



# DHS Annual Financial Report

Fiscal Year 2007



**Homeland  
Security**

Pursuant to OMB Circular A-136, this year's Finance and Performance reporting is following an Office of Management and Budget (OMB) Pilot Program for Alternative Approaches to Performance and Accountability Reporting. The pilot is an alternative to the consolidated Performance and Accountability Report (PAR) published in previous years. DHS anticipates this approach will improve its performance reporting by presenting performance information in a more accessible and informative format, and that performance information will be more complete given additional time to collect actual year-end performance data. Additionally, the pilot approach will ensure performance results and plans are integrated with the President's Budget.

The pilot consists of three separate reports:

- **DHS Annual Financial Report (AFR).** The AFR (this report) consists of the Secretary's Message, Management's Discussion and Analysis, Financial Statements and Notes, the Audit Report, Major Management Challenges, and other required information. The AFR was published on 15 November 2007, and is available at the DHS website.
- **DHS Annual Performance Report (APR).** The APR contains more detailed performance information as required by the Government Performance and Results Act (GPRA). The APR will report fiscal year (FY) 2007 results and will include the DHS performance plan for FY 2009. The APR will be transmitted with the Congressional Budget Justification (CBJ) on 4 February 2008 and posted on the DHS website within 10 days of submittal with the CBJ.
- **DHS Highlights Report.** The Highlights report summarizing key performance and financial information. It will be available by 1 February 2008, and will also be posted on the DHS website.

The Department of Homeland Security's FY 2007 Annual Financial Report is available at the following website:

<http://www.dhs.gov/xabout>

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## Message from the Secretary

November 15, 2007



I am pleased to provide the Department of Homeland Security's (DHS) Annual Financial Report (AFR) for fiscal year (FY) 2007. The report documents progress toward protecting the American people from terrorist attacks and natural threats and ensuring our Nation is prepared for any disaster that may befall this country. The report also demonstrates the effects of our hard work to ensure taxpayer dollars are accurately accounted for and effectively and efficiently used.

This year, we have made significant progress improving Department-wide internal controls for financial reporting. For the first time, I am able to provide assurances that internal control over financial reporting is designed effectively, with the exception of the material weaknesses listed in my Assurance Statements.

Additionally, the report's performance measures are complete and reliable, and will be discussed in the forthcoming Annual Performance Report. The AFR is an alternative approach to the consolidated Performance and Accountability Report (PAR) published in previous years.

In FY 2007, the Department had roughly \$57 billion in new budget authority. I set forth the following goals to focus our resources and efforts:

- Protect our Nation from dangerous people;
- Protect our Nation from dangerous goods;
- Protect critical infrastructure;
- Build a nimble, effective emergency response system and a culture of preparedness; and
- Strengthen and unify DHS operations and management.

The following highlights some of our achievements in meeting our goals as of the close of FY 2007:

- Added 2,574 Border Patrol agents, totaling 14,923 agents as of September 30, 2007. We are well on our way to meeting our goal of doubling the number of border patrol agents on the border.
- Effectively controlled 599 miles of border, an annual increase of 150 miles, through personnel, fencing, additional infrastructure, and technology integration.
- Removed 226,677 illegal aliens from the United States after a final order for removal was issued.
- Processed more than 6 million immigration applications and over half a million new citizens were naturalized.
- Screened 95 percent of all cargo entering the U.S. through radiation portal devices.
- Screened 86 percent of shipping containers at foreign ports before they were shipped to the United States through the Container Security Initiative (CSI), up from 48 percent in FY 2004. CSI is now deployed at 58 foreign ports.

- Achieved 100 percent safe arrival and departure for Secret Service protectees at more than 6,100 travel stops.
- Responded to 37,213 cyber security incidents, an increase of more than 50 percent over the previous year. The increase is due not only to more attacks on public and private networks, but also to increased situational awareness levels and reporting rates.
- Trained over 60,000 individuals by the Federal Law Enforcement Training Center, providing them skills needed to perform law enforcement duties to help secure our Nation.
- Confirmed that two-thirds of emergency response agencies use interoperable communications through the National Interoperability Baseline Survey – a nationwide survey of first responders and law enforcement that assessed progress in achieving interoperable communications.
- Upgraded the strategic stockpiles of emergency food and equipment.
- Activated an iDirect teleport to support deployed field teams with Internet, Voice over Internet Protocol, Video Teleconference, and streaming video capability.
- Dramatically improved internal controls over financial reporting and reduced the number of financial material weakness conditions, improving the Department's ability to report accurate and timely financial information.

We must continue our work to improve systems and information sharing to stay ahead of the terrorists, and others who wish us harm, as they will never relent. We must protect our borders to keep dangerous people and things from entering our country, and we must have plans in place to protect our critical infrastructure in case something would occur. We must continue our work to ensure that we can respond to and recover from natural disasters. In 2007, we invested significant time and effort to implement the requirements of the Post-Katrina Emergency Management Reform Act to focus our efforts on the greatest risks, to be nimble in our response to changing threats, and to be disciplined in our use of resources as we build a Department ready to meet future challenges. In all instances, we must draw upon the strength of our network of partners and assets, functioning as seamlessly as possible with State and local leadership, first responders, the private sector, our international partners, and, most certainly, the public.

It is no accident that we have not suffered a major terrorist attack on U.S. soil since September 11, 2001. It is the result of the President's leadership, congressional support, and the strident efforts and constant vigilance of hundreds of thousands of men and women –including the 208,000 employees of the Department of Homeland Security – who are working tirelessly both at home and overseas to protect our country. The Department will continue to effectively carry out its critical missions and will leave a strong legacy for the future.

Together we will make our Nation a safer place to live and thrive as a free and democratic people.

Sincerely,



Michael Chertoff

## Message from the Chief Financial Officer

November 15, 2007



The Annual Financial Report (AFR) is our principal financial statement of accountability to the President, Congress and the American public, documenting the Department's progress in financial management and stewardship of taxpayer dollars. The FY 2007 audit is complete and I am encouraged by the results.

In every measure the audit shows that financial management at DHS has improved dramatically. Consider these highlights:

- We increased from four to seven, the number of organizations that do not contribute to a material weakness. This now includes Customs and Border Protection, Immigration and Customs Enforcement (ICE), Federal Law Enforcement Training Center, U.S. Citizenship and Immigration Services, U.S. Secret Service, US-VISIT, and Science and Technology;
- We reduced from 25 to 16, the number of Component conditions that contributed to our FY 2007 material weaknesses;
- We reduced Department-wide audit disclaimer conditions by 40 percent. The Transportation Security Administration no longer contributes to qualifications in the auditor's report; and
- Under the Chief Information Officer's leadership, the number of Components contributing to the Department-level information systems security material weakness went from six to three.

The FY 2007 audit shows our corrective actions are working. Earlier this year, we released the Internal Controls Over Financial Reporting (ICOFR) Playbook outlining our plan to resolve material weaknesses and build management assurances. I am particularly encouraged with how the corrective actions process has been sustained. Last year, ICE eliminated the majority of its material weaknesses and this year they maintained this success, a noteworthy achievement.

Audit challenges remain, albeit in much more focused areas. The U.S. Coast Guard and the Federal Emergency Management Agency (FEMA) account for 80 percent of the Department's remaining Component material weaknesses conditions. The U.S. Coast Guard's problems are particularly complex, but they have spent 2007 assembling the plan and staffing to tackle them.

Financial management at DHS has come a long way. I continue to be inspired by the extraordinary efforts of the Department's dedicated staff at Headquarters, in the Components, and in the finance centers at Indianapolis, Dallas, Burlington, Glynco, Chesapeake, and Mt. Weather. Our progress would not have been possible without their hard work and the strong support of the Secretary.

Sincerely,



David Norquist  
Chief Financial Officer

**SUCCESS STORIES**

**Foreign Port "Rad/Nuke" Detection Underway**

Situation
<ul style="list-style-type: none"> <li>▪ Terrorists could use global shipping networks to send nuclear or radiological materials to the U.S.</li> <li>▪ Early detection of materials is critical.</li> <li>▪ Cooperation with foreign allies is imperative to scan containers before they depart for U.S. sea ports.</li> <li>▪ Dec 7, 2006: Secure Freight Initiative (SFI) underway.</li> </ul>

Action
<ul style="list-style-type: none"> <li>▪ Mar 31, 2007 &amp; Apr 2, 2007: DHS and the Department of Energy (DOE) announce detection is underway in Pakistan and Honduras.</li> <li>▪ U.S. nuclear security and detection expertise used.</li> <li>▪ Shipping containers scanned for nuclear and radiological materials before ships depart for U.S.</li> <li>▪ Three "Phase I" SFI ports underway.</li> </ul>

Result
<ul style="list-style-type: none"> <li>▪ Data gathered from detectors is sent in near real time to CBP officers in foreign ports and to U.S.</li> <li>▪ Data adds to risk assessment tools to improve analysis, targeting, and scrutiny of all containers.</li> <li>▪ All alarms from detectors are resolved locally.</li> <li>▪ If alarms not resolved, policy is "Do Not Load".</li> </ul>

◆ SFI "Phase I" Ports: Port Qasim, Pakistan; Puerto Cortes, Honduras; Southampton, United Kingdom; Salalah, Oman; Port of Singapore; Port Busan, South Korea

**SUCCESS STORIES**

**DHS Aids Rescue Efforts in Minnesota Bridge Collapse**

Situation
<ul style="list-style-type: none"> <li>▪ Aug 1, 2007: An eight-lane bridge collapses into the Mississippi River in Minneapolis, MN.</li> <li>▪ Many victims are on the bridge and in the water.</li> <li>▪ Bridge is a main artery of traffic for the Twin Cities.</li> <li>▪ Collapse appears to be the result of structural deficiencies, not terrorism.</li> <li>▪ Response: Over 75 Federal, State, &amp; local agencies.</li> </ul>


Action
<ul style="list-style-type: none"> <li>▪ DHS's FEMA &amp; USCG reach out to MN immediately.</li> <li>▪ DHS assists State and local authorities in communications efforts.</li> <li>▪ FEMA activates its Regional Response Coordination Center; lends logistical support to first responders.</li> <li>▪ USCG deploys personnel and assets to assist in rescue operation; FBI &amp; Navy divers added.</li> </ul>

