



# Department of Homeland Security Annual Financial Report

Fiscal Year 2008



Homeland  
Security

# About this Report

The Department of Homeland Security *Annual Financial Report* for Fiscal Year 2008 presents the Department's detailed financial information relative to our mission and the stewardship of those resources entrusted to us. It also provides readers with a sense of the Department's priorities, and our strengths and challenges in implementing programs that enhance the safety of our Nation.

The Department is in its second year of an OMB pilot program to produce its Performance and Accountability Reports using an alternative approach. The pilot for FY 2008 consists of the following three reports:

- **DHS Annual Financial Report** –  
Published November 17, 2008
- **DHS Annual Performance Report** –  
Published January 15, 2009
- **DHS Citizens' Report** –  
Published January 15, 2009

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

The Department of Homeland Security's FY 2008 Annual Financial Report is available at the following website:  
[http://www.dhs.gov/xabout/budget/editorial\\_0430.shtm](http://www.dhs.gov/xabout/budget/editorial_0430.shtm)

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Department of Homeland Security  
Annual Financial Report  
Fiscal Year 2008



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## Message from the Secretary

November 17, 2008



I am pleased to submit the Department of Homeland Security's (DHS) Annual Financial Report for Fiscal Year (FY) 2008. 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 and the hard work and constant vigilance of hundreds of thousands of men and women who work tirelessly both at home and overseas to protect our country. It also demonstrates the value of effective financial management which gets funding and resources to the men and women on the front lines of homeland security.

In our five years since stand up, we have strengthened our financial management operations and internal controls to protect against waste, fraud, and abuse and become better, more transparent stewards of taxpayer dollars. This report demonstrates the effects of our hard work to ensure taxpayer dollars are accurately accounted for and efficiently used. For the second consecutive year, we made significant progress improving Department-wide internal controls for financial reporting. As a result, I am able to provide assurances that internal controls over financial reporting are designed effectively, with the exception of the material weaknesses noted later in this report. Additionally, the performance measures for the Department are complete and reliable, and will be discussed in more detail in the forthcoming Annual Performance Report. The Annual Financial Report is an alternative approach to the consolidated performance and accountability report published in previous years. DHS's performance and accountability reports for this and previous years are available at our public website: [http://www.dhs.gov/xabout/budget/editorial\\_0430.shtm](http://www.dhs.gov/xabout/budget/editorial_0430.shtm).

DHS has made tremendous progress in protecting our Nation from dangerous people and goods, protecting the Nation's critical infrastructure on which our lives and economic prosperity depend, strengthening the Nation's preparedness and emergency response capability, and unifying departmental operations and management. Significant accomplishments include the following:

We are ***protecting our Nation from dangerous people*** through effectively controlling our borders, protecting our interior, and strengthening the screening of travelers and workers. DHS is bringing a multi-layered approach to keeping dangerous people out of our country while welcoming those who seek to legally come to the United States. U.S. Customs and Border Protection continued to train and equip new Border Patrol agents and has constructed 358 miles of fencing, with 204 miles of primary pedestrian fence and 154 miles of vehicle fence in place as of the end of FY 2008. We are well on our way to the goal of constructing 661 miles of fencing along our borders in areas identified as priorities by the Border Patrol. Additionally, U.S. Immigration and Customs Enforcement removed or returned more than 295,000 illegal aliens and dramatically increased the penalties against employers whose hiring process violates

the law. We continue to ensure aviation security and strengthened airport screening operations through the efforts of the Transportation Security Administration.

We are ***protecting our Nation from dangerous goods*** that could be used to attack our Nation by preventing and detecting radiological, nuclear, biological, chemical, and other explosive materials from entering our country. We are also preventing illicit contraband from crossing our borders while facilitating trade. DHS has deployed more than 1,000 radiation detection devices to the Nation's land and sea ports of entry. We are scanning 97 percent of inbound cargo at border crossing points and sea ports through fixed radiation detection monitors. DHS has deployed biological monitoring units in over 30 jurisdictions across the Nation to provide critical early detection of dangerous biological pathogens. In the event of a widespread biological agent release, early detection will be critical to saving lives. We have invested in new technology to develop innovative ways to identify and defeat improvised explosive devices, a weapon of choice of our enemies. And DHS continued to thwart those wishing to smuggle drugs, guns, and other illicit contraband into our country.

We are ***protecting critical infrastructure*** while ensuring continuity of government communications and operations, improving cyber security and protecting transportation sectors. Under the direction of the National Protection and Programs Directorate, we have assessed and put in place protective measures in 100 percent of the Nation's high-risk key infrastructure. Our cyber intrusion detection system, EINSTEIN, is now deployed at 15 Federal agencies. Having to await necessary infrastructure improvements, we fell short of our EINSTEIN deployment target this year, but we plan to continue deployment in the coming year. Additionally, we deployed a new Travel Document Checking process that adds a layer of defense for aviation security by ensuring only passengers with authentic boarding passes can access the sterile area of airports and board aircraft.

We are ***strengthening our Nation's preparedness and emergency response capabilities*** by empowering Americans and governments at all levels to be prepared, capable and ready to respond to adverse incidents. The recent coordinated response by the Federal, State, and local communities during this year's hurricane season is a testament to the level of preparedness our Nation has achieved. It is also a demonstration of the soul of this country -- as countless individuals put themselves in harm's way to lend a helping hand to those in need. The Federal Emergency Management Agency took steps to ensure we were prepared for Hurricane Ike, without leaving those recovering from Gustav, Hanna, Fay, Edouard, and Dolly behind. We had a plan that allowed us to respond to multiple events. We supported Texas and Louisiana with millions of meals, bottles of water and pounds of ice, hundreds of generators, and hundreds of thousands of blankets and cots.

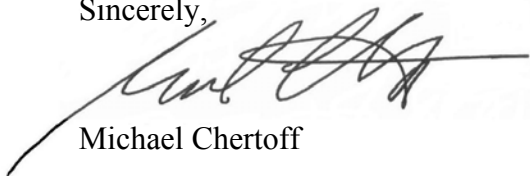
We are ***strengthening and unifying DHS operations and management*** by improving Department governance and performance, advancing intelligence and information sharing, and integrating policy, planning and operations coordination. A central part of our efforts to improve operations and unify the Department is reducing the number of worksite locations in the National Capital Region. Plans are in place to establish a single location for headquarters operations at St Elizabeth's in Washington, D.C. DHS has also demonstrated significant progress implementing a comprehensive set of security controls for all information technology systems and security controls design is now embedded in the department's System Engineering and Life Cycle process. Additionally, a significantly enhanced security operations program now ensures security controls remain effective throughout a system's lifecycle and security incidents

are identified in real-time and are fully investigated, and addressed as quickly as possible. To advance the use of intelligence and information sharing, we are working more effectively within DHS and with external intelligence agencies and our State and local partners. And, we are instituting more rigorous analytical processes to ensure we fund programs that effectively reduce the risk to the American public.

This is just the beginning. As identified in our financial statements, DHS has \$43 billion in undelivered orders. This means we've taken actions which will continue to provide additional equipment, infrastructure, and capabilities for years to follow. For example, we have contracts in place to deliver items such as two new National Security Cutters, three new Maritime Patrol Aircraft, hundreds of miles of border fencing, additional explosive detection systems for more than thirty airports, and twenty-six new border patrol stations. In addition, we have made available billions of dollars in grants to State and local communities that they will use to strengthen their preparedness and response capability. These and other investments are in place to deliver enhanced capabilities and outcomes well into the future.

Together we will continue to improve our operations and strengthen the Department to make our Nation safer everyday.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Chertoff", with a long horizontal stroke extending to the left.

