing roles and responsibilities throughout the contract life-cycle	1. Institute mandatory and refresher training for contracting officers, contracting officer's technical representatives, and accounting technicians.	March 2014	Completed – March 2014
Category of Error: Non Contract Payments			
1. Standard operating procedures needed	1. Develop a process and standard operating procedures for authorizing and paying non-contract payments such as lease payments and bills of lading.	March 2014	This was deleted in Oct 2012. BOL's no longer included in testing due to new system
Category of Error: Acceptance and Receiving			
1. Reports and contract file maintenance needs improvement	1. Develop a standard inspection, acceptance, and receiving report for contracting officer's technical representatives and complete training on its proper completion and use.	January 2014	Ongoing – New Target Date – November 2014
	2. Implement an electronic contract file maintenance system.	September 2014	Ongoing – New Target Date May 2015

*Note: DRF-Vendor payments corrective action plan will not change because this year's testing yielded the same or similar issues as last year.

Table 9: Public Assistance Program Corrective Actions

Risk Factors	Corrective Actions	Target Completion Date	Current Status
Category of Error: Unmet Work Completion Deadline			
1. Failure to Complete Work During Period of Performance	1. Increase grantee documentation review guidance and create and conduct Public Assistance payment processing training.	June 2014	Completed - August 2014
Category of Error: Scope Discrepancy between Project Worksheet Scope of Work (SOW) and Supporting Documentation			
1. Discrepancies Found between PW SOW and Supporting Documentation	1. Require FEMA project specialists and Public Assistance coordinators to take training courses on proper PW data entry and development, project writing skills, and audit review requirements.	June 2014	Completed - August 2014
	2. Develop reference guides and/or checklists for costs documentation reviews to improve consistency of scope reviews.	June 2014	Completed - August 2014
	3. Offer grantee invoice and force account documentation review guidance or training to ensure the scope of supporting documentation falls within the scope of the project worksheet/sub-grantee application.	June 2014	Completed - August 2014

Table 10: Homeland Security Grant Program Corrective Actions

Risk Factors	Corrective Actions	Target Completion Date	Current Status
Category of Error: Insufficient Supporting Documentation			
1. Missing Invoices and Missing Proof of Payment	1. Enhance HSGP guidance related to grant financial management guidelines, standardized minimum reporting requirements, and financial recordkeeping to reduce gaps in the grantee and sub-grantee invoice and/or other expenditure documentation.	March 2014	Completed - March 2014
	2. Require grantees and sub-grantees to comply with document retention requirements past the required three-year grant period.	March 2014	Completed - March 2014
	3. Conduct training for HSGP program and financial officers to include compliance with standardized financial management practices, responding to documentation requests, and document retention	March 2014	Completed - March 2014
Category of Error: Time Frames Not Met			
1. Application Deadlines not met	1. Enhance HSGP guidance related to grant financial management guidelines, standardized minimum reporting requirements.	March 2014	Completed - March 2014
	2. Reinforce program specialist training on grant approval process.	March 2014	Completed - March 2014
	3. Require program specialist to approve a Grant Adjustment Notice with first level supervisor approval for grant applications submitted after deadline.	March 2014	Delayed – New Target Date - March 2015
Category of Error: Unallowable Costs			
1. Grantees used current fiscal year grant funds to pay prior grant award expenditures	1. Provide grantees with additional training on Allowable and unallowable costs.	March 2014	Completed - March 2014
	2. Develop Allowable Costs Quick Reference Guide and distribute to grantees on an annual basis.	March 2014	Ongoing – New Target Date - March 2015
	3. Enhance grants financial monitoring efforts by incorporating intermittent sample testing of expenditures during the grants life cycle.	September 2014	Ongoing – New Target Date - September 2015

Corrective Action Plans for FY 2014 FEMA High-Risk Program(s)

Table 11: Planned Disaster Relief Fund Vendor Payments Program Corrective Actions

Risk Factors	Corrective Actions	Target Completion Date	Current Status
Category of Error: Insufficient Policies to Prevent Improper Payments			
1. FEMA COR manual needs to be updated for revised DHS COR policy	1. Update FEMA COR manual to be consistent with DHS COR policy regarding the following: 2. Clarify who has the authority to approve cost reimbursable and T&M payments (DHS COR manual section 7.14); 3. Clarify impact of DCAA-DHS MOU requiring 1st invoices be routed through DCAA on cost reimbursable contracts.	March 2014	Ongoing – New Target Date - March 2015
Category of Error: Acceptance and Receiving			
1. Reports and contract file maintenance needs improvement	1. Develop a standard inspection, acceptance, and receiving report for contracting officer's technical representatives and complete training on its proper completion and use.	January 2014	Ongoing – New Target Date – November 2014
	2. Implement an electronic contract file maintenance system.	September 2014	Ongoing – New Target Date – May 2015

*Note: DRF-Vendor payments corrective action plan will not change because this year's testing yielded the same or similar issues as last year.

Table 12: Planned Individual and Households Payments Program Corrective Actions

Risk Factors	Corrective Actions	Target Completion Date	Current Status
Category of Error: Calculation Errors			
1. Improve NEMIS or info view platform to ensure accurate processing of awards generated by multiple inspections.	1. A new Web-enabled platform will provide line item comparison capabilities for Real and Personal Property disbursements.	September 2016	Ongoing
2. Develop a calculation comparison tool for caseworkers to improve payment award accuracy.	2. A new Web-enabled platform will provide calculators, worksheets, and logic to support added controls for caseworker's disbursements.	FY 2016	Ongoing
Category of Error: Insufficient Documentation			
1. Implement sound business management practices by 1) limiting policy and procedural changes mid-stream 2) disallowing retroactive calculation adjustments	1. Implement changes/updates from "this date forward"	September 2016	Ongoing
Category of Error: Incomplete Verification			
1. Modify inspector guidance to clarify and enhance primary residency determinations.	1. Clarification, which has already been implemented, of the inspection guidelines resulting from phase one of Hurricane Sandy IPIA enhanced and clarified guidance for the inspector. These changes also support added assurance the applicant understood the intent of the question. The changes were made on 6/26/2013 from: "Ask the applicant if they had any disaster related damage at their primary residence; if 'Yes,' correct the address and perform the inspection on the applicant's primary residence. Select 'Not Primary Residence' if the applicant states that the damaged dwelling is not their primary residence but does have disaster related unmet needs (medical, dental, funeral, transportation)."	September 2014	Completed
Category of Error: Calculation Errors and Incomplete Verification			
1. Improve caseworker guidance on second review risk issues.	1. When policy, procedural or guidance changes result, require a second review for CTHA payment disbursements for a designated time	September 2016	Ongoing
2. Assign CTHA processing to a designated group of individuals	2. Identify core servicing group and augmentation support team for increased workloads to ensure knowledge base is current.	March 2015	Ongoing

