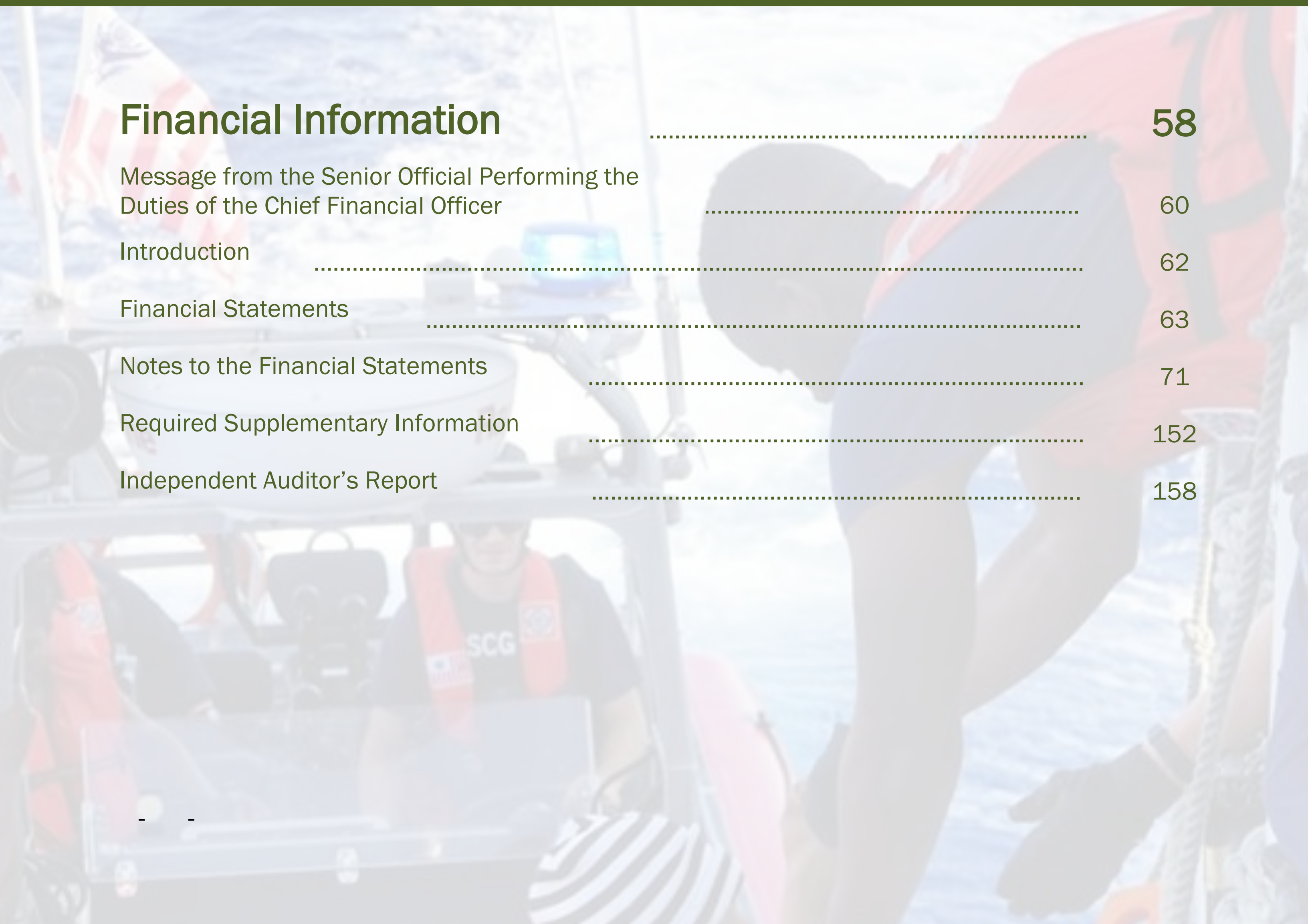
Financial Information

- The **Financial Information** section demonstrates our commitment to effective stewardship over the funds DHS receives to carry out its mission, including compliance with relevant financial management requirements.
- The **Basic Information** includes DHS's **Financial Statements**, which includes the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources and Statements of Custodial Activity—as well as the **accompanying Notes to the Financial Statements.**
- The **Required Supplementary Information** provides sections to present information on Deferred Maintenance and Repairs, Combining Statement of Budgetary Resources, Custodial Activity, and Land.
- The **Independent Auditor's Report** is provided by KPMG LLP on the Department's Financial Statements and accompanying Notes.



Message from the Senior Official Performing the Duties of the Chief Financial Officer

November 14, 2022

I am honored to join Secretary Alejandro Mayorkas in presenting the Department of Homeland Security (DHS) Fiscal Year (FY) 2022 Agency Financial Report (AFR). As public servants, one of our most important responsibilities is to be good stewards of the taxpayer dollars that DHS uses daily to help secure our homeland.

Since the Department was created almost twenty years ago, we have committed to adapting quickly to an ever-changing threat environment and the challenges that come with securing our homeland. To support the mission of the Department, the Office of the Chief Financial Officer is dedicated to using data from across DHS to make more informed decisions when resourcing the mission.

The Department's long-term strategic vision for Financial Management is to:

1. **Standardize Business Processes** – define a common set of financial management business processes and ensure business process re-engineering.
2. **Standardize Data Structures** – implement a data standard or common accounting line and appropriation structure across DHS's systems and offices.
3. **Migrate to Integrated Financial, Procurement, and Asset Management Solutions.**
4. **Consolidate the Financial Operations Footprint** – work towards consolidating financial operations and transaction processes where most effective and efficient to do so after accomplishing the first three goals of our strategic vision.

The Department has made great strides over the past few years on our third goal. As of today, the Department has approximately 40% of its spending flowing through modern, integrated financial systems with plans to move most of the remaining balance over the next five years. Having every dollar of DHS spending flowing through a modern, integrated financial system is critical because it improves internal controls to avoid waste, fraud, and abuse, as well as improve accuracy and consistency of financial data. It will also better enable us to use financial reporting data to make data-driven decisions across the Department and become better stewards of taxpayer dollars.

With four areas of material weakness in internal controls—in Financial Reporting, Budgetary Accounting, Insurance Liabilities, and Information Technology—the Department is executing a multi-year plan to achieve an unmodified "clean" ICOFR opinion. The Department recognizes remediation of the remaining areas of material weakness is the most challenging phase of the strategy to achieve a "clean" internal control over financial reporting (ICOFR) opinion, due to the complexity resulting from DHS's many CFO-designated systems, consisting of a combination of core financial and feeder systems in various stages of modernization. As such, the need to rely on manual compensating controls in the interim along with the abundance of information and data utilized in DHS business process activities will remain a priority area going forward.

DHS remains committed to securing the homeland and preparing for and responding to disasters. We will continue to meet these challenges with accountability and transparency – strengthening our risk management, internal controls, and mission-based resourcing to maximize the return on taxpayer investment.

Sincerely,

Stacy Marcott
Senior Official Performing the Duties of the Chief Financial Officer

Introduction

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

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

- The Consolidated **Balance Sheets** present those resources owned or managed by the Department that represent future economic benefits (assets), amounts owed by DHS that will require payments from those resources or future resources (liabilities), and residual amounts retained by DHS comprising the difference (net position) as of September 30, 2022 and 2021.
- The Consolidated **Statements of Net Cost** present the net cost of DHS operations for the fiscal years that ended on September 30, 2022 and 2021. DHS net cost of operations is the gross cost incurred by DHS less any exchange revenue earned from DHS activities and any gains or losses from assumption changes on pensions, other retirement benefits (ORB), and other post-employment benefits (OPEB).
- The Consolidated **Statements of Changes in Net Position** present the change in the Department's net position resulting from changes in total financing sources and changes in the net cost of DHS operations for the fiscal years that ended on September 30, 2022 and 2021.
- The Combined **Statements of Budgetary Resources** present how and in what amounts budgetary resources were made available to the Department during fiscal years 2022 and 2021, the status of these resources at September 30, 2022 and 2021, the changes in the obligated balance, and outlays of budgetary resources for the fiscal years that ended on September 30, 2022 and 2021.
- The Consolidated **Statements of Custodial Activity** present the disposition of custodial revenue collected and disbursed by the Department on behalf of other recipient entities for the fiscal years that ended on September 30, 2022 and 2021.
- The **Notes to the Financial Statements** provide detail and clarification for amounts on the face of the financial statements as of September 30, 2022 and 2021.

Financial Statements

Department of Homeland Security
Consolidated Balance Sheets
As of September 30, 2022 and 2021
(In Millions)

	2022	2021
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$ 158,759	$ 163,044
Investments, Net (Note 5)	13,407	11,443
Accounts Receivable, Net (Note 6)	684	727
Other Assets (Note 13)	587	739
Total Intragovernmental	**$ 173,437**	**$175,953**
With the Public		
Cash and Other Monetary Assets (Note 4)	26	64
Accounts Receivable, Net (Note 6)	1,461	1,672
Taxes Receivable, Net (Note 7)	8,633	8,093
Loans Receivable, Net (Note 8)	1	8
Inventory and Related Property, Net (Note 9)	2,597	2,531
General Property, Plant, and Equipment, Net (Note 11)	32,754	27,893
Other Assets (Note 13)	894	924
Total With the Public	**$ 46,366**	**$ 41,185**
TOTAL ASSETS	**$ 219,803**	**$ 217,138**
Stewardship Property, Plant, and Equipment (Note 12)		
LIABILITIES (Note 14)		
Intragovernmental		
Accounts Payable	$ 2,323	$ 2,810
Debt (Note 15)	20,533	20,618
Other Liabilities (Note 18)		
Liability to the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets	8,605	8,052
Other Liabilities (Without Reciprocals)	(186)	46
Other Liabilities	1,412	1,245
Total Intragovernmental	**$ 32,687**	**$ 32,771**

(Continued)

Department of Homeland Security
Consolidated Balance Sheets
As of September 30, 2022 and 2021
(In Millions)

	2022	2021
With the Public		
Accounts Payable	3,270	2,624
Federal Employee and Veteran Benefits Payable (Note 16)	16,940	75,570
Environmental and Disposal Liabilities (Note 17)	808	628
Insurance and Guarantee Program Liabilities (Note 20)	5,848	3,436
Other Liabilities (Notes 18, 19, and 21)	11,347	15,541
Total With the Public	**$ 38,213**	**$ 97,799**
Total Liabilities	**$ 70,900**	**$ 130,570**
Commitments and Contingencies (Note 21)		
NET POSITION		
Unexpended Appropriations		
Unexpended Appropriations-Funds from Dedicated Collections (Note 22)	$ 891	$ -
Unexpended Appropriations-Funds from Other than Dedicated Collections	130,973	$ 132,437
Total Unexpended Appropriations	**$ 131,864**	**$ 132,437**
Total Cumulative Results of Operations		
Cumulative Results of Operations-Funds from Dedicated Collections (Note 22)	(1,802)	(1,727)
Cumulative Results of Operations-Funds from Other than Dedicated Collections	18,841	(44,142)
Total Cumulative Results of Operations	**$ 17,039**	**$ (45,869)**
Total Net Position	**$ 148,903**	**$ 86,568**
TOTAL LIABILITIES AND NET POSITION	**$ 219,803**	**$217,138**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statements of Net Cost
For the Years Ended September 30, 2022 and 2021
(In Millions)

	2022	2021
Operational Components		
U.S. Customs and Border Protection		
Gross Cost	$ 18,721	$ 17,627
Less Earned Revenue	(311)	(359)
Net Cost	**18,410**	**17,268**
Federal Emergency Management Agency		
Gross Cost	37,680	41,623
Less Earned Revenue	(4,775)	(4,817)
Net Cost	**32,905**	**36,806**
U.S. Immigration and Customs Enforcement		
Gross Cost	9,111	8,478
Less Earned Revenue	(311)	(248)
Net Cost	**8,800**	**8,230**
Transportation Security Administration		
Gross Cost	9,104	8,555
Less Earned Revenue	(4,144)	(3,016)
Net Cost	**4,960**	**5,539**
U.S. Coast Guard		
Gross Cost	15,886	13,777
Less Earned Revenue	(94)	(331)
Net Cost	**15,792**	**13,446**
U.S. Citizenship and Immigration Services		
Gross Cost	4,632	4,333
Less Earned Revenue	(5,166)	(4,516)
Net Cost	**(534)**	**(183)**
U.S. Secret Service		
Gross Cost	2,615	2,629
Less Earned Revenue	(12)	(12)
Net Cost	**2,603**	**2,617**
Cybersecurity and Infrastructure Security Agency		
Gross Cost	2,190	2,060
Less Earned Revenue	(6)	(10)
Net Cost	**2,184**	**2,050**

(Continued)

Department of Homeland Security
Consolidated Statements of Net Cost
For the Years Ended September 30, 2022 and 2021
(In Millions)

	2022	2021
Departmental Operations and Other Support Components		
Gross Cost	5,914	5,606
Less Earned Revenue	(1,464)	(1,409)
Net Cost	**4,450**	**4,197**
Total Department of Homeland Security		
Gross Cost	105,853	104,688
Less Earned Revenue	(16,283)	(14,718)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	89,570	89,970
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes (Note 16)	1,181	1,573
NET COST OF OPERATIONS	**$ 90,751**	**$ 91,543**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statements of Changes in Net Position
For the Year Ended September 30, 2022
(In Millions)

	2022			
	Funds from Dedicated Collections (Note 22) (Consolidated)	All Other Funds (Consolidated)	Eliminations Between FFDC & All Other Funds	Consolidated Total
Unexpended Appropriations:				
Beginning Balance	$ -	$ 132,437	$ -	$ 132,437
Appropriations Received	893	78,529	-	79,422
Appropriations Transferred In/(Out)	(2)	890	-	888
Other Adjustments	-	(1,121)	-	(1,121)
Appropriations Used	-	(79,762)	-	(79,762)
Net Change in Unexpended Appropriations	891	(1,464)	-	(573)
Total Unexpended Appropriations: Ending	**$ 891**	**$ 130,973**	**$ -**	**$ 131,864**
Cumulative Results of Operations:				
Beginning Balance	(1,727)	(44,142)	-	(45,869)
Appropriations Used	-	79,762	-	79,762
Non-Exchange Revenue (Note 32)	2,668	2	-	2,670
Donations and Forfeitures of Cash and Cash Equivalents	4	-	-	4
Transfers In/(Out) without Reimbursement	(4,730)	71,083	-	66,353
Donations and Forfeitures of Property	41	-	-	41
Imputed Financing	272	1,705	1	1,976
Other	4,415	(1,562)	-	2,853
Net Cost of Operations	(2,745)	(88,007)	(1)	(90,751)
Net Change in Cumulative Results of Operations	(75)	62,983	-	62,908
Cumulative Results of Operations: Ending	**$ (1,802)**	**$ 18,841**	**$ -**	**$ 17,039**
NET POSITION	**$ (911)**	**$ 149,814**	**$ -**	**$ 148,903**

The accompanying notes are an integral part of these statements.