Michael Chertoff

# 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

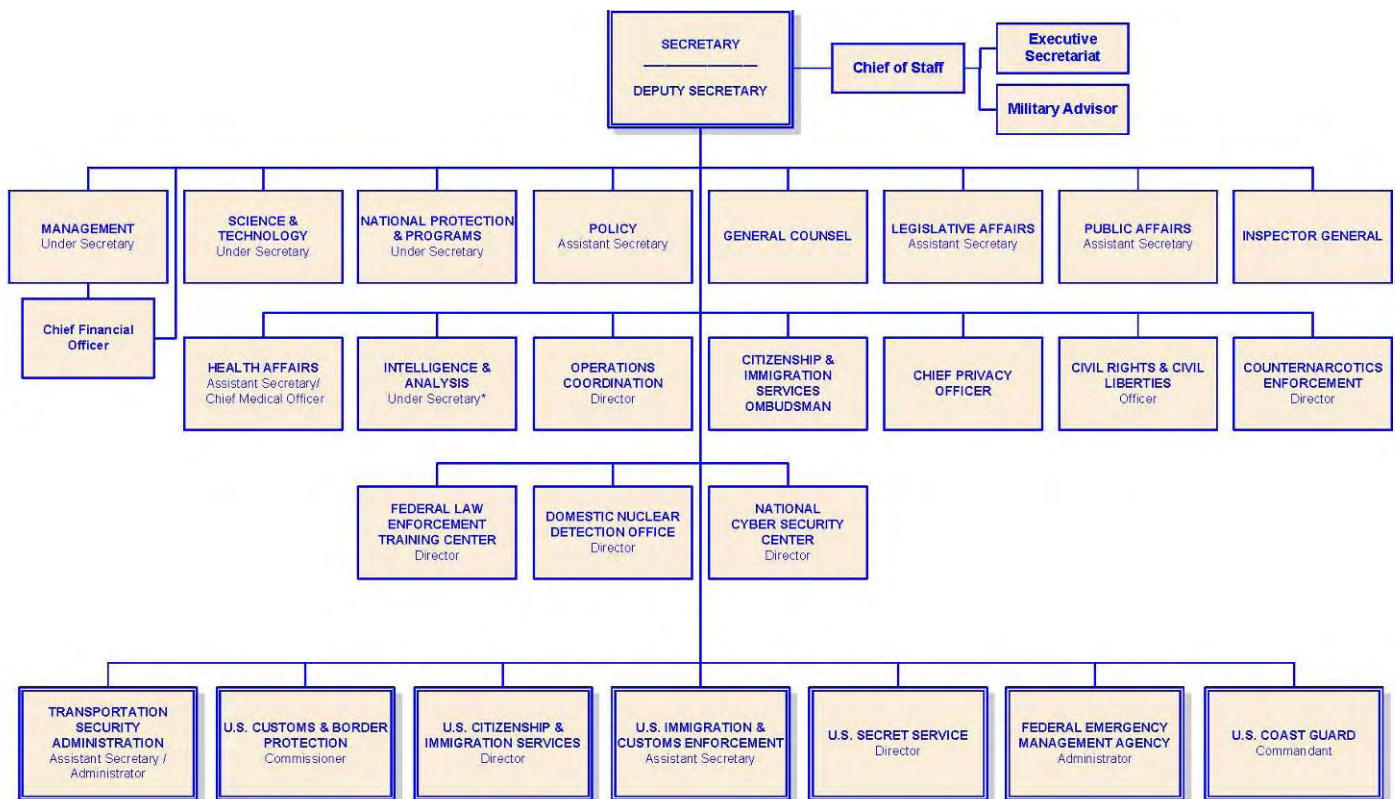
*We will lead the unified national effort to secure America. We will prevent and deter terrorist attacks and protect against and respond to threats and hazards to the Nation. We will secure our national borders while welcoming lawful immigrants, visitors, and trade.*

See our Strategic Plan at <http://www.dhs.gov/xabout/strategicplan>.

## Our Organization

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

**Figure 1. DHS Organizational Chart**



\* Under Secretary for Intelligence & Analysis title created by Public Law 110-53, Aug. 3<sup>rd</sup>, 2007



# Goals and Objectives

## Goal 1. Protect our Nation from Dangerous People

<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: Protect Our Interior and Enforce Immigration Laws</i>
<u>Achieves outcome of:</u> Improving the protection of our Nation by enforcing immigration laws.
<i>Objective 1.3: Strengthen Screening of Travelers and Workers</i>
<u>Achieves outcome of:</u> Reducing the risk that potential terrorists will exploit travel and employment opportunities to harm our Nation.
<i>Objective 1.4: Improve Security through Enhanced Immigration Services</i>
<u>Achieves outcome of:</u> Preventing terrorists from exploiting our immigration process while enhancing immigration services.

### Public Benefit

Protecting our Nation from dangerous people is one of the key priorities of the Department. To accomplish this, control of our borders is essential to ensure dangerous people are not entering the country. We continue to increase the number of [border patrol agents](#) and miles of [fencing and barriers](#) in areas of highest risk for illegal crossings. We also work to enforce our maritime security to prevent illegal encroachment of the United States exclusive economic zone. By continued enforcement of our immigration laws, we find illegal aliens already in our country and work to ensure the proper enforcement consequence occurs. Efforts continue to ensure that those entering the country at land ports of entry are compliant with laws, rules, and regulations. While we strive to keep out dangerous people, we also diligently work to enhance our immigration services in a timely manner for those who qualify. These combined efforts focus resources in those areas of highest risk to bring a multi-layered approach to keeping dangerous people out of our country, while welcoming those who seek to come through legal channels.

Below are a small set of highlighted performance measures to communicate our accomplishments related to Goal 1. A complete list of all the performance measures, with full descriptions and explanations, will be published in the DHS Annual Performance Report on January 15, 2009.

**Table 1. Highlighted Performance Measures for Goal 1**

Performance Measure	Objective Supported	FY 2006 Results		FY 2007 Results		FY 2008 Results	
		Target	Result	Target	Result	Target	Result
Border miles under effective control	1.1	388	449	524	599	674	757
Percent of at-risk miles under strategic air surveillance	1.1	50%	55%	60%	60%	70%	84%
Number of incursion into the U.S. exclusive economic zone (EEZ)	1.1	< 199	164	< 199	119	< 195	81
Percent of closed investigations which have an enforcement consequence (arrest, indictment, conviction, seizure, fine, or penalty)	1.2	38.5%	36.4%	36.5%	35.8%	36.6%	46.3%
Land border passengers compliant with laws, rules, and regulations	1.3	99.9%	99.9%	99.9%	99.97%	99.9%	99.9%
Average cycle time to process form N-400 (Application for Naturalization)	1.4	≤ 6 months	5.58 months	≤ 7 <sup>1</sup> months	6.2 months	≤ 5 months	8.7 <sup>2</sup> months

1. Target increased due to change in measurement to include time for the actual citizenship ceremony.  
 2. Target not met predominantly due to a record number of applications in advance of fee increases enacted late FY 2007.

### **Controlling the Border**

DHS has made steady progress toward protecting our country from the threats of global terrorism, illegal migration, and trafficking of narcotics and other contraband; protecting our economy by enforcing trade laws, intellectual property rights, and collection of revenue on goods imported into the United States; protecting our food supply and agricultural industry from pests and disease; and increasing the security of our airspace. Significant investments in personnel, tactical infrastructure, technology, and air assets have led to a decrease in attempted illegal border crossings, as seen by the reduction in overall apprehensions. U.S. Customs and Border Protection's (CBP) border patrol expanded to over 17,000 agents by the end of FY 2008. CBP's Air and Marine is the largest civilian law enforcement air and marine force in the world, operating 272 aircraft to include unmanned aerial systems, and 181 marine vessels from 45 locations throughout the United States. In addition, through the Secure Border Initiative (SBI) Program Office, CBP has constructed a total of 204 miles of pedestrian fence and 154 miles of vehicle fence through the end of FY 2008.



### **Secure Communities Initiative Unveiled**



U.S. Immigration and Customs Enforcement ([ICE](#)) unveiled the [Secure Communities](#) initiative in March 2008 which is a comprehensive plan to enforce our immigration laws. Secure Communities is a multi-year initiative to more effectively identify, detain and return removable criminal aliens incarcerated in Federal, State and local prisons and jails. ICE's plan will apply risk-based methodologies, use expanded integration technology, and build upon the relationships with State and local law enforcement agencies

to ensure that incarcerated criminal aliens are removed from the country instead of being released into our communities after their time in custody.

### **Looking Forward**

Below are some highlights of our plans for the near future.

- **Border Patrol Agents:** [CBP](#) plans to double the number of Border Patrol Agents from 10,717 in 2003 to 21,519 in 2012 continue increased enforcement along the border.
- **Western Hemisphere Travel Initiative (WHTI):** CBP's implementation of infrastructure and technology in support of [WHTI](#) will complete investments for implementation of this secure document requirement at land and sea border ports of entry by June 2009.
- **E-Verify:** This [U.S. Citizenship and Immigration Services](#) program will deploy additional staff covering information status verifiers, compliance, and monitoring. The [program](#) allows employers to use an automated system to verify employment eligibility of both citizen and noncitizen new hires.
- **Secure Flight:** The [Secure Flight Program](#) will be accelerated and will replace the current airline-managed passenger vetting program with a government-operated program.
- **Automation Modernization of Information Technology Systems:** [ICE](#) will acquire secure and interoperable tactical communications equipment, a biometric detainee location tracking module, and develop and integrate an enhanced Investigative Case Management system.
- **Identity Management and Screening Services:** The National Protection and Programs Directorate's [US-VISIT](#) Identity Management and Screening Services program will complete biometric interoperability between multiple Federal law enforcement database systems.