Table 13: Planned Homeland Security Grant Program Corrective Actions

Risk Factors	Corrective Actions	Target Completion Date	Current Status
Category of Error: Insufficient Supporting Documentation			
1. Missing Invoices and Missing Proof of Payment	1. Enhance HSGP guidance related to grant financial management guidelines, standardized minimum reporting requirements, and financial recordkeeping to reduce gaps in the grantee and sub-grantee invoice and/or other expenditure documentation.	March 2015	Ongoing
	2. Require grantees and sub-grantees to comply with document retention requirements past the required three-year grant period.	March 2015	Ongoing
	3. Conduct training for HSGP program and financial officers to include compliance with standardized financial management practices, responding to documentation requests, and document retention	March 2015	Ongoing
Category of Error: Time Frames Not Met			
1. Application Deadlines not met	1. Enhance HSGP guidance related to grant financial management guidelines, standardized minimum reporting requirements.	March 2015	Ongoing
	2. Reinforce program specialist training on grant approval process.	March 2015	Ongoing
	3. Require program specialist to approve a Grant Adjustment Notice with first level supervisor approval for grant applications submitted after deadline.	March 2015	Ongoing
Category of Error: Unallowable Costs			
1. Grantees used current fiscal year grant funds to pay prior grant award expenditures	1. Provide grantees with additional training on allowable and unallowable costs.	March 2015	Ongoing
	2. Develop Allowable Costs Quick Reference Guide and distribute to grantees on an annual basis.	March 2014	Ongoing – New Target Date - March 2015
	3. Enhance grants financial monitoring efforts by incorporating intermittent sample testing of expenditures during the grants life cycle.	September 2014	Ongoing – New Target Date September 2015

Table 14: Planned Transportation Security Grant Program Corrective Actions

Risk Factors	Corrective Actions	Target Completion Date	Current Status
Category of Error: Insufficient Supporting Documentation			
1. Missing Invoices and Missing Proof of Payment	1. Enhance TSGP guidance related to grant financial management guidelines, standardized minimum reporting requirements, and financial recordkeeping to reduce gaps in the Grantee and Sub-Grantee invoice and/or other expenditure documentation.	March 2014	Ongoing – New Target Date March 2015
	2. Require grantees and sub-grantees to comply with document retention requirements past the required three-year grant period.	March 2014	Ongoing – New Target Date March 2015
	3. Conduct training for TSGP program and financial officers to include compliance with standardized financial management practices, responding to documentation requests, and document retention	March 2014	Ongoing – New Target Date March 2015

Table 15: Planned Public Assistance Program Corrective Actions

Risk Factors	Corrective Actions	Target Completion Date	Current Status
Category of Error: Unmet Work Completion Deadline			
1. Failure to Complete Work During Period of Performance	1. Increase grantee documentation review guidance and create and conduct public assistance payment processing training.	June 2014	Ongoing – New Target Date March 2015
Category of Error: Scope Discrepancy between Project Worksheet Scope of Work (SOW) and Supporting Documentation			
1. Discrepancies Found between PW SOW and Supporting Documentation	1. Require FEMA project specialists and public assistance coordinators to take training courses on proper project worksheet data entry and development, project writing skills, and audit review requirements.	June 2014	Ongoing – New Target Date March 2015
	2. Develop reference guides and/or checklists for costs documentation reviews to improve consistency of scope reviews.	June 2014	Ongoing – New Target Date March 2015
	3. Offer grantee invoice and force account documentation review guidance or training to ensure the scope of supporting documentation falls within the scope of the project worksheet/sub-grantee application.	June 2014	Ongoing – New Target Date March 2015

Table 16: Planned Government Charge Card Corrective Actions

Risk Factors	Corrective Actions	Target Completion Date	Current Status
Category of Error: Insufficient communication			
1. Policies and procedures are not updated and communicated in an effective manner . Preventative controls to minimize risk exposure can be better utilized.	1. Issue purchase card alerts	August 2014	Ongoing – New Target Date – March 2015
	2. Conduct town hall meetings	August 2014	Ongoing – New Target Date – March 2015
	3. Issue purchase card newsletters	August 2014	Ongoing – New Target Date – March 2015
Category of Error: Inactive accounts remain open			
1. FEMA may still have open Purchase Cards linked to former employees. Purchase card limits may be too high and not accurately reflect the	1. Analyze spending limits to determine if the limits can be reduced	September 2014	Completed
	2. Issue letters to AOs explaining the decision to reduce the spending limits	September 2014	Completed
	3. Follow up on inactive alerts from the bank to	September 2014	Ongoing – New

Risk Factors	Corrective Actions	Target Completion Date	Current Status
necessary purchasing power of the employee. Inactive accounts and accounts with too-high limits expose FEMA to increased levels of risk.	obtain a determination from the AO if the card is needed		Target Date – March 2015
Category of Error: High risk merchant codes are not fully reviewed			
1. Purchase card transactions in certain high risk merchant category codes (MCC) expose FEMA to an increased level of risk.	1. Review bank reports routinely to ensure that blocked high risk MCC's are not circumvented	September 2014	Ongoing – New Target Date – March 2015

Corrective Action Plans for FY 2014 USCG High-Risk Program

Table 17: Planned USCG Sandy Corrective Actions

Risk Factors	Corrective Actions	Target Completion Date	Current Status
Contract, Purchase Order, Miscellaneous & Purchase Card payment types **Category of Error: Lack of segregation of duties during the committing process**			
1. Payments may be made when proper funding is not available. 2. A request for government funding may over expend the appropriated amount.	1. Review current guidance on committing procedures and regulations	June 2015	Ongoing
	2. Communicate proper procurement procedures for commitments to reinforce understanding	June 2015	Ongoing
Contract payment types **Category of Error: Services Paid for are outside of the approved Period of Performance**			
1. Payments may be made for items/services that are out of scope, duplicate items, and services outside of the period of performance.	1. Review current guidance for CORs on receiving & acceptance	June 2015	Ongoing
	2. Conduct training for all CORs on proper R&A	June 2015	Ongoing
	3. Distribute periodic communications to reinforce proper procedures.	June 2015	Ongoing
	4. Issue a modification to extend the contract completion date.	November 2014	Ongoing
Travel Payment Types **Category of Error: Lack of proper approval for Travel Orders & Travel Vouchers** **Category of Error: Lack of an approved AO designation form for Travel Orders or Travel Vouchers** **Category of Error: Lack of Travel Order, Travel Voucher, or receipts for testing**			
1. Travel documents may not be proper, because the authorization is not being performed by an authorized approving official or authorizing official. 2. Expenses are incurred without proper travel approvals. 3. Government funds may be paid to the traveler erroneously or for the wrong amount.	1. Review current guidance on travel procedures and regulations	June 2015	Ongoing
	2. Reinforce the importance of following policy to prohibit the reimbursement of travel expense without the proper documentation	June 2015	Ongoing
	3. Travelers and units controlling the authorization of travel will be reminded to maintain all documentation for a period of six years and three months.	December 2014	Ongoing
	4. All travel claim authorizing officials (AO) must have a proper User Access Authorization and approving official (AO) Designation form on file with the Pay and Personnel Center Travel Branch.	December 2014	Ongoing
Purchase Card payment types **Category of Error: AO invoice review, invoice approval, and receipting is not performed consistently and accurately** **Category of Error: Lack of proper documentation** **Category of Error: Improperly reviewed invoices are paid; three way match is inconsistent**			
1. Payment may be made for incorrect amounts, items/services may be out of scope, duplicate items may be billed, and services may be outside the period of performance 2. Cardholders may make	1. Review current guidance for AOs and Cardholders on the invoice review, invoice approval, and receipting process	June 2015	Ongoing
	2. Update guidance for AOs and Cardholders on invoice reviews and approvals to ensure all proper elements are captured and to ensure invoice review, invoice approval, and receipting is performed by the appropriate	June 2015	Ongoing

