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 Acting Chief Financial Officer

December 11, 2013

The Department of Homeland Security's Fiscal Year (FY) 2013 Agency Financial Report (AFR) is our principal financial statement of accountability to the American people, the President of the United States, and the Congress. The 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 mission.

On behalf of the men and women of the DHS management community, I am proud to announce that the Department has earned an unmodified audit opinion on its FY 2013 financial statements. This means that the balances presented in all our financial statements are materially correct. In addition, for the second consecutive year, the Department was able to provide reasonable assurance that internal controls over financial reporting were operating effectively as of September 30, 2013, with the exception of the four remaining material weaknesses identified in the Secretary's Assurance Statement. These achievements demonstrate the Department's dedication to proper stewardship of taxpayer dollars and are a result of strong commitment from DHS leadership and the expertise and hard work of our financial management community.

Since the Department was stood up in 2003, we have worked diligently to strengthen financial management to support our mission and produce timely, reliable financial data. The passage of the *DHS Financial Accountability Act* in 2004 reinforced our efforts to mature Department operations. We developed robust financial policies, processes, and internal controls to ensure efficient and effective use of Department resources. We continued to execute our strategy of targeted risk assessment and strong oversight of corrective actions, ultimately earning the unmodified opinion on all five financial statements.

Our achievements are due to the hard work and dedication of employees across the Department, starting with strong leadership support. Former Secretary Napolitano established a goal of obtaining an unmodified opinion on our financial statements in FY 2013. All DHS Component Heads committed to support that goal by improving financial reporting and working to eliminate material weaknesses and significant deficiencies. The Component senior financial officers created a culture of accountability and instituted sound business processes and standards. Working together as One DHS, the financial management community has built a solid foundation to sustain our successes for years to come.

DHS Components worked hard to sustain prior-year progress while anticipating and mitigating additional audit risks as they arose. The U.S. Coast Guard (USCG) made tremendous progress, and is now able to support its entire Property, Plant & Equipment line item, to include an additional $8 billion in Personal Property. To complete this effort, USCG reallocated resources to perform a one-time, accelerated assessment of the full value of Coast Guard property, and several Components sent teams to support their work.

Continued diligence across the Department is vital as we work toward our audit goals for FY 2014 and beyond, to include eliminating all material weaknesses and achieving an unqualified audit opinion on our internal controls over financial reporting. 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 level of accountability and transparency.

Sincerely,

Chip Fulghum
Acting Chief Financial Officer

Introduction

The principal financial statements included in this report are prepared pursuant to the requirements of the *Government Management Reform Act of 1994* (Pub. L. 103-356) and the *Chief Financial Officers Act of 1990* (Pub. L. 101-576), as amended by the *Reports Consolidation Act of 2000* (Pub. L. 106-531), and the *Department of Homeland Security Financial Accountability Act of 2004* (Pub. L. 108-330). Other requirements include the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, as amended. The responsibility for the integrity of the financial information included in these statements rests with the management of DHS. 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, 2013 and 2012, those resources owned or managed by 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, 2013 and 2012. 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, 2013 and 2012.
4. The Combined **Statements of Budgetary Resources** present how and in what amounts budgetary resources were made available to DHS during fiscal years 2013 and 2012, the status of these resources at September 30, 2013 and 2012, the changes in the obligated balance, and outlays of budgetary resources for the fiscal years ended September 30, 2013 and 2012.
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, 2013 and 2012.
6. The **Notes to the Financial Statements** provide detail and clarification for amounts on the face of the financial statements as of September 30, 2013 and 2012.

Financial Statements

Department of Homeland Security
Balance Sheets
As of September 30, 2013 and 2012
(In Millions)

	2013	2012 (Restated)
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Notes 2 and 3)	$ 58,002	$ 53,875
Investments, Net (Note 5)	5,147	4,551
Accounts Receivable (Note 6)	271	259
Other (Note 13)		
Advances and Prepayments	1,207	1,517
Total Intragovernmental	**$ 64,627**	**$ 60,202**
Cash and Other Monetary Assets (Notes 2 and 4)	45	114
Accounts Receivable, Net (Notes 2 and 6)	1,914	888
Taxes, Duties, and Trade Receivables, Net (Notes 2 and 7)	2,682	2,701
Direct Loans, Net (Note 8)	73	322
Inventory and Related Property, Net (Note 9)	2,026	1,750
General Property, Plant, and Equipment, Net (Note 11 and Note 34)	19,878	19,853
Other (Note 13)		
Advances and Prepayments	657	688
TOTAL ASSETS	**$ 91,902**	**$ 86,518**
Stewardship Property, Plant, and Equipment (Note 12)		
LIABILITIES		
Intragovernmental		
Accounts Payable	$ 1,860	$ 2,001
Debt (Note 15)	24,076	18,072
Other (Note 18)		
Due to the General Fund	2,709	2,727
Accrued FECA Liability	358	334
Other	491	567
Total Intragovernmental	**$ 29,494**	**$ 23,701**
Accounts Payable	2,063	1,889
Federal Employee and Veterans' Benefits (Note 16)	51,223	51,953
Environmental and Disposal Liabilities (Note 17)	755	668
Other (Notes 18, 19, 20, and 21)		
Accrued Payroll and Benefits	1,807	2,454
Deferred Revenue and Advances from Others	3,180	2,845
Insurance Liabilities	697	833

(Continued)

Department of Homeland Security
Balance Sheets
As of September 30, 2013 and 2012
(In Millions)

	2013	2012 (Restated)
Refunds and Drawbacks	168	177
Other	2,366	2,851
Total Liabilities	**$ 91,753**	**$ 87,371**
Commitments and Contingencies (Notes 18, 19, 20, and 21)		
NET POSITION		
Unexpended Appropriations		
Unexpended Appropriations-Other Funds	$ 47,853	$ 43,076
Cumulative Results of Operations		
Cumulative Results of Operations-Funds from Dedicated Collections (Note 22)	(17,263)	(12,055)
Cumulative Results of Operations-Other Funds (Note 34)	(30,441)	(31,874)
Total Net Position	**$ 149**	**$ (853)**
TOTAL LIABILITIES AND NET POSITION	**$ 91,902**	**$ 86,518**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Statements of Net Cost
For the Years Ended September 30, 2013 and 2012
(In Millions)

Major Missions (Note 23)	**2013**	**2012 (Restated)**
Fostering a Safe and Secure Homeland		
Gross Cost	$ 30,071	$ 29,726
Less Earned Revenue	(3,807)	(3,886)
Net Cost	**26,264**	**25,840**
Enforcing and Administering Our Immigration Laws		
Gross Cost	8,572	8,659
Less Earned Revenue	(3,295)	(3,330)
Net Cost	**5,277**	**5,329**
Ensuring Resilience to Disasters		
Gross Cost	26,463	13,315
Less Earned Revenue	(3,781)	(3,896)
Net Cost	**22,682**	**9,419**
Providing Essential Support to National, Economic, and Homeland Security		
Gross Cost	9,032	9,426
Less Earned Revenue	(304)	(456)
Net Cost	**8,728**	**8,970**
Total Department of Homeland Security		
Gross Cost	74,138	61,126
Less Earned Revenue	(11,187)	(11,568)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	62,951	49,558
(Gain)/Loss on Pension, ORB, or OPEB Assumption (Note 16)	(2,411)	392
NET COST OF OPERATIONS (Note 34)	**$ 60,540**	**$ 49,950**

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				
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 Adjustments	(10)	-	-	(10)
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 Balance	-	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
Statement of Changes in Net Position
For the Year Ended September 30, 2012
(In Millions)

	2012 (Restated)			
	Funds from Dedicated Collections	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations				
Beginning Balances	$ (14,840)	$ (31, 014)	$ -	$ (45,854)
Adjustments:				
Change in Accounting Principle (Note 32)	(640)	1,351	-	711
Correction of Errors (Note 34)	-	(1,345)	-	(1,345)
Beginning Balance, as Adjusted	(15,480)	(31,008)	-	(46,488)
Budgetary Financing Sources				
Appropriations Used	-	47,458	-	47,458
Non-exchange Revenue	1,817	8	-	1,825
Donations and Forfeitures of Cash and Cash Equivalents	3	-	-	3
Transfers In/Out Without Reimbursement	(3,117)	2,520	-	(597)
Other Financing Sources				
Transfers In/Out Without Reimbursement	(7)	(7)	-	(14)
Imputed Financing	131	1,428	173	1,386
Other	2,897	(449)	-	2,448
Total Financing Sources	1,724	50,958	173	52,509
Net Cost of Operations (Note 34)	1,701	(51,824)	(173)	(49,950)
Net Change	3,425	(866)	-	2,559
Cumulative Results of Operations (Note 34)	**(12,055)**	**(31,874)**	**-**	**(43,929)**
Unexpended Appropriations				
Beginning Balances	-	45,274	-	45,274
Budgetary Financing Sources				
Appropriations Received	-	46,010	-	46,010
Appropriations Transferred In/Out	-	205	-	205
Other Adjustments	-	(955)	-	(955)
Appropriations Used	-	(47,458)	-	(47,458)
Total Budgetary Financing Sources	-	(2,198)	-	(2,198)
Total Unexpended Appropriations	**-**	**43,076**	**-**	**43,076**
NET POSITION	**$ (12,055)**	**$ 11,202**	**$ -**	**$ (853)**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Statements of Budgetary Resources
For the Years Ended September 30, 2013 and 2012
(In Millions)

	2013		2012	
	Budgetary	**Non-Budgetary Credit Reform Financing Accounts**	**Budgetary**	**Non-Budgetary Credit Reform Financing Accounts**
BUDGETARY RESOURCES				
Unobligated Balance Brought Forward, October 1	$ 12,329	$ 1	$ 11,853	$ 33
Adjustment to Unobligated Balance, Brought Forward, October 1 (Note 32)	(1,077)	-	(640)	-
Unobligated Balance Brought Forward, October 1, As Adjusted	11,252	1	11,213	33
Recoveries of Prior Year Unpaid Obligations	2,873	2	3,349	195
Other Changes in Unobligated Balance	(877)	-	(761)	-
Unobligated Balance from Prior Year Budget Authority, Net	13,248	3	13,801	228
Appropriations	64,245	-	55,399	-
Borrowing Authority (Note 25)	6,660	45	(275)	322
Spending Authority from Offsetting Collections	10,685	169	10,229	(201)
TOTAL BUDGETARY RESOURCES	**$ 94,838**	**$ 217**	**$ 79,154**	**$ 349**
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred (Note 24)	$ 76,348	$ 217	$ 66,825	$ 348
Unobligated Balance, End Of Year				
Apportioned	14,914	-	8,542	-
Exempt from Apportionment	2	-	10	-
Unapportioned (Note 3)	3,574	-	3,777	1
Total Unobligated Balance, End of Year	18,490	-	12,329	1
TOTAL BUDGETARY RESOURCES	**$ 94,838**	**$ 217**	**$ 79,154**	**$ 349**

(Continued)

Department of Homeland Security
Statements of Budgetary Resources
For the Years Ended September 30, 2013 and 2012
(In Millions)

	2013 Budgetary	2013 Non-Budgetary Credit Reform Financing Accounts	2012 Budgetary	2012 Non-Budgetary Credit Reform Financing Accounts
CHANGE IN OBLIGATED BALANCE				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 42,807	$ 18	$ 47,082	$ 208
Obligations Incurred	76,348	217	66,825	348
Outlays, Gross	(76,807)	(89)	(67,741)	(343)
Actual Transfers, Unpaid Obligations, Net	(9)	-	(10)	-
Recoveries of Prior Year Unpaid Obligations	(2,873)	(2)	(3,349)	(195)
Unpaid Obligations, End of Year (Note 29)	39,466	144	42,807	18
Uncollected Payments:				
Uncollected Customer Payments From Federal Sources, Brought Forward, October 1	(1,686)	(16)	(2,230)	(223)
Change in Uncollected Customer Payments from Federal Sources	(29)	(115)	544	207
Uncollected Customer Payments from Federal Sources, End of Year	(1,715)	(131)	(1,686)	(16)
Obligated Balance, Start of Year, Net	**$ 41,121**	**$ 2**	**$ 44,852**	**$ (15)**
Obligated Balance, End of Year, Net	**$ 37,751**	**$ 13**	**$ 41,121**	**$ 2**
BUDGET AUTHORITY AND OUTLAYS, NET				
Budget Authority, Gross	$ 81,590	$ 214	$ 65,353	$ 121
Actual Offsetting Collections	(10,767)	(374)	(10,836)	(8)
Change in Uncollected Customer Payments from Federal Sources	(29)	(115)	544	207
Budget Authority, Net	**$ 70,794**	**$ (275)**	**$ 55,061**	**$ 320**
Outlays	$ 76,807	$ 89	$ 67,741	$ 343
Actual Offsetting Collections	(10,767)	(374)	(10,836)	(8)
Outlays, Net	66,040	(285)	56,905	335
Distributed Offsetting Receipts	(7,518)	-	(7,481)	-
Agency Outlays, Net	**$ 58,522**	**$ (285)**	**$ 49,424**	**$ 335**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Statements of Custodial Activity
For the Years Ended September 30, 2013 and 2012
(In Millions)

	2013	2012
Revenue Activity (Note 30)		
Sources of Cash Collections:		
Duties	$ 31,663	$ 30,492
User Fees	1,586	1,601
Excise Taxes	3,163	3,105
Fines and Penalties	64	72
Interest	(36)	65
Miscellaneous	185	196
Total Cash Collections	36,625	35,531
Accrual Adjustments, Net	221	137
Total Custodial Revenue	**36,846**	**35,668**
Disposition of Collections		
Transferred to Others:		
Federal Entities:		
U.S. Department of Agriculture	9,694	9,345
Treasury General Fund Accounts	23,698	22,163
U.S. Army Corps of Engineers	1,523	1,539
Other Federal Agencies	44	35
Non-Federal Entities:		
Government of Puerto Rico	6	15
Other Non-Federal Entities	83	130
(Increase)/Decrease in Amounts Yet to be Transferred	300	191
Refunds and Drawbacks (Notes 18 and 30)	1,498	2,250
Retained by the Department	-	-
Total Disposition of Custodial Revenue	**36,846**	**35,668**
Net Custodial Activity	**$ -**	**$ -**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

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Notes to the Financial Statements

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Department of Homeland Security 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 cyber networks 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.

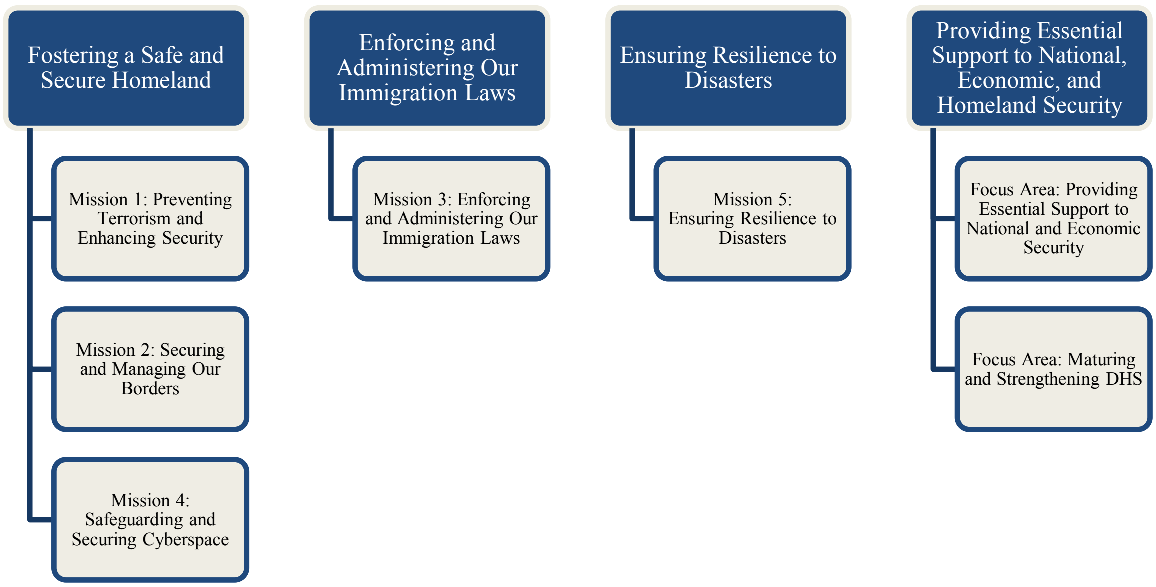
The Department's financial statements reflect the reporting of Departmental activities, including appropriations received to conduct operations and revenue generated from operations. The financial statements also reflect the reporting of certain non-entity (custodial) functions performed by the Department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

Intragovernmental assets and liabilities result 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 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 Strategic Plan and the four major missions used to present the Statement of Net Cost and related disclosures:



OMB Circular A-136 prescribed a new format to be used to present the FY 2013 Statement of Budgetary Resources (SBR). In the new SBR format, changes in obligated balances are aggregated to the major categories deemed most significant for broad government-wide display purposes. The Department is presenting the fiscal year (FY) 2013 and FY 2012 SBRs using this new format.