(Continued)

Department of Homeland Security
Consolidated Statements of Changes in Net Position
For the Year Ended September 30, 2021
(In Millions)

	2021			
	Combined Funds from Dedicated Collections (Note 22)	Combined All Other Funds	Eliminations	Consolidated Total
Unexpended Appropriations				
Beginning Balance	$ -	$ 94,375	$ -	$ 94,375
Appropriations Received	-	124,461	-	124,461
Appropriations Transferred In/(Out)	-	1	-	1
Other Adjustments	-	(635)	-	(635)
Appropriations Used	-	(85,765)	-	(85,765)
Net Change in Unexpended Appropriations	-	38,062	-	38,062
Total Unexpended Appropriations: Ending	**$ -**	**$ 132,437**	**$ -**	**$ 132,437**
Cumulative Results of Operations				
Beginning Balance	(2,598)	(42,199)	-	(44,797)
Other Adjustments	(1)	-	-	(1)
Appropriations Used	-	85,765	-	85,765
Non-Exchange Revenue (Note 32)	1,878	1	-	1,879
Donations and Forfeitures of Cash and Cash Equivalents	3	-	-	3
Transfers In/(Out) without Reimbursement	(4,287)	3,507	-	(780)
Donations and Forfeitures of Property	41	-	-	41
Imputed Financing	261	1,626	10	1,877
Other	3,340	(1,653)	-	1,687
Net Cost of Operations	(364)	(91,189)	(10)	(91,543)
Net Change in Cumulative Results of Operations	871	(1,943)	-	(1,072)
Cumulative Results of Operations: Ending	**$ (1,727)**	**$ (44,142)**	**$ -**	**$ (45,869)**
NET POSITION	**$ (1,727)**	**$ 88,295**	**$ -**	**$ 86,568**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2022 and 2021
(In Millions)

	2022		2021	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory) (Note 27)	65,695	10	46,955	-
Appropriations (discretionary and mandatory)	97,949	-	142,442	-
Borrowing Authority (discretionary and mandatory) (Note 23)	-	4	-	32
Spending Authority from Offsetting Collections (discretionary and mandatory)	11,096	1	9,437	123
TOTAL BUDGETARY RESOURCES	**$ 174,740**	**$ 15**	**$ 198,834**	**$ 155**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (total)	$ 133,184	$ 15	$ 142,017	$ 155
Unobligated Balance, End of Year				
Apportioned, Unexpired Accounts	36,635	-	52,137	-
Exempt from Apportionment, Unexpired Accounts	7	-	7	-
Unapportioned, Unexpired Accounts	2,597	-	2,504	-
Unexpired Unobligated Balance, End of Year	39,239	-	54,648	-
Expired Unobligated Balance, End of Year	2,317	-	2,169	-
Unobligated Balance, End of Year (total)	41,556	-	56,817	-
TOTAL BUDGETARY RESOURCES	**$ 174,740**	**$ 15**	**$ 198,834**	**$ 155**
OUTLAYS, NET AND DISBURSEMENTS, NET				
Outlays, Net (total) (discretionary and mandatory)	100,447	-	110,229	-
Distributed Offsetting Receipts (-)	(13,397)	-	(12,137)	-
AGENCY OUTLAYS, NET (discretionary and mandatory)	**$ 87,050**	**$ -**	**$ 98,092**	**$ -**
Disbursements, Net (total) (mandatory)		$ (93)		$ 22

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statements of Custodial Activity
For the Years Ended September 30, 2022 and 2021
(In Millions)

	2022	2021
Revenue Activity (Note 28)		
Sources of Cash Collections:		
Duties	$ 104,624	$ 85,466
Excise Taxes	4,629	4,773
User Fees	2,002	1,671
Fines and Penalties	112	117
Interest	77	55
Miscellaneous	175	62
Total Cash Collections	111,619	92,144
Accrual Adjustments, Net	307	1,249
Total Custodial Revenue	**111,926**	**93,393**
Disposition of Collections		
Transferred to Federal Entities:		
Treasury General Fund Accounts	70,319	56,992
U.S. Department of Agriculture	31,791	25,959
U.S. Army Corps of Engineers	1,905	1,557
Other Federal Agencies	76	82
Transferred to Non-Federal Entities	399	29
(Increase)/Decrease in Amounts Yet to be Transferred	615	1,405
Refunds and Drawbacks (Note 28)	6,821	7,369
Total Disposition of Collections	**111,926**	**93,393**
NET CUSTODIAL ACTIVITY	**$ -**	**$ -**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Department was established by the Homeland Security Act of 2002 (P.L. 107-296), dated November 25, 2002, as an executive department of the U.S. Federal Government. The Department leads efforts to achieve a safe, secure, and resilient homeland by countering terrorism and enhancing our security; securing and managing our borders; enforcing and administering our immigration laws; protecting our cybernetworks and critical infrastructure; and ensuring resilience from disasters. In addition, the Department contributes in many ways to elements of broader United States national and economic security while also working to mature and strengthen the Department and the homeland security enterprise. The Department includes the following financial reporting Components[3]:

- **U.S. Customs and Border Protection (CBP)**
- **Cybersecurity and Infrastructure Security Agency (CISA)**
- **Federal Emergency Management Agency (FEMA)**
- **U.S. Immigration and Customs Enforcement (ICE)**
- **Transportation Security Administration (TSA)**
- **U.S. Coast Guard (USCG)**
- **U.S. Citizenship and Immigration Services (USCIS)**
- **U.S. Secret Service (USSS)**
- **Departmental Operations and Other Support Components**, including the Management Directorate (MGMT), the Office of the Secretary, the Office of Inspector General (OIG), Countering Weapons of Mass Destruction Office (CWMD), the Office of Intelligence and Analysis (I&A), the Office of Operations Coordination (OPS), Science and Technology Directorate (S&T), and the Federal Law Enforcement Training Centers (FLETC).

B. Basis of Presentation

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

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

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

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

require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

Intragovernmental assets and liabilities are derived from activity with other federal entities. All other assets and liabilities result from activities with parties outside the Federal Government, such as domestic and foreign persons, organizations, or governments. Intragovernmental earned revenue includes collections or revenue accruals from other federal entities, and intragovernmental costs are payments or expense accruals to other federal entities.

Transactions and balances among the Department's Components have been eliminated in the consolidated presentation of the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and the Statements of Custodial Activity. Intradepartmental activity reported in a fund from dedicated collection is often offset with activity in other funds. Beginning in FY 2022, the Department presents information for funds from dedicated collections and all other funds on the Balance Sheets and Statements of Changes in Net Position on a consolidated basis. Prior to FY 2022, information for funds from dedicated collections and all other funds on the Balance Sheets and Statements of Changes in Net Position were presented on a combined basis. For FY 2022 presentation of Statements of Changes in Net Position, transactions and balances between funds from dedicated collections are eliminated in the consolidated Funds from Dedicated Collections column and the transactions and balances between funds from other than dedicated collections are eliminated in the consolidated Funds from Other than Dedicated Collections column. The Eliminations column reflects transactions between funds from dedicated collections and funds from other than dedicated collections. The Statements of Budgetary Resources are reported on a combined basis; therefore, intradepartmental balances have not been eliminated.

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

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

C. Basis of Accounting

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

D. Use of Estimates

Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of consolidated financial statements, and the reported amounts of revenue, claims, and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include: the year-end accruals of accounts and grants payable; environmental liabilities; deferred revenue; National Flood Insurance Program (NFIP) insurance liability; actuarial liabilities related to workers' compensation; taxes, allowance for doubtful accounts, duties and trade receivables, including supplemental duty bills, and fines, penalties, and forfeitures; actuarial liabilities related to military and other pension, retirement, and post-retirement benefits; and the funeral assistance program.

E. Entity and Non-Entity Assets

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

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

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

F. Fund Balance with Treasury

Fund Balance with Treasury represents the aggregate amount of the Department's accounts with the Department of the Treasury (Treasury) available to pay current liabilities and finance authorized purchases, except as restricted by law. The Department's Fund Balance with Treasury balances are primarily appropriated, revolving, trust, deposit, receipt, and special fund amounts remaining as of the end of the fiscal year.

For additional information regarding the Budgetary Status, see Note 3, Fund Balance with Treasury.

G. Cash and Other Monetary Assets

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

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

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

H. Investments, Net

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

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

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

I. Receivables, Net

Accounts receivable represent amounts due to the Department from other federal agencies and the public. In general, intragovernmental accounts receivable arise from the provision of goods and services to other federal agencies.

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

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

Taxes, duties, and trade receivables include supplemental duty bills, user fees, fines and penalties, refunds and drawback overpayments, and interest associated with import/export activity, which have been established as specifically identifiable, legally enforceable claims which remain uncollected as of year-end. This balance excludes amounts referred to Treasury because they are considered 100% uncollectible, as all collection efforts have been exhausted on these receivables prior to referral.

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

J. Advances and Prepayments

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

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

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

For additional information, see Note 13, Other Assets.

K. Loans Receivable, Net

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

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

Loans receivable are recorded at the present value of the estimated net cash flows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recorded in the allowance for subsidy, which is estimated and adjusted annually, as of year-end. Loans receivable, net, or the value of assets related to direct loans, is not the same as the expected proceeds from selling the loans. Interest receivable is the total interest that has accrued on each of the outstanding loans, less any cancellations that may have been recorded due to the FEMA cancellation policy as described in 44 Code of Federal Regulations (CFR) Section 206.366.

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

L. Inventory and Related Property, Net

Operating Materials and Supplies (OM&S) held for use and repair represent the largest portion of DHS inventory and related property. OM&S consist primarily of goods, including reparable spare parts, consumed during the maintenance of assets used to perform DHS missions, including vessels, small boats, electronic systems, and aircraft.

OM&S managed by the USCG inventory control points consist of special purpose craft, electronic (Eflex) equipment, chemical biological radiological nuclear explosive (CBRNE) equipment, and ordnance items that are valued at historical cost using a moving average cost and accounted for using the consumption method. OM&S reparable items that are in a “held for repair” status are recorded at historical cost with an allowance for the cost of the repair.

OM&S held at CBP sites consist of aircraft parts, vessel parts, and border security parts to be used in CBP’s operations. Manned aircraft and border security parts and materials are recorded at average unit cost. Unmanned aircraft parts and vessel parts are recorded using the first-in/first-out valuation method. Both methods approximate actual acquisition costs. OM&S reparable items that are in a “held for repair” status are recorded using the direct method for the cost of repairs.

Inventory is tangible personal property held for sale or used in the process of production for sale. Inventory includes items such as fuel and subsistence. Inventories on hand at year-end are stated at cost using standard price/specific identification, first-in/first-out, or moving average cost methods, which approximates historical cost. Revenue on inventory sales and associated cost of goods sold are recorded when merchandise is sold to the end user.

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

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

M. Seized and Forfeited Property

Seized property is reported in two categories: nonprohibited and prohibited.

Nonprohibited seized property includes items that are not inherently illegal to possess or own, such as monetary instruments, real property, and tangible personal property of others. Nonprohibited seized and forfeited property is reported by the Treasury Forfeiture Fund.

Prohibited seized property includes illegal drugs, contraband, and counterfeit items that cannot legally enter into the commerce of the United States. Prohibited seized property results primarily from criminal investigations and passenger/cargo processing. Prohibited seized property is not considered an asset of the Department and is not reported as such in the Department's financial statements. However, the Department has a stewardship responsibility until the disposition of the seized items is determined (i.e., judicially or administratively forfeited or returned to the entity from which it was seized).

Forfeited property is seized property for which the title has passed to the Federal Government. Prohibited forfeited items such as counterfeit goods, narcotics, or firearms are held by the Department until disposed of or destroyed.

For additional information, see Note 10, Seized and Forfeited Property.

N. General Property, Plant, and Equipment, Net

The Department's Property, Plant, and Equipment (PP&E) consists of aircraft, vessels, vehicles, land, structures, facilities, leasehold improvements, software, information technology, and other equipment—including small boats, security equipment, industrial equipment, and communications gear. PP&E is generally recorded at historical cost. The Department capitalizes PP&E acquisitions when the cost equals or exceeds an established threshold and has a useful life of two years or more. Land is not depreciated.

Costs for construction projects are recorded as construction-in-progress until the asset is placed in service. Costs are valued at actual (direct) costs plus applied overhead and other indirect costs. At year-end, a portion of the construction-in-progress balance may be estimated to accrue amounts for work completed but not yet recorded. The Department owns some of the buildings in which Components operate. The majority of other buildings are provided by the General Services Administration (GSA), which charges rent equivalent to the commercial rental rates for similar properties.

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

In FY 2021, DHS increased its capitalization threshold from $200,000 to $500,000 for equipment, capital leases, buildings and other structures, leasehold improvements, and improvements to land acquired on or after October 1, 2020. DHS policy is to continue using legacy capitalization thresholds and Component-specific policies for assets acquired prior to October 1, 2020. The schedule below shows a summary of the capitalization thresholds and estimated useful life in accordance with DHS-wide policy. Actual capitalization thresholds and service lives used by DHS Components may vary as long as the threshold does not exceed the DHS capitalization threshold. Bulk purchases are subject to a $2 million capitalization threshold. Capital improvements extending the service life of assets are not included in these ranges.

Asset Description	Capitalization Threshold	Useful Life
Land	Zero	Not Applicable
Improvements to Land	$500,000	2 years to 50 years
Buildings, Other Structures and Facilities	$500,000	10 years to 50 years
Equipment	$500,000	5 years to 30 years
Capital Leases	$500,000	2 years to 20 years
Leasehold Improvements	$500,000	2 years to 50 years
Internal Use Software	$750,000	2 years to 13 years

The Department begins to recognize depreciation expense once the asset has been placed in service. Depreciation is calculated on a straight-line method for all asset classes over their estimated useful lives. Leasehold improvements are depreciated over the shorter of the term of the remaining portion of the lease or the useful life of the improvement. Buildings and equipment acquired under capital leases are amortized over the lease term. Amortization of capitalized software is calculated using the straight-line method and begins on the date of acquisition if purchased, or when the module or component has been placed in use (i.e., successfully installed and tested) if contractor or internally developed. There are no restrictions on the use or convertibility of general PP&E.

A description of DHS's policies for land are located in the Required Supplementary Information (RSI) in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 59, *Accounting and Reporting of Government Land*.

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

O. Stewardship Property, Plant, and Equipment

Stewardship PP&E includes heritage assets that generally are not included in general PP&E presented on the Balance Sheet. Heritage assets are unique due to their historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. In general, heritage assets are expected to be preserved indefinitely.