Result
<ul style="list-style-type: none"> <li>▪ Efforts bolstered by the enhanced radio system made possible by Federal homeland security grants.</li> <li>▪ Six ambulance services transport 55 victims within 1 hour and 53 minutes of the first call.</li> <li>▪ Tragic incident demonstrates effectiveness of efforts put forth in prior years by DHS in devising plans to help governmental entities work together after terrorist attacks and natural catastrophes.</li> </ul>





## U.S. Records Largest Maritime Cocaine Seizure

Situation	Action
<ul style="list-style-type: none"><li>▪ Joint U.S. task force monitors and detects drugs.</li><li>▪ Intelligence plus strong interagency coordination among multiple agencies.</li><li>▪ Panama promptly responds to registry inquiry.</li><li>▪ International cooperation is the key to success.</li></ul>	<ul style="list-style-type: none"><li>▪ Mar 18, 2007: Marine vessel Gatun is boarded.</li><li>▪ USCG cutter Sherman interdicts the Gatun under the cover of night.</li><li>▪ Supported by USCG cutter Hamilton &amp; C-130 airship.</li><li>▪ USCG overcomes significant mechanical challenges.</li></ul>
Result	
<ul style="list-style-type: none"><li>▪ Over 38,000 lbs of cocaine is seized on high seas.</li><li>▪ Value of cocaine: worth over \$450 million.</li><li>▪ 14 crew detained, 11 sent to United States for trial: pled guilty.</li><li>▪ Three crew of Gatun turned over to Panama.</li><li>▪ Cocaine: 197,391 lbs seized in 1<sup>st</sup> quarter FY 2007 vs. 148,514 lbs seized in 1<sup>st</sup> quarter FY 2006.</li></ul>	



# Management's Discussion and Analysis



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

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

# Mission and Organization

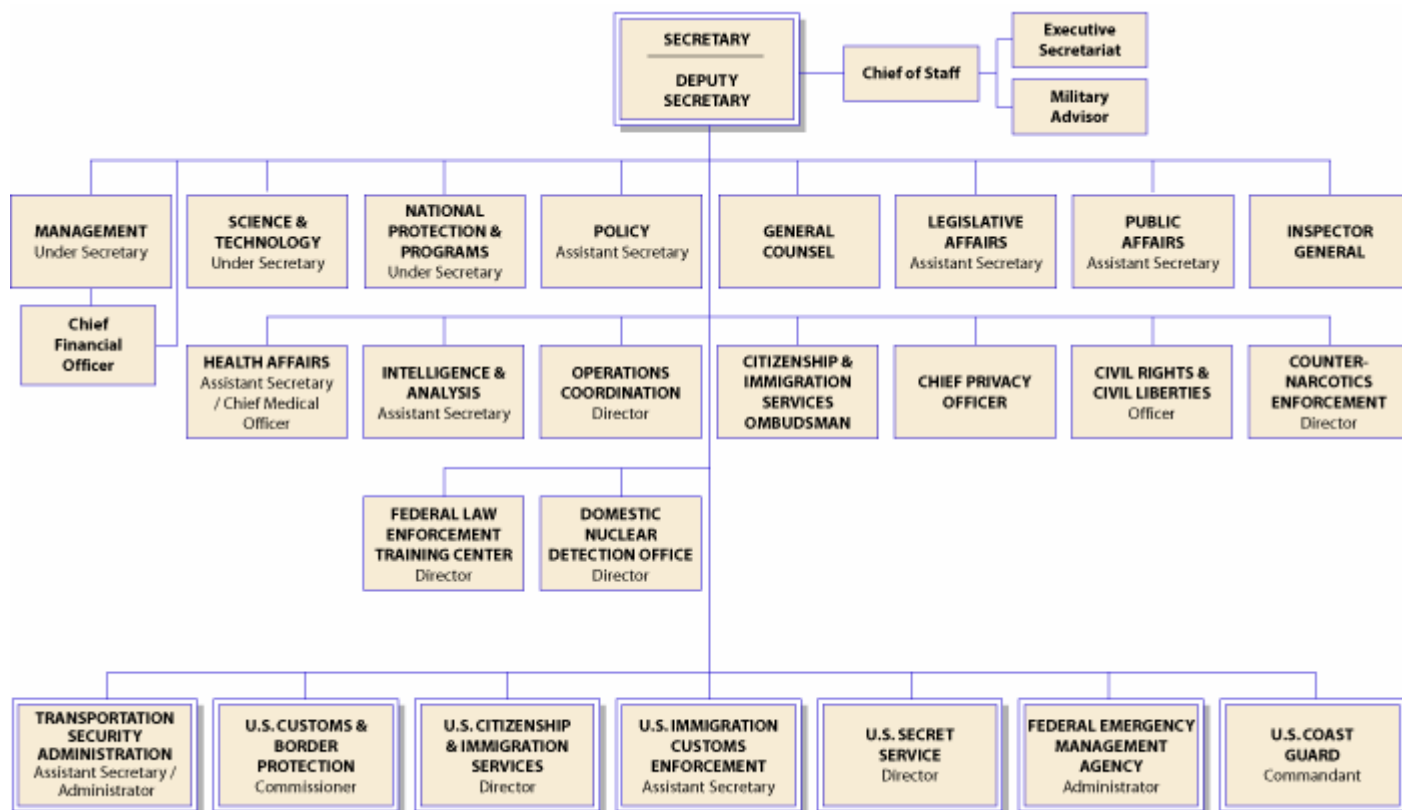
## Our Mission

We will lead the unified national effort to secure America. We will prevent and deter terrorist attacks and protect against and respond to threats and hazards to the Nation. We will ensure safe and secure borders, welcome lawful immigrants and visitors, and promote the free-flow of commerce.

## Our Organization

Homeland Security leverages resources within Federal, State, and local governments, coordinating the transition of multiple agencies and programs into a single, integrated agency focused on protecting the American people and their homeland. More than 87,000 different governmental jurisdictions at the Federal, State, and local level have homeland security responsibilities. The comprehensive national strategy seeks to develop a complementary system connecting all levels of government without duplicating effort. Homeland Security is truly a “national mission.” For more information visit our website at <http://www.dhs.gov/xabout/structure>.

Figure 1. DHS Organizational Chart

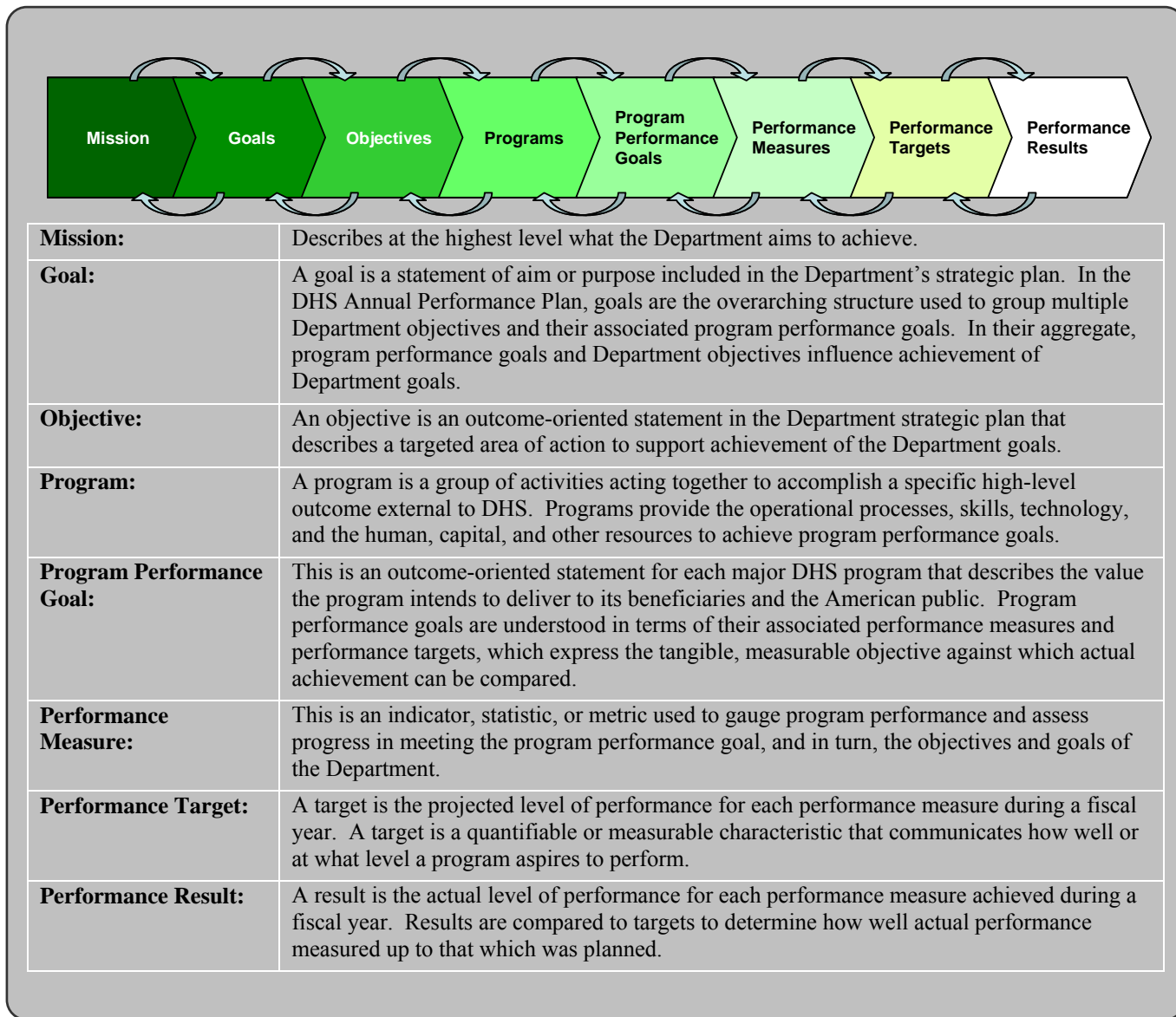


# Performance Overview

## Performance Management Framework

DHS is committed to strengthening our ability to report on performance results in achieving our goals and delivering value to the American public. Figure 2 presents the DHS performance management framework used to tie Department-wide goals and objectives to mission-oriented programs, and their associated program performance goals and performance measures. Terms used in the framework are defined in Figure 2. Following the framework, performance achievements and two key performance measures are presented for each Department-wide goal. More information on performance results may be found in the forthcoming DHS Highlights Report and DHS Annual Performance Report that will be published in conjunction with the Congressional Budget Justification.