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; 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 that are available to pay non-entity 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. Treasury processes the remainder of the receipts and disbursements.

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

H. Investments, Net

Investments consist of Federal Government nonmarketable par value and 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.

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.

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.

In FY 2012, the USCG began reporting existing reparable spare parts, previously classified as General property, plant and equipment (PP&E), as OM&S, which are not depreciated. Accordingly, balances are presented net of an allowance for repair, and removed from OM&S using the consumption method. For additional information, see Note 32, Adjustments to Beginning Balances.

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.

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 transferred to, held, and maintained by the Treasury Forfeiture Fund.

An analysis of changes in seized and forfeited property of prohibited items 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*. 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. The USCG uses budgetary estimates as a reasonable alternative valuation method to record PP&E assets when the historical cost is unknown. 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	6 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, and Note 34, Restatement.

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. Disclosures are made for probable loss contingencies that cannot be reasonably estimated, as well as reasonably possible loss contingencies. 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.

NFIP premium rates are generally established for actuarially rated policies with the intent of generating sufficient premiums to cover losses and loss adjustment expenses of a historical average loss year and to provide a surplus to compensate Insurance Underwriting Operations for the potential loss of an unusually severe loss year due to catastrophic flooding.

Notwithstanding the foregoing, subsidized rates have historically 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. The subsidized rates do not include a provision for losses from catastrophic flooding. 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 the Bureau of the Public Debt 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 after December 31, 2012 are covered by the FERS revised annuity benefit. For the FERS 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.

Post-Employment Military Travel Benefit. USCG uniformed service members and their family or survivors are authorized a one-time permanent-change-of-station (PCS) transfer benefit to the members' home of record upon separation or retirement, including permanent disability and preretirement death in service. The benefit is provided whether or not the member is on active duty at the time of travel and without regard to the comparative costs of the various modes of transportation. Obligations for separation PCS orders are recorded in the fiscal in which they are issued and do not represent an actuarial liability.

Uniformed Division and Special Agent Pension Liability. The District of Columbia Police Officers' and Fireman's Retirement Plan (the DC Pension Plan) is a defined benefit plan that covers USSS Uniformed Division and Special Agents. 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. 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. Current period expense is computed using the aggregate cost method.

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

Effective in FY 2013, SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27,* changed the term Earmarked Funds to Funds from Dedicated Collections and introduced new criteria used to define a fund as a fund 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 (U.S.C.) 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.

The Department allocates funds, as the parent, to the Department of Health and Human Services. OMB granted an exemption from reporting this fund as a parent. Therefore, financial activity related to these funds is not reported in the DHS financial statements and related footnotes. DHS receives allocation transfers, as the child, from GSA, the U.S. Department of Transportation, and the Environmental Protection Agency.

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. Fees for flood mitigation products and services, such as insurance provided through FEMA's NFIP, are generally established at rates with the intent of generating sufficient premiums to cover losses and loss adjustment expenses of a historical average loss year and to provide a surplus to compensate Insurance Underwriting Operations for the loss potential of an unusually severe loss year due to catastrophic flooding. However, 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 U.S.C.; nonimmigrant petition fees and interest under 8 U.S.C.; and excise taxes are assessed under 26 U.S.C.

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 and FY 2012 financial statements were affected by accounting changes during those years. For additional information, see Note 32, Adjustments to Beginning Balances.

AB. Reclassifications and Other Reporting Changes

In FY 2013, certain FY 2012 balances were reclassified to conform to FY 2013 presentation. For additional information, see Note 33, Reclassifications and Other Reporting Changes.

AC. Restatement

In FY 2013, the Department restated certain FY 2012 balances to correct the USCG's general PP&E balances. For additional information, see Note 34, Restatements.

2. Non-Entity Assets

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

	2013	2012 (Restated)
Intragovernmental:		
Fund Balance with Treasury	$ 1,424	$ 1,345
Accounts Receivable	3	3
Total Intragovernmental	1,427	1,348
Public:		
Cash and Other Monetary Assets	7	5
Accounts Receivable, Net	46	46
Taxes, Duties, and Trade Receivables, Net	2,682	2,701
Total Public	2,735	2,752
Total Non-Entity Assets	4,162	4,100
Total Entity Assets	87,740	82,418
Total Assets	**$ 91,902**	**$ 86,518**

Non-entity Fund Balance with Treasury consists of certain special and deposit funds, permanent and indefinite appropriations, and miscellaneous receipts that are available to pay non-entity liabilities. Non-entity assets (also discussed in Notes 3, 4, 6, and 7) are offset by non-entity liabilities at September 30, 2013 and 2012. 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):

	2013	2012
General Funds	$ 51,726	$ 47,296
Trust Funds	20	42
Revolving, Public Enterprise, and Working Capital Funds	440	1,122
Special Funds	4,695	4,353
Deposit Funds	1,121	1,062
Total Fund Balance with Treasury	**$ 58,002**	**$ 53,875**

General funds consist of amounts appropriated annually by Congress to fund the operations of the Department. General funds include clearing funds totaling $(4) million and $13 million at September 30, 2013 and 2012, respectively, which represent reconciling differences with Treasury balances. As of September 30, 2013 and 2012, restricted non-entity fund balance with Treasury was $1,424 million and $1,345 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.

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):

	2013	2012
Budgetary Status		
Unobligated Balances:		
Available	$ 14,916	$ 8,552
Unavailable	3,574	3,778
Obligated Balance Not Yet Disbursed	37,764	41,123
Total Budgetary Status	56,254	53,453
Reconciling Adjustments:		
Receipt, Clearing, and Deposit Funds (Note 32)	2,102	1,798
Borrowing Authority (Note 25 and Note 32)	(422)	(1,078)
Investments	(5,078)	(4,496)
Receivable Transfers and Imprest Fund	(305)	(368)
Receipts Unavailable for Obligation	3,608	2,989
Offsetting Collections Previously or Temporarily Precluded from Obligation	37	39
SFRBTF; Oil Spill Liability Trust Fund	1,439	1,538
Temporary Reduction of Budget Authority	367	-
Total Fund Balance with Treasury	**$ 58,002**	**$ 53,875**

Portions of the Unobligated Balances Available, Unavailable, and Obligated Balance Not Yet Disbursed contain CBP's user fees of $88 million and $67 million at September 30, 2013 and 2012, 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, 2013 and 2012. For additional information, see Note 32, Adjustments to Beginning Balances.

- 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 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.

4. Cash and Other Monetary Assets

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

	2013	2012
Total Cash and Other Monetary Assets	**$ 45**	**$ 114**

DHS cash includes cash held by others, imprest funds, undeposited collections, seized cash deposited, and the net balances maintained by insurance companies for flood insurance activity. As of September 30, 2013 and 2012, restricted non-entity cash and other monetary assets were $7 million and $5 million, respectively (see Note 2).

5. *Investments, Net*

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:						
Oil Spill Liability Trust Fund	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		5,081	55	11	5,147	N/A
Total Investments, Net		**$ 5,081**	**$ 55**	**$ 11**	**$ 5,147**	**N/A**

Investments at September 30, 2012, consisted of the following (in millions):

Type of Investment:	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental Securities:						
Oil Spill Liability Trust Fund	Effective interest method	$ 2,554	$ 34	$ 11	$ 2,599	N/A
SFRBTF	Effective interest method	1,942	4	3	1,949	N/A
General Gift Fund	Effective interest method	1	-	-	1	N/A
Total Nonmarketable		4,497	38	14	4,549	N/A
Gifts and Donations	Straight line method	2	-	-	2	N/A
Total Nonmarketable, Market Based		2	-	-	2	N/A
Total Investments, Net		**$ 4,499**	**$ 38**	**$ 14**	**$ 4,551**	**N/A**

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections (Oil Spill Liability Trust Fund, 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. Non-marketable market-based Treasury Securities are issued by the

Bureau of Public Debt to federal accounts. They are not traded on any securities exchange, but mirror prices of particular Treasury securities trading in the Government securities market.

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):

	2013	2012
Intragovernmental	**$ 271**	**$ 259**
With the Public:		
Accounts Receivable	2,431	1,304
Allowance for Doubtful Accounts	(517)	(416)
Total With the Public	1,914	888
Accounts Receivable, Net	**$ 2,185**	**$ 1,147**

As of September 30, 2013 and 2012, total restricted non-entity accounts receivable were $49 million and $49 million, respectively (see Note 2).

Accounts Receivable increased by approximately $1 billion in FY 2013 primarily due to two significant judgments assessed against Transocean and BP for the Deep Water Horizon oil spill.

7. Taxes, Duties, and Trade Receivables, Net

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

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**

As of September 30, 2012:

Receivables Category	Gross Receivables	Allowance	Total Net Receivables
Duties	$ 2,286	$ (132)	$ 2,154
Excise Taxes	143	(8)	135
User Fees	198	(9)	189
Fines/Penalties	845	(747)	98
Antidumping and Countervailing Duties	1,311	(1,186)	125
Total Taxes, Duties, and Trade Receivables, Net	**$ 4,783**	**$ (2,082)**	**$ 2,701**

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 of approximately 92 percent and 88 percent at September 30, 2013 and 2012, respectively of the total assessment based on historical experience of fines and penalties mitigation and collection. 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 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 (SCDL) 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, SCDLs 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):

	2013	2012
	Loans Receivable, Net	Loans Receivable, Net
Community Disaster Loans	**$ 73**	**$ 322**

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, 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**

As of September 30, 2012:	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Community Disaster Loans	**$ 348**	**$ 51**	**$ (77)**	**$ 322**

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

	2013	2012
Community Disaster Loans	**$ 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
2013	**$ 3**	**$ 39**	**$ 42**
2012	**$ -**	**$ -**	**$ -**

Direct Loan Modifications and Re-estimates

Community Disaster Loans	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
2013	**$ 257**	**$ -**	**$ (1)**	**$ 256**
2012	**$ -**	**$ -**	**$ (311)**	**$ (311)**

Total Direct Loan Subsidy Expense

	2013	2012
Community Disaster Loans	**$ 298**	**$ (311)**

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

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

	2013	2012
	Community Disaster Loans	Community Disaster Loans
Interest Subsidy Cost	7.17%	2.49%
Other	84.46%	83.57%

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.

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.

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

	2013	2012
Beginning balance of the subsidy cost allowance	$ 77	$ 467
Add subsidy expense for direct loans disbursed during the reporting years by component:		
Interest rate differential costs	3	-
Other subsidy costs	39	-
Adjustments:		
Loan modifications	257	-
Loans written off	(83)	(81)
Subsidy allowance amortization	(2)	2
Ending balance of the subsidy cost allowance before re-estimates	291	388
Add subsidy re-estimate by Component		
Technical/default re-estimate	(1)	(311)
Ending balance of the subsidy cost allowance	**$ 290**	**$ 77**

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

	2013	2012
Community Disaster Loans	**$ 2**	**$ -**

9. Inventory and Related Property, Net

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

	2013	2012
OM&S		
Items Held for Use	$ 1,272	$ 1,065
Items Held for Future Use	42	31
Items Held for Repair	773	703
Excess, Obsolete and Unserviceable Items	16	26
Less: Allowance for Losses	(251)	(234)
Total OM&S, Net	**1,852**	**1,591**
Inventory		
Inventory Purchased for Resale	75	91
Less: Allowance for Losses	(9)	(5)
Total Inventory, Net	**66**	**86**
Stockpile Materials Held in Reserve	**108**	**73**
Total Inventory and Related Property, Net	**$ 2,026**	**$ 1,750**

10. Seized and Forfeited Property

Prohibited seized property item counts as of September 30 and seizure and forfeiture activity for FY 2013 and 2012 are as follows:

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
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

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
Firearms and Explosives (in number of items)	1,025	3,290	(3,285)	(3)	133	1,160

Fiscal Year Ended September 30, 2012:

Seized Property:	Beginning Balance	New Seizures	Remissions	New Forfeitures	Adjustments	Ending Balance
Illegal Drugs (in kilograms):						
Marijuana	2,086	1,242,474		(1,244,141)	1,632	2,051
Cocaine	74	19,186		(19,206)	29	83
Heroin	3	1,900		(1,897)	(2)	4
Ecstasy	1	152		(151)	16	18
Steroids	165	546		(605)	41	147
Methamphetamine	11	6,579	-	(6,595)	10	5
Firearms and Explosives (in number of items)	2,989	1,814	(427)	(1,124)	(140)	3,112
Counterfeit Currency (US/Foreign, in number of items)	5,050,108	1,810,735	(2,180,660)	-	(386)	4,679,797

Forfeited Property:	Beginning Balance	New Forfeitures	Transfers	Destroyed	Adjustments	Ending Balance
Illegal Drugs (in kilograms):						
Marijuana	120,467	1,244,141	(912)	(428,978)	(793,483)	141,235
Cocaine	23,931	19,206	(386)	(19,899)	1,969	24,821
Heroin	2,368	1,897	(2)	(1,518)	23	2,768
Ecstasy	1,058	151	(1)	(308)	21	921
Steroids	293	605	-	(558)	-	340
Methamphetamine	5,198	6,595	-	(4,474)	(280)	7,039
Firearms and Explosives (in number of items)	1,011	1,124	(1,196)	(5)	91	1,025

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. The ending balance for firearms includes only those seized items that can actually be used as firearms. 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. Methamphetamine seizures have increased in recent years and are therefore included in the list of illegal drugs seized and forfeited in both FY 2013 and 2012. For more information, see Note 33, Reclassifications and Other Reporting Changes.

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.

USCG also seizes and takes temporary possession of small boats, equipment, firearms, contraband, and illegal drugs. USCG usually disposes of these properties within three days by transferring them to CBP (who transfers the proceeds from the sale of nonprohibited seized property to the Treasury Forfeiture Fund); the Drug Enforcement Administration; other federal, state, and local law enforcement agencies; or foreign governments. Seized property in USCG possession at year-end is not considered material and therefore is not itemized and is not reported in the financial statements of the Department.

11. General Property, Plant, and Equipment, Net

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

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	6-50 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**

As of September 30, 2012 (Restated): (Note 34)	Service Life	Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	$ 224	N/A	$ 224
Improvements to Land	3-50 yrs	2,094	382	1,712
Construction in Progress	N/A	3,153	N/A	3,153
Buildings, Other Structures and Facilities	6-50 yrs	6,451	2,956	3,495
Equipment (Note 32):				
Automated Data Processing Equipment	3-5 yrs	1,062	735	327
Aircraft	12-40 yrs	4,999	2,503	2,496
Vessels	5-76 yrs	6,467	3,201	3,266
Vehicles	4-8 yrs	997	722	275
Other Equipment	5-30 yrs	6,824	3,980	2,844
Assets Under Capital Lease	2-20 yrs	79	43	36
Leasehold Improvements	2-30 yrs	1,245	524	721
Internal Use Software	3-10 yrs	2,790	2,043	747
Internal Use Software - in Development	N/A	557	N/A	557
Total General Property, Plant, and Equipment, Net		**$ 36,942**	**$ 17,089**	**$ 19,853**

The table above represents the general PP&E balances for all DHS Components as of September 30, 2012. Of these balances, the following balances associated with USCG's PP&E remain unaudited as of September 30, 2012 (restated): $13,523 million of the total cost, $5,905 million of the total accumulated depreciation/amortization, and $7,618 million of the net book value.

12. Stewardship Property, Plant, and Equipment

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

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
Non-collection-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**

2012	Beginning Balance	Additions	Withdrawals	Total
Collection-type Assets				
USCG (unaudited)	9	-	-	9
CBP	2	-	-	2
USCIS	5	-	-	5
TSA	7	4	-	11
S&T	-	1	-	1
Non-collection-type Assets				
USCG (unaudited)	222	1	(46)	177
S&T	-	1	-	1
Multi-use Heritage Assets				
USCG (unaudited)	583	252	(95)	740
CBP	4	-	-	4
FEMA	1	-	-	1
Total Stewardship Property, Plant and Equipment	**833**	**259**	**(141)**	**951**

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

Effective October 1, 2011, the USCG heritage assets are reported at the collection level rather than at the individual level. For additional information, see Note 33, Reclassifications and Other Reporting Changes.