These heritage assets consist of documents, historical artifacts, immigration and naturalization files, artwork, buildings, and structures. The cost of improving, reconstructing, or renovating heritage assets is recognized as an expense in the period incurred. Similarly, the cost to acquire or construct a heritage asset is recognized as an expense in the period incurred.

Heritage assets can serve two purposes: a heritage function and a general government operational function. If a heritage asset serves both purposes, but is predominantly used for general government operations, the heritage asset is considered a multi-use heritage asset, which is depreciated and included in general PP&E on the Balance Sheet. Due to their nature, heritage assets not used for general government operational functions are not depreciated because matching costs with specific periods would not be meaningful. The Department depreciates its multi-use heritage assets over their useful life. The Department's multi-use heritage assets consist of buildings and structures, memorials, and recreation areas.

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

P. Liabilities

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

Q. Contingent Liabilities

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

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

Environmental Cleanup Costs. Environmental liabilities consist of environmental remediation, cleanup, and decommissioning. The Department is responsible for remediating its sites with environmental contamination and is party to various administrative proceedings, legal actions, and tort claims that may result in settlements or decisions adverse to the Federal Government. The liability for environmental remediation is an estimate of costs necessary to bring a known contaminated asset into compliance with applicable environmental standards. Accruals for environmental cleanup costs are the costs of removing, containing, and/or disposing of hazardous wastes or materials that, because of quantity, concentration, or physical or chemical characteristics, may pose a substantial present or potential hazard to human health or the environment.

For all PP&E in service after September 30, 1997, the Department recognizes the estimated total cleanup costs associated with the PP&E when the cleanup costs are probable and reasonably estimable. The estimate may be subsequently adjusted for material changes due to inflation/deflation or changes in regulations, cleanup plans, or technology. The applicable costs of decommissioning the Department's existing and future vessels are considered cleanup costs.

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

R. Liabilities for Grants and Cooperative Agreements

The Department awards grants and cooperative agreements to state and local governments, universities, nonprofit organizations, and private-sector companies to build their capacity to respond to disasters and emergencies; conduct research into preparedness; enhance and ensure the security of passenger and cargo transportation by air, land, or sea; and support other Department-related activities. The Department estimates the year-end grant and cooperative agreement accrual for unreported and unpaid recipient expenditures using historical disbursement data in compliance with Federal Financial Accounting Technical Release 12, *Accrual Estimates for Grant Programs*. Grants and cooperative agreement liabilities are recorded as grants payable to the public and reported as Other Liabilities in the accompanying Balance Sheets. As grantee expenditure in a given year may vary greatly depending on occurrence of disasters and the expiration dates of awards for the numerous non-disaster grant programs, the estimate may significantly vary year-over-year.

S. Insurance Liabilities

Insurance liabilities are primarily the result of the Department's sale or continuation-in-force of flood insurance policies within the NFIP, which is managed by FEMA. NFIP is an exchange transaction insurance, and DHS discloses Insurance Liabilities in accordance with SFFAS No. 51, *Insurance Programs*.

The NFIP insurance liability represents an estimate based on the loss and loss adjustment expense factors inherent to the NFIP Insurance Underwriting Operations, including trends in claim severity and frequency. These estimates are routinely reviewed, and adjustments are made as deemed necessary. The estimate is driven primarily by flooding activity in the U.S. and can significantly vary year over year depending on timing and severity of flooding activity.

The *Biggert-Waters Flood Insurance Reform Act of 2012* (P.L. 112-141) and the *Homeowner Flood Insurance Affordability Act of 2014* (P.L. 113-89) amended the *National Flood Insurance Act of 1968* to establish a National Flood Insurance Reserve Fund to meet the expected future obligations of the NFIP. The acts authorized FEMA to secure reinsurance coverage from private reinsurance and capital markets to maintain the financial ability of the program to pay claims from major flooding events. The reinsurance agreement places the NFIP in a better position to manage losses incurred that result from major flooding events.

As technology and FEMA's understanding of flood risk have evolved over time, in FY 2022, FEMA began the transition to a new pricing methodology, termed Risk Rating 2.0. Risk Rating 2.0 allows FEMA to calculate premiums more equitably across all policyholders based on the value of their home and individual property's flood risk. FEMA implemented the new rates in two phases. Phase I, which began on October 1, 2021, allowed existing NFIP policyholders to take advantage of decreases at the time their policy renewed, and new policies were subject to the new pricing methodology. The new policies will be paying their full risk rate. Phase II, which began on April 1, 2022, subjected all renewing policies to new pricing plan at the time of renewal. Renewing policies with increasing premiums will be subject to the annual cap increase, which is 18% for most policyholders.

Subsidized rates are used to provide affordable insurance on construction or substantial improvements started on or before December 31, 1974, or before the effective date of the initial Flood Insurance Rate Map (i.e., an official map of a community on which NFIP has delineated both the special hazard areas and the nonsubsidized premium zones applicable to the community). Prior to FY 2022 and the transition to Risk Rating 2.0, FEMA's subsidized rates are charged on a countrywide basis for certain classifications of the insured. These subsidized rates produce a premium less than the loss and loss adjustment expenses expected to be incurred in a historical average loss year.

For additional NFIP information, see Note 15, Federal Debt and Interest Payable; Note 18, Other Liabilities; Note 20, Insurance Liabilities; Note 22, Funds from Dedicated Collections; and Note 23, Available Borrowing Authority.

T. Debt and Borrowing Authority

Debt is reported within Intragovernmental Liabilities and results from Treasury loans and related interest payable to fund NFIP and Disaster Assistance Direct Loan Program (DADLP) operations of FEMA. Most of this debt is not covered by current budgetary resources. Premiums collected by FEMA for the NFIP are not sufficient to cover the debt repayments (see Note 1.S., Insurance Liabilities). Given the current premium rate structure, FEMA will not be able to generate sufficient resources from premiums to pay its debt in full.

Borrowing authority, to the extent of existing obligations, is in budgetary status for use by FEMA for insurance claims and community disaster loans (CDLs). Borrowing authority is converted to cash and transferred to the Fund Balance with Treasury when needed for these purposes. Insurance claims and CDLs have indefinite borrowing authority. Indefinite borrowing authority represents the balance of borrowing authority which is the amount equal to those unpaid obligations covered by borrowing authority at the close of the fiscal year.

For more information, see Note 15, Federal Debt and Interest Payable, and Note 23, Available Borrowing Authority.

U. Accrued Payroll and Benefits

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

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

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

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on claims paid by DOL but not yet reimbursed by the Department. The Department reimburses DOL for claims as funds are appropriated for this purpose. In general, there is a two-year period between payment by DOL and reimbursement to DOL by the Department. As a result, the Department recognizes an intragovernmental liability for the claims paid by DOL and to be reimbursed by the Department.

The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a component of federal employee and veteran benefits. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL determines the actuarial FECA liability annually, as of September 30, using an actuarial method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value using the OMB economic assumptions for ten-year Treasury notes and bonds. The actuarial FECA liability is not covered by budgetary resources and will require future funding.

For additional information regarding unfunded FECA liability, payroll, and leave, see Note 18, Other Liabilities. For more information on the actuarial FECA liability, see Note 14, Liabilities Not Covered by Budgetary Resources, and Note 16, Federal Employee and Veteran Benefits Payable.

V. Federal Employee and Veteran Benefits

The Department's federal employee and veteran benefits consist of civilian employee retirement plans, the USCG's Military Retirement System (MRS), the USCG Military Health System (MHS), the USSS's Uniformed Division and Special Agent Pension, and other retirement benefits (ORB) and other post-employment benefits (OPEB). The Department recognizes the full annual cost of its civilian employees' pension benefits; however, the assets of the plan and liability associated with pension costs are recognized by OPM rather than the Department. Accordingly, the Department does not display gains and losses from changes in long-term assumptions used to measure civilian pension liabilities on the Statement of Net Cost.

Civilian Pension, Other Retirement Benefits, and Other Post-Employment Benefits. Most of DHS employees hired after December 31, 1983 are covered by the Federal Employees Retirement System (FERS) which consists of a basic annuity plan, the Thrift Savings Plan (TSP), and Social Security. Employees hired between January 1, 1984 and December 31, 2012 are covered by the FERS basic annuity benefit. For the FERS basic annuity benefit, the Department contributes 18.4% of base pay for regular FERS employees and 37.6% for law enforcement agents. Employees hired between January 1, 2013 and December 31, 2013 are covered by the FERS revised annuity benefit; employees hired after December 31, 2013 are covered by the FERS further revised annuity benefit. For the FERS revised annuity benefit and the FERS further revised annuity benefit, the Department contributes 16.6% of base pay for regular FERS employees and 35.8% for law enforcement agents. In addition, the Department automatically contributes to the TSP a minimum of one percent of base pay and matches employee contributions up to an additional four percent of base pay. The Department also contributes the employer's Social Security matching share for FERS participants. DHS employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS) to which the Department contributes 7% of base pay for regular CSRS employees and 7.5% for law enforcement agents.

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

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

The Department applies SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation* Dates, in selecting the discount rate and valuation date used in estimating actuarial liabilities for the MRS, the MHS, and the Uniformed Division and Special Agent Pension. Gains and losses from changes in long-term assumptions used to measure these liabilities are reported as a separate line item on the Statement of Net Cost.

Military Retirement System. The MRS is a defined benefit plan that includes pension benefits, disability benefits, and survivor benefits and covers all retired active duty and reserve military members of the USCG. The plan is a pay-as-you-go system funded through annual appropriations. Under the *National Defense Authorization Act (NDAA) for FY 2016* (P.L. 114-92), members entering service after December 31, 2017 will be enrolled in the new modernized retirement system, also referred to as the Blended Retirement System (BRS). BRS changes the pension formula by reducing the percentage per year of service, and entitles members to Thrift Savings Plan contributions, as well as additional compensation in exchange for a commitment for additional years of service (after serving for 12 years). A service point is awarded for every day of active service rendered, including monthly drill activities, as well as other categories (e.g. 15 points are awarded annually for Reserve participation). Members who joined USCG after January 1, 2006, and reservists with fewer than 4,320 points as of December 31, 2017, could choose either BRS or the legacy retirement system; any election to opt-in to BRS was required to be made during calendar year 2018 and is irrevocable. Reservists who joined on or after January 1, 2018 are automatically enrolled in the BRS.

The actuarial accrued liability is the portion of the present value of the future benefits expected to be paid that is attributed to past service (service by participants rendered prior to the date of determination). The remaining portion of that present value is attributed to future service (service by participants rendered on or after the date of determination) and is the present value of the future employer normal costs. The normal cost (current period expense) and the attribution of the present value of the future benefits between past service and future service are determined using the individual entry age normal actuarial cost method.

Prior to September 30, 2022, USCG was considered both the administrative and employer entity for the MRS. As the administrative and employer entity, USCG reported an actuarial accrued liability and recognized all components of cost. The NDAA for FY 2021 (P.L. 116-283) included a major change for the USCG, authorizing the payment of USCG's MRS retirement benefits from the Department of Defense (DoD) Military Retirement Fund (MRF) by October 1, 2022. The actuarial accrued liability was transferred to DoD and USCG is no longer the administrative entity as of September 30, 2022. Beginning in FY 2023, USCG will recognize a pension expense equal to the normal cost payment contributions it makes to the MRF, i.e., the service cost for its employees for the fiscal year.

Military Health System. There are two categories of military healthcare benefits, but only one generates a liability for the USCG retirees and beneficiaries. The first category of military healthcare liability is for the Medicare-eligible USCG military retirees and beneficiaries. The DoD is the administrative entity for the Medicare-Eligible Retiree Health Care Fund (MERHCF) and, in accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, is required to recognize the liability on the MERHCF's financial statements. The USCG makes annual payments to fund benefits for the current active duty members and their spouses who will receive benefits when they reach Medicare-eligibility. The USCG receives per-member amounts (reserve and active duty member amounts separately) to be contributed to the MERHCF from the DoD Board of Actuaries office and pays its share, depending on its demography. Because the DoD reports the entire liability for MERHCF, USCG is only responsible for the annual per-member amounts.

The second category of military healthcare liability is for retirees and beneficiaries not yet eligible for Medicare. The MHS is a post-retirement medical benefit plan that covers all active component and reserve component members of the USCG. The USCG is the administrative entity for MHS, and in accordance with SFFAS No. 5, recognizes the liability which is reported in DHS financial statements. As with the MRS, the actuarial accrued liability for MHS is the portion of the present value of the future benefits expected to be paid that is attributed to past service (service by participants rendered prior to the date of determination). Benefits are funded on a pay-as-you-go basis through annual appropriations.

Uniformed Division and Special Agent Pension. The District of Columbia (DC) Police Officers' and Firefighters' Retirement Plan (the DC Pension Plan) is a defined benefit plan that covers USSS Uniformed Division and Special Agents hired as civilians prior to January 1, 1984, and eligible for transfer to the DC Pension Plan. Uniformed Division and Special Agents hired after that date are covered as law enforcement agents by FERS basic annuity benefit, FERS revised annuity benefit, or FERS further revised annuity benefit, as appropriate. The DC Pension Plan makes benefit payments to retirees or their beneficiaries. USSS receives permanent, indefinite appropriations each year to pay the excess of benefit payments over salary deductions. USSS calculates pension liability using a discount rate assumption for present value of future benefits in accordance with SFFAS No. 5 and SFFAS No. 33. The unfunded accrued liability is actuarially determined by subtracting the present value of future employer/employee contributions, as well as any plan assets, from the present value of future cost of benefits. SFFAS No. 5 permits the use of actuarial cost methods other than the aggregate entry age normal actuarial cost method if the difference is not material.

The discount rates used to measure the MRS and MHS actuarial liabilities for USCG and the USSS actuarial liability are based on the ten-year average historical rates of return on marketable Treasury securities as of June 30 of the fiscal year. The rates used in this average are the rates for securities that will mature on the dates on which future benefit payments are expected to be made.

For more information on MRS, MHS, Uniformed Division and Special Agent Pension, and the actuarial assumptions used to compute the accrued pension and healthcare liabilities, see Note 16, Federal Employee and Veteran Benefits Payable.

W. Funds from Dedicated Collections

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

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

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

X. Revenue and Financing Sources

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

The Department also has permanent indefinite appropriations that result from permanent public laws, which authorize the Department to retain certain receipts. The amount appropriated depends upon the amount of the receipts rather than on a specific amount. The Department also has a permanent indefinite appropriation but does not retain the receipts. Specifically, amounts received and not issued as refunds to importers are returned to Treasury at the end of the fiscal year.

Appropriations are recognized as financing sources when related expenses are incurred, or assets are purchased.