## Goal 2. Protect our Nation from Dangerous Goods

<i>Objective 2.1: Prevent and Detect Radiological/Nuclear Attacks</i>
<u>Achieves outcome of:</u> Reducing the risk of a nuclear or radiological attack in the United States.
<i>Objective 2.2: Prevent, Detect, and Protect Against Biological Attacks</i>
<u>Achieves outcome of:</u> Reducing the risk of a biological attack in the United States.
<i>Objective 2.3: Prevent and Detect Chemical and Explosive Attacks</i>
<u>Achieves Outcome of:</u> Reducing the risk of a chemical or explosive attack in the United States.
<i>Objective 2.4: Prevent the Introduction of Illicit Contraband while Facilitating Trade</i>
<u>Achieves Outcome of:</u> Reducing the amount of illicit contraband that enters the United States while facilitating trade.

### Public Benefit

Protecting our Nation from dangerous goods is another crucial element to our national security. One of the most devastating attacks could come in the form of a nuclear or radiological weapon. To counter this threat, the Department is scanning over 97 percent of all inbound cargo, using [radiation portal monitors](#) at our land and sea ports of entry, for nuclear and radiological materials that could be used to harm our Nation. We are also continuing our collaboration with other countries to scan cargo overseas prior to departure for the United States and to improve the security of the international cargo supply chain. To prevent, detect, and protect against [biological attacks](#), the Department is using risk-based threat assessments to prioritize efforts to detect, characterize, and respond to biological attack. The Department is also focused on improving our ability to reduce the risk of chemical and explosive attacks, and to guard against unlawful goods entering the United States with minimal impact to legitimate trade. Below are a small set of highlighted performance measures to communicate our accomplishments related to Goal 2.

**Table 2. Highlighted Performance Measures for Goal 2**

Performance Measure	Objective Supported	FY 2006 Results		FY 2007 Results		FY 2008 Results	
		Target	Result	Target	Result	Target	Result
Percent of cargo, by volume, that passes through fixed radiation portal monitors at land and sea ports of entry	2.1	---	85%	90%	94%	95%	97%
Percent of worldwide U.S.-destined containers processed through Container Security Initiative (CSI) ports	2.1	81%	82%	86%	86%	86%	86.1%
Compliance rate of Customs-Trade Partnership Against Terrorism (C-TPAT) members with established C-TPAT security guidelines	2.1	90%	98%	95%	98%	95.5%	99.9%
Percent of the population in BioWatch jurisdictions covered by outdoor biological monitoring units	2.2	---	---	---	---	*	*
Percent completion of an effective restoration technology to restore key infrastructure to normal operation after a chemical attack	2.2	25%	25%	35%	30%	40%	58%
Baggage security screening assessment results	2.3	---	---	---	*	*	*
Percent of truck and rail containers screened for contraband and concealed people	2.4	10.25%	32.8%	33%	40%	42%	35.8% <sup>1</sup>
Percent of border vehicle passengers in compliance with agricultural quarantine regulations	2.4	94.6%	92.9%	94.6%	95.7%	94.6%	97.7%

Note: Some performance measures have historical results but not historical targets.

\* This information is classified or controlled unclassified information.

1. Targeting rules underwent refinement in FY 2008 resulting in an overall reduction in the number of mandatory examinations required.

### **Integrated Strategy for Radiation Detection**

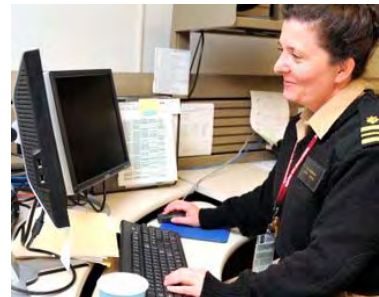


The Department, in cooperation with Federal, State, local, territorial, and international partners, has developed and is implementing a comprehensive Global Nuclear Detection Architecture to prevent the entry of radiological and nuclear weapons or materials into the United States. This architecture is risk-based, intelligence-driven, and built around a multi-layered strategy that starts overseas, continues at our borders, and is maintained within the U.S. interior to thwart the use of one of the most serious threats to our Nation, the terrorist use of nuclear and radiological materials.

Just a few years ago, we did not scan any of this cargo for radiation. We are currently scanning cargo at home ports of entry and closing gaps along the land, air, and sea borders. In total, through the efforts of the [CBP](#) field offices and the Domestic Nuclear Detection Office ([DNDO](#)), we now scan over 97 percent of the millions of containers entering our ports of entry each year. In an effort to extend our radiological detection efforts overseas, DHS is piloting the [Secure Freight Initiative](#) where our officers are working with their foreign counterparts overseas to scan U.S.-bound containers for radiation at international ports.

### **National Biosurveillance Integration Center**

The Department opened the first-of-its-kind [biosurveillance center](#) in September 2008 that gives the Nation the ability to detect fast-moving, potential health threats in a new way – before it is too late. Whether it is food contaminated with salmonella, the first waves of illness from a [pandemic flu](#), or an anthrax attack by terrorists, spotting biological threats sooner means that thousands of lives might be saved.



The center will combine multiple sources of information – from classified material shared in a secure environment, to transportation and border data, to local media reports – so that events around the country and the world can be connected and analyzed more closely and quickly, and emerging threats can be detected earlier than ever before.

Being able to identify emerging threats earlier was one of the key recommendations from the [9/11 Commission](#). As the Japanese learned in 1995 when the Aum Shinrikyo religious sect [released](#) sarin nerve gas on subway lines killing 12 and injuring 5,500 people, biological attacks are a modern global reality.

## **Looking Forward**

Below are some highlights of our plans for the near future.

- ***Nuclear Detection Research, Development, and Operations:*** [DNDO](#) will continue their research, development, and operations, to provide resources for the development and evolution of the global nuclear detection architecture. DNDO will procure and begin deploying the first full-rate production allotment of the fixed Advance Spectroscopy radiation portal monitors in FY 2009 pending Secretarial certification.
- ***BioWatch:*** The [Office of Health Affairs](#) will procure automated biodetectors and initiate deployment activities of the autonomous detection system to existing [BioWatch](#) jurisdictions. BioWatch autonomous detection capability will be critical to the Nation to rapidly and reliably detect the presence of dangerous biological agents, so that available countermeasures can be deployed at the earliest possible time.

### Goal 3. Protect Critical Infrastructure

<i>Objective 3.1: Protect and Strengthen the Resilience of the Nation's Critical Infrastructure and Key Resources</i>
<u>Achieves outcome of:</u> Ensuring the protection and resiliency of the Nation's fixed critical infrastructure and key resources.
<i>Objective 3.2: Ensure Continuity of Government Communications and Operations</i>
<u>Achieves Outcome of:</u> Ensuring the Federal Government can perform essential functions if an emergency occurs.
<i>Objective 3.3: Improve Cyber Security</i>
<u>Achieves Outcome of:</u> Reducing the risk of successful cyber attacks on Federal networks and the Nation's critical infrastructure.
<i>Objective 3.4: Protect Transportation Sectors</i>
<u>Achieves outcome of:</u> Ensuring the protection and safety of transportation sectors.

#### Public Benefit

Protecting and ensuring the continuity of the critical infrastructure and key resources (CIKR) of the United States is essential to the Nation's security, public health and safety, economic vitality, and our way of life. Strides have been made in prioritizing the protection of critical infrastructure and key assets using a risk-based approach. Critical infrastructure includes things such as buildings, bridges, chemical facilities, energy plants, and financial systems so vital to the United States that the incapacity or destruction of such assets would have a debilitating impact. Protecting key resources such as our national leaders, key government personnel, and our communications systems are vital to maintaining government operations during unforeseen incidents. Protecting our computer networks through the use of tools such as network sensors is another component of protecting our critical infrastructure. Ensuring the protection and safety of our airports and waterways is also an emphasis of our activities in this area. Below are a small set of highlighted performance measures to communicate our accomplishments related to Goal 3.