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 tariff classifications, CBP regulations, ledgers of Collectors of Customs, and Customs pamphlets. 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 a Genealogy Program to allow the public access to the records on a fee-for-service basis. Archived records available through the 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 possesses six architectural or building artifacts that 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. TSA also possesses five items that include two walk through metal detectors, two X-ray machines, and an explosives trace detection portal machine. These items are maintained in order to preserve them as an important example of new 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 Fire Academy, which is used by the U.S. Fire Administration for training in Emmitsburg, Maryland. The National Fire Academy develops, delivers, and manages educational and training programs to support the DHS and FEMA 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.

13. Other Assets

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

	2013	2012
Intragovernmental:		
Advances and Prepayments	$ 1,207	$ 1,517
Total Intragovernmental	**1,207**	**1,517**
Public:		
Advances and Prepayments	657	688
Total Public	**657**	**688**
Total Other Assets	**$ 1,864**	**$ 2,205**

14. Liabilities Not Covered by Budgetary Resources

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

	2013	2012
Intragovernmental:		
Debt (Note 15)	$ 24,000	$ 17,750
Due to the General Fund (Note 18)	2,709	2,727
Accrued FECA Liability (Note 18)	358	334
Other	123	90
Total Intragovernmental	27,190	20,901
Public:		
Federal Employee and Veterans' Benefits:		
Actuarial FECA Liability (Note 16)	2,507	2,229
Military Service and Other Retirement Benefits (Note 16)	48,716	49,724
Environmental and Disposal Liabilities (Note 17)	753	666
Other:		
Accrued Payroll and Benefits (Note 18)	1,239	1,228
Contingent Legal Liabilities (Note 21)	541	691
Capital Lease Liability (Note 19)	42	45
Other	46	57
Total Public	53,844	54,640
Total Liabilities Not Covered by Budgetary Resources	81,034	75,541
Liabilities Covered by Budgetary Resources	10,719	11,830
Total Liabilities	**$ 91,753**	**$ 87,371**

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, 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**

As of September 30, 2012	Beginning Balance	Net Borrowing	Ending Balance
Debt to the Treasury General Fund:			
Debt for the NFIP	$ 17,750	$ -	$ 17,750
Debt for Credit Reform	4	318	322
Total Debt to the Treasury General Fund	$ 17,754	$ 318	$ 18,072
Total Debt	**$ 17,754**	**$ 318**	**$ 18,072**

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

NFIP loans from Treasury are typically for a three-year term. Interest rates are obtained from the Bureau of Fiscal Service and range by cohort year from 0.125 percent to 0.5 percent as of September 30, 2013, and from 0.13 percent to 1.63 percent as of September 30, 2012. Interest is paid semi-annually on March 31 and September 30. The total interest paid was $103 million and $89 million as of September 30, 2013 and 2012, respectively. Interest is accrued based on the loan balances reported by Bureau of Fiscal Service. 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 policy holders and map collection fees. Given the current rate structure, FEMA will be unable to pay its debt when payment is due. Due to the size of the debt incurred for damages sustained for Hurricanes Katrina, Rita, and Sandy, legislation will need to be enacted to provide funding to repay the Bureau of Public Debt or to forgive the debt.

Under Credit Reform, the unsubsidized portion of direct loans is borrowed from the Treasury. The repayment terms of FEMA's borrowing from Treasury 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 the Treasury. In addition, an annual re-estimate is performed to determine any change from the original subsidy rate. If an upward re-estimate is determined to be necessary, these funds are available through permanent indefinite authority, which is to be approved by OMB. Once these funds are appropriated, the original borrowings are repaid to Treasury. The weighted average interest rates for FY 2013 and FY 2012 were 1.96 percent and 2.40 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):

	2013	2012
USCG Military Retirement and Healthcare Benefits	$ 44,796	$ 45,967
USSS DC Pension Plan Benefits	3,920	3,757
Actuarial FECA Liability	2,507	2,229
Total Federal Employee and Veterans' Benefits	**$ 51,223**	**$ 51,953**

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, 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**

As of September 30, 2012	USCG Defined Benefit Plan	USCG Post-Retirement Healthcare	USSS Defined Benefit Plan	Total
Beginning Liability Balance:	$ 36,036	$ 7,741	$ 3,833	$ 47,610
Expenses:				
Normal Cost	1,434	330	247	2,011
Interest on the Liability Balance	1,624	246	-	1,870
Actuarial Losses/(Gains):				
From Experience	(396)	(77)	(90)	(563)
From Assumption Changes	2,365	(1,973)	-	392
Other	-	-	13	13
Total Expense	5,027	(1,474)	170	3,723
Less Amounts Paid	1,167	196	246	1,609
Ending Liability Balance	**$ 39,896**	**$ 6,071**	**$ 3,757**	**$ 49,724**

Gains from assumption changes are primarily due to changes in the cost of living assumption for the USCG. In FY 2013, the assumption for cost of living increases is 2.4 percent, calculated based on the historical average of cost of living adjustments over the past seven years. In FY 2012, the assumption for cost of living increases was 3 percent per year.

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 2.4 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 3.93 percent for the retirement system and 4.16 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 System (DC Pension Plan) after completion of ten years of Secret Service employment and ten 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, 2013, are:

1. Life expectancy is based upon the RP 2000 Combined Healthy Mortality Table;
2. Rates of salary increases are 3.5 percent annually;
3. Annual rate of investment return is 6.5 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 $2,507 million and $2,229 million at September 30, 2013 and 2012, respectively.

17. Environmental and Disposal Liabilities

Environmental and disposal liabilities at September 30, 2013 and 2012 are $755 million and $668 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 non-friable 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, 2013	Current	Non-Current	Total
Intragovernmental:			
Due to the General Fund (Note 14)	$ 2,709	$ -	$ 2,709
Accrued FECA Liability (Note 14)	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**

As of September 30, 2012	Current	Non-Current	Total
Intragovernmental:			
Due to the General Fund	$ 2,727	$ -	$ 2,727
Accrued FECA Liability	114	220	334
Advances from Others	113	-	113
Employer Benefits Contributions and Payroll Taxes	295	-	295
Other Intragovernmental Liabilities	158	1	159
Total Intragovernmental Other Liabilities	**$ 3,407**	**$ 221**	**$ 3,628**
Public:			
Accrued Payroll and Benefits (See B. below)	$ 2,454	$ -	$ 2,454
Deferred Revenue and Advances from Others (See B. below)	2,019	826	2,845
Insurance Liabilities (Note 20)	802	31	833
Refunds and Drawbacks	177	-	177
Contingent Legal Liabilities (Note 21)	340	364	704
Capital Lease Liability (Note 19)	6	39	45
Other	2,046	56	2,102
Total Other Liabilities with the Public	**$ 7,844**	**$ 1,316**	**$ 9,160**
Total Other Liabilities	**$ 11,251**	**$ 1,537**	**$ 12,788**

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 $184 million and $174 million, respectively, for the fiscal years ended September 30, 2013 and 2012.

B. Other Liabilities with the Public

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

	2013	2012
Accrued Funded Payroll and Benefits	$ 472	$ 1,133
Accrued Unfunded Leave	1,234	1,221
Unfunded Employment Related Liabilities	5	7
Other	96	93
Total Accrued Payroll and Benefits	**$ 1,807**	**$ 2,454**

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

	2013	2012
USCIS Application Fees	$ 942	$ 827
FEMA Unearned NFIP Premium	2,134	2,000
Advances from Others	104	18
Total Deferred Revenue	**$ 3,180**	**$ 2,845**

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 non-cancellable operating leases are based on lease contract terms, considering payments made during the year ended September 30, 2013.

As of September 30, 2013, estimated future minimum lease commitments for non-cancellable operating leases were as follows (in millions):

	Land and Buildings	Vehicles and Other Equipment	Total
FY 2014	$ 538	$ 1	$ 539
FY 2015	449	-	449
FY 2016	421	-	421
FY 2017	401	-	401
FY 2018	356	-	356
After FY 2018	1,503	-	1,503
Total Future Minimum Lease Payments	**$ 3,668**	**$ 1**	**$ 3,669**

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):

	2013	2012
Land and Buildings	$ 68	$ 68
Software	11	11
Accumulated Amortization	(47)	(43)
Assets under Capital Lease, Net	**$ 32**	**$ 36**

The estimated future lease payments for capital leases are based on lease contract terms. As of September 30, 2013, estimated future minimum lease payments under capital leases, which were all non-GSA, were as follows (in millions):

	Land and Buildings
FY 2014	$ 6
FY 2015	6
FY 2016	6
FY 2017	6
FY 2018	6
After FY 2018	27
Total Future Minimum Lease Payments	57
Less: Imputed Interest and Executory Costs	(15)
Total Capital Lease Liability	**$ 42**

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):

	2013	2012
Beginning Balance	$ 833	$ 3,537
Change in Incurred Losses		
Change from Events of the Current Year	9,190	1,083
Change from Events of Prior Years	(195)	(1,519)
Less: Amounts Paid During Current Period		
Paid for Events of the Current Year	(8,569)	(369)
Paid for Events of Prior Years	(562)	(1,899)
Total Insurance Liability	**$ 697**	**$ 833**

Insurance liabilities consist primarily of NFIP insurance liabilities. The NFIP insurance liability represents an estimate of NFIP based on the 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.

Incurred losses and amounts paid during current year increased due to activity resulting from Hurricane Sandy in FY 2013.

Insurance liabilities related to estimated claims (incurred but not reported) and claims received but not yet approved for payment are covered by a permanent and indefinite appropriation, which is available to pay all valid claims after adjudication. Accordingly, these insurance liabilities are covered by budgetary resources.

21. Commitments and Contingent Liabilities

A. 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, will not have a materially adverse effect on the Department's financial statements, except for the legal actions described below (in millions).

		Estimated Range of Loss	
	Accrued Liabilities	Lower End	Upper End
FY 2013			
Probable	$ 561	$ 561	$ 1,450
Reasonably Possible		$ 465	$ 1,139

The claims above generally relate to the *Federal Tort Claims Act* (Pub. L. 79-601), Oil Spill Liability Trust Fund, 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, 2013, was $561 million, of which $20 million was funded.

Asserted and pending legal claims for which loss was reasonably possible is estimated to range from $465 million to $1,139 million at September 30, 2013.

As of September 30, 2013, 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, 2013 and 2012 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, 2013 and 2012, CBP had 16 aircrafts, loaned from DOD with a replacement value of up to $23 million per aircraft. As of September 30, 2013, 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 30. 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, 2013, DHS estimates total payments related to cancelled appropriations to be $289 million, of which $109 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 2013 and FY 2012 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, 2013, TSA has received invoices or documentation for costs incurred totaling $152.4 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, 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	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, 2012								
ASSETS								
Fund Balance with Treasury	$ 67	$ 34	$ 1,939	$ 1,026	$ 6	$ 1,239	$ 921	$ 5,232
Investments, Net	-	1,949	-	-	2,599	-	3	4,551
Accounts Receivable	135	124	10	3	501	-	66	839
Taxes Receivable	123	-	-	-	-	-	-	123
Other	-	-	278	627	-	-	2	907
Total Assets	**$ 325**	**$ 2,107**	**$ 2,227**	**$ 1,656**	**$ 3,106**	**$ 1,239**	**$ 992**	**$ 11,652**
LIABILITIES								
Other Liabilities	$ 144	$ 1,302	$ 1,144	$ 20,730	$ 329	$ 26	$ 32	$ 23,707
Total Liabilities	**$ 144**	**$ 1,302**	**$ 1,144**	**$ 20,730**	**$ 329**	**$ 26**	**$ 32**	**$ 23,707**
NET POSITION								
Cumulative Results of Operations	$ 181	$ 805	$ 1,083	$ (19,074)	$ 2,777	$ 1,213	$ 960	$ (12,055)
Total Liabilities and Net Position	**$ 325**	**$ 2,107**	**$ 2,227**	**$ 1,656**	**$ 3,106**	**$ 1,239**	**$ 992**	**$ 11,652**
Statement of Net Cost for the Year Ended September 30, 2012								
Gross Program Costs	$ 472	$ 118	$ 2,517	$ 988	$ 431	$ 51	$ 1,003	$ 5,580
Less: Earned Revenue	-	-	(2,629)	(3,494)	(257)	(250)	(651)	(7,281)
Net Cost of Operations	**$ 472**	**$ 118**	**$ (112)**	**$ (2,506)**	**$ 174**	**$ (199)**	**$ 352**	**$ (1,701)**
Statement of Changes in Net Position for the Year Ended September 30, 2012								
Net Position Beginning of Period	$ 796	$ 773	$ 848	$ (21,568)	$ 2,469	$ 1,014	$ 828	$ (14,840)
Prior-Period Adjustment Due to Changes in Accounting Principle	(640)	-	-	-	-		-	(640)
Net Position Beginning of Period, as Adjusted	156	773	848	(21,568)	2,469	1,014	828	(15,480)
Net Cost of Operations	(472)	(118)	112	2,506	(174)	199	(352)	1,701
Non-exchange Revenue	463	663	-	1	517	-	173	1,817
Other	34	(513)	123	(13)	(35)	-	311	(93)
Change in Net Position	25	32	235	2,494	308	199	132	3,425
Net Position, End of Period	**$ 181**	**$ 805**	**$ 1,083**	**$ (19,074)**	**$ 2,777**	**$ 1,213**	**$ 960**	**$ (12,055)**

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 non-reimbursable inspectional overtime services and paying for excess pre-clearance costs from COBRA user fee collections.

The *Customs and Trade Act of 1990* amended 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 U.S.C. § 58c. The authority to use these funds is contained in the annual DHS Appropriations Act.

CBP changed its reporting of COBRA user fees in FY 2012, as the result of new guidance from OMB. This resulted in a decrease in Fund Balance with Treasury in the Customs User Fees funds from dedicated collections column in FY 2012. For additional information, see Note 32, Adjustments to Beginning Balances.

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) amends the *National Flood Insurance Act of 1968* to extend the NFIP, and the financing for it, through FY 2017, and directs the FEMA Administrator to establish a National Flood Insurance Reserve Fund to meet the expected future obligations of the flood Insurance program.

The NFIP requires all partners (Write Your Own (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 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 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's primary source of revenue comes from premiums collected to insure policyholders' homes. 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, and 70X4236.

Oil Spill Liability Trust Fund

The Oil Spill Liability Trust Fund (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), Emergency Fund (TAFS 70X8349), Claims Fund (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 Emergency Fund is available for federal on-scene coordinators (FOSCs) to respond to discharges and for federal trustees to initiate natural resource damage assessments. The Emergency Fund 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 Claims Fund 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 U.S.C. 2701 *et seq*. The OPA and the *Clean Water Act,* 33 U.S.C. 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. BP established a $20 billion escrow account, funded over the next three years, to pay spill-related costs, including claims paid by the GCCF. Establishment of this account does not represent a cap or floor on any amount that may ultimately be paid by BP. 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 U.S.C. 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 U.S.C. 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, 2013, is described below.

Status of OSLTF Funds and Costs Incurred and Billed. Through September 30, 2013, the total amount of Deepwater Horizon costs incurred was $1,096 million, of which $753 million is incurred against OSLTF, and $343 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 $245 million. USCG has billed the responsible parties for $929 million. As of September 30, 2013, 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.