Risk Factors	Corrective Actions	Target Completion Date	Current Status
fraudulent or unauthorized purchases 3. Payment may be made for the incorrect invoice amount.	official(s) along with their signature		
	3. Conduct mandatory training for all AOs and Cardholders on proper invoice review, invoice approval, and receipting process	June 2015	Ongoing
	4. Reinforce guidance regarding proper documentation and retention requirements into the Purchase Card guidance and training	June 2015	Ongoing

IV. Program Improper Payment Reporting

The table below summarizes improper payment amounts for DHS high-risk programs. Improper payment percent (IP%) and improper payment dollar (IP$) results are provided from last year's testing of FY 2012 payments and this year's testing of FY 2013 payments. Data for projected future−year improvements is based on the timing and significance of completing corrective actions.

Table 18: Improper Payment Reduction Outlook

($ in millions)

Program	PY Outlays	PY IP%	PY IP$	CY Outlays	CY IP%	CY IP$	CY Over payment $	CY Under payment $	CY +1 Outlays	CY +1 Est. IP%	CY +1 Est. IP$	CY + 2 Est. Outlays	CY + 2 Est. IP%	CY + 2 Est. IP$	CY + 3 Est. Outlays	CY + 3 Est. IP%	CY + 3 Est. IP$
	2013 Testing (Based on FY 2012 Actual Data)			2014 Testing (Based on FY 2013 Actual Data)					2015 Testing (Based on FY 2014 Actual and Estimated Data)			2016 Testing (Based on 2015 Estimated Data)			2017 Testing (Based on 2016 Estimated Data)		
R&D (CBP)	$1,937	0.36%	$7	$1,473	0.01%	$0	$0	$0	$1,338	0.01%	$0	$1,338	0.01%	$0	$1,338	0.01%	$0
Sandy (CBP)[1]	$0	0.00%	$0	$0	0.00%	$0	$0	$0	$0	0.00%	$0	$0	0.00%	$0	$0	0.00%	$0
AUO (CBP)[2]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
BSF (CBP)[3]	$173	<.01%	$0	waived	0.00%	$0	$0	$0	$157	0.00%	$0	$213	0.00%	$0	$213	0.00%	$0
AFG (FEMA)	$425	1.07%	$5	$336	0.10%	$0	$0	$0	$343	0.10%	$0	$350	0.10%	$0	$357	0.10%	$0
NFIP (FEMA)	$2,127	0.02%	$0	$8,720	0.05%	$5	$0	$5	$8,894	0.05%	$4	$9,072	0.05%	$5	$9,254	0.05%	$5
PSGP (FEMA)[2]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
EFSP (FEMA)	$89	0.34%	$0	$119	1.47%	$2	$2	$0	$121	1.47%	$2	$124	1.47%	$2	$126	1.47%	$2
Sandy Travel (FEMA)[1]	$0	0.00%	$0	$179	0.15%	$0	$0	$0	$183	0.15%	$0	$186	0.15%	$0	$190	0.15%	$0
Sandy Purchase Card & Fleet Card (FEMA)[1]	$0	0.00%	$0	$3	8.04%	$0	$0	$0	$3	8.04%	$0	$3	8.04%	$0	$3	8.04%	$0
Sandy Payroll (FEMA)[1]	$0	0.00%	$0	$249	0.61%	$2	$2	$0	$254	0.61%	$2	$241	0.61%	$1	$229	0.61%	$1
DRF Hazardous Mitigation Grant - Sandy (FEMA)	$0	0.00%	$0	$0	0.00%	$0	$0	$0	$0	0.00%	$0	$0	0.00%	$0	$0	0.00%	$0
IHP - Sandy (FEMA)[1]	$0	0.00%	$0	$1,559	3.68%	$57	$48	$9	$1,590	2.50%	$40	$1,622	2.00%	$32	$1,654	1.50%	$25
HSGP (FEMA)[4]	$1,699	1.31%	$22	$2,001	1.37%	$27	$27	$0	$2,042	1.00%	$20	$2,082	.1.00%	$21	$2,124	1.00%	$21
TSGP (FEMA)[4]	$328	2.06%	$7	$447	2.55%	$11	$11	$0	$456	1.50%	$7	$465	1.00%	$5	$474	1.00%	$5
Urban Search & Rescue Grant – Sandy (FEMA)	$0	0.00%	$0	$9	0.00%	$0	$0	$0	$9	0.00%	$0	$9	0.00%	$0	$10	0.00%	$0
Disaster Case Management – Sandy (FEMA)	$0	0.00%	$0	$4	0.00%	$0	$0	$0	$4	0.00%	$0	$4	0.00%	$0	$5	0.00%	$0
VP (FEMA DRF)	$750	3.11%	$23	$503	6.56%	$33	$32	$1	$518	3.50%	$18	$533	2.50%	$13	$549	1.50%	$8
VP (FEMA Non-DRF)[2]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
PA (FEMA)[4]	$3,670	1.11%	$41	$4,915	1.31%	$64	$62	$2	$5,013	1.03%	$52	$5,114	1.03%	$53	$5,216	1.03%	$54
ERO (ICE)	$1,692	4.33%	$73	$1,578	4.18%	$66	$66	$0	$1,492	4.10%	$61	$1,520	3.94%	$60	$1,505	2.37%	$36
Sandy (NPPD)[1]	$0	0.00%	$0	$8	0.33%	$0	$0	$0	$1	0.33%	$0	$0	0.00%	$0	$0	0.00%	$0
FPS (NPPD)[3]	$878	0.03%	$0	waived	0.00%	$0	$0	$0	$0	0.00%	$0	$0	0.00%	$0	$0	0.00%	$0
Sandy (USCG)[1]	$0	0.00%	$0	$19	4.10%	$1	$1	$0	$39	8.00%	$3	$37	6.50%	$2	$37	5.00%	$2
Sandy (OIG)[1]	$0	0.00%	$0	$1	0.00%	$0	$0	$0	$2	0.00%	$0	$0	0.00%	$0	$0	0.00%	$0
All Programs	**$13,768**	**1.29%**	**$178**	**$22,123**	**1.21%**	**$268**	**$251**	**$17**	**$22,459**	**0.93%**	**$209**	**$22,913**	**0.85%**	**$194**	**$23,284**	**0.68%**	**$159**