**Table 3. Highlighted Performance Measures for Goal 3**

Performance Measure	Objective Supported	FY 2006 Results		FY 2007 Results		FY 2008 Results	
		Target	Result	Target	Result	Target	Result
Percent of high priority Critical Infrastructure and Key Resources (CIKR) where a vulnerability assessment has been conducted and enhancement(s) have been implemented	3.1	---	---	---	---	95%	100%
Percentage of instances protectees arrive and depart safely	3.2	100%	100%	100%	100%	100%	100%
Priority services call completion rate during emergency communications periods	3.2	---	---	---	---	90%	97%
Percent of Federal Departments and Agencies with fully operational Continuity of Operations (COOP) capabilities	3.2	90%	95%	100%	100%	100%	100%
Percent of planned Einstein sensors deployed on-time annually throughout the Federal government (cyber security)	3.3	---	---	---	---	100%	26% <sup>1</sup>
Percent of airports in compliance with leading security indicators	3.4	---	95.68%	---	95.55%	95%	95%
Five-year average number of Collisions, Allisions, and Groundings (CAG) on waterways	3.4	< 1,748	1,816 <sup>2</sup>	< 1,664	1,823 <sup>2</sup>	< 1,756	1,857 <sup>2</sup>

Note: Some performance measures have historical results but not historical targets.

1. Deployment of sensors delayed at many locations because they did not have the required Trusted Internet Connections to complete installations.
2. While the FY 2004 and FY 2005 results met their targets, ambitious targets with the expectation to reduce CAGs were not met in FY 2006, FY 2007 or FY 2008.

### **Financial Crimes Investigation**

The [U.S. Secret Service](#) (USSS) initiated an investigation that led to the identification and indictment of eleven perpetrators involved in the hacking of eight major U.S. retailers, and the theft and sale of over 40 million credit and debit card numbers. This transnational group of criminals used these cards to withdraw tens of thousands of dollars from ATMs, and concealed and laundered their fraud proceeds by using anonymous internet-based currencies, and by channeling funds through bank accounts in Eastern Europe.



As a result of a three-year undercover USSS investigation, and through ongoing cooperation with domestic and international law enforcement partners, the defendants were charged with computer fraud, wire fraud, access device fraud, aggravated identity theft, and conspiracy on August 5, 2008. This case is the largest and most complex case of its type in U.S. history.

### **Aviation Security Inspections**



The Transportation Security Administration ([TSA](#)) deploys nearly 1,000 Aviation Security Inspectors to evaluate security at over 450 U.S. airports, 550 foreign airports, and over 1,500 domestic and international air carriers operating in the United States. Inspectors participate in covert tests, airport employee credential checks, compliance inspections with TSA regulations and security directives at airports and indirect air carriers, and investigate violations. In FY 2008, Transportation Security Inspectors (TSI) conducted 6,000 Aviation Screening Assessment Program tests, over 1,100 airport inspections, and as part of Operation Airport Strike, participated in a

week-long, full-scale airport and aircraft operator inspections in Boston, Philadelphia, Denver, Seattle, Chicago O'Hare, Cincinnati, and Phoenix. Results from TSI activities help identify vulnerabilities that can be improved by revising processes, procedures, staffing, and technology to evolve and improve the security of our air transportation systems.

## **Looking Forward**

Below are some highlights of our plans for the near future.

- **Protective Countermeasures:** The [U.S. Secret Service's](#) program will expand to provide the latest state-of-the-art equipment that will be used in the event of an explosive, chemical, biological, or radiological attack at a secured site or asset.
- **Chemical Security Compliance Project:** The [Chemical Security Compliance Project](#) in the National Protection and Programs Directorate will implement the Chemical Facility Anti-Terrorism Standards which grant DHS the authority to regulate security of the Nation's high-risk chemical facilities.
- **Travel Document Checking (TDC):** The deployment of the [Transportation Security Administration's TDC](#) program will expand to the few remaining airports. The program adds a layer of defense for aviation security by ensuring only passengers with authentic boarding passes access the sterile area of airports and aboard aircraft.
- **Vehicle-Borne Improvised Explosive Device/Person-Borne Improvised Explosive Device Detection Programs:** The [Science and Technology](#) Directorate will continue its [research and development](#) of technical capabilities to detect, interdict, and lessen the impacts of nonnuclear explosives used in terrorist attacks against mass transit, civil aviation, special events, and critical infrastructure.

## Goal 4. Strengthen Our Nation's Preparedness and Emergency Response Capabilities

*Objective 4.1: Ensure Preparedness*

Achieves outcome of: Ensuring the Federal Government, State and local governments, and all Americans are prepared, capable, and ready to respond to adverse incidents.

*Objective 4.2: Strengthen Response and Recovery*

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

### Public Benefit

One of the core missions of DHS is to enhance the ability to protect against, respond to, and recover from terrorist attacks and other disasters. The National Incident Management System works to integrate and coordinate incident management efforts among Federal, State, local, and tribal governments. Other preparedness efforts have focused on deploying biological monitoring units that indicate if harmful substances have been released in high-risk areas. Training our law enforcement community is another key tenet of preparing our Nation to respond to adverse incidents. When disasters do occur, many Components of DHS respond to those in need, providing the appropriate response assistance. For instance, having teams ready to respond at a moment's notice in the event of a catastrophic incident helps mitigate negative consequences. Also, providing resources and other assistance for those who have fallen in harm's way through individual recovery assistance demonstrates our response capability. Below are a small set of highlighted performance measures to communicate our accomplishments related to Goal 4.

**Table 4. Highlighted Performance Measures for Goal 4**

Performance Measure	Objective Supported	FY 2006 Results		FY 2007 Results		FY 2008 Results	
		Target	Result	Target	Result	Target	Result
Percent of Federal, State, local, and tribal governments compliant with the National Incident Management System (NIMS)	4.1	100%	100%	100%	100%	100%	100%
Time between an outdoor monitoring unit exposure to a biological agent and the declaration of a confirmed positive result	4.1	---	---	---	---	< 36 hrs	36 hrs
Percent of Partner Organizations that respond "agree" or "strongly agree" that FLETC training programs address the right skills needed for their officers/agents to perform their law enforcement duties	4.1	73%	71%	74%	79.75%	75%	79.75%
Percent of response teams reported at operational status	4.2	85%	85%	88%	88%	91%	93%
Percent of customers satisfied with Individual Recovery Assistance	4.2	90%	91%	91%	92.2%	92%	92.67%

### **Commitment to Preparedness, Response, and Recovery Saves Lives**

On August 31, 2008 the Federal Emergency Management Agency's (FEMA) commitment to ensuring [preparedness](#) and [response](#) was tested. Hurricane [Gustav](#) formed on August 25, 2008 about 260 miles southeast of Port-au-Prince, Haiti with a predicted 3-5 days before reaching the U.S. Gulf Coast. With limited time, FEMA set in motion several proactive initiatives in coordination with its State and local partners. Throughout the Gulf Coast, FEMA pre-stocked distribution centers with over 2.4 million liters of water, 4 million meals ready to eat, 141 truckloads of tarps, 267 truckloads of blankets and cots, and 478 emergency generators. FEMA also deployed its emergency teams and resources and strategically positioned them for a coordinated response. The largest evacuation in U.S. history was initiated during Hurricane Gustav, with over 90 percent of New Orleans residents leaving the city. As a result of FEMA's efforts, in coordination with State and local communities, evacuation of all areas in Gustav's path was successful.



### **U.S. Coast Guard Alaska Warrior Saves Crew of Alaska Ranger**



The U.S. Coast Guard and fishing vessel Alaska Warrior recovered 46 of 47 crewmembers from the sinking fishing vessel Alaska Ranger 120 miles west of Dutch Harbor. Four crewmembers died and one is missing. "Saving 42 people in the Bering Sea in the winter is an incredible accomplishment," said Commander Todd Trimpert, 17th U.S. Coast Guard District Incident Management Chief and experienced Alaska rescue pilot. Crews from an H-60 Jayhawk helicopter from St. Paul, an H-65 Dolphin helicopter deployed aboard the U.S. Coast Guard Cutter (CGC) Munro, a C-130 Hercules airplane from Air Station Kodiak and CGC Munro from Kodiak rescued 20 crewmembers in 10-foot seas and 25-knot winds while the fishing vessel Alaska Warrior rescued 22 crewmembers. "When we got on scene there was a spread, at least a mile long, of 13 survivors in gumby suits with strobe lights," said Aviation Survival Technician 2nd Class O'Brien Hollow, U.S. Coast Guard Air Station Kodiak, "I went down without disconnecting from the helicopter and picked them up one at a time."

## **Looking Forward**

Below are some highlights of our plans for the near future.