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 reimburses 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) enable the Under Secretary to 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 U.S.C. § 687(c)
- 70_5710: Coast Guard Housing Fund, U.S. Coast Guard, Department of Homeland Security, 14 U.S.C. § 687(c)
- 70X5710: Coast Guard Housing Fund, U.S. Coast Guard, Department of Homeland Security, 14 U.S.C. § 687(c)
- 70X5569: Asia-Pacific Economic Cooperation Business Travel Cards, U.S. Customs and Border Protection, Department of Homeland Security, 125 Stat. 551

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 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, 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**

For the year ended September 30, 2012 (in millions) (Restated) (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	$ 755	$ 572	$ 1,777	$ -	$ 8	$ 1,379	$ 7,395
Public Gross Cost	-	7,024	4,351	1,215	5,878	-	3	3,860	22,331
Gross Cost	-	9,928	5,106	1,787	7,655	-	11	5,239	29,726
Intragovernmental Revenue	-	(40)	(106)	(6)	(1)	-	-	(1,006)	(1,159)
Public Revenue Earned	-	(117)	(198)	(87)	(2,319)	-	-	(6)	(2,727)
Less Revenue Earned	-	(157)	(304)	(93)	(2,320)	-	-	(1,012)	(3,886)
Net Cost	**-**	**9,771**	**4,802**	**1,694**	**5,335**	**-**	**11**	**4,227**	**25,840**
Enforcing and Administering Our Immigration Laws									
Intragovernmental Gross Cost	$ -	$ 471	$ -	$ 904	$ -	$ 811	$ -	$ 14	$ 2,200
Public Gross Cost	-	1,165	-	3,379	-	1,781	-	134	6,459
Gross Cost	-	1,636	-	4,283	-	2,592	-	148	8,659
Intragovernmental Revenue	-	(6)	-	(42)	-	(8)	-	(2)	(58)
Public Revenue Earned	-	(24)	-	(38)	-	(3,210)	-	-	(3,272)
Less Revenue Earned	-	(30)	-	(80)	-	(3,218)	-	(2)	(3,330)
Net Cost	**-**	**1,606**	**-**	**4,203**	**-**	**(626)**	**-**	**146**	**5,329**
Ensuring Resilience to Disasters									
Intragovernmental Gross Cost	$ 1,171	$ -	$ 2	$ -	$ -	$ -	$ -	$ 122	$ 1,295
Public Gross Cost	11,742	-	23	1	-	-	-	254	12,020
Gross Cost	12,913	-	25	1	-	-	-	376	13,315
Intragovernmental Revenue	(337)	-	-	-	-	-	-	(5)	(342)
Public Revenue Earned	(3,552)	-	-	-	-	-	-	(2)	(3,554)
Less Revenue Earned	(3,889)	-	-	-	-	-	-	(7)	(3,896)
Net Cost	**9,024**	**-**	**25**	**1**	**-**	**-**	**-**	**369**	**9,419**

For the year ended September 30, 2012 (in millions) (Restated) (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	$	-	$	196	$	1,037	$	21	$	-	$	-	$	526	$	97	$	1, 877
Public Gross Cost		-		498		5,948		43		-		-		755		305		7,549
Gross Cost		-		694		6,985		64		-		-		1,281		402		9,426
Intragovernmental Revenue		-		(3)		(147)		-		-		-		(3)		(12)		(165)
Public Revenue Earned		-		(11)		(275)		(3)		-		-		-		(2)		(291)
Less Revenue Earned		-		(14)		(422)		(3)		-		-		(3)		(14)		(456)
Net Cost		**-**		**680**		**6,563**		**61**		**-**		**-**		**1,278**		**388**		**8,970**
Total Department of Homeland Security																		
Intragovernmental Gross Cost	$	1,171	$	3,571	$	1,794	$	1,497	$	1,777	$	811	$	534	$	1,612	$	12,767
Public Gross Cost		11,742		8,687		10,322		4,638		5,878		1,781		758		4,553		48,359
Gross Cost		12,913		12,258		12,116		6,135		7,655		2,592		1,292		6,165		61,126
Intragovernmental Revenue		(337)		(49)		(253)		(48)		(1)		(8)		(3)		(1,025)		(1,724)
Public Revenue Earned		(3,552)		(152)		(473)		(128)		(2,319)		(3,210)		-		(10)		(9,844)
Less Revenue Earned		(3,889)		(201)		(726)		(176)		(2,320)		(3,218)		(3)		(1,035)		(11,568)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB Assumption Changes		**9,024**		**12,057**		**11,390**		**5,959**		**5,335**		**(626)**		**1,289**		**5,130**		**49,558**
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes (Note 16)		-		-		392		-		-		-		-		-		392
NET COST OF OPERATIONS	**$**	**9,024**	**$**	**12,057**	**$**	**11,782**	**$**	**5,959**	**$**	**5,335**	**$**	**(626)**	**$**	**1,289**	**$**	**5,130**	**$**	**49,950**

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

Apportionment categories are determined in accordance with the guidance provided in OMB Circular No. 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, 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**

Year Ended September 30, 2012:	**Apportionment Category A**	**Apportionment Category B**	**Exempt from Apportionment**	**Total**
Obligations Incurred – Direct	$ 36,655	$ 23,668	$ 2,011	$ 62,334
Obligations Incurred – Reimbursable	4,206	620	13	4,839
Total Obligations Incurred	**$ 40,861**	**$ 24,288**	**$ 2,024**	**$ 67,173**

25. Available Borrowing Authority

	2013	2012
Beginning Borrowing Authority	$ 1,078	$ 1,427
Adjustments to Beginning Borrowing Authority	(1,077)	-
Current Year Borrowing Authority Realized	12,730	100
Borrowing Authority Used	(6,284)	(396)
Decrease in Borrowing Authority	(6,025)	(53)
Ending Borrowing Authority	**$ 422**	**$ 1,078**

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 is authorized to borrow from the U.S. 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 repay borrowed funds. As of September 30, 2013, $24 billion has been drawn from Treasury, leaving $6.4 billion available to be borrowed.

FEMA annually requests borrowing authority to cover the principal amount of direct loans not to exceed $25 million less the subsidy due from the DADLP account.

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.

During FY 2013, FEMA received a substantial increase in borrowing authority to pay insurance claims related to Hurricane Sandy. However, ending borrowing authority decreased from FY 2012 due to a change in FEMA's treatment of borrowing authority from definite to indefinite, which resulted in an adjustment to the unobligated balances brought forward, October 1, 2012 and an adjustment to the ending unobligated balances as of September 30, 2013. For additional information, see Note 32, Adjustments to Beginning Balances.

Debt results from Treasury loans and related interest payable to fund NFIP and DADLP operations of FEMA.

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 five 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 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.

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 $594 million and $1.2 billion at September 30, 2013, and 2012, 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 $135 million and $68 million at September 30, 2013 and 2012, respectively, is restricted by law in its use to offset specific costs incurred by the Department. For additional information, see Note 32, Adjustments to Beginning Balances.

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 2012 SBR and the actual amounts reported for FY 2012 in the Budget of the Federal Government. Since the FY 2013 financial statements will be reported prior to the release of the Budget of the Federal Government, DHS is reporting for FY 2012 only. Typically, the Budget of the Federal Government with the FY 2013 actual data is published in February of the subsequent year. Once published, the FY 2013 actual data will be available on the OMB website at: www.whitehouse.gov/omb.

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
FY 2012 Actual Balances per the FY 2013 Budget of the U.S. Government (in millions)	**$ 75,097**	**$ 64,925**	**$ 7,481**	**$ 55,021**
Reconciling Items:				
Accounts that are expired that are not included in Budget of the United States	1,950	305	-	-
Distributed Offsetting Receipts not included in the Budget of the United States, Net Outlays	-	-	-	(7,481)
Refunds and drawbacks not included in the Budget of the United States	1,818	1,818	-	1,773
Byrd Program (Continued Dumping and Subsidy Offset) not included in the Budget of the United States	638	418	-	418
Biodefense Countermeasure Program not included in the Budget of the United States	-	-	-	29
Miscellaneous Differences	-	(293)	-	(1)
Per the 2012 SBR	**$ 79,503**	**$ 67,173**	**$ 7,481**	**$ 49,759**

The Miscellaneous difference 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, 2013 and 2012, were $35,159 million and $37,509 million, respectively.

The decrease in undelivered orders, unpaid, end of period, is primarily due to a decrease in obligations related to disaster funding as well as a focused effort by Components to improve processes related to prior year obligation and recoveries review.

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, 2013 and 2012 (in millions):

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

2012 Tax Disbursements	Tax Year			
	2012	2011	2010	Prior Years
Total tax refunds and drawbacks disbursed	**$ 952**	**$ 707**	**$ 89**	**$ 502**

Total tax refunds and drawbacks disbursed consist of non-exchange customs duties revenue refunded. The disbursements include interest payments of $32.5 million and $28 million for the fiscal years ended September 30, 2013 and 2012, 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 2013 and FY 2012 are as follows:

	2013	2012 (Restated)
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred (Note 24)	$ 76,565	$ 67,173
Less: Spending Authority from Offsetting Collections and Recoveries	(14,161)	(13,650)
Obligations Net of Offsetting Collections and Recoveries	62,404	53,523
Less: Offsetting Receipts	(7,518)	(7,481)
Net Obligations	54,886	46,042
Other Resources		
Transfers In (Out) Without Reimbursement	92	(14)
Imputed Financing from Costs Absorbed by Others	1,337	1,386
Other	3,084	2,448
Net Other Resources Used to Finance Activities	4,513	3,820
Total Resources Used to Finance Activities	**$ 59,399**	**$ 49,862**

	2013	2012 (Restated)
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	$ (2,739)	$ (3,930)
Resources that Fund Expenses Recognized in Prior Periods	989	4,367
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:		
Other	(951)	(891)
Resources that Finance the Acquisition of Assets	2,640	3,323
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	1,358	2,089
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	1,297	4,958
TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS	**$ 58,102**	**$ 44,904**
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	$ 17	$ 31
Increase in Environmental and Disposal Liability	87	99
Increase in Exchange Revenue Receivable from the Public	7	(2)
Upward/Downward Re-estimates of Credit Subsidy Expense	3	(327)
Other		
Increase in Actuarial Pension Liability	-	3,784
Increase in USCG Military Post-Employment Benefits and Other	-	1
Other	-	108
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	114	3,694
Components not Requiring or Generating Resources		
Depreciation and Amortization	1,894	1,988
Revaluation of Assets or Liabilities	91	52
Other	339	(688)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	2,324	1,352
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**2,438**	**5,046**
NET COST OF OPERATIONS	**$ 60,540**	**$ 49,950**

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*.

Starting in FY 2012, CBP began reporting COBRA user fees resulting from elimination of the North American Free Trade Agreement country exemptions from 1994 to 1997 as "Non-budgetary" Fund Balance with Treasury, as a result of new guidance issued by OMB in August 2012. These fees are restricted by law until made available as provided in appropriation acts. The change resulted in an adjustment to the Statement of Budgetary Resources unobligated balance brought forward, October 1, 2011, and Statement of Changes in Net Position beginning cumulative results of operations of $640 million.

Also in FY 2012, the USCG began reporting existing reparable spare parts, previously classified as General PP&E, as OM&S. Accordingly, balances are presented net of an allowance for repair, and removed from OM&S using the consumption method. The adjustments to FY 2012 beginning balances resulted in a net increase to OM&S of $1,218 million and a net decrease to PP&E of $507 million on the Balance Sheet, and an adjustment to Statement of Changes in Net Position beginning cumulative results of operations totaling $711 million. This change more clearly represents the actual and reasonable utilization and classification of the assets.

33. Reclassifications and Other Reporting Changes

Effective October 1, 2011, the USCG revised its reporting heritage assets in the Stewardship Property, Plant, and Equipment footnote. Prior to this change, the USCG reported heritage assets at the individual item level, as opposed to reporting at the collection level. This change more consistently presents heritage assets across the Department.

In FY 2013, CBP began reporting methamphetamine seizures as part of the Seized and Forfeited Property footnote. Methamphetamine seizures have increased in recent years and are therefore included in the list of illegal drugs seized and forfeited. The FY 2012 footnote presentation has been reclassified to include the methamphetamine seizures activity for that year.

34. Restatement

A. ***General property, plant, and equipment.*** The Department restated the FY 2012 financial statements to correct USCG's general PP&E. The restated balance of general PP&E is due to correction of errors related to: 1) assets valuation, dates-in-service, and estimated useful life, 2) accumulation and allocation of labor and overhead costs to construction-in-progress, and 3) classification of internal-use software in development. These corrections required adjustments to the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and related footnotes as follows:

A.1 – Decrease in General Property, Plant, and Equipment, Net of $638 million;
A.2 – Decrease in Cumulative Results of Operations – Other Funds of $638 million;
A.3 – Decrease in Net Cost of Operations of $707 million; and
A.4 – Decrease in FY 2012 Beginning Cumulative Results of Operations of $1,345 million.

BALANCE SHEET, in millions	**2012**	**Effects of Restatement**	**2012 (Restated)**	**Description Reference**
ASSETS				
Intragovernmental				
Fund Balance with Treasury	$ 53,875	$ -	$ 53,875	
Investments, Net	4,551	-	4,551	
Accounts Receivable	259	-	259	
Other				
Advances and Prepayments	1,517	-	1,517	
Total Intragovernmental	**$ 60,202**	**$ -**	**$ 60,202**	
Cash and Other Monetary Assets	114	-	114	
Accounts Receivable, Net	888	-	888	
Taxes, Duties, and Trade Receivables, Net	2,701	-	2,701	
Direct Loans, Net	322	-	322	
Inventory and Related Property, Net	1,750	-	1,750	
General Property, Plant, and Equipment, Net	20,491	(638)	19,853	A.1
Other				
Advances and Prepayments	688	-	688	
TOTAL ASSETS	**$ 87,156**	**$ (638)**	**$ 86,518**	**A**
LIABILITIES				
Intragovernmental				
Accounts Payable	$ 2,001	$ -	$ 2,001	
Debt	18,072	-	18,072	
Other				
Due to the General Fund	2,727	-	2,727	
Accrued FECA Liability	334	-	334	
Other	567	-	567	
Total Intragovernmental	**$ 23,701**	$ **-**	**$ 23,701**	
Accounts Payable	1,889	-	1,889	
Federal Employee and Veterans' Benefits	51,953	-	51,953	
Environmental and Disposal Liabilities	668	-	668	
Other				
Accrued Payroll and Benefits	2,454	-	2,454	
Deferred Revenue and Advances from Others	2,845	-	2,845	
Insurance Liabilities	833	-	833	
Refunds and Drawbacks	177	-	177	
Other	2,851	-	2,851	
Total Liabilities	**$ 87,371**	**$ -**	**$ 87,371**	

BALANCE SHEET, in millions	2012	Effects of Restatement	2012 (Restated)	Description Reference
NET POSITION				
Unexpended Appropriations				
Unexpended Appropriations-Other Funds	$ 43,076	$ -	$ 43,076	
Cumulative Results of Operations				
Cumulative Results of Operations-Funds from Dedicated Collections	(12,055)	-	(12,055)	
Cumulative Results of Operations-Other Funds	(31,236)	(638)	(31,874)	A.2
Total Net Position	**$ (215)**	**$ (638)**	**$ (853)**	A
TOTAL LIABILITIES AND NET POSITION	**$ 87,156**	**$ (638)**	**$ 86,518**	**A**

STATEMENT OF NET COST, in millions	2012	Effects of Restatement	2012 (Restated)	Description Reference
Fostering a Safe and Secure Homeland				
Gross Cost	$ 30,165	$ (439)	$ 29,726	A
Less Earned Revenue	(3,924)	38	(3,886)	A
Net Cost	**26,241**	**(401)**	**25,840**	**A**
Enforcing and Administering Our Immigration Laws				
Gross Cost	8,659		8,659	
Less Earned Revenue	(3,330)		(3,330)	
Net Cost	**5,329**		**5,329**	
Ensuring Resilience to Disasters				
Gross Cost	13,392	(77)	13,315	A
Less Earned Revenue	(3,903)	7	(3,896)	A
Net Cost	**9,489**	**(70)**	**9,419**	**A**
Providing Essential Support to National, Economic, and Homeland Security				
Gross Cost	9,684	(258)	9,426	A
Less Earned Revenue	(478)	22	(456)	A
Net Cost	**9,206**	**(236)**	**8,970**	**A**
Total Department of Homeland Security				
Gross Cost	61,900	(774)	61,126	A
Less Earned Revenue	(11,635)	67	(11,568)	A
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	50,265	(707)	49,558	A
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes (Note 16)	392	-	392	
NET COST OF OPERATIONS	**$ 50,657**	**$ (707)**	**$ 49,950**	**A.3**

STATEMENT OF CHANGES IN NET POSITION, in millions	2012	Effects of the Restatement	2012 (Restated)	Description Reference
Cumulative Results of Operations				
Beginning Balances	$ (45,854)	$ -	$ (45,854)	
Adjustments:				
Changes in Accounting Principles	711		711	
Correction of Errors		(1,345)	(1,345)	A.4
Beginning Balance, as Adjusted	(45,143)	(1,345)	(46,488)	A
Budgetary Financing Sources				
Appropriations Used	47,458	-	47,458	
Non-exchange Revenue	1,825	-	1,825	
Donations and Forfeitures of Cash and Cash Equivalents	3	-	3	
Transfers In/Out Without Reimbursement	(597)	-	(597)	
Other Financing Sources				
Transfers In/Out Without Reimbursement	(14)	-	(14)	
Imputed Financing	1,386	-	1,386	
Other	2,448	-	2,448	
Total Financing Sources	52,509	-	52,509	
Net Cost of Operations	(50,657)	707	(49,950)	A.3
Net Change	1,852	707	2,559	A
Cumulative Results of Operations	**(43,291)**	**(638)**	**(43,929)**	**A.2**
Unexpended Appropriations				
Beginning Balance	45,274	-	45,274	
Budgetary Financing Sources				
Appropriations Received	46,010	-	46,010	
Appropriations Transferred In/Out	205	-	205	
Other Adjustments	(955)	-	(955)	
Appropriations Used	(47,458)	-	(47,458)	
Total Budgetary Financing Sources	(2,198)	-	(2,198)	
Total Unexpended Appropriations	43,076	-	43,076	
NET POSITION	**$ (215)**	**$ (638)**	**$ (853)**	**A**

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 2013) in Human Capital, Research and Development, and Non-Federal Physical Property are shown below:

Summary of Stewardship Investments (In Millions)[1]

	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009
Research and Development	$ 573	$ 783	$ 947	$ 925	$ 1,012
Human Capital	106	107	117	109	111
Non-Federal Physical Property	453	252	291	348	547
Total	$ 1,132	$ 1,142	$ 1,355	$ 1,382	$ 1,670

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 research and development.