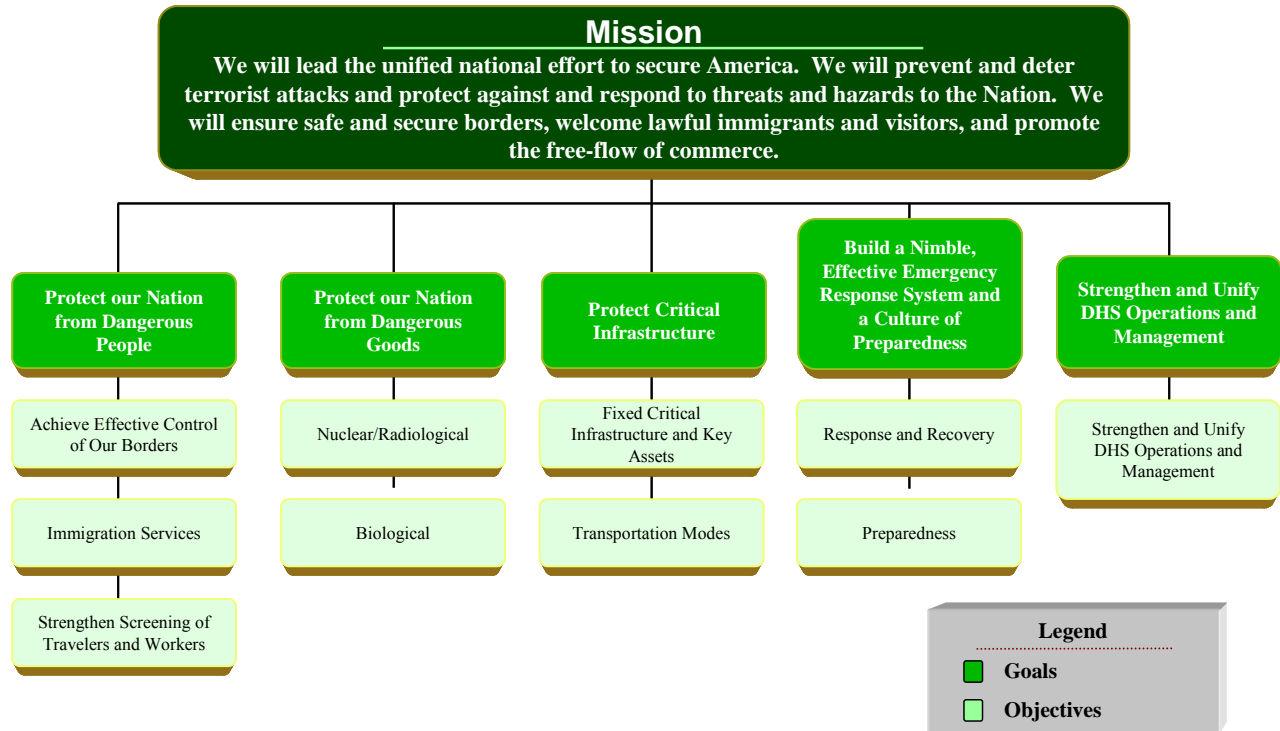
**Figure 2. DHS Performance Management Framework**



## Goals and Objectives

In FY 2007, we at the Department of Homeland Security structured our work around our Goals and Objectives. This plan consists of five goals and ten objectives as shown in the diagram below.

**Figure 3. DHS Mission, Goals, and Objectives**



The table below describes the outcomes that DHS strives to achieve through our Goals and Objectives.

**Table 1. DHS Goal and Objectives**

<b>Goal 1. Protect our Nation from Dangerous People</b>
<i>Objective 1.1: Achieve Effective Control of Our Borders</i>
<u>Achieves outcome of:</u> Reducing the risk of potential terrorists, instruments of terrorism, or other unlawful activities from entering the United States through our borders.
<i>Objective 1.2: Immigration Services</i>
<u>Achieves outcome of:</u> Ensuring lawful immigrants and visitors are welcomed and they receive timely and correct immigration information and benefits.
<i>Objective 1.3: Strengthen Screening of Travelers and Workers</i>
<u>Achieves outcome of:</u> Reducing the risk of potential terrorists, instruments of terrorism, or other unlawful activities from threatening our transportation systems.

## **Goal 2. Protect our Nation from Dangerous Goods**

### *Objective 2.1: Nuclear/Radiological*

Achieves outcome of: Reducing the risk of a nuclear or radiological attack in the United States.

### *Objective 2.2: Biological*

Achieves outcome of: Reducing the risk of a biological attack in the United States.

## **Goal 3. Protect Critical Infrastructure**

### *Objective 3.1: Fixed Critical Infrastructure and Key Assets*

Achieves outcome of: Ensuring the protection and resiliency of the Nation's fixed critical infrastructure and key assets.

### *Objective 3.2: Transportation Modes*

Achieves outcome of: Ensuring the protection of all transportation modes.

## **Goal 4. Build a Nimble, Effective Emergency Response System and a Culture of Preparedness**

### *Objective 4.1: Response and Recovery*

Achieves outcome of: Ensuring Americans and their governments at all levels can respond to and recover from catastrophic incidents.

### *Objective 4.2: Preparedness*

Achieves outcome of: Ensuring Americans are prepared, capable, and ready to respond to adverse incidents.

## **Goal 5. Strengthen and Unify DHS Operations and Management**

### *Objective 5.1: Strengthen and Unify DHS Operations and Management*

Achieves outcome of: Ensuring that DHS management, intelligence, and other mission enabling activities support and improve integrated and informed DHS operations.

## Performance Achievements and Key Performance Measures

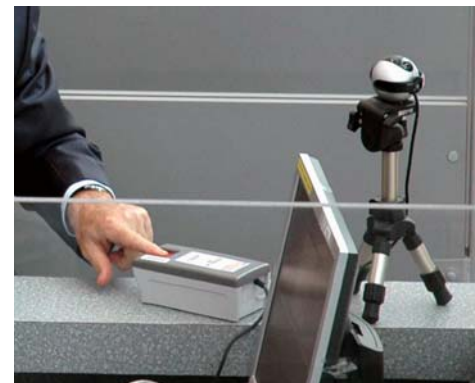
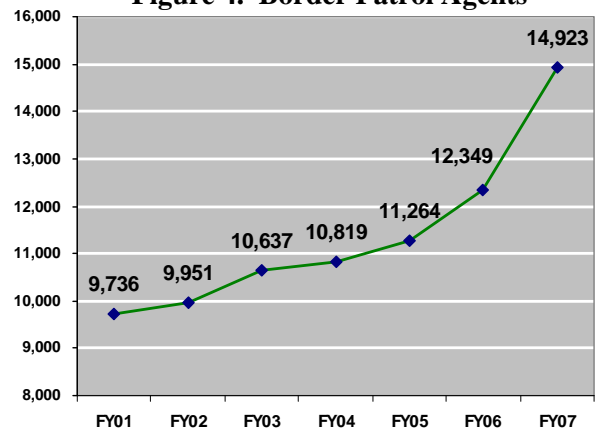
This section presents performance achievements and selected key performance measures by Goal.

### Goal 1. Protect our Nation from Dangerous People

DHS has made progress in achieving effective control of the border and improving the enforcement of our immigration laws in the interior. The Department's main priority is to prevent additional terrorist attacks against the Nation. By managing who enters the United States, DHS has worked to prevent the entry of terrorists while facilitating the legitimate flow of people, goods, and services. Below are a few FY 2007 achievements.

- **Effectively controlled 599 miles of border**, an annual increase of 150 miles, through personnel, fencing, additional infrastructure, and technology integration.
- **Added 2,574 Border Patrol agents**, totaling 14,923 agents as of September 30.
- **Arrested 18,327 fugitive aliens (2,681 criminals and 15,646 non-criminals)**. Since 2005 ICE has increased the number of Fugitive Operations Teams from 18 to 75.
- **Removed 226,677 illegal aliens** from the United States after a final order for removal was issued.
- **Interdicted or deterred 93.7 percent of migrants** attempting to enter the United States via maritime routes.
- **Expanded the E-Verify Program**, a real-time Internet-based system with a new photo screening tool that enables employers to check the employment eligibility of new employees, and detect forged or fake immigration documents (in partnership with the Social Security Administration).
- **Processed more than 6 million immigration applications** and over 500,000 new citizens were naturalized.
- **Operated 4,000 metal detectors and 440 x-ray machines** at airport passenger check points across the country.
- **Trained 50,000 Transportation Security Officers** in advanced explosive detection.
- **Processed more than 120,000 transactions per day through the Automated Biometric Identification System** to support entry/exit screening, enforcement actions, benefit applications, and border crossing card and visa applications.
- **Tested and deployed e-Passport reader technology** in 33 U.S. airports for faster processing and improved security.

**Figure 4. Border Patrol Agents**



Biometric Fingerprint Scanner and Digital Camera

**Program:** Border Security and Control between Ports of Entry  
**Program Performance Goal:** Gain effective control of the U.S. border in areas deemed as high priority for terrorist threat potential or other national security objectives.  
**Performance Measure:** Border miles under effective control.

**Table 2. Border Miles under Effective Control Results**

FY 2005	FY 2006	FY 2007		
Result	Result	Target	Result	Met
288	449	524	599	Y

Explanation of Results:

Border Patrol exceeded its 524 mile target in FY 2007 through the continued application of the Border Patrol's multi-year strategy to deploy the right mix of personnel, tactical infrastructure, and technology to secure our borders. Most of the gains were attributable to the 2,574 new Border Patrol agents hired during the year. The Border Patrol also received augmentation by National Guard troops participating in Operation Jump Start (OJS). OJS National Guard troops manned Entry Identification Teams which brought additional miles of the border under surveillance. The Border Patrol completed construction of about 67 miles of new fence and 59 miles of new vehicle barriers along the southwest border. Finally, the Border Patrol added four ground surveillance radar systems that greatly enhanced its ability to detect illegal entries in some of the vast, remote areas on the southwest border.



Secretary Chertoff receives a briefing on Border Fence progress from CBP Patrol Agents

**Program:** Migrant Interdiction  
**Program Performance Goal:** Eliminate the flow of undocumented migrants via maritime routes to the United States.  
**Performance Measure:** Percent of undocumented migrants who attempt to enter the United States via maritime routes that are interdicted or deterred.