- **Vision - Shape the Workforce:** [FEMA's](#) Vision - [Shape the Workforce](#) program will strengthen FEMA's ability to marshal an effective national response; deliver service of value to the public; reduce vulnerability to life and property; and instill public confidence. This will be accomplished by transitioning "on-call" temporary responders to permanent full-time personnel to achieve the readiness and response capability required in the event of major disasters and emergencies.
- **Homeland Security Grant Programs:** Congress enacted \$3 billion for FY 2009 to support FEMA's State and local [assistance programs](#) which prepare State and local governments to prevent or respond to threats or incidents of terrorism and other catastrophic events. In FY 2009, DHS will continue to support existing Homeland Security Grant Programs, Port and Rail Security, Emergency Management Performance, and Assistance to Firefighters Grants programs. There will also be a new discretionary grant program targeted toward high priority security initiatives including REAL ID implementation.
- **Recapitalizing Aging Vessels, Aircraft, and Shore Infrastructure:** The [U.S. Coast Guard](#) will invest over \$1.3 billion to continue its recapitalization of many of its assets including marine vessels, aircraft, inland river assets, shore facilities, aids to navigation equipment, and operations and maintenance.



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

<i>Objective 5.1: Improve Department Governance and Performance</i>
<u>Achieves Outcome of:</u> Improving and integrating Department structure, processes, leadership, and culture.
<i>Objective 5.2: Advance Intelligence and Information Sharing</i>
<u>Achieves Outcome of:</u> Reducing the risk of emerging terrorist threats through intelligence and information sharing.
<i>Objective 5.3: Integrate DHS Policy, Planning, and Operations Coordination</i>
<u>Achieves Outcome of:</u> Improving coordination of Department-wide policy and non-routine, cross-cutting operations requiring multiple Component activities.

### Public Benefit

An agile and effective Department is essential to the rapid implementation of homeland security priorities, policies, and objectives to support our front-line Components as they protect our Nation every day. It has been a challenge to take 22 separate agencies, each with their own culture and way of operating, and merge them together into a unified Department with a common mission of securing the homeland from terrorist and other threats. However, progress has been and continues to be made. For instance, we have moved forward in the area of financial management by decreasing the number of material weakness conditions across the Department identified by the independent financial audit of DHS. Follow-on efforts to the DHS employee survey results included holding a series of focus groups to better identify issues and design interventions to improve employee morale. Scores on the President's Management Agenda demonstrate progress is being made in other important support areas such as acquisition, information technology, human capital, and performance improvement. Efforts continue to share intelligence, security, and operations information with our key partners and stakeholders.

Many of our Components who functioned autonomously in the past are now working collaboratively within and outside the Department to provide the synergy our Nation needs to address the many threats we face in today's unsettling environment. Below are a small set of highlighted performance measures to communicate our accomplishments related to Goal 5.

**Table 5. Highlighted Performance Measures for Goal 5**

Performance Measure	Objective Supported	FY 2006 Results		FY 2007 Results		FY 2008 Results	
		Target	Result	Target	Result	Target	Result
Total instances of material weakness conditions identified by the independent auditor in their report on the DHS financial statements	5.1	<25	25	<25	16	< 16	13
Percent of favorable responses by DHS employees on the Federal Human Capital Survey	5.1	---	---	---	49%	50%	50%
Percent of President's Management Agenda initiatives that receive a green progress score from the Office of Management and Budget	5.1	---	53.6%	---	35.5%	50%	46.9% <sup>1</sup>
Number of Homeland Intelligence Reports disseminated	5.2	1,200	1,734	1,500	2,722	2,776	3,563
Percent of active Homeland Security Information Network (HSIN) users	5.3	---	---	90%	38%	50%	24% <sup>2</sup>

Note: Some performance measures have historical results but not historical targets.

1. Target not achieved primarily due to the delayed completion of the DHS Strategic Plan.

2. The program did not achieve the number of active users due to limited Homeland Security Information Network (HSIN) outreach resources to conduct needed training.

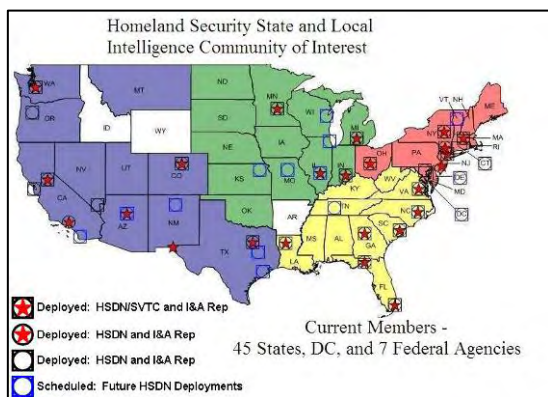
### **Integrated Strategy for High-Risk Management**

In FY 2008, DHS continued to make concerted efforts to ensure the preparedness of the American people. With the issuing of the [Integrated Strategy for High-Risk Management](#), DHS brings together all of the Components of DHS in order to more effectively monitor ongoing corrective action plans. This was accomplished by improving organizational integration and cohesiveness.



The Integrated Strategy for High-Risk has several intended outcomes: clear accountability and responsibility; improved execution of strategic objectives; prompt and proper resolution of identified material weaknesses; and established guidelines and processes for the department to integrate risk analysis into other management systems, such as budget and program reviews. For more information, see [ExpectMore.gov](#) or [http://www.dhs.gov/xabout/budget/gc\\_1214229806734.shtm](http://www.dhs.gov/xabout/budget/gc_1214229806734.shtm). The Government Accountability Office's (GAO) High-Risk reports are located at <http://www.gao.gov/docsearch/featured/highrisk.html>.

### **Expanding Sensitive and Classified Information Sharing to Thwart our Enemies**



The Office of Intelligence and Analysis (I&A) expanded the Homeland Security State and Local Intelligence Community of Interest ([HS SLIC](#)) in FY 2008. HS SLIC supports the National Strategy for Information Sharing, a first of its kind to create and foster a culture of [sharing critical intelligence information](#) with our Federal, State, local, tribal, and territorial stakeholders. HS SLIC, a comprehensive community of more than 1,700 intelligence analysts in 45 States and seven Federal agencies, communicates and collaborates by exchanging sensitive but unclassified information on the Homeland Security Information Network ([HSIN](#)) Intelligence Portal.

I&A is also aggressively deploying the Homeland Secure Data Network ([HSDN](#)) to extend secret-level communications to strategically important [State and local Fusion Centers](#). HSDN is live at 23 centers as of August 2008, with another 22 centers planned for deployment over the next year. HSDN also is available to agencies that are not part of the statutory Intelligence Community and has gateways to other secret-level networks to allow information sharing across multiple partners.

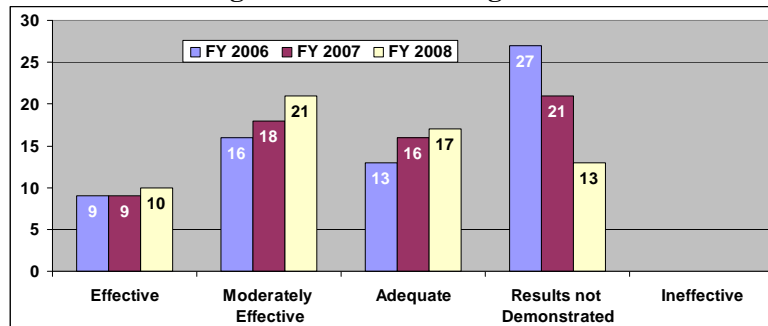
### **Looking Forward**

- ***Quadrennial Homeland Security Review (QHSR):*** Beginning in FY 2009 and culminating in FY 2010, DHS will conduct its first ever [QHSR](#). This effort will document and recommend long-term strategy and priorities of the Nation for homeland security and comprehensively examine programs, assets, budget, policies, and authorities required to provide the United States with strong, sound, and effective homeland security capabilities in the decades ahead.
- ***Office of Inspector General (OIG) Auditors:*** The [OIG](#) will expand staff oversight of DHS preparedness programs, through audits of preparedness grant programs, science and technology programs, and Department-wide programs that establish the Department's baseline preparedness efforts.
- ***Analysis & Operations (A&O) State and Local Fusion Center (SLFC) Program:*** The A&O [State and Local Fusion Center](#) program will continue to enhance its web of interconnected information nodes across the country ensuring information is gathered from all relevant operations and fused with information from the Homeland Security Stakeholder Community.

## 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. Since FY 2006, DHS has reduced the number of “Results not Demonstrated” ratings from 27 to 13, a 52 percent improvement. For more detailed information on PART, please visit [www.expectmore.gov](http://www.expectmore.gov).