Note 1: All FY 2013 Hurricane Sandy Disbursements were tested in FY 2014.
Note 2: Program identified in FY2014 Risk Assessment as a program susceptible to High-Risk, will be reporting in FY2015 per the OMB Circular guidance A-123 Appendix C.
Note 3: After receiving approval from the Office of Inspector General and The Office of Management and Budget, CBP's Border Security Fencing (BSF) and NPPD's Federal Protection Services (FPS) were granted relief from testing in FY 2014. Risk assessing these programs will resume in FY 2015 in accordance with Improper Payments and Elimination Recovery Improvement Act (IPERIA) of 2012.
Note 4: FEMA has three State-Administered Programs--HSGP, PA, and TSGP---that are tested on a three-year cycle. To calculate the national error rate for FY 2013 actual data, error rate from the States tested for FY 2011, FY 2012, and FY 2013 were applied to the FY 2013 State payment populations to derive a national average.

Overpayments and Underpayments Details

The table that follows provides overpayment and underpayment breakouts for the Department's high-risk programs. The table shows that over 99 percent of the Department's estimated improper payments are due to overpayments.

Table 19: Overpayment and Underpayment Detail on DHS Sample Test Results

($ in millions)

Component	Program	FY 2014 Gross Total (Based on FY 2013 Actual Data)		FY 2014 Overpayment Total (Based on FY 2013 Actual Data)		FY 2014 Underpayment Total (Based on FY 2013 Actual Data)	
		Est. Error Amount	Est. Error Percentage	Est. Error Amount	Est. Error Percentage	Est. Error Amount	Est. Error Percentage
CBP	Refund & Drawback	$0	0.01%	$0	0.01%	$0	< 0.01%
	Administratively Uncontrollable Overtime[1]	N/A	N/A	N/A	N/A	N/A	N/A
	Hurricane Sandy	$0	0.00%	$0	0.00%	$0	0.00%
FEMA	Emergency Food and Shelter National Board Program	$2	1.47%	$2	1.47%	$0	0.00%
	Port Security Grant Program[1]	N/A	N/A	N/A	N/A	N/A	N/A
	Assistance to Firefighters Grant Program	$0	0.10%	$0	0.10%	$0	0.00%
	Individuals and Households Program - Sandy	$57	3.68%	$48	3.11%	$9	0.57%
	National Flood Insurance Program	$5	0.05%	$0	0.00%	$5	0.05%
	Travel for Hurricane Sandy-Disaster Relief Fund	$0	0.15%	$0	0.14%	$0	0.01%
	Government Charge Card – Purchase Card and Fleet Card	$0	8.04%	$0	8.04%	$0	0.00%
	Public Assistance Program[2]	$64	1.31%	$62	1.26%	$2	0.05%
	Homeland Security Grant Program[2]	$27	1.37%	$27	1.37%	$0	0.00%
	Vendor Pay – Disaster Relief Fund	$33	6.56%	$32	6.41%	$1	0.14%
	Vendor Pay – Non Disaster Relief Fund[3]	N/A	N/A	N/A	N/A	N/A	N/A
	Urban Search & Rescue - Sandy	$0	0.00%	$0	0.00%	$0	0.00%
	Disaster Case Management - Sandy	$0	0.00%	$0	0.00%	$0	0.00%
	Hazard Mitigation Grant Disaster Relief Fund- Sandy	$0	0.00%	$0	0.00%	$0	0.00%
	Transportation Security Grant Program[2]	$11	2.55%	$11	2.55%	$0	0.00%
	Hurricane Sandy Payroll	$2	0.61%	$2	0.61%	$0	0.00%
ICE	Enforcement and Removal Operations	$66	4.18%	$66	4.17%	$0	0.02%
NPPD	Hurricane Sandy	$0	0.33%	$0	0.33%	$0	< 0.01%
USCG	Hurricane Sandy	$1	4.10%	$1	4.10%	$0	< 0.01%
OIG	Hurricane Sandy	$0	0.00%	$0	0.00%	$0	0.00%
DHS	**All Programs**	**$268**		**$251**		**$17**	

Note 1: Program identified in FY 2014 risk assessment as a program susceptible to High-Risk, will be reporting in FY 2015 per the OMB guidance A-123 Appendix C.

Note 2: Figures for FEMA's State-Administered Programs (Homeland Security Grant Program, Public Assistance Program, and Transportation Security Grant Program) are based on the national error estimates listed in Table 5.

V. Recapture of Improper Payments

DHS completed recovery audit activities for FY 2013 disbursements and continued collection activities for errors identified in prior-year recovery audits. Work was completed at CBP and ICE (and its cross-serviced Components). There were no recoveries from FY 2013 disbursements at

USCG (and its cross-serviced Components) during FY 2014, although FY 2013 recovery audit work continued into FY 2015. FLETC and USSS performed a cost analysis in FY 2012 and determined that a general recovery audit would not be cost effective. Given the subsequent lack of claims identified by much larger DHS Components who performed recovery audit work and the absence of major changes to payment operations and risks at FLETC and the U.S. Secret Service, the Department did not require that recovery audit work be performed at these two Components in FY 2014 as well. Historically recovery audit efforts at FEMA have focused primarily on contracts, as grant system limitations make it cost prohibitive to generate the files needed to perform recovery audit work. Currently recovery audit work over contracts has not proven to be cost-effective; therefore, the Department did not require audit work for FY 2014.

The USCG followed up on its telecommunications payments targeted recovery audit performed in FY 2011. The telecommunications claims previously identified for FY 2011 have been deemed uncollectable based on the unsubstantiated claim submitted by CCE Discovery Group, Inc., which was verified by Coast Guard telecom experts. The USCG is working closely with the current recovery auditors and its legal office to ensure all improper payments are properly identified and have adequate support. After receiving requests for support from telecom vendors concerning the FY 2011 claims, and upon further examination of the support, the USCG refunded $817,000 as it was determined that the recovery auditor’s claims lacked sufficient documentation. These telecom claims continue to be in dispute.