**Table 3. Migrant Interdiction Results**

FY 2004	FY 2005	FY 2006	FY 2007		
Result	Result	Result	Target	Result	Met
87.1%	85.5%	89.1%	91%	93.7%	Y

Explanation of Results:

The U.S. Coast Guard interdicted 6,336 total undocumented migrants, including 6,020 undocumented migrants from Cuba, Haiti, the Dominican Republic, and China in FY2007. Despite substantial growth in the threat estimate provided for these countries, successful illegal migrations have not increased significantly, and thus this metric continues to indicate success in interdicting or deterring undocumented migrants attempting to enter the United States via maritime routes. We witnessed a 53 percent drop in the flow of migrants from the Dominican Republic this year, likely due to improvements in political and economic conditions within that country. The U.S. Coast Guard also deployed a prototype mobile biometric identification system in the Mona Pass which identified 257 persons with database matches, 72 of which were brought ashore for prosecution.

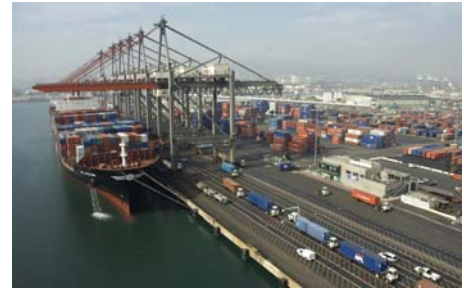


Migrant Interdiction Event at Great Bahamas Bank near Cape Lobos Light

## Goal 2. Protect our Nation from Dangerous Goods

DHS is expanding its program to identify, track, and intercept nuclear and radiological components and systems at ports of entry and, where practicable, in transportation systems within U.S. borders. DHS is also intensifying its efforts to bolster capabilities to reduce the risk of a biological attack in the United States. Below are a few FY 2007 achievements.

- **Screened 95 percent of all cargo entering the United States** through radiation portal devices.
- **Deployed 157 radiation portal monitors**, which now total 1,012, to U.S. ports of entry, expanding our ability to screen cargo for radiological materials.
- **Screened all U.S. bound shipping containers for nuclear material at three foreign ports** as part of a Secure Freight Initiative operational test, to begin the screening process further from our shores.
- **Provided nuclear and radiological detection training to 2,041 law enforcement officers**, emergency response personnel, and public officials.
- **Deployed radiation detection network connections to 39 ports** to transmit data for analysis, targeting, and response; established around the clock tactical targeting and analytical research support for cargo related anti-terrorism targeting and screening.
- **Screened 86 percent of shipping containers at foreign ports** before they were shipped to the United States through the Container Security Initiative (CSI), up from 48 percent in FY 2004. CSI is now deployed at 58 foreign ports.
- **Embedded security features in a lightweight shipping container** to detect unauthorized intrusions. This was developed as part of a research project for potential use in securing cargo shipments.
- **Successfully tested the Rapidly Deployable Chemical Detection System** for use at National Special Security Events and other high priority special events.
- **Employed a total of 527 biological monitors in U.S. cities** determined to be at the highest risk for a biological incident.
- **Established agreements with seven interagency partners and the national biosurveillance integration center** continuing to build a comprehensive biosurveillance operating picture.
- **Completed Project BioShield material threat determinations** for all traditional biotreat agents of significant public health concern. The determinations are required to support buying stockpiles of new medical countermeasures.



Cargo is removed from ship at the Port of Los Angeles/Long Beach. This is the largest and busiest port in the United States, handling about 45 percent of all incoming containers to the United States.



Container Security Initiative Ports



**Program:** Domestic Nuclear Detection  
**Program Performance Goal:** Improve the Nation's capability to detect and report unauthorized attempts to import, possess, store, develop, or transport radiological or nuclear material for use against the Nation.  
**Performance Measure:** Percent of cargo, by volume, that passes through radiation portal monitors upon entering the Nation.

**Table 4. Radiation Portal Monitor Results**

FY 2006	FY 2007		
Result	Target	Result	Met
85%	90%	95%	Y



Radiation Portal Monitors at Ports of Entry

Explanation of Results:

The Domestic Nuclear Detection Office worked with U.S. Customs and Border Protection to continue to deploy an additional 157 radiation portal monitors for screening cargo, with the majority of new systems deployed to the Nation's largest seaports. With the increased number of deployed radiation portal monitors, over 95 percent of incoming cargo containers were screened for dangerous radioactive materials, exceeding the target of 90 percent. A number of systems were also deployed to southern border crossings, where almost all cargo containers are now inspected as they enter the United States.

**Program:** Medical and Biodefense  
**Program Performance Goal:** Bolster the Nation's biodefense readiness to rapidly detect, characterize, and respond effectively to a large-scale biological event.  
**Performance Measure:** Number of bioaerosol collectors employed in the top threat cities.

**Table 5. Bioaerosol Collector Results**

FY 2004	FY 2005	FY 2006	FY 2007		
Result	Result	Result	Target	Result	Met
320	350	493	660	527	N



Biodefense Response Unit

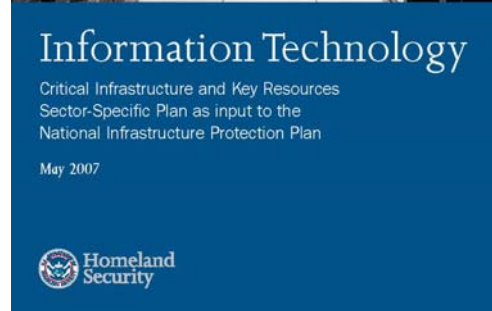
Explanation of Results:

The shortfall in the number of collectors employed is due to some jurisdictions' reluctance to employ bioaerosol collectors in indoor venues until the Biowatch Program issues public health response guidance providing response planning considerations for the indoor detection of biological agents. Effective response plans are necessary to prevent unintentional negative impacts resulting from a positive detection. Additionally, some jurisdictions have not employed indoor bioaerosol collectors as they are waiting for Generation 3 autonomous technology to become available, which will shorten the time it takes to identify and verify a positive hazard occurrence. Populations residing within those jurisdictional networks without fully operational collectors in indoor venues will remain partially at risk until an enhanced network to detect and respond to a covert biological agent attack is completed.

### Goal 3. Protect Critical Infrastructure

The Department aims to protect critical infrastructure and key resources (CI-KR), essential government operations, public health and welfare, and the Nation's economic and national security interests that are dependent on that CI-KR. The Department also provides grants at the State and local levels to support planning, organization, equipment, training, and exercises. Below are a few FY 2007 achievements.

- **Arrested/cited 2,879 people, confiscated 764,018 prohibited items, and prevented 337 illegal weapons** from entering Federal buildings due to Federal Protective Service officer and agent intervention.
- **Responded to 37,213 cyber security incidents**, a more than 50 percent increase over the previous year. The increase is due not only to more attacks on public and private networks, but also to increased situational awareness levels and reporting rates.
- **Deployed the Einstein Program at a total of 12 Federal agency sites.** Einstein is a collection of hardware and software that supports an automated process to collect, correlate, analyze, and share cyber security information in defense of Federal Government networks.
- **Released 17 Sector-Specific Infrastructure Protection Plans** creating a comprehensive risk management framework to establish national priorities, goals, and requirements to protect CI-KR.
- **Established a coordinating council for State, local, tribal, and territorial governments** and formed 17 critical infrastructure government and sector coordinating councils to increase collaboration and coordination among stakeholders.
- **Established national standards for chemical facility security**, a comprehensive set of regulations to improve security at high-risk chemical facilities nationwide.
- **Achieved 100 percent safe arrival and departure for Secret Service protectees** at more than 6,100 travel stops. The Secret Service Domestic Protectees program operates 24 hours a day, 365 days a year to protect the President, Vice President and their families, former Presidents and their spouses, Presidential Candidates, and other individuals designated by statute or Presidential directive.
- **Evaluated security of 64 percent of passenger and mass transit rail systems** through Compliance Security Directive Reviews.



Information Technology Sector-Specific Plan



Secret Service Protection of the President

**Program:** Surface Transportation Security

**Program Performance Goal:** To protect the surface transportation system while ensuring the freedom of movement for people and commerce.

**Performance Measure:** Percent of nationally critical surface transportation assets or systems that have been assessed and have mitigation strategies developed based on those assessments.

**Table 6. Surface Transportation Security Results**

FY 2006	FY 2007		
Result	Target	Result	Met
31%	35%	37%	Y

Explanation of Results:

This measure demonstrates progress in achieving a more secure surface transportation system. Surface Transportation Security operates in non-aviation modes including pipelines, maritime, mass transit, rail, highway and motor carrier and postal and shipping sectors. TSA partners with Federal, State, and local governments, and private industry to conduct assessments. This process enhances the owner/operators' ability to identify risk and develop mitigation strategies, thus improving surface transportation security. Strong partnerships have allowed TSA to surpass their 2007 target.



Oil Pipeline

**Program:** Infrastructure Protection

**Program Performance Goal:** Protect the Nation's high-risk and most valued CI-KR by characterizing and prioritizing assets, modeling and planning protective actions, building partnerships, and issuing targeted infrastructure protection grants.

**Performance Measure:** Percent of high-priority critical infrastructure for which a Buffer Zone Protection Plan (BZPP) has been implemented.

**Table 7. Buffer Zone Protection Results**

FY 2005	FY 2006	FY 2007		
Result	Result	Target	Result	Met
18%	58%	65%	90%	Y

Explanation of Results:

BZPP is a DHS-administered grant program designed to provide resources to State, local, and tribal law enforcement and other security professionals to enhance security of priority CI-KR facilities. These plans involve a collaborative effort among facility operators and community first responders to identify site vulnerabilities and use this information to select and prioritize a set of protective actions to secure the area surrounding the CI-KR facility, including identifying personnel, equipment and training needs. As the program conducts a growing number of assessments, it has streamlined its processes, implemented best practices, and reduced redundancies leading to significant gains in efficiency.



Nuclear Power Plant Cooling Towers

## Goal 4. Build a Nimble, Effective Emergency Response System and Culture of Preparedness

Improving the Nation's ability to respond to disasters, man-made or natural, is a top priority for the Department. Incorporating lessons learned from Hurricane Katrina, other disasters, and the 9-11 Commission Recommendations, the Department is improving its capabilities and preparing those who respond to acts of terror and other emergencies. Below are a few FY 2007 achievements.