**Figure 2. PART Rating Trend**



## 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 6. DHS PMA Scorecard as of the End of FY 2008**


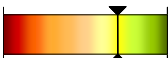

	Status					Progress
	FY '04	FY '05	FY '06	FY '07	FY '08	FY '08
<b>Human Capital</b>	R	Y	Y	Y	Y	G
<b>Commercial Services Management</b>	Y	Y	Y	Y	Y	R
<b>Financial Performance</b>	R	R	R	R	R	Y
<b>E-Government</b>	R	R	R	Y	Y	R
<b>Performance Improvement</b>	Y	Y	Y	Y	Y	G
<b>Eliminating Improper Payments</b>	R	R	Y	R	R	G
<b>Real Property</b>	R	R	Y	Y	Y	G
<b>Faith Based and Community Initiative</b>				R	R	G

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.

## Summary of Major Management Challenges

This summary presents high priority management challenge areas facing the Department of Homeland Security. For a more detailed analysis of these areas, please see the full report on management challenges identified each year by the DHS Office of the Inspector General (OIG), located on page 234. The indicators below display progress in meeting the listed challenge areas, all of which will take several years to address.

**Table 7. DHS's Highest Priority Management Challenges**

Management Challenge	Progress
<p><b>Border Security</b> (Full response on page 300)</p> <p><i>Accomplishments:</i> The Secure Border Initiative (SBI) has completed construction of 358 miles of fencing to further secure the border by the end of FY 2008. Border Patrol met hiring targets and over 17,000 agents were on board as of the end of FY 2008. The pace of SBI <i>net</i> development and deployment was reduced to address issues related to equipment capabilities and operational requirements, but progress was made on defining the deployment configuration.</p> <p><i>Plans:</i> The Department has committed resources to extend both pedestrian and vehicle fencing to complete a total of 661 miles of border fencing by the first half of 2009. U.S. Customs and Border Protection (CBP) will recruit Mission Support Specialists to perform non-law enforcement functions to allow agents to focus their efforts on safeguarding the borders and is on track to meet its patrol agent hiring, training, and deployment goals for both 2009 and 2010. CBP will continue to upgrade and enhance its Special Operations Group and Special Response Teams to significantly improve CBP's ability to respond to specific terrorist threats and support Border Patrol missions.</p>	
<p><b>Catastrophic Disaster Response and Recovery</b> (Full response on page 288)</p> <p><i>Accomplishments:</i> The Federal Emergency Management Agency (FEMA) continues to work closely with the public to develop quick response capabilities. FEMA awarded approximately 27 pre-disaster response contracts to pre-position materials and approximately 70 recovery contracts to assist communities recovering from disasters. To provide disaster assistance, FEMA now has 236 pre-scripted mission assignments with 33 Federal agencies up from FY 2006 when there were 44 pre-scripted mission assignments with only two Federal Agencies. FEMA also established the Disaster Reserve Workforce Division within the Management Directorate in March 2008 to manage the reserve workforce. As of October 1, 2008, 4,072 FEMA reservists were deployed in support of disaster response and recovery throughout the United States, including 2,365 reservists serving on the Gulf Coast and in other hurricane-affected areas.</p> <p><i>Plans:</i> FEMA will continue to build on those logistics management capabilities similar to the Department of Defense's well-recognized logistics system and organization. We will continue to work with the Department of Housing and Urban Development and other Federal and State partners to improve both short-term disaster housing response and long-term housing recovery.</p>	
<p><b>Acquisition Management</b> (Full response on page 274)</p> <p><i>Accomplishments:</i> The Office of Chief Procurement Officer (OCPO) strengthened acquisition management across the Department through enhancements to its policies, procedures and workforce. New Directives and policies aligned acquisition functions, established clear lines of authority, and created the framework for investment reviews. A new periodic reporting system provides Components and the Department with a structured approach to producing standardized, improved program cost, schedule and performance metrics. OCPO established and initiated a centralized contracting intern program, resulting in the on-boarding of 48 contract specialists. Additionally, it continued to expand its certification and training efforts to cover other career fields, including program management, and contracting officer technical representatives.</p> <p><i>Plans:</i> The OCPO will continue its work to improve reporting capabilities to the Congress and taxpayers by ensuring that procurements are properly reported and that the Heads of Contracting Activity are held accountable for accurately reporting their acquisitions to the Federal Procurement Data System-Next Generation.</p>	

## Financial Overview

### Overview and Analysis of Financial Statements

DHS primarily uses the cash basis for its budgetary accounting. DHS appropriated budgetary resources were approximately \$58 billion for FY 2008. 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 Balance Sheet and Statement of Custodial Activities.

DHS's FY 2008 budgetary resources increased by \$11 billion from FY 2007, excluding borrowing authority, reflecting additional funding for Border Security, the Federal Emergency Management Agency, and the Transportation Security Administration. In addition, DHS restated FY 2007 balances primarily as a result of actions completed to correct financial management weaknesses reported in prior financial statement audit reports.

### Balance Sheet: "What We Own and What We Owe"

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.

Condensed Consolidated Balance Sheet  
As of September 20, 2008 and 2007  
(In Millions)

	FY 2008	FY 2007 (Restated)	Change
<b><u>Assets</u></b>			
Fund Balance with Treasury	\$63,157	\$56,185	\$6,972
General Property, Plant and Equipment, Net	14,501	12,602	1,899
Other	10,237	10,337	(100)
<b>Total Assets</b>	<b>\$87,895</b>	<b>\$79,124</b>	<b>\$8,771</b>
<b><u>Liabilities</u></b>			
Federal Employee and Veterans Benefits	\$36,230	\$34,910	\$1,320
Debt	17,719	18,153	(434)
Employee related and other	15,563	10,890	4,673
Accounts Payable	4,903	5,244	(341)
<b>Total Liabilities (Note 17)</b>	<b>\$74,415</b>	<b>\$69,197</b>	<b>\$5,218</b>
<b><u>Net Position</u></b>			
Unexpended Appropriations	\$55,228	\$48,810	\$6,418
Cumulative Results of Operations	(41,748)	(38,883)	(2,865)
<b>Total Net Position</b>	<b>\$13,480</b>	<b>\$9,927</b>	<b>\$3,553</b>
Total Liabilities and Net Position	\$87,895	\$79,124	\$8,771

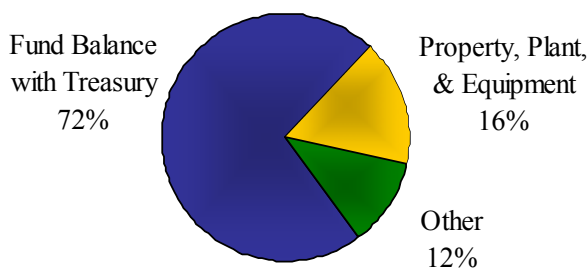
### Composition of Assets – What We Own

Assets represent amounts owned by DHS that can be used to accomplish its mission. At September 30, 2008, DHS had \$87.8 billion in assets, representing an \$8.8 billion increase from FY 2007 restated assets of \$79 billion. The increase is primarily attributable to supplemental appropriations for FEMA's disaster recovery efforts. Additionally, CBP's assets increased due to the Secure Border Initiative (SBI) and significant investments in technology equipment. The U.S. Coast Guard also contributed to the asset increase with the completion of the first National Security Cutter and additional investments in the U.S. Coast Guard's Deepwater Program.

Fund Balance with Treasury (FBwT), the Department's largest asset, comprises 72 percent (\$63.2 billion) of the total assets. Included in FBwT is the remaining balance of DHS unspent prior year budgets plus miscellaneous receipts. FBwT increased approximately \$7 billion from FY 2007 in part due to supplemental appropriations for disaster recovery efforts during Hurricanes Gustav and Ike and an increase in funds received to support the Secure Border Initiative.