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

Exchange and Non-Exchange Revenue. Exchange revenue is recognized when earned and is derived from transactions where both the government and the other party receive value (i.e., goods have been delivered or services have been rendered). Exchange revenue prices are recognized using full cost or market pricing guidance in OMB Circular No. A-25, *User Charges,* except when prices are set by law or executive order. Higher prices based on full cost or market price might reduce the quantity of goods or services demanded and, therefore, the difference between revenue received and such higher prices does not necessarily provide an indication of revenue foregone. DHS exchange revenue includes, but is not limited to: immigration fees; NFIP insurance premiums; Student Exchange Visa Program fees; and aviation security fees. Reimbursable exchange revenue includes but is not limited to: services provided to the government of Puerto Rico for the collection of duties, taxes, and fees; services for personnel; medical, housing, and various types of maritime support; the Federal Protective Service Guard personnel; and oil spill cleanup costs.

Revenue from reimbursable agreements is recognized when the goods or services are provided by the Department. Reimbursable work between federal agencies is generally subject to the Economy Act (31 United States Code (U.S.C.) 1535).

The majority of DHS non-exchange revenue is derived from customs duties, custodial collections of user fees, taxes, fines and penalties, and interest on the fines and penalties net of refunds and drawbacks related to these collections. Non-exchange revenue from user fees results from the government's sovereign power to demand revenue and is recognized as earned. Examples of non-exchange revenue from user fees include the collection of fees by CBP on incoming private vessels, private aircraft, and commercial vehicles. Non-exchange revenue also arises from transfers-in with and without financing sources and donations from the public. Other financing sources, such as donations and transfers of assets without reimbursements, are recognized on the Statements of Changes in Net Position during the period in which the donations and transfers occurred.

Deferred revenue is recorded when the Department receives payment for goods or services which have not been fully rendered. Deferred revenue is reported as a liability on the Balance Sheet until earned. USCIS fees are related to adjudication of applications and petitions for immigration and naturalization services that are used to provide special benefits to recipients and pay the regulatory costs from the adjudication process. USCIS requires advance payments of the fees for adjudication of applications or petitions for immigration and naturalization benefits. FEMA's deferred revenue relates to other NFIP unearned revenue including the federal policy fee, reserve fund assessment, and HFIAA surcharges.

Inter-Entity Cost. Certain goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed are recognized as imputed cost and are offset by imputed revenue. Prices for goods and services sold to other Federal Government agencies are generally limited to the recovery of direct cost. Such imputed costs and revenues relate to business-type activities (if applicable), employee benefits, and claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

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

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

CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. The custodial revenue is recorded at the time of collection. These revenue collections primarily result from current fiscal year activities. CBP records an equal and offsetting liability due to the Treasury general fund for amounts recognized as non-entity tax and trade receivables. Non-entity tax and trade accounts receivables consist of duties, excise taxes, user fees, fines and penalties, refunds and drawbacks overpayments, and interest associated with import/export activity, that have been established as specifically identifiable, legally enforceable claims that remain uncollected as of year-end. CBP accrues an estimate of duties, taxes, and fees related to entry summaries filed by the importer and received by CBP prior to year-end where receipt of payment is anticipated subsequent to year-end. The portions of the fees that are subsequently remitted to other federal agencies are recorded as custodial revenue at the time of collection. Non-entity receivables are presented net of amounts deemed uncollectible.

CBP tracks and enforces payment of estimated duties, taxes, and fees receivable by establishing a liquidated damages case that generally results in fines and penalties receivable. A fine or penalty, including interest on past-due balances, is established when a violation of import/export law is discovered. An allowance for doubtful collections is established for substantially all accrued fines and penalties and related interest. The amount is based on a statistical sample to assess historical collectability of these receivables. Statutes and regulations allow importers to dispute the assessment of duties, taxes, and fees. Receivables related to disputed assessments are not recorded until the protest period expires or a protest decision is rendered in CBP's favor.

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

An accrual adjustment is recorded on the Statements of Custodial Activity to adjust cash collections and refund disbursements with the net increase or decrease of accrued non-entity accounts receivables, net of uncollectible amounts, and refunds payable at year-end. For additional information, see Note 7, Taxes Receivable, Net, and Note 28, Custodial Revenue.

Y. Taxes

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

Z. Reclassifications

The presentation of the FY 2021 Balance Sheet was modified to be consistent with the FY 2022 presentation. In addition, certain FY 2021 balances were reclassified to conform to the FY 2022 presentation in accordance with OMB Circular A-136 for Note 16, Federal Employee and Veteran Benefits Payable, and Note 18, Other Liabilities.

The FY 2021 Note 31, COVID-19 Activity, disclosure was reclassified to present COVID-19 Activity by funding source as required by OMB Circular A-136, and also to present a new line per OMB Circular A-136, "Recissions, Recoveries, Other Changes and Outlays, Net."

2. *Non-Entity Assets*

Non-Entity Assets at September 30 consisted of the following (in millions):

	2022	2021
Intragovernmental:		
Fund Balance with Treasury	$ 3,988	$ 3,450
Total Intragovernmental	3,988	3,450
With the Public:		
Cash and Other Monetary Assets	13	13
Accounts Receivable, Net	25	20
Taxes Receivable, Net	8,633	8,093
Total With the Public	8,671	8,126
Total Non-Entity Assets	12,659	11,576
Total Entity Assets	207,144	205,562
Total Assets	**$ 219,803**	**$ 217,138**

Non-entity Fund Balance with Treasury consists of certain special and deposit funds, permanent and indefinite appropriations, and miscellaneous receipts. Non-entity assets (also discussed in Note 4, Cash and Other Monetary Assets, Note 6, Accounts Receivable, Net, and Note 7, Taxes Receivable, Net) are offset by corresponding liabilities at September 30, 2022 and 2021. Taxes, duties, and trade receivables from the public represent amounts due from importers for goods and merchandise imported to the United States.

3. *Fund Balance with Treasury*

Status of Fund Balance with Treasury

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

	2022	2021
Budgetary Status		
Unobligated Balances:		
Available	$ 36,642	$ 52,144
Unavailable	4,914	4,673
Obligated Balance Not Yet Disbursed	116,080	103,804
Total Budgetary Status	157,636	160,621
Reconciling Adjustments:		
Receipt, Clearing, and Deposit Funds	3,190	3,348
Borrowing Authority (Note 23)	(9)	(15)
Investments	(13,313)	(11,345)
Receivable Transfers and Imprest Funds	(370)	(329)
Authority Unavailable for Obligation	9,135	8,425
Offsetting Collections Previously or Temporarily Precluded from Obligation	30	33
Sport Fish Restoration and Boating Trust Fund; Oil Spill Liability Trust Fund	1,789	1,728
Temporary Reduction of Budget Authority	461	447
Temporary Reduction of Specific Invested Treasury Account Symbol	(6)	(6)
Receipts and Appropriations Temporarily Precluded from Obligation	216	137
Total Fund Balance with Treasury	**$ 158,759**	**$ 163,044**

The Disaster Relief Fund (DRF) is an appropriation against which FEMA can direct, coordinate, manage, and fund eligible response and recovery efforts associated with domestic major disasters and emergencies that overwhelm State resources pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act. The DRF represents approximately 43% of the unobligated balances available, and 55% of the Total Fund Balance with Treasury at September 30, 2022; and 65% of the unobligated balances available, and 61% of the Total Fund Balance with Treasury at September 30, 2021.

The Unobligated Balance available in the Subsequent Periods include amounts apportioned for future fiscal years that are available for obligation in the following subsequent periods (in millions):

FY 2023	$	6,895
FY 2024		96
FY 2025		91

Portions of the Unobligated Balances Available, Unavailable, and Obligated Balance Not Yet Disbursed contain CBP's user fees restricted by law in its use to offset costs incurred by CBP.

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

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

- Receipt, clearing, and deposit funds represent amounts on deposit with Treasury that have no budget status at September 30, 2022 and 2021.
- Borrowing authority, to the extent of existing obligations, is in budgetary status for use by FEMA for NFIP purposes and CDLs, and transfers have been made to the Fund Balance with Treasury account for these purposes. For additional information, see Note 23, Available Borrowing Authority.
- Budgetary resources have investments included; however, the money has been moved from the Fund Balance with Treasury asset account to Investments.
- Receivable transfers of currently invested balances increase the budget authority at the time the transfer is realized; however, obligations may be incurred before the actual transfer of funds.
- Imprest funds represent funds moved from Fund Balance with Treasury to Cash and Other Monetary Assets with no change in the budgetary status.
- For authority unavailable for obligations, authorizing statute may specify that obligations are not available until a specified time in the future or until specific legal requirements are met.
- Offsetting collections previously or temporarily precluded from obligation are offsetting collections that become unavailable for obligation until specific legal requirements are met.
- Sport Fish Restoration and Boating Trust Fund (SFRBTF) and Oil Spill Liability Trust Fund (OSLTF) are Treasury-managed funds. These funds receive revenue transferred from custodial activities of the Treasury, which are deposited in a Treasury account. For more information, see Note 22, Funds from Dedicated Collections.
- Temporary reduction of budget authority includes new budget authority or prior-year balance that have been temporarily reduced by statute in special and nonrevolving trust funds associated with receipt accounts designated by the Treasury as available.
- Temporary reduction of specific invested Treasury account symbols includes reductions of amounts appropriated from specific invested Treasury account symbols in the current year due to OMB sequestered amounts.

- Receipts and appropriations temporarily precluded from obligation are budget authority that becomes available for obligation from appropriations (derived from special or trust non-revolving fund receipts) and borrowing authority previously precluded from obligation.

4. Cash and Other Monetary Assets

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

	2022	2021
Total Cash and Other Monetary Assets	**$ 26**	**$ 64**

DHS cash includes cash held by others, imprest funds, undeposited collections, such as seized funds, and the net balances maintained by insurance companies for flood insurance activity. Restricted non-entity cash and other monetary assets were $13 million at September 30, 2022 and 2021, respectively (see Note 2, Non-Entity Assets). Restricted non-entity cash consists of undeposited collections that can be distributed to the Treasury General Fund, other federal agencies, or other governments.

5. Investments, Net

Investments, Net at September 30, 2022, consisted of the following (in millions):

Type of Investment:	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental Securities and Investments:						
OSLTF	Effective interest method	$ 8,668	$ (58)	$ 15	$ 8,625	$ 8,340
SFRBTF	Effective interest method	2,379	(28)	4	2,355	2,310
General Gift Fund	Effective interest method	2	-	-	2	2
National Flood Insurance Reserve Fund	Effective interest method	2,473	(51)	3	2,425	2,295
Total Nonmarketable, Market-Based		13,522	(137)	22	13,407	12,947
Total Intragovernmental Securities and Investments, Net		**$ 13,522**	**$ (137)**	**$ 22**	**$ 13,407**	

Investments at September 30, 2021, consisted of the following (in millions):

Type of Investment:	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental Securities:						
OSLTF	Effective interest method	$ 7,833	$ 18	$ 15	$ 7,866	$ 7,912
SFRBTF	Effective interest method	2,224	10	5	2,239	2,235
General Gift Fund	Effective interest method	2	-	-	2	2
National Flood Insurance Reserve Fund	Effective interest method	1,342	(8)	2	1,336	1,335
Total Nonmarketable, Market-Based		11,401	20	22	11,443	11,484
Total Intragovernmental Securities and Investments, Net		**$ 11,401**	**$ 20**	**$ 22**	**$ 11,443**	

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections: OSLTF, SFRBTF and General Gift Fund at USCG, and National Flood Insurance Reserve Fund at FEMA. The cash receipts collected from the public for a fund from dedicated collections are deposited in the Treasury, which uses the cash for general Federal Government purposes. Treasury securities are issued to the USCG and FEMA as evidence of its receipts. Treasury securities associated with funds from dedicated collections are an asset to the USCG and FEMA, respectively, and a liability to the Treasury. Treasury securities are eliminated in consolidation for the U.S. Government-Wide financial statements.

Treasury securities provide the USCG and FEMA with ability to draw upon the Treasury to make future benefit payments or other expenditures. When the USCG and FEMA redeem the Treasury securities to make expenditures, the U.S. Treasury will finance those expenditures in the same manner that it finances all other expenditures. For additional information, see Note 22, Funds from Dedicated Collections.

6. Accounts Receivable, Net

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

	2022	2021
Intragovernmental	$ 684	$ 727
With the Public:		
Accounts Receivable, Net	1,660	1,901
Allowance for Doubtful Accounts	(199)	(229)
Total with the Public	1,461	1,672
Accounts Receivable, Net	**$ 2,145**	**$ 2,399**

As of September 30, 2022, and 2021, total restricted non-entity accounts receivable were $25 and $20 million, respectively (see Note 2, Non-Entity Assets). Interest is accrued on uncollectible accounts receivable until the interest payment requirement is officially waived by the entity or the related debt is written off.

Accounts receivable, net include amounts related to criminal restitution owed to the government. In FY 2022, accounts receivable, net included $40 million of gross receivables related to criminal restitution orders, of which $4 million is determined to be collectible. CBP also has criminal restitution orders most of which are related to, and reported as part of, taxes and duties receivable due to their custodial nature (See Note 7, Taxes Receivable, Net). Gross receivables and net collectible amounts related to CBP’s criminal restitution orders are $196 million and $18 million, respectively.

In FY 2021, accounts receivable, net, included $24 million of gross receivables related to criminal restitution orders, of which $1 million was determined to be collectible. Gross receivables and net collectible amounts related to CBP's criminal restitution orders were $206 million and $7 million, respectively.

7. Taxes Receivable, Net

Taxes Receivable, Net consisted of the following (in millions):

As of September 30, 2022:	Gross Receivables	Allowance	Total Net Receivables
Duties	$ 7,649	$ (240)	$ 7,409
Antidumping and Countervailing Duties	3,410	(2,964)	446
Excise Taxes	255	(12)	243
User Fees	127	(2)	125
Fines/Penalties	1,037	(777)	260
Interest Receivable	1,864	(1,714)	150
Total Taxes Receivable, Net	**$ 14,342**	**$ (5,709)**	**$ 8,633**

As of September 30, 2021:	Gross Receivables	Allowance	Total Net Receivables
Duties	$ 7,673	$ (306)	$ 7,367
Antidumping and Countervailing Duties	3,397	(3,172)	225
Excise Taxes	269	(12)	257
User Fees	115	(1)	114
Fines/Penalties	874	(806)	68
Interest Receivable	1,825	(1,763)	62
Total Taxes Receivable, Net	**$ 14,153**	**$ (6,060)**	**$ 8,093**

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

When a violation of import/export law is discovered, a fine or penalty may be imposed. If imposed, CBP assesses liquidated damages or a penalty for these cases up to the maximum extent of the law. After receiving the notice of assessment, the importer, surety, or other party has 60 days to either file a petition requesting a review of the assessment or pay the assessed amount. Once a petition is received, CBP investigates the circumstances as required by its mitigation guidelines and directives. Until this process has been completed, the Department records an allowance, net of interest, on fines and penalties, based on historical experience of fines and penalties mitigation and collection. The allowance was approximately 75% and 92% at September 30, 2022 and 2021. Duties and taxes receivables are non-entity assets for which there is an offsetting liability due to the general fund (see Note 18, Other Liabilities).