- **Confirmed that two-thirds of emergency response agencies use interoperable communications** through the National Interoperability Baseline Survey – a nationwide survey of first responders and law enforcement that assessed progress in achieving interoperable communications. The national interoperability baseline survey was issued to 22,400 randomly selected law enforcement, fire response, and emergency medical services agencies.
- **Provided \$968 million for communication interoperability initiatives**, totaling \$3 billion since FY 2003, for States and territories through the Public Safety Interoperable Communications grant program (co-administered by the Department of Commerce).
- **Designed and deployed an interoperable Land Mobile Radio System** to allow the Urban Search and Rescue teams and Mobile Emergency Response Support units the ability to securely communicate amongst themselves and all other Components within DHS.



Greensburg, KS May 19, 2007 - Emergency Operations Center during the recovery effort from tornado.

- **Achieved capacity to register 200,000 disaster victims and inspect 20,000 homes per day** with FEMA mobile registration units.
- **Upgraded the strategic stockpiles of emergency food and equipment.**
- **Improved logistics management** by achieving near real-time tracking of trucks and equipment through improved planning and upgraded supply line management systems.
- **Created a preparedness coalition of 625 organizations** across national, regional, State, and local communities. Through successful sponsorship of the 4<sup>th</sup> Annual National Preparedness Month of September, more than 1,800 coalition members coordinated at least 1,000 events and activities across America in support of the *Ready Campaign*, reaching individuals, families, and diverse communities with the message of emergency preparedness.
- **Trained over 60,000 individuals by the Federal Law Enforcement Training Center**, providing them skills needed to perform law enforcement duties to help secure our Nation.

**Program:** Disaster Operations

**Program Performance Goal:** Ensure the core, coordinated Federal operational capability is in place to save lives, minimize suffering, and protect property in a timely and effective manner in communities overwhelmed by acts of terrorism, natural disaster, or other emergencies.

**Performance Measure:** Percent of response teams reported at operational status.

**Table 8. Disaster Operations Team Results**

FY 2005	FY 2006	FY 2007		
Result	Result	Target	Result	Met
50%	85%	88%	88%	Y



Response Team in Action

Explanation of Results:

Meeting the target of 88 percent of all teams reporting at operational status ensures that Federal emergency response systems and capabilities are properly poised to support States and communities overwhelmed by disasters and emergencies.

The measure tracks the operational status of three types of teams: the 28 task forces of Urban Search and Rescue (US&R); the five Mobile Emergency Response Support (MERS) detachments; and the two Federal Incident Response Support Teams (FIRSTs). Operational status is defined as teams having the necessary staffing, equipment and training required for response to a disaster or incident.

**Program:** Disaster Assistance

**Program Performance Goal:** Help individuals and communities affected by federally declared disasters return to normal function quickly and efficiently, while planning for catastrophic disaster recovery operations.

**Performance Measure:** Percent of customers satisfied with individual recovery assistance.

**Table 9.**

FY 2004	FY 2005	FY 2006	FY 2007		
Result	Result	Result	Target	Result	Met
90.4%	93%	91%	91%	92.2%	Y



FEMA Community Relations Lead visiting a flood victim in his new housing with some ice after assisting in his relocation.

Explanation of Results:

This measure indicates the percent of respondents who said they were satisfied with the recovery assistance provided by this program. Results exceeded the established target by creating “engaging partnerships” with State and local governments, and enhancing disaster assistance capabilities through the operation of four National Processing Service Centers ensuring the timeliness of registrations. This well-established customer survey meets all industry standards, including neutrality and random selection. Responses gathered throughout the year are representative of the multitude of disaster assistance customers who received monetary housing and/or other needs assistance through Individual Assistance Programs.

## Goal 5. Strengthen and Unify DHS Operations and Management

An agile and effective Department is essential to the rapid implementation of homeland security priorities, policies, and objectives. As such, DHS has aligned its programs and activities to its goals and objectives and is continuously measuring its achievement in meeting its targets. We continue to improve systems for intelligence and information sharing. Ensuring that DHS is managed and operated in an efficient and unified manner is a key to our success. Below are a few FY 2007 achievements.

- **Designed a consolidated DHS Headquarters facility** that will co-locate disparate national capital regional offices. The design completed phase one of the consolidation plan.
- **Increased leadership capacity** by adding 73 additional senior executive service positions – a 17 percent increase in the Senior Executive Service (SES) positions from FY 2006. Also reduced unfilled executive positions to 10 percent while improving executive hiring timeline.
- **Improved the hiring and retention of talent** needed to achieve DHS's mission by focusing on five key priorities in the FY 2007-2008 Human Capital Operational Plan and accomplishing all 47 goals identified for FY 2007.
- **Streamlined training delivery and opportunities for employees** through a new, comprehensive DHS University System and integrated Learning Management System.
- **Increased procurement operational and strategic sourcing effectiveness** by implementing a central DHS-wide Program Management Support Office.
- **Established a process for the DHS Chief Information Officer (CIO) to approve procurements that contain Information Technology (IT) elements of \$2.5 million and above** to ensure that all contracts fully comply with the Federal Information Security Management Act (FISMA). Partnered with the Office of Procurement Operations (OPO) and Chief of Administrative Services (CAO) to share data to provide offices with advanced notice of procurements and purchases of property.
- **Implemented a strategy to enhance information sharing** by improving workflow, document management, and business processes to increase user satisfaction by 40 percent, decrease cost by 15 percent, and reduce production time by 25 percent.
- **Dramatically improved internal controls over financial reporting** and reduced the number of financial material weakness conditions, improving the Department's ability to report accurate and timely financial information.
- **Implemented Satellite Communications Network** to support disaster response and recovery efforts.
- **Integrated the Infrastructure Critical Asset Viewer** capability with the National Operations Center Common Operating Picture.
- **Activated an iDirect teleport** to support deployed field teams with Internet, Voice over Internet Protocol, Video Teleconference, and streaming video capability.



National Operations Center (NOC)

**Program:** Departmental Management Operations  
**Program Performance Goal:** Provide comprehensive leadership, management, oversight, and support, while improving the effective and efficient delivery of business and management services throughout the Department.  
**Performance Measure:** Total instances of material weakness conditions reported by the independent auditor on the DHS financial statements.

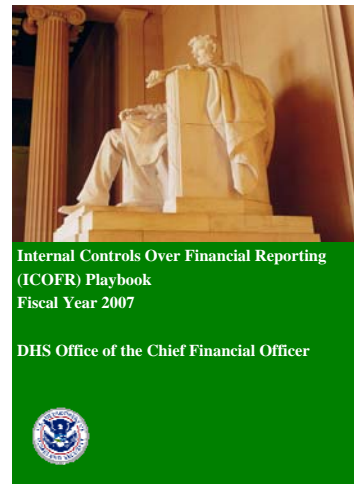
**Table 10. DHS Material Weakness Results**

FY 2004	FY 2005	FY 2006	FY 2007		
Result	Result	Result	Target	Result	Met
26	28	25	≤ 25*	16	Y

Explanation of Results:

DHS has made significant progress towards getting a clean audit opinion by systematically working to eliminate our financial weaknesses. Annually, an independent auditor reviews DHS financial statements and reports to the public on areas that must be improved to ensure taxpayer dollars are accurately accounted for. On March 1, 2007 the Department issued the inaugural version of the Internal Controls Over Financial Reporting Playbook, outlining the Department's plan to correct material weakness conditions and build management assertions. By implementing and tracking progress against this plan, the Department was able to eliminate pervasive material weakness conditions.

\*The FY 2007 target and prior year results were restated in accordance with the revised methodology used by the Department's external auditors as required by OMB.



FY 2007 Internal Controls over Financial Reporting (ICOFR)

**Program:** Departmental Management Operations  
**Program Performance Goal:** Provide comprehensive leadership, management, oversight, and support, while improving the effective and efficient delivery of business and management services throughout the Department.  
**Performance Measure:** Number of President's Management Agenda (PMA) initiative scores that improved over the prior year or were rated green in either status or progress.

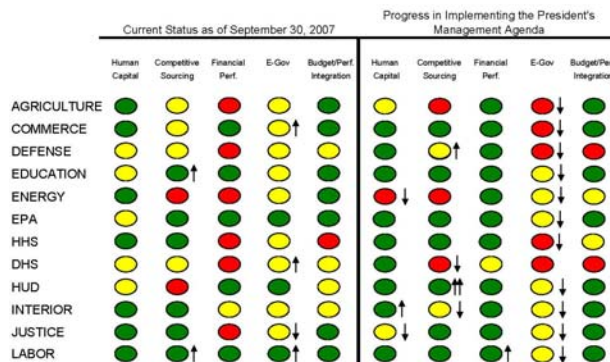
**Table 11. PMA Initiative Results**

FY 2004	FY 2005	FY 2006	FY 2007		
Result	Result	Result	Target	Result	Met
6	6	6	7	5	N

Explanation of Results:

In FY 2007, the Department continued work to improve in the President's Management Agenda (PMA) initiatives. DHS consistently performed in the areas of Real Property and Human Capital over the course of the year and was rated green in progress for both initiatives. The Department also earned a green rating in progress for Eliminating Improper Payments. Though there has been significant progress in all PMA initiatives, the Department missed the performance target in part because it did not meet all OMB expectations and milestones in Budget and Performance and E-government. Senior leadership within the Department closely monitors PMA performance, however, and has plans to address shortfalls in FY 2008 to ensure continued improvement.

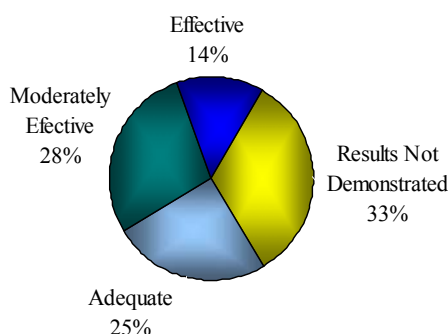
**Table 12. Executive Branch PMA Scorecard**



## PART Ratings Overview

Integral to DHS performance management are the program evaluations that occur in collaboration with the Office of Management and Budget (OMB) using the Program Assessment Rating Tool (PART). The PART process evaluates programs across a set of performance-related criteria, including program design, strategic planning, program management, and delivery of results. For more detailed information on PART, please visit [www.expectmore.gov](http://www.expectmore.gov).

**Figure 5. FY 2007 PART Ratings**



## Scorecard on the President's Management Agenda

DHS is also striving to improve critical management functions in the Department. Criteria for success and milestones to achieve progress are established in conjunction with OMB as part of the President's Management Agenda (PMA). The PMA was launched in August 2001 as a strategy for improving the management and performance of the Federal Government. For more information on the PMA, please visit [www.results.gov](http://www.results.gov). In addition, the Management Challenges section of the report discusses efforts under-way to improve the overall management of DHS.