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**DHS Assets as of September 30, 2008**



*The U.S. Coast Guard operates an inventory of 12 high-endurance cutters, 31 medium-endurance cutters and numerous patrol boats and aircraft. The completed construction of the first U.S. Coast Guard National Security Cutter, the WMSL-750 Bertholf, in FY 2008 was a crowning achievement for Coast Guard Deepwater Program.*

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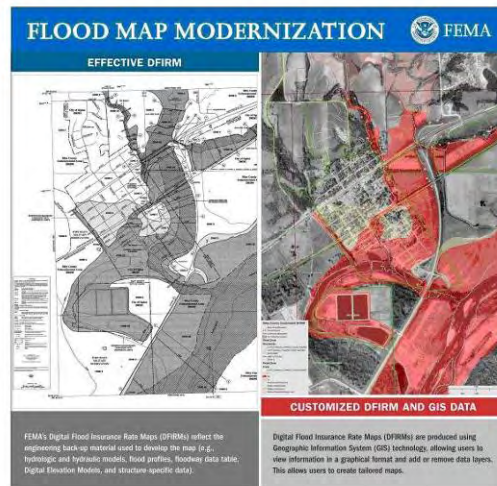
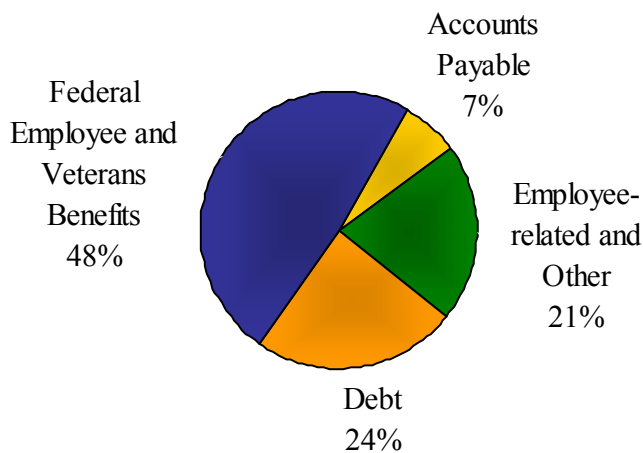
Property, Plant, and Equipment (PP&E) is the second largest asset, comprising 16 percent of total assets. The major items in this category include construction in progress, buildings and facilities, vessels, aircraft, and other equipment. In acquiring these assets, DHS either spent cash or incurred a 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 2008, PP&E increased by \$1.9 billion. Contributing to this increase was CBP's initiative to protect America's borders by constructing additional fencing for the (SBI) and purchasing technology equipment and software related to the Automated Commercial Environment. In June FY 2008, the U.S. Coast Guard completed construction on their first National Security Cutter and capitalized the asset cost of \$781 million. This steady progress in the U.S. Coast Guard Deepwater Program initiatives contributed to a 6 percent increase in FY 2008 Construction in Progress over prior fiscal year, which represents 44 percent of General Property Plant and Equipment for the Coast Guard.

**Composition of Liabilities – What We Owe**

At September 30, 2008, DHS reported approximately \$74.4 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. Eighty two percent of these liabilities are unfunded, meaning they will need to be paid from funds received in future appropriations. DHS's largest unfunded liability is for Federal Employee and Veterans Benefits, arising primarily from U.S. Coast Guard personnel benefits. The National Flood Insurance Program (NFIP) administered by FEMA is the second largest unfunded liability. Both are discussed in more detail below.

Liabilities increased approximately \$5.2 billion from FY 2007 restated liabilities totaling \$69.2 billion. The increase represents higher insurance liabilities existing at September 30, 2008 related to unpaid Hurricane Gustav and Ike flood insurance claims (described further in Footnote 20) and U.S Coast Guard personnel benefits which increased 4 percent from FY 2007.

**DHS Liabilities as of September 30, 2008**



*FEMA Flood Insurance Liability (included under Debt) increased in FY 2008 through response and rescue efforts associated with Hurricanes Gustav and Ike.*

DHS's largest liability is for Federal Employee and Veterans Benefits, representing 48 percent of total liabilities. This liability increased approximately 4 percent from FY 2007 due to an increase in personnel benefits for U.S. Coast Guard and actuarial adjustments reported by United States Secret Service for the District of Columbia Pension Plan (described further in Footnote 17). 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 second largest liability, representing 24 percent of total liabilities. This debt results from Treasury loans and related interest payable to fund the NFIP and Disaster Assistance Direct Loan Program operations of FEMA. Total debt decreased by 2 percent from FY 2007 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. This is discussed further in Footnote 15.

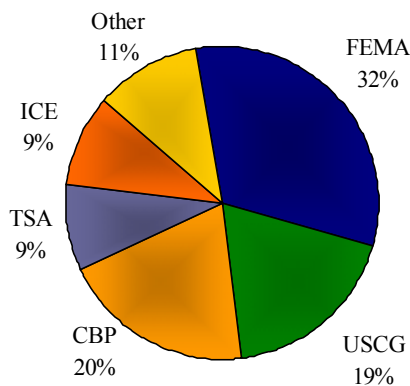
Employee-related and other liabilities, comprising 21 percent of the Department's liabilities, grew approximately 4 percent from FY 2007 primarily due to an increase in insurance claims related to floods in the Midwest caused by Hurricanes Gustav and Ike. Also included in these liabilities are unpaid 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 2008, DHS used the strategic goals as a basis to integrate its net costs.

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Composition of Net Costs at September 30, 2008



*FEMA took steps to ensure that we were prepared for Hurricane Ike, without leaving those recovering from Gustav and previous hurricanes behind. DHS supported Texas and Louisiana with significant quantities of food, bottles of water, ice, generators, blankets and cots and plastic sheeting.*

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FEMA represents 32 percent of the Department's net cost, a 35 percent increase from FY 2007 resulted from FEMA funding much of the recovery costs associated with Hurricanes Gustav and Ike. The U.S. Coast Guard incurred 19 percent of total net costs in ensuring maritime safety, security, and stewardship and represents an 11 percent decrease from FY 2007. CBP's net costs increased by approximately 20 percent from FY 2007, reflecting costs associated with employing new technologies to protect the border. Net costs for TSA and ICE, each representing 9 percent of total net costs, increased slightly from FY 2007. TSA's net costs increased 4 percent and net costs for ICE, which includes the Federal Protective Service, increased 14 percent.

During FY 2008, the Department earned approximately \$9.2 billion in revenues; this is an increase of about \$816 million from the restated amount of \$8.4 billion on September 30, 2007. 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



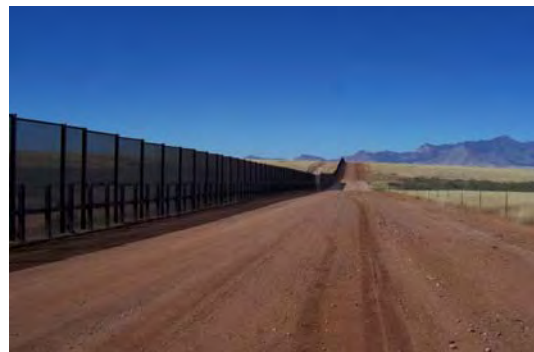
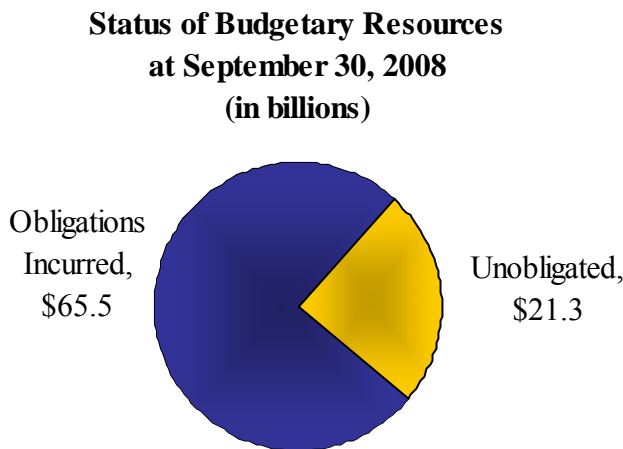
revenues on behalf of the Federal Government. These non-exchange revenues are presented in the Statement of Custodial Activity rather than the Statement of Net Cost. Examples of non-exchange revenues are user fees that CBP collects on behalf of the Federal Government as a result of its sovereign powers 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: “What Came In and What Went Out”**

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. It is much like a corporation’s stockholder’s equity in that it shows the Department’s “bottom line.” Financing sources increase net position and include, but are not limited to, appropriations, user fees, and excise taxes. The net costs discussed above and transfers to other agencies decrease net position. In FY 2008, FEMA had higher 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 \$87 billion in budgetary resources available to DHS during FY 2008. This authority was derived from appropriations of \$58 billion, \$17 billion in authority carried forward from FY 2007, \$10 billion in collections, and \$2 billion of miscellaneous authority. The total amount of resources available increased by approximately \$7 billion, primarily as a result of an increase of \$11 billion in appropriated funds.



*U.S. Customs and Border Protection (CBP) has completed a total of 357 miles of fencing along the Southwest Border, comprised of*

*203 miles of primary pedestrian fence and 154 miles of vehicle fence as of September 30, 2008. Resources are committed to extend both pedestrian and vehicle fencing to achieve a total of 661 miles in the near future. Budgetary resources are obligated to train and equip 2,200 new Border Patrol agents in 2009 which will more than double the size of the Border Patrol from 2001 levels, to 20,019 agents.*

Of the total budget authority available, DHS incurred a total of \$65.5 billion in obligations from purchase orders placed, contracts awarded, salaries and benefits, or similar transactions. These obligations will require payments during the same or future period. As of September 30, 2008, \$21.3 billion, of the \$87 billion available, was not obligated.