In FY 2013, USCG placed a contract with a new recovery audit vendor to perform a general vendor accounts payable audit and a targeted analysis of FY 2012 telecommunication invoices. Recovery audit functions were shifted to USCG’s Office of Internal Controls to ensure continuous monitoring and reporting. In addition, a two pronged approach has been adopted in USCG’s analysis of telecom invoices: 1) all telecommunication invoices are closely examined by the USCG Finance Center to ensure all potential improper payments are valid and supportable, and 2) an in depth analysis is then performed by Telecommunication and Information Systems Command. Because of the outcome of previous claims made by recovery auditors, USCG’s contract and work plans are going through a detailed review by the USCG Legal Office.

A number of internal controls were implemented in FY 2013 to include appropriate review and approval for telecommunications contracts. Only designated agency representatives (DARs) are authorized to enter into telecom contracts for USCG. The number of DARs was reduced from 25 to 18; thereby significantly improving oversight, accountability, and continuous monitoring of telecom contracts within USCG.

In the following table, current year (CY) equals FY 2013 disbursements for all Components. Prior year (PY) represents FY 2005 – FY 2012 for DNDO, TSA, and U.S. Coast Guard; FY 2004 – FY 2012 for CBP, ICE, MGMT, NPPD, OHA, S&T, and USCIS; and FY 2009 – FY 2012 for FEMA.

Table 20: Payment Recapture Audit Reporting

($ in thousands unless otherwise noted)

Comp.	Type of Payment (contract, grant, benefit, loan, or other)	Amount Subject to Review for CY Reporting ($ millions)	Actual Amount Reviewed and Reported (CY) ($ millions)	Amount Identified for Recovery (CY)	Amount Recovered (CY)	% of Amount Recovered out of Amount Identified (CY)	Amount Outstanding (CY)	% of Amount Outstanding out of Amount Identified (CY)	Amount Determined Not to be Collectable (CY)	% of Amount Determined Not to be Collectable out of Amount Identified (CY)	Amounts Identified for Recovery (PYs)	Amounts Recovered (PYs)	Cumulative Amounts Identified for Recovery (CY + PYs)	Cumulative Amounts Recovered (CY + PYs)	Cumulative Amounts Outstanding (CY + PYs)	Cumulative Amounts Determined Not to be Collectable (CY + PYs)
CBP	Contract	$1,909	$1,909	$3	$3	100%	$0	0%	$0	0%	$359	$359	$362	$362	$0	$0
DNDO[1]	Contract	$108	$0	$0	$0	0%	$0	0%	$0	0%	$1	$1	$1	$1	$0	$0
FEMA	Contract	$0	$0	$0	$0	0%	$0	0%	$0	0%	$181	$0	$181	$0	$0	$181
ICE	Contract	$2,046	$2,046	$0	$0	0%	$0	0%	$0	0%	$1,812	$1,624	$1,812	$1,624	$8	$189
MGMT[2]	Contract	$697	$697	$0	$0	0%	$0	0%	$0	0%	$210	$199	$210	$199	$0	$11
NPPD[2]	Contract	$1,346	$1,346	$0	$0	0%	$0	0%	$0	0.9%	$308	$308	$308	$308	$0	$0
OHA[2]	Contract	$51	$51	$0	$0	0%	$0	0%	$0	0%	$0	$0	$0	$0	$0	$0
S&T[2]	Contract	$361	$361	$0	$0	0%	$0	0%	$0	0%	$54	$54	$54	$54	$0	$0
TSA[1]	Contract	$2,235	$0	$0	$0	0%	$0	0%	$0	0%	$791	$722	$791	$722	$69	$0
USCG	Contract	$2,997	$0	$0	$0	0%	$0	0%	$0	0%	$4,252	$1,578	$4,252	$761	$0	$3,491
USCIS[1]	Contract	$864	$864	$0	$0	0%	$0	0%	$0	0%	$912	$892	$912	$892	$0	$20
DHS Totals[3]		**$12,614**	**$7,274**	**$3**	**$3**	**100%**	**$0**	**0%**	**$0**	**0%**	**$8,880**	**$5,737**	**$8,883**	**$4,923**	**$69**	**$3,892**

Note 1. DNDO and TSA are cross-serviced by the USCG.
Note 2. MGMT, NPPD, OHA, S&T, and USCIS are cross-serviced by ICE.
Note 3. The DHS Totals do not list FLETC and the USSS as these Components completed cost analysis which determined that recovery audit work would not be cost effective.

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Table 21: Payment Recapture Audit Targets

($ in thousands)

Component	Type of Payment (contract, grant, benefit, loan, or other)	CY Amount Identified	CY Amount Recovered	CY Recovery Rate (Amount Recovered / Amount Identified)	CY +1 Recovery Rate Target	CY + 2 Recovery Rate Target	CY + 3 Recovery Rate Target
USCG	Contracts	$0	$0	0%	0%	0%	0%
CBP	Contract	$3	$3	100%	100%	100%	100%
DHS Totals		**$3**	**$3**	**100%**			

Note: The USCG re-established telecommunications claims are not included in the above table as they relate to claims first reported in FY 2011.

Table 22: Aging of Outstanding Overpayments

($ in thousands)

Component	Type of Payment (contract, grant, benefit, loan, or other)	CY Amount Outstanding (0 - 6 months)	CY Amount Outstanding (6 months to 1 year)	CY Amount Outstanding (over 1 year)
USCG	Contracts	$124	$106	$67
USCIS	Other	$0	$0	$0
CBP	Contract	$1,738	$0	$0
DHS Totals		**$1,862**	**$106**	**$67**

Note: The outstanding re-established telecommunications claims relate to PY and are not included in the above table.

Table 23: Disposition of Recaptured Funds

($ in thousands)

Component	Type of Payment (contract, grant, benefit, loan, or other)	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury
CBP	Contract	$0	$1	$0	$2	$0	$0
DHS Totals		**$0**	**$1**	**$0**	**$2**	**$0**	**$0**

Note: Disposition of recaptured funds relates to FY 2013 disbursements and associated auditor fees paid in FY 2014.

The table that follows shows the importance of the Secretary's quarterly high-dollar overpayments reporting. These reports began with January-March 2010 reporting.

Table 24: Overpayment Recaptured Outside of Payment Recapture Audits

($ in thousands)

Source of Recovery	Amount Identified (CY)	Amount Recovered (CY)	Amount Identified (PYs)	Amount Recovered (PYs)	Cumulative Amount Identified (CY+PYs)	Cumulative Amount Recovered (CY+PYs)
High-Dollar Overpayments Reporting (FY10-FY14)	$5,600	$5,474	$26,618	$26,443	$32,217	$31,917
IPIA High-Risk Program Testing	$3	$0	$4	$0	$7	$0
Post Payment Reviews	$153	$118	$3,264	$3,264	$3,417	$3,383
DHS Totals	**$5,756**	**$5,592**	**$29,886**	**$29,707**	**$35,641**	**$35,300**

VI. Facilitating Management Accountability

The goals and requirements of IPERIA were communicated to all levels of staff throughout the Office of the Chief Financial Officer (CFO) and to relevant program office and procurement staff. The Department's CFO and senior staff have incorporated improper payment reduction targets in their annual performance plans.