CBP assesses interest when taxes, duties, and trade receivables remain unpaid after the original due date. The interest is calculated using the rate published on the CBP website and in the Federal Register quarterly. Interest accruals are calculated using the same methodology as the underlying receivable accrual and include an allowance for amounts deemed potentially uncollectible.

8. Loans Receivable, Net

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

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

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

The CDLs are established at the current Treasury rate for a term of five years. A standard CDL has a maximum amount of $5 million. The CDL amount cannot exceed 25% of the annual operating budget of the local government for the fiscal year in which the major disaster occurred, unless the loss of tax and other revenue for the local government is at least 75% of the annual operating budget. In this case, the CDL amount cannot exceed 50% of the annual operating budget. These CDLs can be cancelled by FEMA upon request from local government, if the local government meets the eligibility requirements in 44 CFR section 206.366, *Emergency and Management Assistance, Loan Cancellation*.

In FY 2018, Congress passed the Additional Supplemental Appropriations for *Disaster Relief Requirements Act, 2017* (P.L. 115-72) which provided $4.9 billion to DADLP for local governments affected by Hurricanes Harvey, Irma, and Maria. Of the $4.9 billion, 1.5% may be used for Section 417 administrative expenses, $150 million for Section 319 Advance of Non-Federal Share subsidy, $1 million for Section 319 administrative expenses, and the remainder for Section 417 subsidy. P.L. 115-72 specifies that a territory or possession, and instrumentalities and local governments thereof, of the United States shall be deemed a local government. Loan sizing may be based on projected loss of tax and other revenues and on projected cash outlays not previously budgeted for a period not to exceed 180 days from date of disaster, may exceed $5 million cap, and local governments may receive more than one loan. Language also specifies that loans may be cancelled in whole or in part at the discretion of Secretary of Homeland Security and Secretary of the Treasury.

Additionally, Congress passed the *Bipartisan Budget Act of 2018* (P.L. 115-123) which provided another $150 million to the DADLP for Section 319 Advance of Non-Federal Share subsidy, of which $1 million may be used Section 319 administrative expenses. P.L. 115-123 also amended the 180 days provision in P.L. 115-72 and inserted 365 days.

Congress passed the *Consolidated Appropriations Act of 2021* (P.L. 116-260) authorizing loans issued for 2018 disaster declarations to exceed $5 million and the loan sizing may be based on the projected loss of tax and other revenues and on projected cash outlays not previously budgeted for a period not to exceed one year beginning on the date that the major disaster occurred.

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

	2022	2021
	Loans Receivable, Net	Loans Receivable, Net
Community Disaster Loans	$ 1	$ 8

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

B. Direct Loans Obligated (in millions):

Community Disaster Loans	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
2022	$ 38	$ -	$ (37)	$ 1
2021	$ 833	$ 38	$ (863)	$ 8

C. Total Amount of Direct Loans Disbursed (in millions):

	2022	2021
Community Disaster Loans	$ 38	$ 187

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

Subsidy Expense for New Direct Loans Disbursed as of September 30:

Community Disaster Loans	Interest Differential	Defaults	Other	Total
2022	$ 1	$ -	$ 29	$ 30
2021	$ 7	$ 1	$ 146	$ 154

The Other amount represents increased disbursement activity associated with P.L.115-72 which provided FEMA authority to lend to those areas affected by Hurricanes Harvey, Irma, and Maria as discussed above.

Direct Loan Modifications and Re-estimates:

Community Disaster Loans	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
2022	$ 78	$ -	$ (62)	$ 16
2021	$ -	$ -	$ 85	$ 85

Total Direct Loan Subsidy Expense:

	2022	2021
Community Disaster Loans	$ 46	$ 239

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

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

	2022 Community Disaster Loans	2021 Community Disaster Loans
Interest Subsidy Cost	0.59%	1.94%
Default Costs	0.51%	0.58%
Other	76.64%	77.88%
Total	77.74%	80.40%

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

Default costs include the projected default amounts based on Moody's default curve for years six to ten.

The Other line represents the subsidy rates for direct loans that are partially cancelled or cancelled in full if specified conditions are met. Historically, a high percentage of the borrowers have met the conditions for cancellation, thus resulting in a high direct loan subsidy rate. The other subsidy cost increase is due to a higher amount of cancellations on projected cash flows.

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

	2022	2021
Beginning balance of the subsidy cost allowance	$ 863	$ 609
Add subsidy expense for direct loans disbursed during the reporting years by Component:		
Interest rate differential costs	1	7
Other subsidy costs	29	147
Adjustments:		
Loan Modifications	78	-
Loans written off	(871)	(1)
Subsidy allowance amortization	(1)	16
Ending balance of the subsidy cost allowance before re-estimates	99	778
Add subsidy re-estimate by Component		
Technical/default re-estimate	(62)	85
Ending balance of the subsidy cost allowance	**$ 37**	**$ 863**

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

	2022	2021
Community Disaster Loans	**$ 3**	**$ 2**

H. Loans Receivable at September 30 (in millions):

	2022
Beginning balance of Loans Receivable, Net	**$ 8**
Loan disbursements	38
Loans written off	(871)
Subsidy expense	(30)
Upward reestimate	(7)
Downward reestimate	69
Subsidy allowance	871
Loan modifications	(78)
Other non-cash reconciling items	1
Ending balance of Loans Receivable, Net	**$ 1**

$

9. Inventory and Related Property, Net

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

	2022	2021
OM&S		
Items Held for Use	$ 1,493	$ 1,581
Items Held for Future Use	80	72
Items Held for Repair	1,330	1,198
Less: Allowance for Losses	(448)	(391)
Total OM&S, Net	2,455	2,460
Inventory		
Inventory Purchased for Resale	50	32
Less: Allowance for Losses	(7)	(7)
Total Inventory, Net	43	25
Stockpile Materials Held in Reserve	99	46
Total Inventory and Related Property, Net	**$ 2,597**	**$ 2,531**

10. *Seized and Forfeited Property*

Prohibited seized property item counts as of September 30 and seizure and forfeiture activity for FY 2022 and 2021 are as follows:

For the Fiscal Year Ended September 30, 2022:

Seized Property:	Beginning Balance	New Seizures	Remissions and Adjustments	New Forfeitures	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	-	185,695	(1,889)	(183,806)	-
Cocaine	-	109,604	(1,450)	(108,154)	-
Heroin	-	1,103	(3)	(1,100)	-
Methamphetamine	-	94,864	(10,384)	(84,480)	-
Khat	-	79,010	-	(79,010)	-
Synthetic Marijuana	-	1,081	-	(1,081)	-
Fentanyl	-	8,495	(11)	(8,484)	-
Other Drugs	29,598	22,999	333	(25,774)	27,156
Firearms and Explosives (in number of case line items)	2,779	4,358	(1,977)	(2,136)	3,024
Counterfeit Currency (US/Foreign, in number of items)	1,664,666	2,257,348	-	-	3,922,014
Counterfeit Goods (in number of case line items)	41,817	105,714	(6,358)	(104,346)	36,827

Forfeited Property:	Beginning Balance	New Forfeitures	Transfers and Adjustments	Destroyed	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	42,090	183,806	(149,591)	(60,481)	15,824
Cocaine	37,923	108,154	(82,305)	(32,794)	30,978
Heroin	4,763	1,100	(452)	(2,986)	2,425
Methamphetamine	109,834	84,480	(1,543)	(108,047)	84,724
Khat	617	79,010	1,595	(78,157)	3,065
Synthetic Marijuana	235	1,081	93	(149)	1,260
Fentanyl	6,591	8,484	(1,473)	(5,748)	7,854
Other Drugs	5,607	25,774	564	(27,368)	4,577
Firearms and Explosives (in number of case line items)	1,715	2,136	(1,672)	(8)	2,171
Counterfeit Goods (in number of case line items)	36,944	104,346	808	(115,194)	26,904

For the Fiscal Year Ended September 30, 2021:

Seized Property:	Beginning Balance	New Seizures	Remissions and Adjustments	New Forfeitures	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	-	172,963	47	(173,010)	-
Cocaine	-	134,466	(45)	(134,421)	-
Heroin	-	2,823	(20)	(2,803)	-
Methamphetamine	-	100,810	(420)	(100,390)	-
Khat	-	92,125	-	(92,125)	-
Synthetic Marijuana	-	442	(9)	(433)	-
Fentanyl	-	5,879	(3)	(5,876)	-
Other Drugs	1,963	94,669	(614)	(66,420)	29,598
Firearms and Explosives (in number of case line items)	2,277	4,025	(1,669)	(1,854)	2,779
Counterfeit Currency (US/Foreign, in number of items)	2,849,481	129,571	(1,314,386)	-	1,664,666
Counterfeit Goods (in number of case line items)	40,817	103,950	(5,672)	(97,278)	41,817

Forfeited Property:	Beginning Balance	New Forfeitures	Transfers and Adjustments	Destroyed	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	88,813	173,010	(77,851)	(141,882)	42,090
Cocaine	33,753	134,421	(104,715)	(25,536)	37,923
Heroin	4,852	2,803	(344)	(2,548)	4,763
Methamphetamine	55,313	100,390	33,519	(79,388)	109,834
Khat	5,896	92,125	8,135	(105,539)	617
Synthetic Marijuana	971	433	(10)	(1,159)	235
Fentanyl	3,436	5,876	(371)	(2,350)	6,591
Other Drugs	48,572	66,420	(86,424)	(22,961)	5,607
Firearms and Explosives (in number of case line items)	1,436	1,854	(1,564)	(11)	1,715
Counterfeit Goods (in number of case line items)	23,485	97,278	309	(84,128)	36,944

This schedule is presented for prohibited (non-valued) seized and forfeited property. These items are retained and ultimately destroyed by CBP and USSS and are not transferred to the Treasury's forfeiture fund or other federal agencies.

Illegal drugs consist of tested and verified controlled substances as defined per the Controlled Substances Act. Illegal drugs are presented in kilograms, and a portion of the weight includes packaging, which often cannot be reasonably separated from the weight of the drugs since the packaging must be maintained for evidentiary purposes. Schedule I and II drugs are presented as summarily forfeited[4]. Other drugs include insignificant amounts of controlled substances that do not warrant being isolated to an individual category.

The ending balance for firearms includes only those seized items that can actually be used as firearms. Firearms are presented in number of case line items, which represent different types of firearms seized as part of a case. Counterfeit goods include clothing, footwear, jewelry, electronic equipment, movies, media, identification documents, and other items. Counterfeit goods are presented in number of case line items. USCG and ICE also seize and take temporary possession of small boats, equipment, general property, firearms, contraband, and illegal drugs. CBP maintains the seized property on behalf of USCG and ICE, and transfers nonprohibited seized property to the Treasury forfeiture fund.

Remissions occur when CBP returns property back to the violator. Adjustments are caused by changes during the year to the beginning balances due to changes in legal status or property types. For example, a case considered forfeited could be re-opened and changed to seized status or a drug property type may change on a case. Transfers occur when CBP conveys property to other federal, state, and local law enforcement agencies for prosecution, destruction, or donation.

USSS counterfeit currency includes notes received from external sources or seized during investigations. Counterfeit currency is presented in number of notes, and represents notes maintained in USSS, including items that are pending destruction. All items are maintained in a secured location until the items reach their eligible destruction date. Counterfeit currency ending balances decrease when notes are destroyed, or when a counterfeit note is reclassified as an educational note.

[4] Summarily forfeited refers to when a drug is seized and processed, it is immediately forfeited to the government not requiring further administrative or judicial action.

11. General Property, Plant, and Equipment, Net

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

As of September 30, 2022:	Useful Life	Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	$ 341	N/A	$ 341
Improvements to Land	2-50 yrs	4,952	1,416	3,536
Construction in Progress	N/A	9,585	N/A	9,585
Buildings, Other Structures and Facilities	10-50 yrs	9,270	5,262	4,008
Equipment:				
Information Technology Equipment	5 yrs	812	651	161
Aircraft	20 yrs	7,073	3,902	3,171
Vessels	5-30 yrs	12,022	5,226	6,796
Vehicles	5-15 yrs	975	823	152
Other Equipment	5-15 yrs	8,240	5,997	2,243
Assets Under Capital Lease	2-20 yrs	69	66	3
Leasehold Improvements	2-50 yrs	3,210	2,190	1,020
Internal Use Software	2-13 yrs	5,910	4,565	1,345
Internal Use Software - in Development	N/A	393	N/A	393
Total General Property, Plant, and Equipment, Net		**$ 62,852**	**$ 30,098**	**$ 32,754**

As of September 30, 2021:	Useful Life	Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	$ 322	N/A	$ 322
Improvements to Land	2-50 yrs	2,445	1,088	1,357
Construction in Progress	N/A	6,649	N/A	6,649
Buildings, Other Structures and Facilities	10-50 yrs	9,065	5,010	4,055
Equipment:				
Information Technology Equipment	5 yrs	739	619	120
Aircraft	20 yrs	6,829	3,668	3,161
Vessels	5-30 yrs	11,896	4,891	7,005
Vehicles	5-15 yrs	1,189	960	229
Other Equipment	5-15 yrs	7,866	5,641	2,225
Assets Under Capital Lease	2-20 yrs	69	64	5
Leasehold Improvements	2-50 yrs	3,050	2,008	1,042
Internal Use Software	2-13 yrs	5,489	4,147	1,342
Internal Use Software - in Development	N/A	381	N/A	381
Total General Property, Plant, and Equipment, Net		**$ 55,989**	**$ 28,096**	**$ 27,893**

Total PP&E and Accumulated Depreciation Reconciliation:

	FY 2022 Net PP&E	FY 2021 Net PP&E
Beginning Balance of Year	**$ 27,893**	**$ 26,561**
Capitalized Acquisitions	3,199	3,445
Dispositions	(82)	(190)
Transfers in/out without reimbursement	4,064	193
Revaluations	(1)	(56)
Less: Depreciation Expense	(2,471)	(2,087)
Donations	39	39
Other	113	(12)
Balance at End of Year	**$ 32,754**	**$ 27,893**

12. Stewardship Property, Plant, and Equipment

DHS's Stewardship PP&E is comprised of items held by DHS. These heritage assets are in the United States and the Commonwealth of Puerto Rico. Collection-type heritage assets are presented in either number of collections or number of individual items, while non-collection-type and multi-use heritage assets are presented in number of individual units. Heritage assets as of September 30 consisted of the following:

2022	Beginning Balance	Additions	Withdrawals	Total
Collection-type Assets				
CBP	2	-	-	2
MGMT	1	-	-	1
S&T	1	-	-	1
TSA	10	-	-	10
USCG	9	-	-	9
USCIS	5	-	-	5
USSS	2	-	-	2
Non-Collection-type Assets				
FLETC	1	-	-	1
S&T	50	-	-	50
USCG	68	-	-	68
Multi-use Heritage Assets				
CBP	4	-	-	4
FEMA	1	-	-	1
ICE	1	-	-	1
S&T	3	-	-	3
USCG	96	-	(1)	95
Total Stewardship PP&E	254	-	(1)	253

2021	Beginning Balance	Additions	Withdrawals	Total
Collection-type Assets				
CBP	2	-	-	2
MGMT	1	-	-	1
S&T	1	-	-	1
TSA	10	-	-	10
USCG	9	-	-	9
USCIS	5	-	-	5
USSS	2	-	-	2
Non-Collection-type Assets				
FLETC	1	-	-	1
S&T	1	49	-	50
USCG	69	-	(1)	68
Multi-use Heritage Assets				
CBP	4	-	-	4
FEMA	1	-	-	1
ICE	1	-	-	1
S&T	-	3	-	3
USCG	96	-	-	96
Total Stewardship PP&E	203	52	(1)	254

The Department's Stewardship PP&E consists of documents, historical artifacts, immigration and naturalization files, artwork, buildings, and structures, which are unique due to historical, cultural, artistic, or architectural significance, and are used to preserve and provide an education on the Department's history and tradition. Generally, these heritage assets are not included in general PP&E presented on the Balance Sheet. Components define collection-type assets as either individual items, or an aggregate of items grouped by location or category, depending on mission, types of assets, materiality considerations, and how the Component manages the assets. Additions are derived from many sources, including gifts from current or former personnel or the general public, bequests, and transfers from other federal agencies. As assessments are made of heritage assets, individual items are withdrawn from a collection when they have deteriorated through damage due to moving and transportation, storage or display, or environmental degradation. Individual items are also withdrawn when curatorial staff determines that an artifact does not meet the needs of the collection, or the characteristics of a heritage asset.