**Table 13. DHS PMA Scorecard as of the End of FY 2007**

	Status				Progress
	FY '04	FY '05	FY '06	FY '07	FY '07
<b>Human Capital</b>	●	●	●	●	●
<b>Competitive Sourcing</b>	●	●	●	●	●
<b>Financial Performance</b>	●	●	●	●	●
<b>E-Government</b>	●	●	●	●	●
<b>Budget &amp; Performance</b>	●	●	●	●	●
<b>Eliminating Improper Payments</b>	●	●	●	●	●
<b>Real Property</b>	●	●	●	●	●

DHS integrates performance measurement results and PART evaluations into the development of a performance budget, using the Planning, Programming, Budgeting, and Execution (PPBE) process. As an element of the programming phase of the PPBE cycle, performance measurement information and program evaluations are considered in the resource allocation plans and decisions for each Component. The process culminates in the annual development of the Department's Future Years Homeland Security Program (FYHSP). The FYHSP expresses the Secretary's five-year strategic resource allocation intentions, and connects the multi-year spending priorities of each program in the Department with the achievement of the goals and objectives of the DHS Strategic Plan.



## Completeness and Reliability of Performance Measures

The Department recognizes the importance of collecting complete, accurate, and reliable performance data, as this helps determine progress toward achieving our goals and objectives. As part of the annual planning and resource allocation process, the verification and validation information for performance measures is evaluated by both program and DHS Headquarters staff. This evaluation confirms that the scope of the data, the source of the data, the collection methodology, and methods to verify or double-check the accuracy of the data are in place. Program Managers are responsible to ensure the data collection and reporting follows the verification and validation procedures described for their performance measures.

## Looking Forward

While the previous performance overview section presents achievements for the current fiscal year, below are a few of our focus areas in the coming year:

- We intend to continue our secure documentation requirements by moving forward on our Western Hemisphere Travel Initiative (WHTI). As early as the summer of 2008, we will start to require WHTI-compliant credentials - a passport, a People Access Security Service card, or other acceptable documents as defined in the final rule.
- With increased presence of personnel and technological advances, we will continue to improve the control of our Nation's borders. We will expand the number of Border Patrol agents and extend our fencing and vehicle barriers along our southern border. We intend to increase the use of manned and unmanned aerial surveillance and increase the number of camera and radar towers.
- To continue our efforts to protect our infrastructure from dangerous people and goods, we will be expanding our focus to include passenger screening requirements for private aircraft entering or departing from the United States to be in-line with requirements that currently apply to commercial air carriers. We will also be expanding our focus to include the 17 million "small boats" on our waterways to guard against the smuggling of weapons of mass destruction, water-borne improvised explosive devices, smuggling of dangerous people, and the potential use of these vessels to launch an attack on the maritime industry or other critical infrastructure.
- If we are going to progress in our efforts to protect people and critical infrastructure across our Nation, we need to concentrate more on how we share accurate, timely, and actionable intelligence, particularly with State and local governments. To that end, we are increasing our participation in State and local fusion centers. Our goal is to help build a national fusion center network.
- To meet our Department-wide goals in the coming years, it is essential that we continue our efforts to build a unified, integrated Department of Homeland Security. For example, OneNet will give us a secure, standard platform to facilitate information flow and streamline our IT infrastructure by consolidating seven locations into one.

## Financial Overview

### Overview and Analysis of DHS Financial Statements

DHS primarily uses the cash basis of accounting for its budget, which was approximately \$57 billion for FY 2007. The budget represents our plan for achieving the strategic objectives set forth by the Secretary to carry out our mission and to ensure that DHS manages its operations within the appropriated budgets using budgetary controls. DHS prepares its annual financial statements on an accrual basis, in accordance with generally accepted accounting principles, meaning that economic events are recorded as they occur, regardless of when cash is received or disbursed. These financial statements provide the results of our operations and financial position, including long-term commitments and obligations. The independent accounting firm, KPMG LLP, was engaged to audit the DHS statements.

DHS's FY 2007 budget increased by \$2.7 billion from FY 2006, excluding borrowing authority, reflecting additional funding for Border Security, the Coast Guard, and the Domestic Nuclear Detection Office. During FY 2007, DHS underwent a substantial reorganization implementing lessons learned from the 2005 hurricane season and the effect those events had on the Departmental operations. The effects of the reorganization are discussed in Footnote 1. In addition, DHS restated FY 2006 balances primarily as a result of actions completed to correct financial management weaknesses reported in prior financial statement audit reports.

### Balance Sheet

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

**Table 14. Condensed Consolidated Balance Sheet**  
**As of September 30, 2007 and 2006**  
(In Millions)

	<u>FY 2007</u>	<u>FY 2006</u> <u>(Restated)</u>	<u>Change</u>
<b>ASSETS</b>			
Fund Balance with Treasury	\$56,185	\$59,569	(\$3,384)
General Property, Plant and Equipment, Net	12,275	11,151	1,124
Other	10,336	8,629	1,707
<b>Total Assets</b>	<b><u>\$78,796</u></b>	<b><u>\$79,349</u></b>	<b><u>(\$553)</u></b>
<b>LIABILITIES</b>			
Federal Employee and Veterans Benefits	\$34,910	\$32,278	\$2,632
Debt	18,153	17,446	707
Employee related and other	10,801	16,529	(5,728)

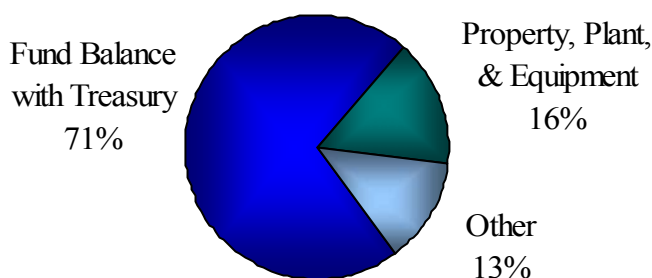
Accounts Payable	5,069	4,536	533
<b>Total Liabilities (Note 17)</b>	<b>\$68,933</b>	<b>\$70,789</b>	<b>(\$1,856)</b>
<b>Net Position</b>			
Unexpended Appropriations	\$49,003	\$48,816	\$187
Cumulative Results of Operations	(39,140)	(40,256)	1,116
<b>Total Net Position</b>	<b>9,863</b>	<b>8,560</b>	<b>1,303</b>
<b>Total Liabilities and Net Position</b>	<b>\$78,796</b>	<b>\$79,349</b>	<b>(\$553)</b>

Composition of Assets

Assets represent amounts owned by DHS that can be used to accomplish its mission. At September 30, 2007, DHS had \$78.8 billion in assets, representing a \$553 million decrease from FY 2006 restated assets of \$79.3 billion. The decrease is attributable to a reduction in the amount of cash DHS advanced to other federal agencies from FEMA's Disaster Relief Fund (described further in Footnote 13), decreases in receivables due from the public for reimbursable services and user fees, and slight decreases in inventory and related property, and other assets.

Fund Balance with Treasury (FBwT), which is the Department's largest asset, comprises 71 percent (\$56.2 billion) of the total assets. Included in FBwT is the remaining balance of DHS unspent prior year budgets plus miscellaneous receipts. FBwT decreased approximately \$3.4 billion from FY 2006 in part due to a reduction in refunds due to CBP for Canadian Softwood lumber duties, an increase in rescissions DHS-wide and a reduction in the amount of appropriations received by S&T.

**Figure 6. DHS Assets as of September 30, 2007**



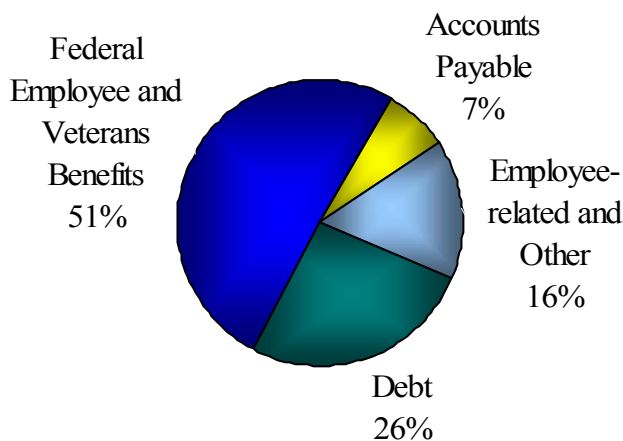
Property, Plant, and Equipment (PP&E) is the second largest asset, comprising 16 percent of total assets. The major items in this category include construction in progress, buildings and facilities, vessels, aircraft, and other equipment. In acquiring these assets, DHS either spent cash or incurred a liability to make payment at a future date; however, because we expect these assets to provide future benefits to DHS to help us accomplish our mission, we report these items as assets rather than expenses. PP&E is recorded net of accumulated depreciation. Recording the net value of the PP&E items is intended to approximate its remaining useful life. During FY 2007, PP&E increased by \$1.1 billion. Contributing to this increase was CBP's initiative to protect America's borders by constructing fencing and implementing the Secure Border Initiative (SBI), a series of mobile sensor towers, as well as an increase to construction in progress for Coast Guard's Deepwater Program.

**Composition of Liabilities**

At September 30, 2007, DHS reported approximately \$68.9 billion in total liabilities. Liabilities represent amounts owed to the public or other federal agencies for goods and services provided but not yet paid for; to DHS employees for wages and future benefits; and for other liabilities. Eight-one percent of these liabilities are unfunded, meaning they will need to be paid from funds received in future appropriations. DHS's largest unfunded liability is for Federal Employee and Veterans Benefits, arising primarily from U.S. Coast Guard personnel benefits. The National Flood Insurance Program (NFIP) administered by FEMA is the second largest unfunded liability. Both are discussed in more detail below.

Liabilities decreased of approximately \$1.8 billion from FY 2006 restated liabilities totaling \$70.8 billion. The decrease results from lower insurance liabilities existing at September 30, 2007 due to flood insurance claim payments related to hurricanes Katrina and Rita being made in 2006 (described further in Footnote 20) and a decrease in the amount of refunds and drawbacks due from CBP to importers and exporters at year-end.

**Figure 7. DHS Liabilities as of September 30, 2007**



DHS's largest liability is for Federal Employee and Veterans Benefits, representing 51 percent of total liabilities. This liability increased more than 8 percent from FY 2006 due to an increase in actuarial amounts for TSA and CG employees and an increase in personnel at CBP. DHS owes these amounts to current and past civilian and military personnel for pension and other post employment benefits. The liability also includes medical costs for approved workers compensation cases and an estimate for incurred but not yet reported worker's compensation costs. Ninety-five percent of this liability is not covered by current budgetary resources, and DHS will need to seek future appropriations to cover these liabilities.