TSA

TSA has invested in three 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 testing of screening technologies including EDS and Explosives Trace Detection technology.
- Infrastructure protection and research related to using biometrics for passenger access controls and tracking.

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

USCG

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

- *Marine Safety.* Enhance USCG ability to eliminate deaths, injuries, and property damage associated with maritime transportation, fishing, and recreational boating.
- *Maritime Mobility.* Enhance USCG 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 USCG and provides an example of a system which serves both safety and security purposes. Another investment area within this program is Intelligent Waterways Research, encompassing both Navigation Aids and Vessel Traffic.
- *Environmental Protection.* Protect natural resources; 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 the USCG enforcement of laws and treaties and security of the Nation's ports, waterways, and coastal zone; the two major investment areas within this program are: Detect, Identify, and Classify Maritime Threats and Improve Interdiction Capabilities.
- *Technology Investment.* Support the 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 research and development:

- Continued engineering analysis of potential small Unmanned Aerial Systems (UAS) installation on National Security Cutter. Executed expanded small UAS demonstration from NSC to investigate potential operational impacts and investigate various sensor payloads.
- Conducted analysis of potential Arctic craft capabilities/limitations to evaluate their effectiveness to execute USCG missions on the North Slope of Alaska.
- Conducted more complex testing of prototype heavy oil recovery systems which can be integrated with previously evaluated detection systems. Initiated development of prototype detection systems for oil in the water column. Continued to work with external agencies sharing results of research.
- Conducted investigation of oil response alternative in ice filled environment under Arctic Shield 2013 to make recommendations for planning necessary R&D to support Arctic oil spill response gaps. Conducted an exercise in the Great Lakes of increasing complexity to test operational deployments of equipment.

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 Arctic/cold weather environments.
- Evaluate potential implementation of UAS technology on USCG cutters to support execution of USCG missions.

DNDO

DNDO programs lead developmental, basic, and applied R&D activities to advance radiation and nuclear detection per Title V of the *Security and Accountability for Every Port Act of 2006* (Pub. L. 109-347), and technical nuclear forensics technologies and capabilities for the United States Government per the Nuclear Forensics and Attribution Act of 2010 (Pub. L. 111-140).

- *Transformational Research & Development.* Identifies, explores, develops, and demonstrates scientific and technological approaches that dramatically improve the performance of radiological and nuclear detection and technical nuclear forensics technology, and/or significantly reduce the operational burden of radiological and nuclear detection. Transformational R&D is carried out within three major programs.
  - *Exploratory Research Program.* Explores innovative, high-risk, early-stage technologies, concepts, and ideas that can transform the basic building blocks of radiological/nuclear detection technology.
  - *Academic Research Initiatives.* The program has two primary objectives: 1) Engage the academic community to advance fundamental knowledge for radiological/nuclear threat detection and related sciences with emphasis on fundamental research to solve long-term, high-risk challenges, and 2) Develop human capital in the nuclear science and engineering progressions and related fields.
  - *Advanced Technology Demonstrations Program.* Performs accelerated development, characterization and a demonstration of leading-edge technologies that address critical gaps in nuclear detection capabilities.
- *Radiological/Nuclear Detection Systems Development.* DNDO is responsible for ensuring that the Nation maintains a preeminent systems development program to translate user requirements into radiological/nuclear detection systems. Systems development activities that require Government lead developmental focus in order to provide an effective path to sustain radiological/nuclear detection capability.
- *Technical Nuclear Forensics Capability.* Nuclear forensics provides the technical foundation for the identification of those responsible for planned or executed attacks using nuclear weapons or materials, by combining nuclear forensics conclusions with intelligence and law enforcement information.

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, preparing the Nation to respond to large- and small-scale events, and protecting 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:

- *Internet Measurement and Attack Modeling Project.* Delivered tools to NPPD's United States Computer Emergency Readiness Team, providing better capabilities in visualization as well as identification of cyber-attacks. The technologies developed are critical to U.S. missions that support DHS watch-center and U.S. communications environments that rely on the Internet.
- *Small Dark Aircraft Project.* Significantly improves CBP's capability to detect, track, and interdict low-flying, low-observable aircraft (helicopters, ultra-lights, fixed wing) carrying illicit cargo/contraband across the U.S. border. In FY 2013, S&T modified the Acoustic Seismic Aircraft Detection system and demonstrated advanced detection capability at a northern border location.
- *Dynamic X-Ray Imaging Project.* Improves TSA's dynamic screening capability for checked and carryon baggage screening. The advanced X-ray imaging systems will be capable of supporting a system level risk-based screening capability with adaptive detection capability that will improve system detection performance and throughput. In FY 2013, S&T developed a prototype optically driven X-ray source with improved component lifetime to preliminary design phase.
- *Center of Excellence for Maritime, Island & Remote, and Extreme Environmental Security Center.* Enhances NPPD, OHA, FEMA, USCG, CBP, and state homeland security agencies' ability to respond to catastrophic events, particularly for U.S. ports, coasts, islands, and extreme environments, by developing a more secure and efficient marine transportation system. In FY 2013, S&T created models, tools, and decision aides that can assist policy makers and decision-makers responsible for making organizational changes and resource allocations to enhance resiliency in our Nation's Maritime Transportation System.

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.

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. The National Fire Academy also develops and delivers educational and training courses with a national focus to supplement and support state and local fire service training programs.
- *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, and the public and private sectors to minimize the impact of disasters on the American public.

- *Center for Domestic Preparedness (CDP).* 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, and private emergency responders—to include responders working in rural jurisdictions—in their missions 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.

DNDO

Radiation Detection Equipment. As a result of the conclusion of the Advanced Spectroscopic Portal L and Advanced Spectroscopic Portal C radiation detection equipment programs, DNDO received requests from the State if Virginia and the DC Metropolitan Police for the two remaining trucks and the State of New Mexico for a radiation portal monitor.

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.

TSA

- *Airport Improvement Program*. To help facilitate EDS installations, TSA purchases and installs in-line EDS equipment through a variety of funding mechanisms, including congressionally authorized LOIs. 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 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*, Pub. L. 107-71, November 19, 2001.
- *American Recovery and Reinvestment Act.* Using American Recovery and Reinvestment Act funds, TSA entered into OTAs with 36 airports between FY 2009 and FY 2010 for checked baggage inspection systems and/or closed circuit television cameras. As of September 30, 2013, TSA obligated $614.1 million: $552.2 million for checked baggage inspection systems OTAs and $61.8 million for closed circuit television cameras OTAs.
- *Air Cargo*. This program, which is no longer active, was signed into law by , President Bush on August 3, 2007 as the *Implementing Recommendations of the 9/11 Commission Act of 2007* (9/11 Act), Pub. L. 110-53. The 9/11 Act required TSA to establish a system for industry to screen 100 percent of cargo transported on passenger aircraft in the United States at the piece-level, commensurate with passenger baggage. TSA has entered into OTAs with 47 freight forwarders totaling $34.1 million.
- *Intercity Bus Security Program.* This program, which ended in FY 2010, provided funds to improve security for intercity bus operators and passengers. TSA awarded grants based on the following program categories:
  - Vehicle-specific security enhancements such as alarms, closed-circuit television (CCTV), and driver shields.
  - Monitoring, tracking, and communication technologies for over-the-road buses.
  - Implementation and operation of passenger and baggage screening programs at terminals and over-the-road buses.
  - Development of an effective security assessment/security plan that identifies critical security needs and vulnerabilities.
  - Critical Infrastructure hardening activities, such as fencing, lighting, intrusion detection, and CCTV for critical infrastructure such as bus yards, maintenance facilities, and operations centers."
  - Security training and exercises for drivers, dispatchers, ticket agents, and other personnel in recognizing and responding to criminal attacks and terrorist threats.
  - Facility security enhancements (alteration/renovation) to terminals, garages and facilities, including but not limited to: fencing, lighting, secured access, locking down of vehicles, and securing of bus yards/depots.

- *Port Security Grant Program.* This program, which ended in FY 2011, provided grants to critical national seaports to support the security efforts at the port through enhanced facility and operational security. These grants contribute to important security upgrades such as surveillance equipment, access controls to restricted areas, communications equipment, and the construction of new command and control facilities.

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 as of September 30, 2013, on general PP&E and heritage assets was estimated to range from $1,090 million to $1,188 million, and the condition of these assets ranges from poor to good. 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.

In FY 2012, the Department reported estimated deferred maintenance ranging from $832 million to $1,080 million on general PP&E and heritage assets with a range of poor to good condition. 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, 2013, follows (in millions):

	Low estimate	High estimate	Asset Condition
Building & Structures	$ 920	$ 1,015	Good to Poor
Equipment (vehicles and vessels)	112	112	Fair
Equipment (Other)	54	54	Good to Fair
Heritage assets	4	7	Good to Poor
Total	**$ 1,090**	**$ 1,188**	

2. Statement of Budgetary Resources

The principal SBR combines the availability, status, and outlays of the Department’s budgetary resources during FY 2013 and FY 2012. The following table provides the SBR disaggregated by DHS Components rather than by major budget account because DHS manages its budget at the Component level.

In FY 2012, OMB Circular A-136 prescribed a new format to be used to present the FY 2013 SBR. Accordingly, the Department is presenting FY 2013 and FY 2012 information using the new format.

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	-	-	-	(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**

Schedule of FY 2012 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	$ 2,268	$ 1,916	$ 1,111	$ 3,616	$ 99	$ 699	$ 28	$ 256	$ 221	$ 66	$ 58	$ 1,548	$ **11,886**
Adjustment to Unobligated Balance, Brought Forward, October 1 (Note 32)	(640)	-	-	-	-	-	-	-	-	-	-	-	**(640)**
Unobligated Balance Brought Forward, October 1, As Adjusted	1,628	1,916	1,111	3,616	99	699	28	256	221	66	58	1,548	**11,246**
Recoveries of Prior Year Unpaid Obligations	351	270	98	2,135	12	224	5	108	89	25	51	176	**3,544**
Other Changes in Unobligated Balance	(93)	(107)	(8)	(172)	(9)	(164)	(3)	(37)	(13)	(34)	2	(123)	**(761)**
Unobligated Balance from Prior Year Budget Authority, Net	1,886	2,079	1,201	5,579	102	759	30	327	297	57	111	1,601	**14,029**
Appropriations	13,718	10,672	2,868	10,648	271	5,954	165	1,569	1,213	1,930	668	5,723	**55,399**
Borrowing Authority (Note 25)	-	-	-	47	-	-	-	-	-	-	-	-	**47**
Spending Authority from Offsetting Collections	1,619	460	37	3,298	72	168	39	911	1,164	51	129	2,080	**10,028**
TOTAL BUDGETARY RESOURCES	**$ 17,223**	**$ 13,211**	**$ 4,106**	**$ 19,572**	**$ 445**	**$ 6,881**	**$ 234**	**$ 2,807**	**$ 2,674**	**$ 2,038**	**$ 908**	**$ 9,404**	**$ 79,503**
STATUS OF BUDGETARY RESOURCES													
Obligations Incurred (Note 24)	$ 15,912	$ 11,110	$ 2,779	$ 15,730	$ 374	$ 6,102	$ 198	$ 2,299	$ 2,363	$ 1,959	$ 792	$ 7,555	$ 67,173
Unobligated Balance, End Of Year													
Apportioned	639	1,724	356	3,313	53	176	28	209	277	39	112	1,616	**8,542**
Exempt from Apportionment	-	7	-	3	-	-	-	-	-	-	-	-	**10**
Unapportioned (Note 3)	672	370	971	526	18	603	8	299	34	40	4	233	**3,778**
Total Unobligated Balance, End of Year	1,311	2,101	1,327	3,842	71	779	36	508	311	79	116	1,849	**12,330**
TOTAL BUDGETARY RESOURCES	**$ 17,223**	**$ 13,211**	**$ 4,106**	**$ 19,572**	**$ 445**	**$ 6,881**	**$ 234**	**$ 2,807**	**$ 2,674**	**$ 2,038**	**$ 908**	**$ 9,404**	**$ 79,503**

Schedule of FY 2012 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	$ 4,713	$ 5,036	$ 1,018	$ 24,546	$ 175	$ 1,997	$ 342	$ 2,133	$ 1,566	$ 399	$ 1,089	$ 4,276	**$ 47,290**
Obligations Incurred	15,912	11,110	2,779	15,730	374	6,102	198	2,299	2,363	1,959	792	7,555	**67,173**
Outlays, Gross	(16,117)	(11,046)	(2,733)	(15,968)	(427)	(6,249)	(203)	(2,504)	(2,451)	(1,863)	(988)	(7,535)	**(68,084)**
Actual Transfers, Unpaid Obligations, Net	-	-	-	(10)	-	-	-	-	-	-	-	-	**(10)**
Recoveries of Prior Year Unpaid Obligations	(351)	(270)	(98)	(2,135)	(12)	(224)	(5)	(108)	(89)	(25)	(51)	(176)	**(3,544)**
Unpaid Obligations, End of Year (Note 29)	4,157	4,830	966	22,163	110	1,626	332	1,820	1,389	470	842	4,120	**42,825**
Uncollected Payments:													
Uncollected Customer Payments From Federal Sources, Brought Forward, October 1	(164)	(366)	(10)	(576)	(118)	(105)	(7)	(705)	(157)	(21)	(220)	(4)	**(2,453)**
Change in Uncollected Customer Payments from Federal Sources	1	180	(5)	466	71	-	(1)	(12)	19	(22)	53	1	**751**
Uncollected Customer Payments from Federal Sources, End of Year	(163)	(186)	(15)	(110)	(47)	(105)	(8)	(717)	(138)	(43)	(167)	(3)	**(1,702)**
Obligated Balance, Start of Year, Net	**$ 4,549**	**$ 4,670**	**$ 1,008**	**$ 23,970**	**$ 57**	**$ 1,892**	**$ 335**	**$ 1,428**	**$ 1,409**	**$ 378**	**$ 869**	**$ 4,272**	**$ 44,837**
Obligated Balance, End of Year, Net	**$ 3,994**	**$ 4,644**	**$ 951**	**$ 22,053**	**$ 63**	**$ 1,521**	**$ 324**	**$ 1,103**	**$ 1,251**	**$ 427**	**$ 675**	**$ 4,117**	**$ 41,123**
BUDGET AUTHORITY AND OUTLAYS, NET													
Budget Authority, Gross	$ 15,337	$ 11,132	$ 2,905	$ 13,993	$ 343	$ 6,122	$ 204	$ 2,480	$ 2,377	$ 1,981	$ 797	$ 7,803	**$ 65,474**
Actual Offsetting Collections	(1,620)	(625)	(33)	(3,843)	(143)	(168)	(38)	(899)	(1,183)	(28)	(182)	(2,082)	**(10,844)**
Change in Uncollected Customer Payments from Federal Sources	1	180	(5)	466	71	-	(1)	(12)	19	(22)	53	1	**751**
Budget Authority, Net	**$ 13,718**	**$ 10,687**	**$ 2,867**	**$ 10,616**	**$ 271**	**$ 5,954**	**$ 165**	**$ 1,569**	**$ 1,213**	**$ 1,931**	**$ 668**	**$ 5,722**	**$ 55,381**
Outlays	$ 16,117	$ 11,046	$ 2,733	$ 15,968	$ 427	$ 6,249	$ 203	$ 2,504	$ 2,451	$ 1,863	$ 988	$ 7,535	**$ 68,084**
Actual Offsetting Collections	(1,620)	(625)	(33)	(3,843)	(143)	(168)	(38)	(899)	(1,183)	(28)	(182)	(2,082)	**(10,844)**
Outlays, Net	14,497	10,421	2,700	12,125	284	6,081	165	1,605	1,268	1,835	806	5,453	**57,240**
Distributed Offsetting Receipts	(3,462)	(53)	(3,173)	(337)	-	(192)	-	1	-	(13)	-	(252)	**(7,481)**
Agency Outlays, Net	**$ 11,035**	**$ 10,368**	**$ (473)**	**$ 11,788**	**$ 284**	**$ 5,889**	**$ 165**	**$ 1,606**	**$ 1,268**	**$ 1,822**	**$ 806**	**$ 5,201**	**$ 49,759**

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 each FY 2013 and FY 2012, CBP had the legal right to collect $2.7 billion of receivables. In addition, there were $2.3 billion and $2.6 billion representing records still in the protest phase for FY 2013 and FY 2012, respectively. CBP recognized as write-offs $288 million and $78 million, respectively, of assessments that the Department had statutory authority to collect at September 30, 2013 and 2012, 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 2013 estimate represents losses that might occur in FY 2014 on policies that were in-force as of September 30, 2013. 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 $550 to $600 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

DEC 19 2013

MEMORANDUM FOR: The Honorable Rand Beers
Acting Secretary

FROM: Carlton I. Mann
Chief Operating Officer

SUBJECT: *Independent Auditors' Report on DHS' FY 2013 Financial Statements and Internal Control over Financial Reporting*

Attached for your information is our revised report, *Independent Auditors' Report on DHS' FY 2013 Financial Statements and Internal Control over Financial Reporting*, for inclusion in the Department of Homeland Security 2013 *Agency Financial Report*. Language in the original *Independent Auditors' Report* was modified to be in conformance with the American Institute of Certified Public Accountants' clarified audit standard AU-C 705, *Modifications to the Opinion in the Independent Auditor's Report*. Modifications included language changes to the last sentence of *Auditors' Responsibility* section, third sentence in the *Basis for Qualified Opinion on the FY 2012 Financial Statements section*, first sentence of *Qualified Opinion on the FY 2012 Financial Statements* section, and last paragraph of *Emphasis of Matters* section.