Managers are responsible for completing internal control work on payment processing as part of the Department's OMB Circular A-123 effort. Management's improper payments efforts at all federal agencies are subject to an annual compliance review by the agency's Office of Inspector General.

VII. Agency Information Systems and Other Infrastructure

The Department's agency information systems efforts are discussed under the section related to the *Federal Financial Management Improvement Act*.

The Department's internal control and human capital efforts to reduce improper payments are discussed under the Risk Assessment section.

VIII. Statutory or Regulatory Barriers

None.

IX. Do Not Pay

OMB Memorandum M-12-11, *Reducing Improper Payments through the "Do Not Pay List,"* directed executive agencies to take immediate steps to use the centralized solutions that were already in place for prepayment eligibility review. The memorandum required the Chief Financial Officer (CFO) of each agency, or the accountable official for improper payments, and program integrity under Executive Order 13520, to submit to OMB a plan for using the centralized solutions.

The U.S. Department of Treasury's Do Not Pay Working System is the legislatively mandated and Office of Management and Budget (OMB) designated source of centralized data and analytic services to help agencies verify eligibility and to identify and prevent fraud, waste, and abuse associated with improper payments. The Treasury Department performs post-payment matches on DHS disbursements using the General Service Administration's System for Awards Management (SAM) and Social Security Administration's Death Master File (DMF) to identify improper payments.

With the implementation of Treasury's third phase of the DNP initiative in FY 2015 the Department will have more visibility into the frequency of corrections that occur at the Component level through online, batch matching, and continuous monitoring activities. DHS and its finance centers' program managers will 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 that we are using additional DNP databases relevant to our payment activities.

Table 25: Implementation of the Do Not Pay Initiative to Prevent Improper Payments

	Number of payments reviewed for improper payments	Dollars of payments reviewed for improper payments	Number of payments stopped[2]	Dollars of payments stopped[2]	Number of improper payments reviewed and not stopped	Dollars of improper payments reviewed and not stopped
Reviews with DMF Public[1]	2,248,389	$17,027,229,853	N/A	N/A	39	$97,672
Reviews with SAM Exclusions Public[1]	2,407,954	$18,472,854,294	N/A	N/A	0	$0

Note 1: Data currently based on October 1, 2013 through June 30, 2014. Currently, Treasury's Do Not Pay Reports are generated 3 months post-payment, latest information available from Treasury presented above.

Note 2: Payments stopped is currently not applicable since the Do Not Pay matching and adjudication process is based on post payment results.

X. Overall Agency Efforts

Work to prevent, monitor, and recoup improper payments continues to expand at the Department. For example, use of DNP databases expanded as the Department reconciled DMF and Excluded Parties List System data received, monthly, from Treasury. Also, a Payment Management Working Group was established, in part, to allow internal control, procurement, and payment management experts to jointly address improper payment issues. Management also worked closely with representatives from the Office of the Inspector General and OMB to determine which programs implemented sufficient internal control improvements to no longer be designated high-risk. These efforts should help the Department continue to consistently drive down improper payment error rates, especially in the highest-risk programs.

Freeze the Footprint

On May 11, 2012, the Office of Management and Budget (OMB) issued Memorandum M-12-12, *Promoting Efficient Spending to Support Agency Operations*. Section 3, Real Property, noted that agencies must move aggressively to dispose of excess property and shall not increase the size of civilian real estate property, without offset, through consolidation, co-location, or disposal of space. Additional guidance was provided in OMB's Management Procedures Memorandum No. 2013-02, *Implementation of OMB Memorandum M-12-12 Section 3: Freeze the Footprint,* dated March 14, 2013. The memorandum directed agencies to "not increase the size of domestic real estate inventory, measured in square footage, for space predominately used for offices and warehouses." This "Freeze the Footprint" (FtF) mandate established the FY 2012 office and warehouse real property inventory as the baseline.

DHS, in collaboration with the U. S. General Services Administration (GSA), agreed upon an FY 2012 office and warehouse FtF baseline of 48.4 million square feet. GSA leased offices and warehouses comprise 73.9 percent of the DHS baseline inventory, with DHS owned offices and warehouses accounting for 21.1 percent and DHS direct leased offices and warehouses totaling 5.0 percent.

During FY 2013 and 2014, the Department focused attention on numerous real property initiatives, including development of a 5-year real property strategic plan, establishment of an agency-wide Warehouse Logistics Integration Team, development of DHS-wide office workplace standards, and partnering with GSA to develop a 10-year real property strategic plan for all DHS Headquarters operations within the National Capital Region.

Table 26: Freeze the Footprint Baseline Comparison

Fiscal Year	Square Footage	Increase / Decrease (in sq. ft.)	% Increase / Decrease
FY 2012 Baseline	48,392,553	N/A	
FY 2013 Actual	48,492,660	+100,107	+.21%
FY 2014 Planned	48,449,056	-43,604	-.09%
FY 2015 Planned	48,279,311	-169,745	-.35%
3 Year Total		**113,242**	**.23%** **(Planned Compliance)**

FY 2013 results reflected a 0.21 percent square footage increase over the FtF FY 2012 baseline. However, as a result of the previously noted initiatives, DHS now projects an overall reduction in its office and warehouse inventory by the end of FY 2015. Going forward, the Department has identified a net reduction of 213,349 SF in the FY 2014 and 2015 program years, representing a final baseline reduction of 0.23 percent. We are currently on track to be in full compliance with FtF by the end of FY 2015. DHS is committed to fulfilling the objectives of FtF and will continue to focus efforts to optimize the real property inventory, control costs, and implement affordable readiness while supporting our mission.

Table 27: Operations and Maintenance Costs – Owned and Direct Lease Buildings

($ in millions)

	FY 2012 Actual Costs	FY 2013 Actual Costs	Change in Actual Costs
Operations and Maintenance Costs	$72.3	$77.7	+$5.4

Between FY 2012 and FY 2013, actual cost increased by $5.4 million due to the change in square footage in FY 2013. However, total cost is expected to decrease as we work toward our target square footage reductions in FY 2015.

Other Key Regulatory Requirements

Prompt Payment Act

The Prompt Payment Act requires federal agencies to make timely payments (within 30 days of receipt of invoice) to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts only when they are economically justified. The Department's Components submit Prompt Payment data as part of data gathered for the OMB CFO Council's Metric Tracking System (MTS). Periodic reviews are conducted by the DHS Components to identify potential problems. Interest penalties as a percentage of the dollar amount of invoices subject to the Prompt Payment Act have been measured between 0.001 percent and 0.005 percent for the period of October 2013 through September 2014, with an annual average of 0.003 percent (Note: MTS statistics are reported with at least a six week lag).