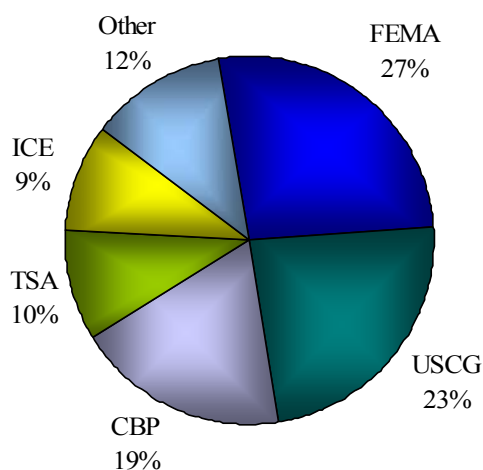
Debt is the next largest liability, representing 26 percent of total liabilities. This debt results from Treasury loans and related interest payable to fund the NFIP and Disaster Assistance Direct Loan Program operations of FEMA. Debt increased by 4 percent from FY 2006 as a result of the NFIP debt. Most of this debt is not covered by current budgetary resources. The premiums collected by FEMA for disaster assistance do not cover the cash outlays. Congress will need to enact legislation to provide funding to repay the Treasury Department, or to forgive the debt. This is discussed further in the Footnote 15.

Employee-related and other liabilities comprise 16 percent of the Department's liabilities, a decrease of almost 35 percent from FY 2006, due to the reduction of insurance liabilities and refunds and drawbacks, as discussed above. Also included in these liabilities are unpaid wages and benefits for current DHS employees. Seven percent of total liabilities results from accounts payable, which are actual or estimated amounts DHS owes to vendors for goods and services provided for which we have not yet paid. These liabilities are covered by current budgetary resources.

## Statement of Net Cost

The Statement of Net Cost presents the annual net cost DHS expends to fulfill its mission. The statement shows all costs less certain revenue, such as fees collected at USCIS that offset our costs. For FY 2007, DHS used the Secretary's goals as a basis to integrate its net costs.

**Figure 8. Composition of Net Costs at September 30, 2007**



FEMA represents 27 percent of the Department's net costs, a 57 percent reduction from FY 2006 when FEMA funded much of the recovery costs associated with Hurricanes Katrina and Rita. USCIG incurred 23 percent of total net costs in ensuring maritime safety, security, and stewardship and represents a slight increase from FY 2006. CBP's net costs increased by 15 percent from 2006, reflecting the increase in number of border patrol agents and costs associated with employing new technologies to protect the border. Net costs for TSA and ICE, representing 10 percent and 9 percent of total net costs, respectively, increased from FY 2006. TSA's net costs increased 17 percent as a result of an overall increase in program costs and increased costs for depreciation and benefits expenses. Net costs for ICE, which includes the Federal Protective Service, increased 9 percent.

During FY 2007, the Department earned approximately \$8.4 billion in revenues; this is an increase of about \$259 million from the restated amount of \$8.2 billion on September 30, 2006. The Department classifies revenues as either exchange ("earned") or non-exchange revenue. Exchange revenues arise from transactions in which DHS and the other party receive value, and that are directly related to departmental operations. DHS also collects non-exchange duties, taxes and fee revenues on behalf of the Federal Government. These non-exchange revenues are presented in the

Statement of Custodial Activity rather than the Statement of Net Cost. Examples of non-exchange revenues are user fees that CBP collects on behalf of the Federal Government as a result of its sovereign powers rather than as a result of providing goods or services for a fee. Donations to the Department are also reported as non-exchange revenues. Non-exchange revenues are either retained by the Department to further its mission or returned to the General Fund of the Treasury.

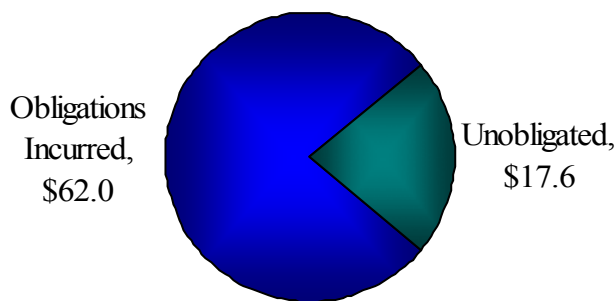
### Statement of Changes in Net Position

The Statement of Changes in Net Position shows the “accrual-based” results of DHS’s operations and its affect on our overall net financial position. Financing sources increase net position and include, but are not limited to, appropriations, user fees, and excise taxes. The net costs discussed above and transfers to other agencies decrease net position. In FY 2007, FEMA had fewer disaster-related costs, thus contributing to the change in DHS’s overall net position.

### Statement of Budgetary Resources

This statement provides information on the status of the approximately \$79.6 billion of budgetary resources available to DHS during FY 2007. This authority was derived from appropriations of \$46.5 billion, \$17.3 billion in authority carried forward from FY 2006, \$9.9 billion in collections, and \$5.9 billion of miscellaneous authority. The total amount of resources available decreased by approximately \$29 billion, primarily as a result of a decrease of \$17.5 billion in borrowing authority and increased obligations incurred during FY 2006 that reduced the FY 2007 unobligated carryover balance.

**Figure 9. Status of Budgetary Resources at September 30, 2007 (in billions)**



Of the total budget authority available, DHS incurred a total of \$62 billion in obligations from purchase orders placed, contracts awarded, salaries and benefits, or similar transactions. These obligations will require payments during the same or future period. As September 30, 2007, \$17.6 billion of the \$79.6 billion was not obligated.

### Statement of Custodial Activities

This statement presents the disposition of revenues collected and disbursed by DHS on behalf of other recipient entities. CBP and USCIS collect revenue from a variety of duties, excise taxes and various other fees that are subsequently remitted to the Treasury’s General Fund or to other entities. Footnote 32 provides additional information on these activities. Total cash collections

increased by more than \$2 billion in FY 2007. The increase is primarily attributable to an increase in duties, but also to an increase in user fees and excise taxes.

## **Stewardship Assets and Investments**

DHS's Stewardship PP&E primarily consists of USCG Heritage Assets, which include sunken craft, ship's equipment, historical buildings, artifacts and display models. A heritage asset is any personal property that is retained by DHS because of its historic, cultural, educational, or artistic value as opposed to its current usefulness to carrying out the mission of the agency. Of the USCG buildings and structures designated as Heritage Assets, including memorials, recreational areas and other historical areas, over two-thirds are multi-use Heritage assets. The remainder is comprised of historical lighthouses, which are no longer in use and awaiting transfer or disposal. CBP also has four multi-use heritage assets located in Puerto Rico and FEMA has one multi-use heritage asset that is used by the United States Fire Administration for training in Emmitsburg, Maryland.

Stewardship investments are substantial investments made by the Federal Government for the benefit of the Nation. When incurred, stewardship investments are treated as expenses in calculating net cost, but they are separately reported as Required Supplementary Stewardship Information (RSSI) to highlight the extent of investments that are made for long-term benefits. These include investments in Human Capital and Research and Development.

## **Other Key Regulatory Requirements**

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

## Management Assurances

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

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

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

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

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

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





**Homeland  
Security**

November 15, 2007

## **Secretary's Assurance Statements**

The Department of Homeland Security is dedicated to ensuring that internal control systems are comprehensively designed to achieve the mission and execute the strategy of the Department. The Department's management is responsible for establishing and maintaining effective internal control over the three internal control objectives of effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations. In addition, the safeguarding of assets is a subset of these objectives. In accordance with the Federal Managers' Financial Integrity Act (FMFIA) and the Department of Homeland Security Financial Accountability Act (DHS FAA), I have directed an evaluation of internal controls at the Department of Homeland Security in effect during the fiscal year ended September 30, 2007. This evaluation was conducted in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control*, revised December 21, 2004. Based on the results of this evaluation, the Department provides the following assurance statements.

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

In accordance with the Department's OMB approved plan for Appendix A of OMB Circular A-123, our efforts focused on designing and implementing Department-wide internal controls. Based on information provided, for the processes assessed within Exhibit I, the Department provides reasonable assurance that internal control over financial reporting is designed effectively, with the exception of the following known material weaknesses:

- Entity Level Internal Controls at U.S. Coast Guard (USCG) and Federal Emergency Management Agency (FEMA);
- General Ledger Management including:
  - Financial Reporting at USCG, FEMA, DHS Headquarters (DHS HQ) Operational Offices; and
  - Intragovernmental Account Reconciliations;
- Fund Balances with Treasury Management at USCG;
- Financial System Security;
- Budget Resource Management at USCG, FEMA, and Transportation Security Administration (TSA);
- Property Management at USCG and FEMA;
- Grants Management at FEMA;
- Insurance Management at FEMA; and
- Human Resource and Payroll Management at USCG.

Although the Department has begun tests of operating effectiveness, we have not yet completed enough testing to provide reasonable assurance that internal control over financial reporting was operating effectively.

### **Effectiveness of Internal Control over Operations (FMFIA § 2)**


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

- Entity Level Internal Controls at FEMA and National Preparedness and Protection Directorate (NPPD);
- Improper Payments Information Act Noncompliance at FEMA;
- Anti-Deficiency Act Controls at TSA;
- Security Controls over Collection and Depositing of Fees at U.S. Citizenship and Immigration Services (USCIS);
- Federal Protective Service Transformation at U.S. Immigration and Customs Enforcement (ICE);
- DHS Headquarters Consolidation;
- Acquisition Management, including:
  - Deepwater Acquisition at USCG; and
  - Secure Border Initiative Acquisition at U.S. Customs and Border Protection (CBP);
- Human Capital Management;
- Information Technology Management, including:
  - Laptop Security at CBP;
  - Office of Chief Information Officer Management at USCIS; and
  - Personnel Data Security; and
- Long Term Strategic Planning and Outcome Based Management.

### **Conformance with Financial Management System Requirements (FMFIA § 4)**

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

- Federal Financial Management Systems Requirements, including:
  - Financial Systems Security;
  - Integrated Financial Management Systems, including:
    - Integration of CBP Revenue System with CBP Core Financial System;
    - Integration of ICE Financial, Acquisition, and Asset Management Systems;
    - Integration of USCG Financial and Mixed Systems;
- Noncompliance with U.S. Standard General Ledger at USCG; and
- Federal Accounting Standards at USCG.