Collection-type Heritage Assets. The Department classifies items maintained for exhibition or display as collection-type heritage assets. As the lead agency ensuring a safe, secure, and resilient homeland, the Department uses this property for the purpose of educating individuals about its history, mission, values, and culture.

CBP collection-type heritage assets are categorized and grouped into two collections: archival materials and artifacts. Archival materials include port records, CBP regulations, and ledgers of Collectors of Customs. Artifacts include antique scales, pictures of Customs inspectors, tools used to sample imported commodities such as wood bales and bulk grain, and Customs uniforms, badges, and stamps.

MGMT has one collection-type heritage asset, a portion of one of the beams from the World Trade Center, which was received from TSA. It is kept at the DHS Headquarters Gallery at St. Elizabeths to educate visitors about why DHS and TSA were established.

S&T maintains one collection-type heritage asset—the fourth-order Fresnel lens from the historic Plum Island lighthouse. The lens was an integral part of the Plum Island lighthouse, which is listed in the National Register of Historic Places. The lens is on loan for display at the East End Seaport Maritime Museum in Greenport, New York.

TSA collection-type heritage assets include five architectural or building artifacts, and five aviation security technology items. The architectural or building artifacts include a collection of concrete pieces that belonged to the western wall of the Pentagon, a collection of subway rails from the Port Authority Trans-Hudson subway station located below the World Trade Center, and three individual artifacts related to both the steel structure and facade of the World Trade Center Towers that were destroyed by the terrorist attacks of September 11, 2001. The five aviation security technology items include two walk-through metal detectors, two X-ray machines, and an explosives trace detection portal machine. These items are preserved as aviation security technology equipment that was used to screen the individuals who carried out the September 11, 2001 terrorist attacks.

USCG collection-type heritage assets are defined by groups of items categorized as artifacts, artwork, and display models, located at USCG Headquarters, the USCG Academy, and all other locations, such as field units. Each location's collection is considered one asset. Artifacts include ships' equipment (sextants, bells, binnacles, etc.), decommissioned aids-to-navigation and communication equipment (buoy bells, lighthouse lenses, lanterns, etc.), personal-use items (uniforms and related accessories), and ordnance (cannons, rifles, and Lyle guns). Artwork consists of the USCG's collection of World War II combat art, as well as modern art depicting both historical and modern USCG activities. Display models are mostly of USCG vessels and aircraft. These are often builders' models acquired by the USCG as part of the contracts with the ship or aircraft builders.

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

USSS collection-type heritage assets are categorized into a collection of historical artifacts—including records, photographs, documents, and other items pertaining to the history of the USSS—and a collection of historical vehicles pertaining to the history of presidential transportation. Historical artifacts are maintained, stored, or displayed in the USSS archives and in the Secret Service Exhibit Hall. The vehicles are displayed at the James J. Rowley Training Center in Laurel, Maryland, or on loan to Presidential libraries. These items are used to educate employees and their guests about the USSS's integrated missions of investigations and protection.

Non-Collection-type Heritage Assets. The Department also maintains non-collection-type heritage assets that are unique for historical or natural significance, as well cultural, educational, or artistic importance.

FLETC non-collection-type heritage assets consist of a memorial associated with the World Trade Center located in Glynco, Georgia. The memorial integrates a piece of steel from the World Trade Center's steel structure into the overall design. The memorial is the primary site for student graduations from the FLETC, and also a venue for various special events, linking the FLETC mission and training efforts to this past tragedy.

S&T non-collection-type heritage assets consist of the Plum Island Lighthouse and Fort Terry Historic District, located on Plum Island, in Suffolk County, New York. The Plum Island Lighthouse and Fort Terry Historic District are listed on the National Register of Historic Places.

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

Multi-Use Heritage Assets. When heritage assets are functioning in operational status, the Department classifies these as multi-use heritage assets in accordance with SFFAS No. 6, *Accounting for Property, Plant and Equipment*. All multi-use heritage assets are reflected on the Balance Sheet as general PP&E and are depreciated over their useful life. Some examples are historic lighthouses and buildings still in use. Deferred maintenance and condition information for heritage assets and general PP&E are presented in the required supplementary information.

When multi-use heritage assets are no longer needed for operational purposes, they are reclassified as collection-type or non-collection-type heritage assets, or transferred to other government agencies or public entities.

CBP has four multi-use heritage assets located in Puerto Rico, which consist of customs houses that facilitate the collection of revenue for the Department.

FEMA has one multi-use heritage asset, the National Emergency Training Center, which is used by the Emergency Management Institute and the U.S. Fire Administration's National Fire Academy for training in Emmitsburg, Maryland.

ICE has one multi-use heritage asset, a property consisting of 3.2 acres located along the southern coastline of the island of Oahu, in Honolulu, Hawaii. The ICE Honolulu Facility is a historic site included in the National Register of Historic Places.

S&T has three multi-use heritage assets which consist of the motor pool, duty officer's quarters, and the fire station, located in the Plum Island Fort Terry Historic District, Suffolk County, New York.

USCG possesses a wide range of multi-use heritage assets, such as buildings, structures, and lighthouses that have historical and cultural significance.

13. Other Assets

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

	2022	2021
Intragovernmental:		
Advances and Prepayments	$ 587	$ 739
Total Intragovernmental	587	739
With the Public:		
Advances and Prepayments	892	922
Other Assets	2	2
Total With the Public	894	924
Total Other Assets	**$ 1,481**	**$ 1,663**

14. *Liabilities Not Covered by Budgetary Resources*

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

	2022	2021
Intragovernmental:		
Debt (Note 15)	$ 20,525	$ 20,525
Accrued FECA Liability (Note 18)	353	404
Other	144	171
Total Intragovernmental	21,022	21,100
With the Public:		
Federal Employee and Veteran Benefits Payable:		
Accrued Payroll and Benefits	2,181	2,044
Actuarial FECA Liability (Note 16)	2,396	2,532
Military Service and Other Retirement Benefits (Note 16)	12,284	70,941
Actuarial Liabilities for Federal Insurance and Guarantee Programs	672	-
Environmental and Disposal Liabilities (Note 17)	807	627
Contingent Legal Liabilities (Note 21)	254	419
Capital Lease Liability (Note 19)	4	8
Other (Note 18)	32	59
Total With the Public	18,630	76,630
Total Liabilities Not Covered by Budgetary Resources	39,652	97,730
Total Liabilities Not Requiring Budgetary Resources	9,176	8,532
Liabilities Covered by Budgetary Resources	22,072	24,308
Total Liabilities	**$ 70,900**	**$ 130,570**

The Department anticipates the portion of Liabilities Not Covered by Budgetary Resources listed above will be funded from future budgetary resources when required. Total Liabilities Not Requiring Budgetary Resources represents liabilities for clearing accounts, non-fiduciary deposit funds, and custodial collections, including amounts due to the general fund. The remaining liabilities are substantially covered by current budgetary resources.

15. *Federal Debt and Interest Payable*

Debt at September 30 and activity for fiscal years ended FY 2022 and 2021 consisted of the following (in millions):

Debt to the Treasury General Fund:	**2022**	**2021**
NFIP:		
Beginning Balance	$ 20,525	$ 20,525
New Borrowing	-	-
Interest Payable	-	-
Repayments	-	-
Ending Balance	**20,525**	**20,525**
DADLP (Credit Reform):		
Beginning Balance	93	71
New Borrowing	9	37
Interest Payable	-	-
Repayments	(94)	(15)
Ending Balance	**8**	**93**
Total Debt	**$ 20,533**	**$ 20,618**

The Department's intragovernmental debt is owed to Treasury and consists of borrowings to finance FEMA's NFIP and DADLP.

NFIP debt normally has a three-year term unless Treasury grants an exception for a greater term such as ten years. Interest rates are obtained from Treasury and range by cohort year from 0.125% to 2.375% as of September 30, 2022 and 2021. Interest is paid semi-annually on March 31 and September 30. The total interest paid for the year was $300 million and $357 million as of September 30, 2022 and 2021, respectively. Interest is accrued based on the debt balances reported. Principal repayments are permitted any time during the term of the debt. At maturity, the debt may be repaid or refinanced. The debt and interest payments are financed by the flood premiums from policyholders. Given the current rate structure, FEMA will not be able to pay its debt from the premium revenue alone; therefore, FEMA does not anticipate repaying the debt in full.

In accordance with the requirements established by the Biggert-Waters Flood Insurance Reform Act of 2012, FEMA reports on the status of the debt; interest paid since 2005, and principal repayments to OMB and Congress on a quarterly basis. These requirements established a quarterly reporting requirement for the Reserve Ratio Requirement. There is a separate report for debt, interest, and principal repayments, where reports are due on a semi-annual basis.

Under Credit Reform, the unsubsidized portion of debt is borrowed from Treasury. The repayment terms of FEMA's borrowing are based on the life of each cohort of debt. Proceeds from collections of principal and interest from the borrowers are used to repay Treasury. In addition, an annual re-estimate is performed to determine any change from the original subsidy rate. If an upward re-estimate is determined to be necessary, these funds are available through permanent indefinite authority, which is to be approved by OMB. Once these funds are appropriated, the original borrowings are repaid to Treasury. The weighted average interest rates for FY 2022 and FY 2021 were 1.09% and 1.99%, respectively. For additional information, see Note 23, Available Borrowing Authority.

16. Federal Employee and Veteran Benefits Payable

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

	2022	2021
USCG Military Retirement and Healthcare Benefits	$ 7,914	$ 66,464
USSS Uniformed Division and Special Agent Pension	4,370	4,477
Actuarial FECA Liability	2,396	2,532
Unfunded Leave	2,180	2,042
Other	80	55
Total Federal Employee and Veteran Benefits Payable	**$ 16,940**	**$ 75,570**

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

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

For the Year Ended September 30, 2022:	USCG Military Retirement System	USCG Military Health System	USSS Uniformed Division and Special Agent Pension	Total
Beginning Liability Balance:	$ 58,639	$ 7,825	$ 4,477	$ 70,941
Expenses:				
Normal Cost	1,894	404	-	2,298
Interest on the Liability Balance	1,786	216	105	2,107
Actuarial Losses/(Gains):				
From Experience	1,565	52	(8)	1,609
From Assumption Changes	1,415	(297)	63	1,181
Other	-	-	2	2
Total Expense	6,660	375	162	7,197
Less: Amounts Paid	1,686	286	269	2,241
Less: Transfer to DoD	63,613	-	-	63,613
Ending Liability Balance	**$ -**	**$ 7,914**	**$ 4,370**	**$ 12,284**

For the Year Ended September 30, 2021:	USCG Military Retirement System	USCG Military Health System	USSS Uniformed Division and Special Agent Pension	Total
Beginning Liability Balance:	$ 55,439	$ 7,380	$ 4,500	$ 67,319
Expenses:				
Normal Cost	1,786	405	-	2,191
Interest on the Liability Balance	1,703	221	111	2,035
Actuarial Losses/(Gains):				
From Experience	(83)	(34)	58	(59)
From Assumption Changes	1,377	121	75	1,573
Other	-	-	1	1
Total Expense	4,783	713	245	5,741
Less Amounts Paid	1,583	268	268	2,119
Ending Liability Balance	**$ 58,639**	**$ 7,825**	**$ 4,477**	**$ 70,941**

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

The NDAA for FY 2021 (P.L. 116-283) was enacted in 2021 and included a major change for the USCG, authorizing the payment of USCG's MRS retirement benefits from the DoD Military Retirement Fund by October 1, 2022. The MRS actuarial accrued liability valued at $63,613 million, as of September 30, 2022, was transferred to DoD and USCG is no longer the administrative entity as of September 30, 2022. Beginning in FY 2023, USCG will recognize a pension expense equal to the normal cost payment contributions it makes to the military retirement fund (i.e., the service cost for its employees for the fiscal year).

The USCG's MHS is a post-retirement medical benefit plan that covers all active component and reserve component members of the USCG. The accrued MHS liability is for the healthcare of non-Medicare eligible retirees and beneficiaries. The DoD MERHCF, finances and manages the healthcare benefits for the Medicare-eligible beneficiaries of all DoD and non-DoD uniformed services.

Actuarial accrued liabilities represent retired pay for retirees and healthcare benefits for non-Medicare eligible retirees/survivors. The present value of future benefits is the actuarial present value of the future payments that are expected to be paid under the retirement plan's provisions. Credited service is the years of service from active duty base date (or constructive date in the case of active duty reservists) to date of retirement measured in years and completed months.