The attached report presents the results of the U.S. Department of Homeland Security's (DHS) financial statements audit for fiscal year (FY) 2013 and the results of an examination of internal control over financial reporting of those financial statements. These are mandatory audits required by the *Chief Financial Officers Act of 1990*, as amended by the *Department of Homeland Security Financial Accountability Act of 2004*. This report is incorporated in the Department's FY 2013 *Agency Financial Report*. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the integrated audit.

The Department continued to improve financial management in FY 2013 and has achieved a significant milestone. This is the first year the Department has received an unmodified (clean) opinion on all financial statements. However, KPMG issued an adverse opinion on DHS' internal control over financial reporting of the FY 2013 financial statements. Further, as stated in the Secretary's Assurance Statement, the Department has material weaknesses in internal control over financial reporting. In order to sustain the unmodified opinion, the Department must continue remediating the remaining control deficiencies.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Summary

KPMG expressed an unmodified opinion on the Department's balance sheet as of September 30, 2013, and the related statements of net cost, changes in net position, and custodial activity, and combined statement of budgetary resources for the year then ended (referred to as the "FY 2013 financial statements"). However, KPMG identified eight significant deficiencies in internal control, of which four are considered material weaknesses. Consequently, KPMG issued an adverse opinion on DHS' internal control over financial reporting as of September 30, 2013.

The report discusses eight significant deficiencies in internal control, four of which are considered material weaknesses, and four instances of noncompliance with laws and regulations, as follows:

Significant Deficiencies That Are Considered To Be Material Weaknesses

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

Other Significant Deficiencies

- Entity-Level Controls
- Liabilities
- Grants Management
- Custodial Revenue and Drawback

Non-compliance with Laws and Regulations

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

Moving DHS' Financial Management Forward

The Department continued to remediate conditions contributing to material weaknesses and was able to reduce the number of material weaknesses from five in FY 2012 to four in FY 2013. As a result of improvements made by USCG in FY 2012

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

regarding environmental liability balances, liabilities were downgraded to a significant deficiency in FY 2013. Additionally, USCG completed several phases of a multi-year remediation plan to address process and control deficiencies related to the property, plant and equipment process. However, certain remediation efforts were not fully completed until late in FY 2013, and additional remediation activities are scheduled for FY 2014. Further, other components experienced challenges in financial reporting resulting in deficiencies in multiple processes.

In FY 2012 the Department provided qualified assurance that internal control over financial reporting was operating effectively at September 30, 2012, and acknowledged that material weaknesses existed in key financial processes. In FY 2013, the Department again issued a statement of qualified assurance and reported that material weaknesses in internal control over financial reporting continued to exist. The material weaknesses reported by the Department in the FY 2013 *Secretary's Assurance Statement* are all repeated from FY 2012. The independent auditors identified and reported the same findings as the Department, and consequently, has issued an adverse opinion on internal controls over financial reporting in FY 2013.

In FY 2014 and beyond, DHS' continuing challenge will be to sustain its progress in achieving an unmodified opinion on its financial statements, and avoid slipping backwards. The Department must continue remediation efforts, and stay focused, in order to sustain its clean opinion on the financial statements and achieve an unqualified opinion on its internal control over financial reporting.

*****

KPMG is responsible for the attached Independent Auditors' Report dated December 11, 2013, and the conclusions expressed in the report. We do not express opinions on financial statements or internal control or conclusions on compliance with laws and regulations.

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

We request that the 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 Mark Bell, Acting Assistant Inspector General for Audits, at 202-254-4100.

Attachment

Department of Homeland Security

Office of Inspector General

Independent Auditors' Report on DHS' FY 2013 Financial Statements and Internal Control over Financial Reporting

OIG-14-18 (Revised)

December 2013

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Excerpts from the DHS Annual Financial Report

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Appendixes

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the U.S. Department of Homeland Security (DHS or Department), which comprise the balance sheets as of September 30, 2013 and 2012, and the related 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 financial statements (referred to herein as the fiscal year (FY) 2013 and FY 2012 financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department's preparation and fair presentation of the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the balance sheet as of September 30, 2013, and the statements of net cost, changes in net position, and custodial activity and combined statement of budgetary resources for the year ended September 30, 2013. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the FY 2012 financial statements.

Basis for Qualified Opinion on the FY 2012 Financial Statements

In FY 2012, U.S. Coast Guard (Coast Guard) continued an extensive project to reconcile its financial statement accounts, obtain sufficient evidence to support historical transactions, and prepare auditable financial statements. Coast Guard was unable to complete certain reconciliations or provide evidence supporting certain components of general property, plant, and equipment (PP&E), and heritage and stewardship assets, as presented in the accompanying FY 2012 financial statements and notes. Accordingly,

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

we were unable to obtain sufficient appropriate audit evidence about the PP&E and heritage and stewardship balance as of September 30, 2012. Consequently, we were unable to determine whether any adjustment to this amount was necessary. The unaudited PP&E balances, as reported in the accompanying balance sheet are $7.6 billion or approximately 38 percent of total PP&E net book value at September 30, 2012.

Qualified Opinion on the FY 2012 Financial Statements

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion on the FY 2012 Financial Statements, the FY 2012 financial statements referred to above present fairly, in all material respects, the financial position of DHS as of September 30, 2012, and its net costs, changes in net position, budgetary resources, and custodial activity for the year ended September 30, 2012, in accordance with U.S. generally accepted accounting principles.

Opinion on the FY 2013 Financial Statements

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

Emphasis of Matters

As discussed in Notes 1T and 15 of the financial statements, the Department has intragovernmental debt of approximately $24 billion used to finance the *National Flood Insurance Program* (NFIP) as of September 30, 2013. 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. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

As discussed in Note 34 to the financial statements, the FY 2012 financial statements have been restated to correct a misstatement in certain property, plant, and equipment, and related balances. 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 (MD&A), Required Supplementary Information (RSI), and Required Supplementary Stewardship Information (RSSI) sections be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 financial statements in an appropriate operational, economic, or historical context. We were unable to complete limited procedures over MD&A as prescribed by professional standards because of the limitations on the scope of our FY 2012 audit described above in the *Basis for Qualified Opinion on the FY 2012 Financial Statements* section of our report. We have applied certain limited procedures to the required RSI (except for the section entitled Deferred Maintenance) and RSSI 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 financial statements, and other knowledge we obtained during our audits of the basic 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 financial statements as a whole. The information in the Message from Acting Secretary, Message from the Acting 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 financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Internal Control over Financial Reporting

We have audited DHS' internal control over financial reporting as of September 30, 2013, based on the 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 of 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 affected 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 a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. The material weaknesses described below and 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

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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, 2013, 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 deficiencies described below and in the accompanying Exhibit II to be significant deficiencies.

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

The report on internal control over financial reporting is intended solely for the information and use of the DHS management, the DHS Office of the 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 DHS' 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 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 below and in the accompanying Exhibit III.

I. *Federal Managers' Financial Integrity Act of 1982*
J. *Federal Financial Management Improvement Act of 1996*
K. *Single Audit Act Amendments of 1996*
L. *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 Exhibits I, II, and 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.

We also reported other matters related to compliance with the *Anti-deficiency Act* at Coast Guard and Intelligence & Analysis in Exhibit III.

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***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.

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 financial statements and, accordingly, we express no opinion on the responses.

KPMG LLP

December 11, 2013

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, and for the year ended, September 30, 2013, 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, 2013, and for the year then ended.

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 2011 through FY 2013. Listed in the title of each material weakness and significant deficiency included in Exhibits I and II, are the DHS components that contributed to the finding in FY 2013.

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 2013 and FY 2012 are presented in the Tables below:

Table 1	Presents a summary of our internal control findings, by component, for FY 2013.
Table 2	Presents a summary of our internal control findings, by component, for FY 2012.

We have reported four material weaknesses and four significant deficiencies at the Department level in FY 2013, 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 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									

TABLE 2 – SUMMARIZED DHS FY 2012 INTERNAL CONTROL FINDINGS
(Full-Scope Financial Statement Audit)

	Comments / Financial Statement Area	DHS Consol.	CG	CBP	USCIS	FEMA	FLETC	ICE	MGMT	NPPD	TSA
Material Weaknesses:							Exhibit I				
A	Financial Reporting	MW									
B	IT Controls and System Functionality	MW									
C	Property, Plant, and Equipment	MW									
D	Environmental and Other Liabilities	MW									
E	Budgetary Accounting	MW									
Significant Deficiencies:							Exhibit II				
F	Entity-Level Controls	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, 2013, 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.

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Independent Auditors' Report
Exhibit I – Material Weaknesses

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

Background: During fiscal year (FY) 2013, the U.S. Coast Guard (Coast Guard or USCG) continued to implement corrective action plans designed to remediate long-standing internal control deficiencies and strengthen financial reporting controls. These remediation efforts allowed management to make new assertions in FY 2013 related to the auditability of its financial statement balances, including approximately $7.6 billion of personal property. However, we noted that deficiencies remain in some financial reporting areas and additional remediation efforts associated with the reconciliation of certain personal and real property balances are scheduled to continue in FY 2014.

Trend Table

	2013	2012	2011
USCG	(red)	(red)	(red)
MGMT	(yellow)	N/A	N/A
NPPD	(yellow)	N/A	N/A
ICE	(yellow)	(yellow)	N/A
USSS	(yellow)	N/A	N/A
OFM	(yellow)	N/A	N/A
TSA	C	(yellow)	(yellow)
USCIS	C	C	(yellow)

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

The Office of Financial Management (OFM) is primarily responsible for issuing Departmental accounting policy and guidance, and performs a critical role in the Department's annual risk assessment, and monitoring of financial reporting throughout the year.

Key – Trend Table

C	Deficiencies are corrected
N/A	No deficiencies reported
(yellow)	Deficiencies are less severe*
(red)	Deficiencies are more severe*
* See Introduction	

Transportation Security Administration (TSA) has made progress in strengthening internal controls over financial reporting in FY 2013.

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

1. Coast Guard:

- Lacked adequate processes to ensure that all non-standard adjustments (i.e., journal entries, top side adjustments, and scripts) impacting the general ledger were adequately researched, supported, and reviewed prior to their recording in the general ledger.
- Has not fully compared existing policies to applicable generally accepted accounting principles (GAAP) and periodically monitored the financial statement impact of "non-GAAP" policies (e.g., imputed financing costs) that were inconsequential.
- Was not able to completely support 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 and 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 fully implemented to ensure identified differences, especially with agencies outside DHS, were resolved in a timely manner.
- Had difficulty sustaining various financial reporting internal control activities, including those designed to ensure the accurate and timely completion of technical accounting research papers. Gaps in the design or operating effectiveness of internal controls were identified in transactional and management reviews associated with various processes including, but not limited to, fund balance with Treasury, accounts receivable, contingent liabilities, property, plant, and equipment,

I.1

operating materials and supplies, and budgetary accounts. Some of the above weaknesses resulted in adjustments to the current or prior period financial statements.

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

2. MGMT:

- Had not fully designed internal controls to ensure effective monitoring of decentralized operations, and adequate communication with its service provider.
- Had not fully established a financial management infrastructure, including defined roles and responsibilities, and policies and procedures, 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 and leases were properly monitored, reviewed, and costs were appropriately recorded and disclosed;
  - Controls were not fully effective over expenses, payroll, including timesheet review, and review of invoices prior to disbursement, and timely adjustment of suspense balances at year end; and
  - Lack of documented policies and procedures to ensure the working capital funds are identified for proper recording by components.
- Was not fully compliant with the USSGL requirements at the transaction level.
- Internal controls over financial reporting were 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.

3. NPPD:

- Had not fully designed internal controls to ensure effective monitoring of its decentralized operations, and ensure adequate communication with its service provider, and consistently reliable, accurate, and timely financial reporting for all significant processes. For example we noted:
  - Controls were not operating effectively to ensure that capital assets were timely and accurately recorded in the asset sub-ledger and general ledger; and
  - A lack of adequate policies and procedures over accruals of revenue where services were performed but not recorded, as well as policies to ensure timely research and resolution of reconciling items to fund balance with Treasury.
- Was not fully compliant with the USSGL requirements at the transaction level.
- Controls were not fully effective to provide readily auditable populations with accurate information without reliance on the general ledger service provider.

4. ICE:

- Supervisory review controls over journal vouchers, account reconciliations, and analysis were not operating effectively. Some of these deficiencies resulted in adjustments to the current or prior period financial statements.
- Did not always adhere to or reinforce compliance with existing policies and procedures.
- Lacked policies and procedures and associated controls to ensure that all key input data was valid (complete, accurate) and recorded timely.
- Lacked controls over monitoring and tracking capital assets including timely capitalization and appropriate depreciation of capital assets, internal use software, and leasehold improvements.

Independent Auditors' Report
Exhibit I – Material Weaknesses

- Controls were not fully effective to provide readily auditable transaction populations with accurate supporting information.
- Was not fully compliant with the USSGL requirements at the transaction level.

5. USSS:

- Internal controls over recording the actuarially derived pension expense and loss were not operating effectively, resulting in an incorrect journal entry and a financial statement error in the presentation of changes in long-term assumptions.

6. OFM:

- Controls over the preparation and review of consolidated financial information were not always operating effectively. For example, management review controls over contingent legal liabilities, lease disclosures, elimination analysis, and non-GAAP analysis were not fully effective in identifying errors or analyzing information.
- Controls did not always operate at the designed level of precision to perform an effective quality review of information submitted by components. Consequently, deficiencies in component level reviews and analysis of financial information, sent to OFM, may not be identified.
- Controls were not fully effective to ensure the consistent understanding and application of guidance issued by OFM to the components.

Cause/Effect: The Coast Guard's three legacy general ledger systems, developed over a decade ago, were not effective, and had 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.* The Coast Guard utilized a redundant general ledger system with duplicate transaction postings as a compensating control to mitigate identified financial reporting deficiencies, resulting in highly inefficient financial reporting processes. The conditions supporting our findings collectively limited the Coast Guard's ability to consistently process, store, and report financial data in a manner that ensured accuracy, confidentiality, integrity, and availability of data without substantial manual intervention.

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 assumed more responsibility for financial management functions to help manage their operations and budgets. An intra-agency agreement between ICE and NPPD and MGMT defines the roles and responsibilities of each component, however there was a control gap between the services provided by ICE (in accordance with an intra-agency agreement), and the procedures and processes performed by NPPD and MGMT, leading to a number of control deficiencies in financial reporting at those components. Additionally, NPPD and MGMT's financial management resources were limited and some operations were unique and decentralized. Additionally, MGMT's overall operational functions, including the Working Capital Fund, were complex and diverse.

ICE faced challenges in developing and maintaining communications that affect financial reporting throughout decentralized program offices.

The USSS did not properly interpret the annual report provided by the pension actuary, resulting in an erroneous journal entry to record the effects of assumption changes on pension expense.