  
Michael Chertoff

## Summary of Internal Control Accomplishments

Since the passage of the *Department of Homeland Security Financial Accountability Act*, DHS has worked collaboratively with the Congress, the Government Accountability Office, OMB, DHS Inspector General, and our Independent Public Accountant to ensure we achieve the law's intended outcome of the design and implementation of Department-wide internal controls to support the DHS mission. On March 1, 2007, the Secretary issued the inaugural version of the Internal Controls Over Financial Reporting (ICOFR) Playbook. The ICOFR Playbook outlines the Department's strategy and process to design and implement internal controls through corrective actions and build management assertions for the operating effectiveness of internal controls. The results of the FY 2007 ICOFR Playbook are displayed below.

**Table 15. Internal Controls over Financial Reporting Assessment Results FY 2007**

**Exhibit 1: Internal Controls over Financial Reporting Assessment Results FY 2007**

Internal Control Component	DHS Headquarters	U.S. Customs & Border Protection	U.S. Coast Guard	U.S. Immigration & Customs Enforcement	Federal Emergency Management Agency	Transportation Security Administration	U.S. Citizenship & Immigration Services	Federal Law Enforcement Training Center	U.S. Secret Service	Science & Technology	Inspector General
Entity Level Controls											
General Ledger Management											
Fund Balance with Treasury Management											
Financial System Security											
Budgetary Resources Management											
Property Management		FY08		FY08				FY08			
Grants Management						FY08					
Payment Management	FY08										
Insurance Management											
Revenue Management		FY08	FY08	FY08	FY08	FY08					
Contingent Liabilities		FY08	FY08	FY08	FY08	FY08				FY08	
Receivable Management	FY08	FY08	FY08	FY08	FY08	FY08				FY08	
Human Resources and Payroll Management		FY08		FY08	FY08	FY08	FY08		FY08		

**Legend**

	Tests of Design (TOD) and Tests of Operating Effectiveness (TOE) Completed. No Material Weakness Conditions Identified.
	TOD Completed and Corrective Actions Implemented to Design Controls; however, TOE Not Yet Complete. No Material Weakness Condition Identified.
	Material Weakness Identified, Corrective Actions Needed.
FY 08	Process Scheduled for TOD in FY08.
	Process Deemed Immaterial to DHS Consolidated.

Office of Inspector General

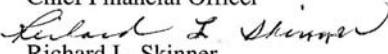
U.S. Department of Homeland Security  
Washington, DC 20528



**Homeland  
Security**

NOV 15 2007

MEMORANDUM FOR: The Honorable David Norquist  
Chief Financial Officer

FROM:   
Richard L. Skinner  
Inspector General

SUBJECT: Independent Auditors' Report on DHS' FY 2007 Internal Controls  
over Financial Reporting

The attached report presents our independent auditors' opinion on the Department of Homeland Security's (DHS) internal controls over financial reporting as of September 30, 2007. The Department of Homeland Security Financial Accountability Act (The Act) (P.L. 108-330) Section 4, requires that the Secretary of Homeland Security include an audit opinion of DHS' internal controls over its financial reporting in each performance and accountability report beginning after fiscal year 2005. DHS management is responsible for establishing and maintaining effective internal control over financial reporting in accordance with criteria established under the Federal Managers' Financial Integrity Act (FMFIA). Our responsibility is to express an opinion on the effectiveness of DHS' internal control based on our examination.

In our report on internal control as of September 30, 2006, we reported that DHS' internal controls over financial reporting were ineffective because of material weaknesses reported in the Secretary's Assurance Statement and the Independent Auditor's Report. Although deficiencies were identified in the same areas in fiscal year 2007, we recognize DHS efforts towards meeting its goals for the correction of material weaknesses and compliance with FMFIA.

We appreciate the cooperation extended to the auditors by DHS' financial offices. Should you have any questions, please call me, or your staff may contact Anne L. Richards, Assistant Inspector General for Audits, at 202-254-4100.

Attachment

Office of Inspector General

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



**Homeland  
Security**


NOV 15 2007

### Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the Homeland Security Act of 2002 (*Public Law 107-296*) by amendment to the Inspector General Act of 1978. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

This report addresses the effectiveness of DHS' internal control over financial reporting. It is based on a review of applicable documents. We performed our review during the course of DHS' FY 2007 financial statement audit in conjunction with the independent public accountant, KPMG LLP. KPMG was engaged to audit the Department's balance sheet as of September 30, 2007 and 2006, and the related statement of custodial activity for the year ended September 30, 2007 (referred to herein as "financial statements"). KPMG was unable to provide an opinion on DHS' financial statements as of September 30, 2007 and 2006.

It is our hope that this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report

  
Richard L. Skinner  
Inspector General

Office of Inspector General

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



**Homeland  
Security**

NOV 15 2007

We have examined the effectiveness of DHS' internal control over financial reporting as of September 30, 2007 based on the criteria established under the Federal Managers' Financial Integrity Act (FMFIA). DHS management is responsible for establishing and maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of DHS' internal control based on our examination.

Our examination was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States and attestation standards, established by the American Institute of Certified Public Accountants. It included obtaining an understanding of the internal control over financial reporting and performing such other procedures as we considered necessary in the circumstances. We believe that our examination and the report of the independent auditor provide a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control 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 significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

During fiscal year 2007, the following material weaknesses were identified by an independent auditor. Due to the issues noted below, additional material weaknesses may exist that have not been reported.

- Financial Management and Entity-Level Controls;
- Financial Reporting;
- Financial Systems Security;
- Fund Balance with Treasury;
- Capital Assets and Supplies;

- Actuarial and Other Liabilities;
- Budgetary Accounting.

Because of the effects of the material weaknesses mentioned above, in our opinion, DHS did not maintain effective internal control as of September 30, 2007, to meet the following objectives: (1) transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements and stewardship information in conformity with GAAP, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with laws governing the use of budget authority and with other significant laws and regulations that could have a direct and material effect on the financial statements and stewardship information. Consequently, DHS' internal control did not provide reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements or to stewardship information would be prevented or detected on a timely basis.


  
Richard L. Skinner  
Inspector General



Homeland  
Security

November 15, 2007

**MEMORANDUM FOR:** Richard L. Skinner, Inspector General

**FROM:** David L. Norquist, Chief Financial Officer 

**SUBJECT:** Audit Opinion of the Department's Internal Controls over Financial Reporting

Thank you for the opportunity to review your draft audit opinion of the Department's internal controls over financial reporting. I agree with your conclusions. I am pleased with how we have worked together to implement the *Department of Homeland Security Financial Accountability Act*. As we conclude the third year of implementing the Act, the progress the Department has made is remarkable. That success began with the strong working relationship between our offices, and in particular, Management's *Internal Control Over Financial Reporting Playbook* and your independent performance audits that together identified the root causes and the necessary corrective actions. While challenges remain, the Department has shown its ability to implement corrective actions, as evidenced by the following FY 2007 achievements:

- Strengthened the control environment and bolstered oversight functions with the strong support of the Department's Secretary and Under Secretary for Management;
- Executed year two of the Department's multi-year plan for OMB Circular No. A-123, resulting in the Secretary's first ever assurance statement on the design effectiveness of internal controls over financial reporting;
- Partnered with the Under Secretary for Management, Chief Information Officer, and Chief Information Security Officer, to achieve compliance with the *Federal Information Security Management Act*;
- Corrected material weakness conditions for Legal Liabilities and reduced the severity of Capitalization of Internal Use Software to a significant deficiency condition;
- Corrected TSA's Financial Reporting material weakness condition and reduced the severity of TSA's Capital Assets and Other Liabilities conditions to significant deficiencies;
- Sustained FY 2006 progress at ICE and eliminated all remaining ICE material weakness conditions;
- Designed Department-wide financial reporting process improvements; and
- Developed Department-wide financial management policies and procedures.

Thank you for your office's support throughout this audit. I look forward to continued cooperation and progress in the future.



**SUCCESS STORIES**

**DHS's Critical Role to Take Down JFK Terror Plot**

**Situation**

- January 2006: Four men led by a former airport cargo worker plot to ignite JFK airport jet fuel lines.
- The plot is revealed when the terrorists try to recruit a person who is a law enforcement informant.
- The Federal Bureau of Investigation (FBI) infiltrate terrorist cell; the FBI, Department of Justice, National Security Agency, Central Intelligence Agency, DHS (CBP, TSA), and international partners follow and monitor the cell for 18 months in U.S. and abroad.

**Result**

- The plot is disrupted before it can take place.
- The private sector does not leak any information over 18 month period to jeopardize the operation.
- Industry sector representatives are impressed by access to information and regular briefings by DHS.
- The ability of DHS to share information with the private sector, as well as law enforcement, is critical to protecting the nation's critical infrastructure.

**Action**

- DHS reaches out to leaders of the oil & gas sector and the transportation sector who run JFK airport.
- Sharing information helps private sector gain DHS assessments of the targets and analyze outcomes.
- As the FBI infiltrates the cell, DHS regularly briefs the sectors from onset to address concerns and fears.
- Jun 2, 2007: 3 men arrested; Jun 5: 4th is caught.

**JFK International Airport Handles...**

More than 1,000 flights daily, about half of which are international flights...

About 45 million passengers annually...

More than 1.5 million tons of cargo with an estimated value of \$120 billion...



**SUCCESS STORIES**

**USCG Has Conducted 1 Million Rescues Since Founding**

**Situation**

- The USCG was founded in 1790 during George Washington's presidency with a fleet of just ten wooden vessels.
- Each year, thousands of boaters and marine enthusiasts find themselves in need of assistance on the open water.
- As the USCG has grown, so has its rescue mandate; in 2003 it joined the ranks of DHS.

**Result**

- Since its inception, the USCG has saved the lives of at least 1,109,310 individuals.
- Included are migrant interdictions: Cubans/Haitians.
- In 2005, more than 33,000 people were rescued during Hurricane Katrina; 1937 saw the largest rescue of approximately 44,000 people.
- The USCG provides the world's fastest and most effective response to maritime distress calls for those in U.S. waters and elsewhere.

**Action**

- The USCG deploys personnel and assets for a wide range of rescue operations.
- Rescues and other operations are often performed in dangerous conditions, forcing personnel to risk their own lives to save the lives of others.
- In 2007, the USCG received well over 27,000 calls for service.
- The USCG saved 4,536 lives in 2007 alone.