The actuarial accrued liability is the portion of the present value of the future benefits expected to be paid that is attributed to past service (service by participants rendered prior to the date of determination). USCG plan participants may retire after 20 years of active service at any age with annual benefits equal to 2.5% of retired base pay for each year of creditable active service under the legacy retirement program; the formula is 2% for those covered under BRS. All members joining the military after 2017 are enrolled in BRS. Most others are enrolled in the legacy program, other than those with an option to choose between the legacy and BRS programs. The retired pay base means the highest 36 months of basic pay earned (or that would have been earned if on active duty).

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

In FY 2022, several changes were made to the USCG actuarial assumptions, prior to the transfer of the military retirement system liability to DoD. The major changes include (1) decrease of the current discount rate from 2.95% to 2.85% resulting in a liability increase of $1.14 billion and (2) use of updated DoD Mortality Tables for retirees and Mortality Improvement rates, resulting in a liability increase of $380 million.

The significant actuarial assumptions used to compute the accrued pension as of September 30, 2022 prior to the transfer to DoD and the healthcare liability at September 30, 2022, are as follows:

1. For active duty members and reserves, USCG uses the DoD assumption; an 80% male/20% female blend of the MP-2021 Mortality Improvement Scale developed by the Society of Actuaries. For military retirees and annuitants, USCG uses the DoD Mortality Improvement tables.
2. Disability, withdrawal, and retirement tables reflecting actual USCG experience were developed based on a USCG experience study dated April 28, 2020.
3. Cost of living increases for the retirement plan are 2.16%, based on a ten-year average of the Treasury Breakeven Inflation yield curve, which combines other Treasury rates to estimate the rate of inflation.
4. Healthcare cost increase assumptions are based on the annual liability report provided by DoD and vary, depending on the year and type of care.
5. The discount rate percent is determined in accordance with SFFAS No. 33 and is calculated independently for pensions and healthcare. The current discount rate is 2.85% for the retirement system and 2.75% for the health system.
6. Rates of salary increases are determined similarly to Cost of Living increases and are equal to 2.16%. This is in addition to assumed Merit Pay increases that reflect longevity increases, promotions, and advancements.
7. Post-Retirement health benefit assumptions include a single equivalent medical cost trend rate of 3.59% and an ultimate medical trend rate of 3.6% after 25 years.
8. The FY 2022 valuation was prepared as of September 30, 2021 using economic assumptions based on a ten-year average to include the ending discount rate at June 30, 2022, including a general salary increase assumption that was modified to not fall below the assumed annual cost of living assumption. Results were projected to the end of the fiscal year, September 30, 2022, using 10-year average discount rates at June 30, 2022.

Comparatively, the significant actuarial assumptions used to compute the accrued pension and healthcare liability at September 30, 2021, were as follows:

1. For active duty members and reserves, USCG uses the DoD assumption; an 80% male/20% female blend of the MP-2020 Mortality Improvement Scale developed by the Society of Actuaries. For military retirees and annuitants, USCG uses the DoD Mortality Improvement tables. Disability, withdrawal, and retirement tables reflecting actual USCG experience were developed based on a USCG experience study dated April 28, 2020.
2. Cost of living increases for the retirement plan are 2.17%, based on a ten-year average of the Treasury Breakeven Inflation yield curve, which combines other Treasury rates to estimate the rate of inflation.
3. Healthcare cost increase assumptions are based on the annual liability report provided by DoD and vary, depending on the year and type of care.
4. The discount rate percent is determined in accordance with SFFAS No. 33 and is calculated independently for pensions and healthcare. The current discount rate is 2.95% for the retirement system and 2.85% for the health system.
5. Rates of salary increases are determined similarly to Cost of Living increases and are equal to 2.17%. This is in addition to assumed Merit Pay increases that reflect longevity increases, promotions, and advancements. The Merit Pay Table was modified in 2020, using actual USCG experience over the past six years.
6. Post-Retirement health benefit assumptions include a single equivalent medical cost trend rate of 3.88% and an ultimate medical trend rate of 3.60% after 25 years.
7. The FY 2021 valuation was prepared as of September 30, 2020 using economic assumptions based on a ten-year average to include the ending discount rate at June 30, 2021, including a general salary increase assumption that was modified to not fall below the assumed annual cost of living assumption. Results were projected to the end of the fiscal year, September 30, 2021, to include the ending discount rate at September 30, 2021.

USSS Uniformed Division and Special Agent Pension. Special agents and other USSS personnel in certain job series hired as civilians before January 1, 1984, are eligible to transfer to the District of Columbia Police Officers' and Firefighters' Retirement Plan (DC Pension Plan) after completion of ten years of USSS employment and ten years of protection-related experience. This plan also includes beneficiaries and dependents. All uniformed USSS officers who were hired before January 1, 1984, are automatically covered under this retirement system. Participants in the Uniformed Division and Special Agent Pension Plan make contributions of 7% of base pay with no matching contribution made by USSS. Annuitants of this plan receive benefit payments directly from the DC Pension Plan. The benefits for this plan are not currently prefunded and the USSS has no segregated plan assets. Each year's contribution equals the benefits paid from the plan. USSS reimburses the District of Columbia for the difference between benefits provided to the annuitants and payroll contributions received from current employees. This liability is presented as a component of the liability for Federal Employee and Veteran Benefits Payable in the accompanying Balance Sheet. SFFAS No. 5 requires the administrative entity (administrator) to report the actuarial liability. However, USSS records a liability because the administrator (the DC Pension Plan) is not a federal entity and as such the liability for future funding would not otherwise be recorded in the government-wide consolidated financial statements.

The primary actuarial assumptions used to determine the liability at September 30, 2022, are as follows:

1. The mortality assumption is based on the OPM non-U.S. Postal Service (USPS) mortality tables projected using the OPM projection scale. There are separate healthy and disabled annuitant tables.
2. The equalization pay is equal to the greater of:
    - The average of the last ten equalization pays for each category (General Service (GS), Uniformed Division (UD), and Senior Executive Service (SES)), or
    - Consumer Price Index assumption as determined by the Treasury Breakeven Inflation (TBI) yield curve.
3. All annuitants were coded as GS, UD, or SES. The average equalization pay over the last ten years was 1.73% for the GS group, 1.85% for the UD group, and 2.25% for the SES group. The ten-year average equalization pays for GS and UD groups are less than the Consumer Price Index (CPI) assumption derived from a ten-year average (same period as the discount rate) of the TBI curve of 2.03%. The equalization pay assumption increased from 2.02% for all GS and UD annuitants to 2.03%. Since the ten-year average of the equalization pays for the SES group is greater than the TBI curve, their COLA assumption was set to equal to 2.25%.
4. The assumption for future survivors' cost of living awards was based on the implicit ten-year average inflation assumption built into Treasury security prices plus the average number of survivor Cost of Living Allowance (COLA) awards over the last ten years. The implicit inflation from Treasury securities is derived from a ten-year average of the Treasury Breakeven Inflation (TBI) curve. Each time a three percent award is granted, an extra 100 basis points are added to the COLA award. Because there were six such awards over the last ten years, we added 60 basis points to the results. The basis point adjustment is reviewed annually based on the number of COLA awards over the past ten years. The increase in the implicit rate combined with two or more COLA awarded in the ten-year period ending June 30, 2022, resulted in the COLA assumption for survivors increasing from 2.42% last year to 2.63% this year.
5. The discount rate was changed from 2.47% to 2.39%. The methodology in calculating this rate uses a ten-year Treasury average ending June 30 of the fiscal year. This is consistent with DoD, OPM, and the USCG. The rounding of the discount rate is to the nearest 0.01%.
6. Rates of salary increases are no longer applicable because all plan participants have now retired.
7. 85% of participants are assumed to have a spouse eligible for death benefits at the time of the commencement of benefits. Females are assumed to be three years younger than male spouses.
8. The installment benefit payable upon the death of a retired participant is 40% basic pay for the highest amounts, adjusted for cost-of-living increases if death occurs after retirement.

Comparatively, the primary actuarial assumptions used to determine the liability at September 30, 2021, are as follows:

1. The mortality assumption is based on the OPM non-USPS mortality tables projected using the OPM projection scale. There are separate healthy and disabled annuitant tables.
2. The equalization pay is equal to the greater of
    - The average of the last ten equalization pays for each category (General Service (GS), Uniformed Division (UD), and Senior Executive Service (SES)), or

- Consumer Price Index assumption as determined by the Treasury Breakeven Inflation (TBI) yield curve.

3. All annuitants were coded as GS, UD, or SES. This year's valuation data was the first time that SES annuitants were identified in the data. The average equalization pay over the last ten years was 1.45% for the GS group, 1.54% for the UD group, and 1.97% for the SES group. The ten-year average equalization that pays for all three groups are less than the Consumer Price Index (CPI) assumption derived from a ten-year average (same period as the discount rate) of the TBI curve of 2.02%. The equalization pay assumption decreased from 2.07% for all annuitants to 2.02%.
4. The assumption for future survivors' cost of living awards was based on the implicit ten-year average inflation assumption built into Treasury security prices plus the average number of survivor Cost of Living Allowance (COLA) awards over the last ten years. The implicit inflation from Treasury securities is derived from a ten-year average of the Treasury Breakeven Inflation (TBI) curve. Each time a three percent award is granted, an extra 100 basis points are added to the COLA award. Because there were four such awards over the last ten years, we added 40 basis points to the results. The basis point adjustment is reviewed annually based on the number of COLA awards over the past ten years. The COLA for survivors is 2.42%.
5. The discount rate calculated in accordance with SFFAS No. 33 is 2.47%. The methodology in calculating this rate uses a ten-year Treasury average ending June 30 of the fiscal year. This is consistent with DoD, OPM, and the USCG. The rounding of the discount rate is to the nearest 0.01%.
6. Rates of salary increases are 0% annually because the vast majority of plan participants have already retired. All remaining active participants are assumed to retire immediately.
7. 85% of participants are assumed to have a spouse eligible for death benefits at the time of the commencement of benefits.
8. The installment benefit payable upon the death of a retired participant is 40% basic pay for the highest amounts, adjusted for cost-of-living increases if death occurs after retirement.

B. Actuarial FECA Liability

The actuarial FECA liability represents the estimated liability for future workers' compensation and includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. Future workers' compensation estimates for the future cost of approved compensation cases, which are generated from an application of actuarial procedures developed by DOL, were approximately $2,396 million and $2,532 million at September 30, 2022 and 2021, respectively.

17. Environmental and Disposal Liabilities

Environmental and Disposal Liabilities at September 30, 2022 and 2021 are $808 million and $628 million, respectively. The Department is responsible for remediating its sites with environmental contamination and is party to various administrative proceedings, legal actions, and tort claims that may result in settlements or decisions adverse to the Federal Government. The source of remediation requirements to determine the environmental liability is based on compliance with federal, state, or local environmental laws and regulations. The major federal laws covering environmental response, cleanup, and monitoring are the *Comprehensive Environmental Response, Compensation and Liability Act of 1980* (P.L. 96-510) and the *Resource Conservation and Recovery Act* (P.L. 94-580).

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

Cost estimates for environmental and disposal liabilities are subject to revision as a result of changes in inflation, technology, environmental laws and regulations, and plans for disposal. The majority of the increase in FY 2022 relates to USCG vessels. Previously, USCG reported the liability using the cost to study the environmental issues presented by its vessels, some of which have asbestos-containing material, lead-based paint, and polychlorinated biphenyls. Having obtained sufficient information about those issues, USCG now reports the remediation costs.

Non-legal environmental and disposal contingencies are disclosed in Note 21, Commitments and Contingent Liabilities.

18. Other Liabilities

Other Liabilities consisted of the following (in millions):

As of September 30, 2022:	Current	Non-Current	Total
Intragovernmental:			
Advances from Others	$ 96	$ -	$ 96
Other Liabilities (Without Reciprocals)			
Employer Contributions and Payroll Taxes Payable	81	-	81
Other Unfunded Employment Related Liability	12	-	12
Liability for Clearing Accounts	(279)	-	(279)
Due to the General Fund (Note 14)	8,605	-	8,605
Due to Other than General Fund	317	-	317
Other Liabilities			
Other Liabilities Without Related Budgetary Obligations	88	53	141
Other Liabilities – Benefit Contributions Payable			
Employer Contributions and Payroll Taxes Payable	375	-	375
Other Post Employment Benefits Due and Payable	63	61	124
Accrued FECA Liability (Note 14)	149	204	353
Other Unfunded Employment Related Liability	6	-	6
Total Intragovernmental Other Liabilities	**$ 9,513**	**$ 318**	**$ 9,831**
With the Public:			
Accrued Liability for COVID-19 Funeral Assistance Program (See B. below)	$ 593	$ -	$ 593
Accrued Liability for Lost Wages Assistance Program (See B. below)	43	-	43
Accrued Funded Payroll and Leave (See B. below)	1,407	-	1,407
Deferred Revenue and Advances from Others (See B. below)	3,541	730	4,271
Contingent Legal Liabilities (Note 21)	206	60	266
Capital Lease Liability (Note 19)	4	-	4
Refunds and Drawbacks	830	-	830

Contract Holdbacks	38	9	47
Other Liabilities with Related Budgetary Obligations	1,080	-	1,080
Liability for Nonfiduciary Deposit Funds and Undeposited Collections	896	1,648	2,544
Liability for Clearing Accounts	(98)	-	(98)
Custodial Liability	272	-	272
Other Liabilities without Related Budgetary Obligations	42	46	88
Total Other Liabilities With the Public	**$ 8,854**	**$ 2,493**	**$ 11,347**
Total Other Liabilities	**$ 18,367**	**$ 2,811**	**$ 21,178**

As of September 30, 2021:	**Current**	**Non-Current**	**Total**
Intragovernmental:			
Advances from Others	$ 123	$ -	$ 123
Other Liabilities (Without Reciprocals)			
Employer Contributions and Payroll Taxes Payable	83	-	83
Other Unfunded Employment Related Liability	10	-	10
Liability for Clearing Accounts	(47)	-	(47)
Due to the General Fund (Note 14)	8,052	-	8,052
Due to Other than General Fund	145	-	145
Other Liabilities			
Other Liabilities Without Related Budgetary Obligations	172	-	172
Other Liabilities – Benefit Contributions Payable			
Employer Contributions and Payroll Taxes Payable	332	-	332
Other Post Employment Benefits Due and Payable	66	-	66
Accrued FECA Liability (Note 14)	153	251	404
Other Unfunded Employment Related Liability	3	-	3
Total Intragovernmental Other Liabilities	**$ 9,092**	**$ 251**	**$ 9,343**

With the Public:			
Accrued Liability for COVID-19 Funeral Assistance Program (See B. below)	$ 3,217	$ -	$ 3,217
Accrued Liability for Lost Wages Assistance Program (See B. below)	1,575	-	1,575
Accrued Funded Payroll and Leave (See B. below)	1,525	-	1,525
Deferred Revenue and Advances from Others (See B. below)	3,318	619	3,937
Contingent Legal Liabilities (Note 21)	281	140	421
Capital Lease Liability (Note 19)	6	2	8
Refunds and Drawbacks	663	-	663
Contract Holdbacks	30	21	51
Other Liabilities with Related Budgetary Obligations	1,161	-	1,161
Liability for Nonfiduciary Deposit Funds and Undeposited Collections	747	1,672	2,419
Liability for Clearing Accounts	(10)	-	(10)
Custodial Liability	397	-	397
Other Liabilities without Related Budgetary Obligations	105	72	177
Total Other Liabilities with the Public	**$ 13,015**	**$ 2,526**	**$ 15,541**
Total Other Liabilities	**$ 22,107**	**$ 2,777**	**$ 24,884**

A. Intragovernmental Other Liabilities

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

Workers' Compensation. Claims incurred for the benefit of Department employees under FECA are administered by DOL and are ultimately paid by the Department. The accrued FECA liability represents money owed for current claims. Reimbursement to DOL for payments made occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intragovernmental liability are made available to the Department as part of its annual appropriation from Congress in the year in which the reimbursement takes place. Workers' compensation expense was $216 million and $207 million, respectively, for the fiscal years ended September 30, 2022 and 2021.