Debt Collection Improvement Act

In compliance with the *Debt Collection Improvement Act of 1996* (DCIA), DHS manages its debt collection activities under the DHS DCIA regulation. The regulation is implemented under DHS'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 Department of the Treasury. The *Digital Accountability and Transparency Act of 2014* (Pub. L. 113-101) was passed in May 2014 and updated DCIA requirements for referring non-taxable debt.

FY 2013 Biennial User Charges Review

The Chief Financial Officers Act of 1990 requires each agency CFO to review, on a biennial basis, the fees, royalties, rents, and other charges imposed by the agency for services and items of value provided to specific recipients, beyond those received by the general public. The purpose of this review is to identify those agencies assessing user fees and to periodically adjust existing charges to 1) reflect unanticipated changes in costs or market values, and 2) to review all other agency programs to determine whether fees should be assessed for Government services or the use of Government goods or services.

To ensure compliance with this biennial requirement, each DHS Component is required to compile and furnish individual summaries for each type of user fee by addressing the key points for each user fee, in sufficient detail, to facilitate a review by the OCFO. For FY 2013, six DHS Components were responsible for collecting user fees covering various services provided to the traveling public and trade community. The following is an analysis of the fee collections and costs of the related services:

<u>U.S. Customs and Border Protection (CBP)</u>
CBP is responsible for collecting a variety of user fees related to customs duties, inspections, and immigration. These fees include:

- Agriculture Quarantine and Inspection;
- Consolidated Omnibus Budget Reconciliation Act of 1985;
- Immigration Enforcement Fines;
- Immigration Inspection;
- Land Border Inspection;
- Electronic System for Travel Authorization;
- Harbor Maintenance;
- Global Entry Application;
- Merchandise Processing;
- Puerto Rico Trust Fund;
- Small Airports;
- U.S. Virgin Islands; and
- Miscellaneous.

During FY 2013, CBP collected approximately $5.4 billion in user fees.

Federal Emergency Management Agency (FEMA)
FEMA is responsible for collecting fees related to the Radiological Emergency Preparedness Program and the National Flood Insurance Fund. During FY 2013, FEMA collected approximately $3.7 billion in user fees.

U.S. Immigration and Customs Enforcement (ICE)
ICE is responsible for collecting a variety of user fees related to immigration. These fees include:

- Breached Bond Detention Fund;
- Student & Exchange Visitors Program; and
- I-246 Stay of Deportation or Removal.

During FY 2013, ICE collected approximately $190 million in user fees.

Transportation Security Administration (TSA)
TSA is responsible for collecting a variety of user fees related to the security of the nation's aviation system. These fees include:

- Air Cargo Screening;
- Ronald Reagan Washington National Airport: Enhanced Security Procedures for Certain Operations (GA@DCA);
- Other Security Threat Assessment;
- Transportation Worker Identification Credential;
- Alien Foreign Student Pilot;
- Aviation Security Infrastructure (Air Carrier);
- Passenger Civil Aviation Security Service (September 11th Security);
- Security Threat Assessments for Hazmat Drivers;
- TSA Pre✓™ Application Program; and
- Commercial Aviation and Airport.

During FY 2013, TSA collected approximately $2.3 billion in user fees.

U.S. Coast Guard (USCG)
USCG is responsible for collecting a variety of user fees related to maritime safety and security. These fees include:

- Commercial Vessel Documentation;
- Recreational Vessel Documentation;
- Merchant Mariner Licensing & Documentation;
- Commercial Vessel Inspection; and
- Overseas Vessel Inspection.

During FY 2013, USCG collected approximately $23.8 million in user fees.

U.S. Citizenship and Immigration Services (USCIS)
USCIS is responsible for collecting a variety of user fees related to the immigration and naturalization process. These fees include:

- Fraud Prevention and Detection;
- H-1B Non-Immigrant Petitioner;
- Immigration Examinations; and
- Immigration Fees, Border Security Act.

During FY 2013, USCIS collected approximately $3.3 billion in user fees.

The OCFO conducted the above DHS user fee assessment based on Component's review, validation, and confirmation of actual cash collections and user fee structures, as identified in the Department of Homeland Security User Fees Report to Congress.

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

The *Reports Consolidation Act of 2000* (P.L. 106-531) requires that, annually, the U.S. Department of Homeland Security (DHS) Office of Inspector General (OIG) prepare a statement summarizing the most serious management and performance challenges facing the Department and an assessment of the Department's progress in addressing those challenges. For Fiscal Year 2014, OIG has identified the Department's major challenges in nine broad areas:

Summary of OIG's Assessment of DHS's Major Challenges	
DHS Operations Integration	DHS needs to continue to improve its cross-Component coordination and communication and reaffirm department-level authority.
Acquisition Management	DHS continues to experience challenges in planning, coordinating, overseeing, and ensuring compliance with Departmental guidance.
Financial Management	DHS has made progress in correcting some of the conditions that contributed to material weaknesses in internal controls, but the Department needs to continue its remediation efforts to eliminate the remaining weaknesses and obtain a clean opinion on internal control over financial reporting.
IT Management and Privacy Issues	DHS continues to encounter challenges in developing an integrated, cost-effective, and secure information technology infrastructure and protecting personally identifiable information.
Transportation Security	TSA operations need to evolve continuously to address new and changing threat environments and in using staff and technology resources efficiently and effectively.
Border Security and Immigration Enforcement	DHS needs to continue developing new and better methods to interdict illegal entry into the United States, ensure that it consistently applies immigration laws and policies, effectively addresses challenges such as the influx of unaccompanied children, and fully communicates decisions related to retention and release of detainees.
Grants Management	FEMA needs to do more to mitigate risks associated with its disaster assistance program. FEMA also needs to ensure that states improve grant administration.
Employee Accountability and Integrity	DHS and its Components face various allegations of wrongdoing. Drug trafficking organizations that seek to corrupt employees at the Nation's borders present a major challenge.
Infrastructure Protection, Cybersecurity and Insider Threat	NPPD faces challenges in capturing and maintaining critical infrastructure vulnerability assessment data. NPPD also needs to improve coordination of cyberthreat information among the five federal cyber-operations centers.

Additional background, OIG observations, and management progress and next steps for each challenge can be found in OIG's report "Major Management and Performance Challenges Facing DHS" located at DHS-OIG reports.

Management's Response

Overcoming these challenges requires long-term strategies for ensuring stable operations as well as sustained management attention and resources. DHS carries out multiple complex and highly diverse missions. While the Department continually strives to improve the efficiency and effectiveness of its programs and operations, as progress is achieved and as new initiatives begin, new management and performance challenges can arise.

DHS appreciates OIG's perspective on the most serious challenges facing the Department as well as recognition of the significant progress and substantial accomplishments DHS has made to date. A more detailed management response to these challenges was previously provided to OIG and included in the final report which can be found at the web link referenced above.