The DHS OFM restructured staffing and quality control positions in the current year. Roles and responsibilities within OFM were not always clearly understood, and as a result, the quality of analysis of financial statement information was sometimes lacking. This resulted in control gaps allowing a number of errors to occur.

Independent Auditors' Report
Exhibit I – Material Weaknesses

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, 2013. Management has acknowledged in the *Secretary's Assurance Statement* presented in *Management's Discussion and Analysis* section of the FY 2013 *Agency Financial Report* that material weaknesses and other internal control deficiencies continue to exist in some key financial processes. Also see Comment **III-I,** *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 that:
      i) All non-standard adjustments (i.e., journal entries, top side adjustments, and scripts) impacting the general ledger are adequately researched, supported, and reviewed prior to their recording in the general ledger;
      ii) All "non-GAAP" policies are identified and their quantitative and qualitative financial statement impacts have been documented;
      iii) 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 auditable; and
      iv) 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. Implement financial reporting policies and procedures that support process level internal controls to ensure that existing transactional and management review internal control activities are operating effectively; and
   c. Implement accounting and financial reporting processes including an integrated general ledger system that is FFMIA compliant.
2. 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 ensure effective internal control including supervisory reviews in all financial reporting processes;
   c. Examine existing policies and procedures and consider updates and new policies to accommodate different operating environments such as the Working Capital Fund;
   d. Establish processes and internal controls to ensure compliance with the USSGL requirements at the transaction level; and
   e. Improve the accessibility of reliable and complete financial data for use by management and to support the annual audit.
3. NPPD:
   a. Design and implement internal controls that ensure effective monitoring and communication of financial policies and procedures throughout the NPPD organization;
   b. Examine key financial reporting processes for critical deficiencies in financial policies, establish procedures, and internal controls, and develop and implement corrective action plans, to ensure the accuracy and completeness of NPPD financial statements;

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Independent Auditors' Report
Exhibit I – Material Weaknesses

c. Establish processes and internal controls to ensure compliance with the USSGL requirements at the transaction level;

d. Consider changes to the financial reporting structure, or the service level agreement with ICE, to ensure effective control in all financial reporting processes at NPPD; and

e. Continue to analyze alternatives, including evaluation of systems, to enable FFMIA compliance.

4. 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. Assess resource needs and assign sufficient staff to respond to audit inquiries with accurate and complete information in a timely manner;

c. Continue to analyze alternatives, including evaluation of systems, to enable FFMIA compliance; and

d. Establish processes and internal controls to ensure compliance with the USSGL requirements at the transaction level.

5. U.S. Secret Service evaluate the effectiveness of its review and understanding over the actuarial pension estimate, to ensure the appropriate review and recording of pension expense, gains, and losses.

6. The DHS OFM:

a. Perform a review of its personnel structure in FY 2014, considering the turn-over in management and restructuring of responsibilities in FY 2013, to ensure that resources are committed to areas of greatest financial statement risk, and to improve the organization, facilitation, and controls over processes that involve multiple components; and

b. Strengthen management review controls that involve analysis of component data to provide effective quality reviews of component data. Consider separating the gathering and consolidation of data, from the analysis function to improve the effectiveness of review controls.

c. Implement procedures to ensure application of policies is consistently performed throughout the Department. For example, computation and reporting of minimum future lease disclosures.

I-B Information Technology Controls and Financial System Functionality (USCG, CBP, USCIS, FEMA, ICE)

Background: During our FY 2013 assessment of IT general and application controls, we noted that the DHS components made progress in the remediation of IT findings we reported in FY 2012. We closed approximately 45 percent of our prior year IT findings. However, new findings were noted at all DHS components in FY 2013.

	2013	2012	2011
USCG			
CBP			
USCIS			
FEMA			
ICE			

See page I.1 for table explanation

We also considered the effects of financial system functionality when testing internal controls and evaluating findings. Many key DHS financial systems were not compliant with Federal financial management system requirements as defined by FFMIA and OMB Circular Number A-127, *Financial Management Systems*, as revised. DHS financial system functionality limitations add substantially to the Department's challenges of addressing systemic internal control weaknesses, and limited the Department's ability to leverage IT systems to effectively and efficiently process and report financial data.

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Independent Auditors' Report
Exhibit I – Material Weaknesses

As noted in the chart on the right, the IT findings in each of the component listed are "less severe" (as defined in the Introduction to the Exhibits); however, the combination of IT findings from all components is considered a material weakness. In FY 2013, and recent years, the components have made good progress in remediating IT general control deficiencies, and in general, the severity of remaining deficiencies has diminished. However, when IT general control deficiencies that continued to exist in FY 2013 are combined with the risks of financial statement error caused by limitations in IT functionality (see below), the over all IT risk to the Department is elevated.

Conditions: Our findings, which were a cross-representation of general IT control deficiencies identified throughout the Department's components and financial systems functionality, follow:

Related to IT General Controls:

1. *Access Controls*:
   - Policies and procedures for key financial applications had not been developed to identify elevated access at the application level.
   - Management of application, database, network, and remote user accounts was inadequate or inconsistent.
   - Safeguards over logical and physical access to sensitive facilities and resources were not always effective.
   - Generation, review, and analysis of system audit logs were not always adequate or consistent.
   - Access of authorized personnel to sensitive areas containing key financial systems was sometimes more than needed, and data center access controls were not properly enforced.
   - Transferred and/or terminated employees were not always timely removed from financial systems, and policies related to revocation of system access were not always implemented or finalized.
   - Some interconnection security agreements (ISA) were expired and not updated.
2. *Configuration Management*
   - Configuration management policies and procedures were not always documented.
   - Security patch management and configuration deficiencies were identified during the vulnerability assessment on the platforms supporting the key financial applications and general support systems.
   - Evidence to support authorized modifications to key financial systems was not always maintained.
   - Monitoring controls were not always implemented for key financial systems to ensure the completeness and integrity of records of implemented system changes.
   - Management of administrator access to move code within and between environments was sometimes inadequate or inconsistent.
3. *Security Management:*
   - Required security authorization activities and supporting artifacts for key financial systems were not always completed and documented.
   - Controls to monitor compliance with requirements for 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.

Independent Auditors' Report
Exhibit I – Material Weaknesses

- Federal employees and contractors did not consistently adhere to DHS and component policies, guidance, and security awareness training concerning the protection of sensitive assets and information from unauthorized access or disclosure.

4. *Contingency Planning:*

   - Service continuity plans were not always tested, and an alternate processing site has not been established for high risk systems.
   - Backup policies and procedures were inconsistently documented.
   - Backup parameters were not always properly implemented or managed.

5. *Segregation of Duties:*

   - Implementation of segregation of duties for IT and financial management personnel with access to financial systems across several platforms was inadequate or incomplete.

Related to financial system functionality:

We noted many cases where financial system functionality was inhibiting DHS' ability to implement and maintain internal controls, notably IT application controls supporting financial data processing and reporting. Financial system functionality limitations also contribute 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 at all of the significant DHS components in the following general areas:

- At one component, IT systems have unique functionality issues due to numerous variables, most of which were not within the control of the component. Production versions of financial systems were outdated and did not provide the necessary core functional capabilities. The component had installed extensive workarounds, redundant and overlapping systems, and numerous manual reconciliation processes, as necessary to produce auditable financial statements. Some of these workarounds and systems were installed as the only means to validate actual data in the various general ledgers, and support the financial statements. In many cases, the IT systems were not designed to allow the component to install and use routine automated controls to assist with efficient, reliable, financial processing.
- At another component, multiple financial IT systems continued to be impaired by functionality limitations which prevent implementation of effective security controls. These limitations, which principally impact audit logging controls intended to monitor logical access and configuration management activities, were being addressed through enterprise-wide solutions which were not fully implemented at the time of our audit procedures. Additionally, certain feeder systems were operating with outdated and unsupported system software components which exposed them to vulnerabilities that cannot be mitigated.
- Several financial systems have limited capacity to process, store, and report financial and performance data to facilitate decision making, safeguarding and management of assets, and prepare financial statements that comply with GAAP.
- One financial system lacked the controls necessary to prevent or detect and correct excessive drawback claims. Specifically, the programming logic for the system did not link drawback claims to imports at a detailed, line item level.
- Technical configuration limitations, such as outdated systems that were no longer fully supported by the software vendors, impaired DHS' ability to fully comply with policy in areas such as IT security controls, notably password management, audit logging, user profile changes, and the restricting of access for off-boarding employees and contractors.

Independent Auditors' Report
Exhibit I – Material Weaknesses

- System capability limitations prevent or restrict the use of applications controls to replace less reliable, more costly manual controls; or in some cases, required additional manual controls to compensate for IT security or control weaknesses.
- Some IT subsidiary modules that could improve controls and reliability were not active due to various system design and integrity reasons.
- Some IT system controls were not designed to prevent the receipt of goods and services in excess of available funding.

Cause/Effect: DHS management recognized the need to upgrade its financial systems. Until serious legacy IT issues are addressed and updated IT solutions implemented, compensating controls and other complex manual workarounds must support its IT environment and financial reporting. 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 were 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 is 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), continue the *Financial Systems Modernization* initiative, and make necessary improvements to the Department's financial management systems and supporting IT security controls. Specific recommendations were provided in separate letters provided to DHS management.

I-C Property, Plant, and Equipment (USCG, CBP)

	2013	2012	2011
USCG			
CBP			
MGMT	**	C	
ICE	**		N/A
TSA	C	C	
** See Comment I-A *Financial Reporting*			
See page I.1 for table explanation			

Background: The Coast Guard maintained approximately 50 percent of all DHS general property, plant, and equipment (PP&E). Many of the Coast Guard's assets were constructed over a multi-year period, have long useful lives, and undergo extensive routine servicing that may increase their value or extend their useful lives.

In FY 2013, the Coast Guard completed several phases of a multi-year remediation plan to address process and control deficiencies related to the PP&E process. However, certain remediation efforts were not fully completed until late in FY 2013, and additional remediation activities are scheduled for FY 2014. Consequently, most of the conditions cited below have been repeated from our FY 2012 report.

CBP continued to perform remediation to address deficiencies in the timely recording of capitalized costs and in the classification of PP&E between construction in progress (CIP) and "in-use." As a result, several of the conditions were repeated from our FY 2012 report. CBP's deficiencies were mostly concentrated in construction at its various facilities.

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 PP&E were financial reporting in nature and have been grouped with conditions cited at Comment **I-A**, *Financial Reporting*.

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ICE made progress in remediation of PP&E control deficiencies in FY 2013. The conditions that remain were related to financial reporting. See Comment **I-A**, *Financial Reporting*.

Conditions: We noted the following internal control weaknesses related to PP&E at Coast Guard, and CBP:

1. USCG did not:
   - Fully implement existing policies and procedures for personal property and CIP balances. For example, Coast Guard did not:
     - Implement sufficient internal controls and related processes to support interim PP&E balances and activity, including the identification and timely recording of leasehold improvements, asset impairments, and CIP activity;
     - Transfer completed assets from CIP to in-use assets in a timely manner;
     - Adhere to established inventory policies and procedures. For example, those regarding asset identification, system mapping, and tagging processes, to clearly differentiate and accurately track personal property assets to the fixed assets system; and
     - Sufficiently support all assumptions, underlying data, and adjustments associated with direct and indirect costs for CIP projects.
   - Fully implement policies, procedures, and effective controls to ensure the accuracy of all underlying data elements and assumptions used to record certain estimated personal and real property balances, including electronic, internal-use software, land, buildings and other structure assets, including leasehold improvements, particularly when applying Statement of Federal Financial Accounting Standard (SFFAS) No. 35, *Estimating the Historical Cost of General Property, Plant, and Equipment* to estimate PP&E balances.
   - 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 PP&E.
2. CBP:
   - Did not consistently adhere to policies and procedures to properly account for asset purchases, construction, depreciation, or disposal of assets in a timely manner. For example, CBP did not:
     - Ensure all asset additions are recorded accurately and timely in the financial statements;
     - Reclassify certain assets from CIP to in-use assets in a timely manner; and
     - Record some asset disposals timely and in accordance with policy.

Cause/Effect: The Coast Guard has had difficulty establishing its opening PP&E balances and accounting for leases, primarily because of poorly designed policies, procedures, and processes implemented more than a decade ago, combined with ineffective internal controls, and IT system functionality difficulties. See Comment **I-B,** *Information Technology Controls and Financial System Functionality.* The Coast Guard was required to apply SFFAS No. 35 to estimate and present auditable PP&E balances. While applying SFFAS No. 35, the Coast Guard used various assumptions to project balances that required procedures outside the normal business processes, financial reporting controls, and presented unique documentation challenges for the Coast Guard.

Personnel within CBP's highly dispersed operations did not consistently adhere to established policies and procedures for recording PP&E costs, and did not have sufficient oversight, including monitoring controls over ongoing CIP projects, to ensure that all PP&E 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. Continue with planned remediation efforts, and adhere to existing policies and procedures associated with PP&E balances in FY 2014. Specifically, continue to implement controls over the transfer of completed CIP assets to in-use, accurately recording leasehold improvements, asset impairments, and CIP activity;
   b. Fully adhere to established inventory policies and procedures;
   c. Establish new or improve existing policies, procedures, and related internal controls to sufficiently support all assumptions, and underlying data for estimated personal and real property balances, including electronic, internal-use software, land, buildings and other structure assets;
   d. Establish new or improve existing processes to identify and evaluate lease agreements to ensure that they are appropriately classified as operating or capital, and are properly reported in the financial statements and related disclosures; and
   e. 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 PP&E.
2. CBP:
   a. Reinforce existing policies and procedures for recording asset additions, reclassifications, and retirements; and
   b. Continue to enhance supervisory review and monitoring controls to review PP&E transactions in a timely manner.

I-D Budgetary Accounting (USCG, FEMA, ICE, NPPD, MGMT)

	2013	2012	2011
USCG			
FEMA			
ICE			N/A
NPPD		N/A	N/A
MGMT			N/A
FLETC	C		N/A

See page I.1 for table explanation

Background: The Coast Guard, Federal Emergency Management Agency (FEMA), and ICE continued to improve policies and procedures associated with budgetary accounting processes in FY 2013; however, some control deficiencies reported in FY 2012 remain, and new deficiencies were identified.

NPPD had deficiencies in budgetary accounting and related revenue accounting. The root cause of the deficiencies noted were similar to those noted at Comment I-A, *Financial Reporting.*

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.*

The Federal Law Enforcement Training Centers (FLETC) had made progress in correcting the budgetary control deficiencies we reported in FY 2012.

Conditions: We noted the following internal control weaknesses related to budgetary accounting at Coast Guard, FEMA, ICE, NPPD and MGMT:

Independent Auditors' Report
Exhibit I – Material Weaknesses

1. Coast Guard:
   - Lacked adequate processes to ensure the timely de-obligation of undelivered orders and recordation of new obligations during the fiscal year-end.
   - Did not effectively complete management reviews over the monthly reconciliations of the SF-132, *Apportionment and Reapportionment Schedule,* to the SF-133, *Report on Budget Execution and Budgetary Resources.*
2. FEMA:
   - Does not have effective controls over obligations, timely deobligations, and payments, and could not readily provide all supporting documentation.
   - Did not properly review budgetary funding transactions recorded in the general ledger.
   - Did not effectively complete management reviews over the monthly reconciliations of the SF-132, *Apportionment and Reapportionment Schedule,* to the SF-133, *Report on Budget Execution and Budgetary Resources.*
3. ICE:
   - Controls were not operating effectively to ensure obligation and expense transactions were timely recorded in the general ledger.
   - Policies and procedures were not fully documented to ensure that budgetary subsidiary accounts were reconciled to the general ledger and adjustments, if needed, were recorded timely.
   - Lacks IT system controls to ensure expenditures were within budgetary limits, that also impact internal controls of other IT system users such as NPPD and MGMT.
4. NPPD:
   - Lacked processes to ensure that recoveries of prior year expired funds were recorded timely.
   - Lacked documented and effective policies and procedures to ensure that unfilled customer orders were timely adjusted when matching UDO balances were deobligated or adjusted.
   - Controls were not operating effectively over reconciliations of budgetary accounts, timely recording of obligations, and over periodic adjustments to obligations.
5. MGMT:
   - Had ineffective controls over budgetary accounting including timely recording of obligations, timely deobligations, and reconciliation of balances.