## **Statement of Custodial Activities**

This statement presents the disposition of revenues collected and disbursed by DHS on behalf of other recipient entities. CBP and USCIS collect revenue from a variety of duties, excise taxes and various other fees that are subsequently remitted to the Treasury's General Fund or to other entities. Footnote 32 in the financial section provides additional information on these activities. Total cash collections increased by more than \$721 million in FY 2008. 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 U.S. Coast Guard Heritage Assets, which include ships' equipment, lighthouse and other aids to navigation/communication items, personal use items, ordnance, artwork, and display models. A heritage asset is any personal property that is retained by DHS because of its historic, cultural, educational, or artistic value as opposed to its current usefulness to carrying out the mission of the agency. Of the U.S. Coast Guard 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; their related assets; and a gravesite. 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 the Other Accompanying Information section for Prompt Payment Act, Debt Collection Improvement Act, and Biennial User Charges Review information.

## Management Assurances

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

DHS is responsible for establishing, maintaining, and assessing internal control to provide reasonable assurance that the internal control objectives of the *Federal Managers' Financial Integrity Act*, 31 U.S.C. 3512 Sections 2 and 4, and the *Federal Financial Management Improvement Act*, P.L. 104-208, are met. To identify material weaknesses and 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 regulations; and
- Financial management systems conformance to government-wide systems requirements.

In addition, the *Department of Homeland Security Financial Accountability Act*, P.L. 108-330, requires a separate assertion of internal control over financial reporting and an audit opinion 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 DHS Office of Inspector General (OIG) and the Government Accountability Office (GAO) conduct reviews, audits, inspections, and investigations.



November 13, 2008

## 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 control at the Department of Homeland Security in effect during the fiscal year ended September 30, 2008. 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 as of September 30, 2008, with the exception of the following known material weaknesses:

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

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)

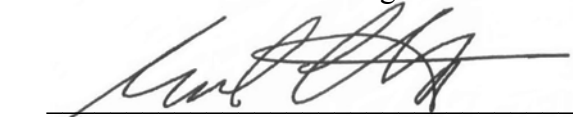
Based on information provided, the Department provides reasonable assurance as to the effectiveness of internal control over operations, with the exception of the following known material weaknesses:

- Entity Level Internal Controls at FEMA and National Protection and Programs Directorate (NPPD);
- Improper Payments Information Act Noncompliance at FEMA;
- Grants Management, including;
  - Single Audit Act Noncompliance;
- Anti-Deficiency Act Controls at U.S. Coast Guard and NPPD;
- Controls over Collection and Depositing of Fees and Quality Assurance Over Data Entry at U.S. Citizenship and Immigration Services (USCIS);
- Federal Protective Service Operations at U.S. Immigration and Customs Enforcement (ICE);
- Administrative Management, including;
  - Lack of Consolidated DHS Headquarters;
  - Asset and Other Materials Oversight; and
  - Laptop Security (Accountability, Encryption, and Access Controls);
- Acquisition Management, including;
  - Secure Border Initiative Acquisition at U.S. Customs and Border Protection (CBP);
- Human Capital Management, including;
  - Candidate Shortages for Critical Mission Career Fields;
  - Headquarter Staffing Action Backlog; and
  - Management Controls within the USCIS Office of Human Capital and Training;
- US-VISIT System Security at CBP.

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

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

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




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Michael Chertoff  
Secretary  
Department of Homeland Security

## Summary of Internal Control Accomplishments

Since the passage of the DHS FAA, DHS has worked collaboratively with the Congress, GAO, OMB, DHS OIG, and our Independent Public Auditor to ensure we achieve the law's intended outcome of the design and implementation of Department-wide internal controls to support the DHS mission. On March 21, 2008, the Under Secretary for Management and Chief Financial Officer issued the second edition of the Internal Control Playbook. The Internal Control 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 2008 Internal Control Playbook are displayed below. Most significantly, we have developed the Secretary's internal control over financial reporting assurance statement from a statement of no assurance in FY 2005 to a design effectiveness assertion in FY 2008, and as a result DHS is poised to provide a qualified operational effectiveness assertion in the near term.

**Exhibit I. Internal Controls Over Financial Reporting Assessment Results FY 2008**

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

	Material Weakness Condition
	Test of Design Performed or Corrective Action taken to reduce severity of material weakness condition
	Some Test of Operating Effectiveness Performed
	Test of Operating Effectiveness Performed
	No Departmental Level Assessment Work Performed

**Exhibit II. Internal Controls Over Financial Reporting Assessment Results FY 2005**

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



**Homeland  
Security**

NOV 14 2008

MEMORANDUM FOR: The Honorable David Norquist  
Chief Financial Officer

FROM: *Richard L. Skinner*  
Richard L. Skinner  
Inspector General

SUBJECT: FY 2008 Audit of DHS' Internal Control 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, 2008. The *Department of Homeland Security Financial Accountability 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, 2007, 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 DHS did not maintain effective internal control in the same areas in FY 2008, 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**

## 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 an examination of applicable documents. We performed our examination during the course of DHS' FY 2008 financial statements audit in conjunction with the independent public accountant, KPMG LLP. KPMG was engaged to audit the department's balance sheets as of September 30, 2008 and 2007, and the related statement of custodial activity for the year ended September 30, 2008 (referred to herein as "financial statements"). KPMG was unable to provide an opinion on DHS' financial statements as of September 30, 2008 and 2007.

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.

A handwritten signature in cursive script that reads "Richard L. Skinner".

Richard L. Skinner  
Inspector General



Office of Inspector General

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



**Homeland  
Security**

**NOV 14 2008**

We have examined the effectiveness of DHS' internal control over financial reporting as of September 30, 2008, 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.

We conducted our examination 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. Our examination 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.

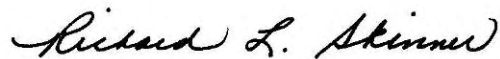
A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. A significant deficiency is a control deficiency or combination of control 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 2008, 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 Reporting;
- Financial Systems General and Application Controls;
- Fund Balance with Treasury;
- Capital Assets and Supplies;

- Actuarial and Other Liabilities; and
- 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, 2008, 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 Generally Accepted Accounting Principals (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 with laws and regulations that are material in relation to the financial statements or to stewardship information would be prevented or detected on a timely basis.



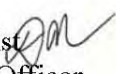
Richard L. Skinner  
Inspector General



Homeland  
Security

November 12, 2008

MEMORANDUM FOR: Richard L. Skinner  
Inspector General

FROM: David L. Norquist   
Chief Financial Officer

SUBJECT: Fiscal Year (FY) 2008 Internal Controls over Financial Reporting  
Audit Opinion

Thank you for the opportunity to review your draft audit opinion of the Department's internal control over financial reporting. I agree with your conclusions. Four years ago the *DHS Financial Accountability Act* posed profound challenges to our new Department. Over the years, I am pleased with how we have worked together to implement the Act. As we conclude the fourth year of implementing the Act, the progress the Department has made is significant. That success began with the strong working relationship between our offices, and in particular, Management's *Internal Control Playbook* and your independent performance audits that together identified the root causes and the necessary corrective actions. While challenges remain, for the second consecutive year the Department has made progress by implementing effective corrective actions. The Department has reduced from 16 to 13, the number of Component conditions that contributed to our material weakness conditions as well as fixing the root cause of other weaknesses. For example:

- The Federal Emergency Management Agency (FEMA) reduced the severity on one half of prior year material weaknesses, including:
  - Corrective actions resulted in \$1.8 billion of Mission Assignment deobligations, funding was returned to Disaster Relief Fund for other mission priorities;
  - Conducted inventory counts to be better prepared for the Hurricane Season; and
  - Developed a grant accrual methodology for estimating grant expenses at year end.
- FEMA and U.S. Coast Guard reduced the severity of Departmental Financial Management and Oversight to a reportable condition, a first ever material weakness remediation at U.S. Coast Guard.
- The Transportation Security Administration corrected prior year material weakness conditions related to Other Liabilities and Budgetary Accounting.
- In coordination with the Chief Information Officer, we developed an integrated assessment methodology for information technology general computer controls.
- DHS Office of the Chief Financial Officer sustained FY 2007 progress and for the first time ever does not contribute to a material weakness condition.

The Department has established a Senior Management Council to help ensure progress continues. Thank you for your office's support throughout this audit. I look forward to continued cooperation and progress in the future.