Acronym List

Acronyms

AFG – Assistance to Firefighters Grants
AFR – Agency Financial Report
AGA – Association of Government Accountants
AO – Analysis and Operations
APG – Agency Priority Goal
ASP – Advanced Spectroscopic Portal
AUO – Administratively Uncontrollable Overtime
BFS – Bureau of Fiscal Service
BP – British Petroleum
BSF – Border Security Fencing
CAP – Cross-Agency Priority
CAPSIS – Consolidated Asset Portfolio and Sustainability Information System
CBP – U.S. Customs and Border Protection
CDL – Community Disaster Loan
CDP – Center for Domestic Preparedness
CDM – Continuous Diagnostics and Mitigation
CDS – Consequence Delivery System
CEAR – Certificate of Excellence in Accountability Reporting
CFATS – Chemical Facility Anti-terrorism Standards
CFO – Chief Financial Officer
CFR – Code of Federal Regulations
CHCO – Chief Human Capital Officer
CIO – Chief Information Officer
CISO – Chief Information Security Officer
COBRA – Consolidated Omnibus Budget Reconciliation Act of 1985
COMSETT – Compliance Security Enhancement Through Testing
COR – Contracting Officer Representative
COTR – Contract Officer's Technical Representative
COTS – Commercial Off-the-Shelf
CRSO – Chief Readiness Support Office
CSRS – Civil Service Retirement System
CY – Current Year
DADLP – Disaster Assistance Direct Loan Program
DAR – Designated Agency Representatives
DC – District of Columbia
DHS – Department of Homeland Security
DIEMS – Date of Initial Entry into Military Service
DMF – Death Master File
DMO – Departmental Management and Operations
DNDO – Domestic Nuclear Detection Office
DNP – Do Not Pay
DOD – U.S. Department of Defense
DOL – U.S. Department of Labor
DRAA – Disaster Relief Appropriations Act
DRF – Disaster Relief Fund
EDS – Explosive Detection System
EFSP – Emergency Food and Shelter Program
ELIS – Electronic Immigration Application System
ERO – Enforcement and Removal Operations
FBwT – Fund Balance with Treasury
FCRA – Federal Credit Reform Act of 1990
FECA – Federal Employees Compensation Act
FEMA – Federal Emergency Management Agency
FERS – Federal Employees Retirement System
FFMIA – Federal Financial Management Improvement Act of 1996
FISMA – Federal Information Security Management Act
FLETC – Federal Law Enforcement Training Centers
FMFIA – Federal Managers' Financial Integrity Act
FOSC – Federal On-scene Coordinators
FPS – Federal Protective Service

FSM – Financial Systems Modernization
FY – Fiscal Year
GAAP – Generally Accepted Accounting Principles
GAO – U.S. Government Accountability Office
GCC - Government Charge Card
GCCF – Gulf Coast Claims Facility
GEOINT – Geospatial Intelligence
GNDA – Global Nuclear Detection Architecture
GSA – General Services Administration
HSAM – Homeland Security Acquisition Manual
HSGP – Homeland Security Grant Program
HSI – Homeland Security Investigations
HS-STEM – Homeland Security Science, Technology, Engineering and Mathematics
I&A – Office of Intelligence and Analysis
ICE – U.S. Immigration and Customs Enforcement
ICS-CERT – Industrial Control Systems Cyber Emergency Response Team
IEFA – Immigration Examination Fee Account
IFT – Integrated Fixed Tower
IHP – Individuals and Household Programs
IMAT – Incident Management Assistance Team
INA – Immigration Nationality Act
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
IRO – Internal Recurring Obligations
IT – Information Technology
LOI – Letters of Intent
MDL – Management Decision Letter
MERHCF – Medicare-Eligible Retiree Health Care Fund
MGMT – Management Directorate
MHS – Military Health System
MRS – Military Retirement System
MSA – Marshal Service Agreements
MTS – Metric Tracking System
NCPS – National Cybersecurity Protection System
NCSC – National Customer Service Center
NFIP – National Flood Insurance Program
NPFC – National Pollution Funds Center
NPPD – National Protection and Programs Directorate
NSC – National Security Cutter
OCFO – Office of the Chief Financial Officer
OCHCO – Office of the Chief Human Capital Officer
OCIO – Office of the Chief Information Officer
OCPO – Office of the Chief Procurement Officer
OHA – Office of Health Affairs
OIG – Office of Inspector General
OMB – Office of Management and Budget
OM&S – Operating Materials and Supplies
OPA – Oil Pollution Act of 1990
OPEB – Other Post Retirement Benefits
OPM – Office of Personnel Management
OPS – Office of Operations Coordination and Planning
ORB – Other Retirement Benefits
OSLTF – Oil Spill Liability Trust Fund
OTA – Other Transaction Agreements
OTIA – Office of Technology Innovation and Acquisition
PA – Public Assistance
PCS – Permanent Change of Station
POP – Period of Performance
PP&E – Property, Plant, and Equipment
PSGP – Port Security Grant Program
Pub. L. – Public Law

PY – Prior Year
QHSR – Quadrennial Homeland Security Review
R&D – Research and Development
ROPE – Radiological Operations Preparedness Exercise
R/N – Radiological and Nuclear
SAM – System for Awards Management
SAT – Senior Assessment Team
SBR – Statement of Budgetary Resources
SFFAS – Statement of Federal Financial Accounting Standards
SFRBTF – Sport Fish Restoration Boating Trust Fund
SMC – Senior Management Council
SOS – Schedule of Spending
S&T – Science and Technology Directorate
TAFS – Treasury Account Fund Symbol
TCM – Trade Compliance Measurement
THIRA – Threat and Hazard Identification and Risk Assessments
Treasury – U.S. Department of the Treasury
TSA – Transportation Security Administration
TSGP – Transit Security Grants Program
UAS – Unmanned Aerial Systems
UDO – Undelivered Orders
U.S. – United States
USC – United States Code
USCG – U.S. Coast Guard
USCIS – U. S. Citizenship and Immigration Services
USSS – U.S. Secret Service
VA – U.S. Department of Veterans Affairs
VP – Vendor Pay
WUI – Wildland-Urban Interface
WYO – Write Your Own

Acknowledgements

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- 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 Component financial management offices for their hard work and contributions.

We would also like to remember our friend, Bill Mason (1964 - 2014), whose contributions to the Department's AFR spread as far back as the Department's inception in 2003 when he transferred from the Department of Treasury to help shape what would become DHS's Risk Management and Assurance Division. His commitment to excellence was recognized by the Association of Government Accountants (AGA) which presented his Improper Payments section of the FY 2012 AFR with a "Best in Class" award. AGA noted this section presented the public with an easy to understand explanation of risk assessment, statistical sampling, and corrective actions. Bill's unexpected passing in 2014 continues to be a great loss for the Department.

Homeland Security

Homeland Security