Cause/Effect: The Coast Guard's decentralized structure enabled obligations to be made throughout the country by various authorized personnel, contributed to the challenge of enforcing existing policies, procedures, and internal controls surrounding budgetary accounting and had caused various control gaps in the internal control environment. Additionally, financial system functionality issues prohibited the Coast Guard from implementing and maintaining automated internal controls to supplement their existing manual controls. For example, the Coast Guard relied on manual workarounds to identify undelivered orders since the budgetary module of the financial system was not active. Also see Comment **I-B,** *Information Technology 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 administrative functions were geographically separated from programmatic operations, which present a challenge for consistent enforcement of policy. Certain offices within FEMA did not have effective document maintenance policies and procedures, making the retrieval of certain supporting documentation difficult. FEMA's existing IT systems were not effective in facilitating a network of strong internal controls over administrative functions that were highly decentralized. 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. Without adequate documentation, FEMA was unable to support the validity of obligation status. In addition, FEMA personnel have not fully adhered to the existing procedures for the recording of funding transactions because of 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 significantly impacted by the continuing resolutions and sequestration that occurred in FY 2013, making it difficult for ICE to ensure that funding exists, and is 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 affect NPPD and MGMT. In addition, NPPD and MGMT have not fully implemented 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;
    b. Continue with current remediation efforts to develop and implement policies, procedures, and internal controls over the monitoring of reimbursable agreements and unfilled customer orders to ensure activity, including close-out and de-obligation, is recorded timely and accurately;
    c. Implement sufficient policies and procedures for timely recording the appropriate budgetary entries upon receipt of goods, and prior to payment; and
    d. Develop and implement monitoring controls to ensure that management reviews of the monthly SF-132 to SF-133 reconciliations are completed timely and effectively.
2. FEMA:
    a. Enforce existing policies that require timely review and de-obligation of undelivered orders. Continue to improve procedures for storing and locating documentation supporting undelivered order information, including points of contact, so that supporting information is readily available for management review and audit purposes. Implement procedures to ensure that obligations recorded in the general ledger agreed to the approved obligation amounts;
    b. Implement improved review procedures for budgetary funding transactions recorded in the general ledger; 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 controls over the verification and validation of undelivered orders to identify outstanding obligations that need to be closed out and/or adjusted for financial statement presentation;

b. Implement policies and procedures to ensure that financial managers work with field office personnel to perform a rigorous review of the open obligations and maintain appropriate documentation of these reviews;

c. Improve the process of recording recoveries and upward adjustments of prior year obligations, including identification and adjustment for offsetting transactions; and

d. Implement an effective process to match advances to obligations at the transaction level.

4. NPPD:

a. Develop and implement processes to ensure that recoveries of prior year expired funds and adjustments to unfilled customer orders are recorded timely;

b. Improve controls over the verification and validation of undelivered orders to identify outstanding obligations that need to be closed out and/or adjusted for financial statement presentation; and

c. Improve controls over reconciliations of budgetary accounts, and accurate recording of apportionments and obligations, and over periodic adjustments to obligations.

5. MGMT:

a. Develop and implement improved controls over budgetary accounting to ensure timely recording of apportionments and obligations, timely deobligations of invalid obligations, and reconciliation of balances.

II-E Entity-Level Controls (Department-wide)

Background: Entity-level controls encompass the over-all 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 version), 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-B**, *Information Technology Controls and Financial System Functionality,* which describes entity-level control weaknesses related to Department and component IT systems, and 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. Examples of areas that should be addressed annually and updated periodically in the risk assessment are:

- Needs for policy, guidance, new processes, or implementation of standardized processes around new or significant financial transactions or events (e.g., accounting and disclosure implications around major disaster events, or new activities such as the construction of the DHS headquarters facility).
- 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 gaps.
- 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*.

Independent Auditors' Report
Exhibit II – Significant Deficiencies

Communications and Information: Communications between the Department and components should be improved to ensure:

- Consistency in application of guidance and accounting policy (e.g., such as disclosures for future minimum lease payments in the financial statements, coordination of year-end close and recording top-side journal entries, and review of the effects of non-GAAP policies).
- 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.

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 Liabilities (USCG)

	2013	2012	2011
USCG			

See page I.1 for table explanation

Background: The USCG made progress in correcting the control deficiencies around liabilities reported in FY 2012.

Conditions: We noted the following internal control weaknesses related to liabilities at USCG:

USCG:

- Did not adhere to its policies and procedures adopted in FY 2012 to update, maintain, and review schedules tracking environmental liabilities where Coast Guard was not the primary responsible party (e.g., Formerly Used Defense Sites).
- Process for validation of the prior year accounts payable estimates was not properly designed and implemented in FY 2013 as planned.
- Controls over the calculation and recording of contingent legal liabilities did not operate effectively, resulting in errors in calculation of the payout rates for various claim categories, and one claim category was not accurately recorded.

Cause/Effect: In addition to the effects described in the conditions above:

The Coast Guard devoted considerable attention and resources to fulfilling its commitment to complete remediation of PP&E balances and produce auditable financial statements in FY 2013, causing procedures over some other financial statement accounts to be deferred or not performed in FY 2013.

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

II.2

Recommendation: We recommend that:

1. The Coast Guard complete a risk assessment at the beginning of FY 2014 to identify financial statement and control risk exposure in financial statement account balances. With the completion of PP&E remediation in FY 2013, the Coast Guard should reconsider resource needs, and direct appropriate management attention to address financial statement and control risks.

II-G Grants Management (FEMA only)

	2013	2012	2011
FEMA			
See page I.1 for table explanation			

Background: FEMA was the primary grant-making component of DHS, managing multiple Federal disaster and non-disaster grant programs.

Conditions: Although FEMA remediated the prior year site visit monitoring findings, 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-K**, *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 have failed to submit quarterly financial reports timely.
- Did not consistently maintain documentation necessary to support grant-related activities.
- Did not consistently and effectively reconcile grantee quarterly financial reports to FEMA systems.
- 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 and the maintenance of related documentation. 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 grants eligible for close-out, which could result in 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, and maintaining related documentation;
3. Develop and implement procedures to create and track comprehensive lists of FEMA grants that are eligible for close-out; and
4. Implement a continuous quality assurance and grants monitoring process to include review of corrective actions resulting from implementation of the recommendations in 1 – 3 above.

II-H Custodial Revenue and Drawback (CBP Only)

	2013	2012	2011
CBP			
See page I.1 for table explanation			

Background: CBP collected approximately $36.6 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.

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 Warehouse and Foreign Trade Zones. 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 (BW) are facilities, under the joint supervision of CBP and the Bonded Warehouse Proprietor, used to store merchandise that has not made entry into the United States commerce. Foreign Trade Zones (FTZ) are secured areas under CBP supervision that are used to manufacture goods that are considered outside of the United States 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 audit, we identified deficiencies in the design of new controls, limitations in the functionality of the new module, and inconsistencies in the ports' implementation of new 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.

Related to the Entry Process:

- During the audit period, CBP was unable to determine the status of the in-bond shipments and lacked policies and procedures for monitoring the results of in-bond audits and review of overdue in-bonds. Specifically, the system for tracking compliance exams and audits lacked sufficient reporting capability to support the in-bond compliance function at the port level. Port personnel did not have sufficient training or a clear understanding of the new compliance module which resulted in inconsistent implementation at the ports. CBP did not formally analyze the rate and types of violations found, to determine the effectiveness of the in-bond program, and 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. In addition, CBP did not have sufficient monitoring controls in place to evaluate the sufficiency of bonds.
- 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. In addition, we noted deficiencies in the operating effectiveness of monitoring controls at the port level.

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.

The length of the drawback claim lifecycle often extends beyond the documentation retention period, which is set by statute.

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.

The current entry/collection system is unable to provide management with clear and actionable information related to bond sufficiency. Additionally, port personnel do not consistently follow policies and procedures related to the evaluation of bond sufficiency.

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.

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. Develop policies and procedures, and provide training to port-level personnel related to the In-Bond Compliance Module;

   b. Address limitations in reporting capabilities within the In-Bond Compliance Module;

   c. 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;

   d. Develop procedures to evaluate the completeness of the compliance review results submitted to CBP headquarters;

   e. Continue to strengthen monitoring efforts related to bond sufficiency; and

   f. 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 2012.

III-I *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 December 11, 2013, as presented in *Management's Discussion and Analysis* of the Department's 2013 *Agency Financial Report* (AFR), acknowledges the existence of material weaknesses, and therefore provided qualified assurance that internal control over financial reporting was operating effectively as of September 30, 2013. 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 2014.

III-J *Federal Financial Management Improvement Act of 1996* (FFMIA)

FFMIA Section 803(a) requires that agency Federal financial management systems comply with (1) applicable Federal accounting standards; (2) Federal financial management system requirements; and (3) the United States Government Standard General Ledger (USSGL) at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability.

While we noted that the Department overall has taken positive steps toward full compliance with FFMIA, the Coast Guard, U.S. Customs and Border Protection, FEMA, U.S. Immigration and Customs Enforcement, U.S. Citizenship and Immigration Services, U.S. Secret Service, and Transportation Security Administration did not fully comply with at least one of the requirements of FFMIA. The reasons for noncompliance are reported in Exhibits I and II. The Secretary of DHS has stated in the Secretary's Assurance Statement dated December 11, 2013, 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 2013 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.

Independent Auditors' Report
Exhibit III – Compliance and Other Matters

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.

III-K *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 2013. 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-L *Anti-deficiency Act* (ADA)

Various management reviews and OIG investigations are on-going within the Department and its components that may identify ADA violations, as follows:

- Coast Guard is currently in the process of reporting two separate ADA violations; one relating to funds that may have been used in advance of an approved apportionment from OMB, and one relating to the improper execution of the obligation and disbursement of funds for the lease of passenger vehicles. Coast Guard submitted notification packages, related to these two violations, to the President in FY 2013. Coast Guard is also in the process of investigating a third potential violation, related to partial termination of a firm fixed price contract modification funded through an appropriation other than the original appropriation used to obligate the delivery order.
- In response to a FY 2007 U.S. Government Accountability Office report, the DHS OIG conducted a review of National Protection and Programs Directorate's (NPPD) legacy organization for FY 2006 and found that it violated the ADA with respect to the use of shared services. NPPD has developed the package to notify the President, Congress, and GAO of the violation and it is currently in clearance.
- The Management Directorate completed its investigation of whether rental charges at the Office of the Federal Coordinator for Gulf Coast Rebuilding (OFCGCR) incurred in FY 2009 were not properly committed or obligated and determined that the OFCGCR committed a violation in FY 2009 and submitted the notification package to the President in FY 2013.
- Intelligence and Analysis (I&A) is investigating a potential ADA violation due to a difference in calculation of apportionments while under continuing resolution in FY 2012.

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.2

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Index of Financial Reporting and Internal Control Criteria
(Listed Alphabetically by Criteria Source)

Criteria	Reference	Report Exhibit
Automated Targeting System (ATS-N) Version 4.41 In-bond Compliance		II-H
Bonded Warehouse Manual for Customs and Border Protection Officers and Bonded Warehouse Proprietors (HB 3500-11, January 2012)		II-H
CBP Directive 3510-004, *Monetary Guidelines for Setting Bond Amounts*	Introduction, Activity 1.a	II-H
CBP Directive 3510-005, *Bond Sufficiency*	Paragraph 2	II-H
CBP Directive 5320-028D, *Commitment, Obligation, Expenditure, and Payment Procedures for Goods and Services*	Section 7.5.1	I-C
Code of Federal Regulations, Title 19	§18.2, §18.6, §18.8, §19.4, §111.23, §111.25, §113.13, §146.3, § 163.4, §191.15, §191.38, §191.51	II-H
Code of Federal Regulations, Title 31	§205.33	II-G
Compliance Review Handbook for Bonded Warehouses (HB 3500-09, December 2007)	Section A, Part 2-4	II-H
Compliance Review Handbook for Foreign Trade Zones (HB 3500-10, July 2008)		II-H
DHS Component Requirements Guide for Financial Reporting, Version 6.0, February 2013	- Analysis of Leases - Component Level Financial Statements and Disclosures - Documentation Maintenance - Non-GAAP Requirements - Obligation Balance Analysis - Property, Plant & Equipment (PP&E) Reporting - SF-132 to SF-133 Reconciliation	I-A
	- Analysis of Leases - Property, Plant & Equipment (PP&E) Reporting	I-C
	- Obligation Balance Analysis - SF-132 to SF-133 Reconciliation	I-D
DHS Financial Accountability Act, October 16, 2004	Section 4	I-A
Federal Accounting Standards Advisory Board (FASAB) Interpretation of Federal Financial Accounting Standards No. 7, *Items Held for Remanufacture*	Paragraphs 7, 8	I-A
Federal Acquisition Regulation (FAR)	§ 4.8 Government Contract Files § 4.801 General § 4.802 Contract Files	I-D
Federal Financial Management Improvement Act of 1996	Section 803	I-A, I-C
Federal Financial Management System Requirements, *Core Financial System Requirements* (OFFM No. 0106), January 2006	- General Ledger Management Function - General Ledger Account Definition Process - Mandatory Requirements	I-A
Federal Managers' Financial Integrity Act of 1982	Section 2	I-A, I-C, I-D, II-H
FEMA Budget Procedures Memorandum 10-02, Version 3.2, January 2013	Section 4 Subsections B.2, C, D, E, F	I-D
FEMA OCFO *Standard Operating Procedures For SF-132/133 Reconciliation Process*, June 2013 V4	VI. Responsibilities	I-D

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Criteria	Reference	Report Exhibit
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 *FINANCIAL MANAGEMENT FFMIA Implementation Critical for Federal Accountability* (GAO-02-29)	Page 1, Paragraph 2	I-A, 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-D, II-G
	Examples of Control Activities (Accurate and Timely Recording of Transactions and Events)	I-A, I-D, II-G
	Examples of Control Activities (Appropriate Documentation of Transaction and Internal Control)	I-A, I-D, II-G
	Examples of Control Activities (Proper Execution of Transactions and Events)	I-D
	Monitoring	II-E
	Presentation of the Standards	I-A
	Risk Assessment	II-E
ICE OFM *Standard Operating Procedures for Statement of Differences T0051*, v1.1, January 2013	Section (1.5)	I-A
OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*	Compliance with FFMIA (footnote 16)	I-A
OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, July 2013	Section 20.3, 20.5 Appendix B Appendix F	I-A, I-D
	Section 130.9 Appendix G	I-D
OMB Circular No. A-123, *Management's Responsibility for Internal Control*, Revised	1. Purpose	I-A
	3. Policy	I-C, II-H
	I. Introduction	I-A, I-C, I-D, II-E, II-H
	II. Standards	I-A, I-D
	III. Integrated Internal Control Framework	I-D
	IV. Assessing Internal Control	II-H
	Appendix A, Section I. Introduction	I-C
OMB Circular No. A-127, *Financial Management Systems*, Revised	Section 5 Section 6 (subpart K) Section 8 (subpart C)	I-A, I-C
OMB Circular No. A-133, *Revised to show changes published in the Federal Register June 27, 2003 and June 26, 2007 Audits of States, Local Governments, and Non-Profit Organizations*	Subparts B, D	II-G

Criteria.2

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Index of Financial Reporting and Internal Control Criteria
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Criteria	Reference	Report Exhibit
OMB Circular No. A-136, *Financial Reporting Requirements*, Revised	Section V.2 and V.3	I-A
Personal Property Handbook, HB 5200-13B	Chapter 8	I-C
Single Audit Act Amendments of 1996	§7502	II-G
Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*	Paragraphs 12, 13, 39, 77	I-A
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Statement of Federal Financial Accounting Standards (SFFAS) No. 10, *Accounting For Internal Use Software*	Paragraphs, 15, 16	I-A
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Statement of Federal Financial Accounting Standards (SFFAS) No. 29, *Heritage Assets and Stewardship Land*	Summary paragraph Paragraph 26	I-C
Statement of Federal Financial Accounting Standards (SFFAS) No. 35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23*	SFFAS 6 - Paragraph 40 SFFAS 23 - Paragraph 16	I-A, I-C
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US Government Standard General Ledger *Chart of Accounts, Treasury Financial Manual*, 2013 Reporting Supplement	Part 1, Section 1	I-A

Criteria.3

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

Homeland Security

December 11, 2013

MEMORANDUM FOR: Charles K. Edwards
Deputy Inspector General

FROM: Chip Fulghum
Acting Chief Financial Officer

SUBJECT: Fiscal Year 2013 Financial and Internal Controls Audit

I am pleased to accept your audit report on the Department's financial statements and internal controls over financial reporting for fiscal years (FY) 2012 and 2013. 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 2013, our Components continued to implement corrective actions to significantly improve key financial management and internal control areas, while sustaining prior-year progress. This year's unmodified audit opinion on all financial statements demonstrates that the Department is committed to being a responsible steward of taxpayer dollars.

The FY 2013 audit results show that our corrective actions are working, and we are already focusing our efforts on remediating the remaining issues 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
Report Distribution

Department of Homeland Security

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