B. Other Liabilities with the Public

Accrued liabilities for COVID-19 Funeral Assistance Program. This liability represents unpaid claims for reimbursement related to FEMA's funeral assistance program that reimburses an individual or household that meets COVID-19 related funeral expenses under section 408(e)(1) of the Robert T. Stafford Disaster Relief Fund and Emergency Assistance Act (42 U.S.C. 5174 (e)(1)), for which the federal cost share shall be 100 percent. For additional information, see Note 31, COVID-19 Activity.

Accrued liabilities for Lost Wages Assistance Program. This liability represents unpaid obligations related to FEMA's Lost Wages Assistance Program. For additional information, see Note 31, COVID-19 Activity.

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

	2022	2021
Accrued Funded Payroll and Benefits	$ 1,334	$ 1,436
Other	73	89
Total Accrued Funded Payroll and Leave	**$ 1,407**	**$ 1,525**

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

	2022	2021
USCIS Application Fees	$ 3,479	$ 3,112
FEMA Unearned NFIP Fees	597	644
Advances from Others	195	181
Total Deferred Revenue and Advances from Others	**$ 4,271**	**$ 3,937**

USCIS' deferred revenue relates to fees received at the time of filing for applications or petitions for immigration and naturalization benefits that are recognized as revenue when the application or petition is adjudicated.

FEMA's deferred revenue relates to other NFIP unearned revenue including the federal policy fee, reserve fund assessment, and HFIAA surcharge. For further information, please see Note 20, Insurance Liabilities.

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

19. Leases

A. Operating Leases

The Department leases various facilities and equipment accounted for as operating leases. Leased items consist of offices, warehouses, vehicles, and other equipment. The majority of office space occupied by the Department is either owned by the Federal Government or is leased by GSA from commercial sources. The estimated future lease payments for non-cancellable operating leases are based on lease contract terms, considering payments made during the year ended September 30, 2022.

As of September 30, 2022, estimated future minimum lease commitments for non-cancellable operating leases were as follows (in millions):

	Land and Buildings		
	Federal	Non-Federal	Total
FY 2023	$ 506	$ 28	$ 534
FY 2024	479	26	505
FY 2025	458	21	479
FY 2026	427	17	444
FY 2027	401	13	414
After FY 2027	3,115	36	3,151
Total Future Minimum Lease Payments	**$ 5,386**	**$ 141**	**$ 5,527**

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

B. Capital Leases

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

Certain license agreements are cancellable depending on future funding. Substantially all of the net present value of capital lease obligations and software license agreements will be funded from future sources. All of the Department's capital leases are non-federal.

As of September 30, the summary of assets under capital lease was as follows (in millions):

	2022	2021
Land and Buildings	$ 68	$ 68
Software	-	-
Vehicles and Equipment	1	1
Accumulated Amortization	(66)	(64)
Assets under Capital Lease, Net	**$ 3**	**$ 5**

The estimated future lease payments for capital leases are based on lease contract terms. The estimated future minimum lease payments for non-Federal land and buildings were $4 million in FY 2023. With no imputed interest and executory costs, the total capital lease liability for non-Federal land and buildings was $4 million, as of September 30, 2022.

20. Insurance Liabilities

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

	2022	2021
Beginning Balance	$ 1,255	$ 713
Incurred Claim Losses	3,384	1,743
Incurred Claim Loss Adjustment Expenses	188	172
Less Payments to Settle Claims		
Claim Losses	(1,499)	(1,236)
Loss Adjustment Expenses	(114)	(138)
Recoveries and Other Adjustments		
Claim Losses	13	1
Ending Balance	**3,227**	**1,255**
Liability for Unearned Insurance Premiums	**1,949**	**2,181**
Liability for Losses on Remaining Coverage	**672**	-
Total Insurance Liability	**$ 5,848**	**$ 3,436**

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

Incurred claim losses increase is largely the result of Hurricane Ian in Southwest Florida and the Carolinas in FY 2022.

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

The total premiums collected as of September 30, 2022, and 2021, was $3,264 million and $3,519 million, respectively. The total amount of coverage provided through insurance in-force[5] as of September 30, 2022, and 2021, was $1,286,227 million and $1,341,305 million, respectively. However, it is unlikely that there would be flooding events across the United States requiring the entire insurance in force amount to be filed at one time.

In FY 2022, FEMA began the transition to Risk Rating 2.0, a new pricing methodology based on the flood risk of individual properties. As a result, FEMA is estimating a premium deficiency reserve for the unearned portion of premiums, also known as a deficiency in the unearned premium reserve (UPR), which in SFFAS 51 is termed a liability for loss on remaining coverage. The reason for the UPR deficiency is that policyholders with premium decreases will receive those decreases immediately, while those with premium increases will go up on a phased approach.

[5] "In-force" refers to arrangements that are unexpired as of a given date.

Policies are subject to statutory caps on how much a premium can increase year over year (there are multiple caps for different classes of policies, but the most common is an 18% annual cap). The full ultimate premium is calculated to cover expected losses, and until policyholders on a glide path reach that full premium, there will be an expected shortage, i.e., the liability for losses on remaining coverage will be non-zero. The liability for losses on remaining coverage as of September 30, 2022, and 2021, was $672 million and $0, respectively.

The amount recorded represents the full liability for losses on remaining coverage offset by two other sources of funds that can also be used to pay future claims. Those additional funds are the unearned Reserve Fund Assessment and the unearned HFIAA of 2014 surcharge.

21. Commitments and Contingent Liabilities

A. Contingent Legal Liabilities

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

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

	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
As of September 30, 2022:			
Legal Contingencies			
Probable	$ 246	$ 246	$ 270
Reasonably Possible	-	2,080	3,199
Environmental Contingencies			
Probable	20	20	20
Reasonably Possible	-	-	-

	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
As of September 30, 2021:			
Legal Contingencies			
Probable	$ 406	$ 406	$ 411
Reasonably Possible	-	1,373	2,513
Environmental Contingencies			
Probable	15	15	15
Reasonably Possible	-	28	354

The claims above generally relate to the *Federal Tort Claims Act* (28 U.S.C. 2671, et seq.), OSLTF, personnel grievances, and various customs laws and regulations. The total estimated contingent liability recorded in the accompanying financial statements as of September 30, 2022, and

2021, was $266 million and $421 million, respectively, of which $12 million and $2 million, respectively, was funded.

As of September 30, 2022, and 2021, legal claims exist for which the potential range of loss could not be determined; however, the total amount claimed is not material to the financial statements. In addition, other claims exist for which the amount claimed, and the potential range of loss could not be determined.

Certain legal claims to which DHS is a party are funded from the Judgment Fund, which is maintained by Treasury. Once the claim is either settled or a court judgment is assessed against DHS and the Judgement Fund is determined to be the appropriate source for the payment, the liability would be removed from the DHS financial statements and an "other financing source" amount (which represents the amount to be paid by the Judgment Fund) would be recognized. If the Judgment Fund is responsible for only a portion of the claim or settlement, the other financing source amount would reflect only that amount to be paid by the Judgment Fund on behalf of DHS.

B. Duty and Trade Refunds

There are various trade-related matters that fall under the jurisdiction of other federal agencies, such as the Department of Commerce, which may result in refunds of duties, taxes, and fees from CBP refunds and drawbacks. Until a decision is reached by the other federal agencies, CBP does not have sufficient information to estimate a contingent liability amount. All known duty and trade refunds as of September 30, 2022 and 2021 have been recorded.

C. Loaned Aircraft and Equipment

The Department is generally liable to DoD for damage or loss to aircraft on loan to CBP and vessels on loan to the USCG. As of September 30, 2022, CBP had 16 aircraft on loan from DoD with a total replacement value of up to $23 million per aircraft. As of September 30, 2022, the USCG had four vessels on loan from DoD with a total replacement value of $48 million.

D. Other Contractual Arrangements

In addition to future lease commitments disclosed in Note 19, the Department is committed under contractual agreements for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all Department activities are disclosed in Note 26. In accordance with federal law, the Department is required to automatically cancel obligated and unobligated balances of appropriated funds five years after a fund expires. Obligations that have not been paid at the time an appropriation is cancelled may be paid from an unexpired appropriation that is available for the same general purpose. As of September 30, 2022, and 2021, the Department estimates total payments related to cancelled appropriations to be $277 million and $245 million, respectively, of which $146 million and $221 million, respectively, may require future funding.

TSA maintains one letter of intent (LOI) for modifications to airport facilities in which TSA uses cost-sharing agreements with the airports to modify the facilities for checked baggage screening projects. An LOI, though not a binding commitment of federal funding, represents TSA's intent to provide the agreed-upon funds in future years if the agency receives sufficient appropriations to cover the agreement. TSA employs other transaction agreements (OTAs) to fund the installation of integrated and non-integrated Explosive Detection Systems (EDS) and explosive trace detection equipment as well as improvements to be made to the existing systems in the baggage handling areas. These OTAs establish the respective cost-sharing obligations and other responsibilities of TSA and the specific entity (board, port, or authority) conducting the installations or improvements. Beginning in FY 2020 (P.L. 116-93), TSA's appropriation language no longer requires TSA to set aside specific authorized funding amounts for LOIs. TSA did not fund any new LOIs and did not increase any funding for the existing LOI in FY 2021 or FY 2022. As of September 30, 2022, and 2021, TSA received invoices or documentation for costs incurred totaling $58 million and $48, respectively, for unpaid invoices.

Under section 1604(b)(2) of the 9/11 Act, TSA is required to give funding consideration to airports that incurred eligible costs for in-line baggage screening systems but were not recipients of funding agreements. TSA began reviewing claims from at least 16 airports for reimbursement of costs incurred for in-line baggage systems installed prior to FY 2008 and identified up to $218 million of potential costs eligible for reimbursement. Beginning in FY 2018, Congress has included Enacted Appropriations for funding for Airport Reimbursement. In FY 2022 and 2021, Congress appropriated $30 million, to begin reimbursing airports for these costs, leaving a future funded liability of $28 and $58 million, respectively, for reimbursing airports for eligible costs.

On September 30, 2022, Congress passed Division G of Public Law 117-180, *Hermit's Peak/Calf Canyon Fire Assistance Act* (HPCCFA). This fire, which resulted in the loss of federal, state, local, tribal, and private property in New Mexico in 2022, was the result of an out-of-control prescribed burn initiated by the Department of Agriculture, U.S. Forest Service. The HPCCFA authorizes an expedited claims payment process for individuals injured/impacted by the Hermit's Peak/Calf Canyon Fire and authorizes FEMA to administer and pay claims under that process, subject to the availability of appropriations. Section 136 of Public Law 117-180 also appropriates $2.5 billion in no-year money to carry out the new FEMA claims settlement authority authorized by the HPCCFA, less expenses for OIG oversight and other administrative expense.

For individuals to be eligible for payment, they must meet the eligibility requirements set forth in the Act and file a claim with FEMA. The Act requires FEMA to promulgate regulations on the claims process before anyone can file a claim. As of September 30, 2022, those regulations have not been finalized and published; therefore, no claims have been filed. As a result, a liability related to the Hermit's Peak/Calf Canyon Fire is not sufficiently estimable at this time and based on information currently available, the liability has not been accrued in DHS FY 2022 financial statements.

22. Funds from Dedicated Collections

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

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

Intradepartmental activity reported in a fund from dedicated collection is often offset with activity in other funds. Accordingly, the Department presents information for funds from dedicated collections and all other funds in the Balance Sheets and Statements of Changes in Net Position on a consolidated basis. Each fund is reported on a combined basis with the elimination of intradepartmental activity between dedicated collections and all other funds as presented in the Statements of Changes of Net Position.

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

Funds from Dedicated Collections (in millions)

	Customs User Fees	Sport Fish Restoration and Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Combined Funds from Dedicated Collections	Eliminations between FFDC	Consolidated Funds from Dedicated Collections
Balance Sheet as of September 30, 2022										
ASSETS										
Intragovernmental:										
Fund Balance with Treasury	$ 510	$ (8)	$ 3,759	$ 8,299	$ 35	$ 1,107	$ 1,487	$ 15,189	$ -	$ 15,189
Investments, Net	-	2,355	-	2,425	8,625	-	2	13,407	-	13,407
Accounts Receivable, Net	-	187	1	-	180	-	5	373	185	188
Other Assets	-	-	26	2	5	-	8	41	-	41
Total Intragovernmental Assets	**$ 510**	**$ 2,534**	**$ 3,786**	**$ 10,726**	**$ 8,845**	**$ 1,107**	**$ 1,502**	**$ 29,010**	**$ 185**	**$ 28,825**
With the Public:										
Cash and other monetary assets	-	-	43	(35)	-	-	4	12	-	12
Accounts Receivable, Net	549	-	-	2	693	-	106	1,350	-	1,350
General Property, Plant, and Equipment, Net	-	-	1,034	4	-	377	14	1,429	-	1,429
Other Assets	-	-	37	546	-	-	4	587	-	587
Total With the Public	**$ 549**	**$ -**	**$ 1,114**	**$ 517**	**$ 693**	**$ 377**	**$ 128**	**$ 3,378**	**$ -**	**$ 3,378**
Total Assets	**$ 1,059**	**$ 2,534**	**$ 4,900**	**$ 11,243**	**$ 9,538**	**$ 1,484**	**$ 1,630**	**$ 32,388**	**$ 185**	**$ 32,203**
LIABILITIES										
Intragovernmental:										
Accounts Payable	$ -	$ 1,609	$ 79	$ 1	$ 226	$ -	$ 15	$ 1,930	$ 180	$ 1,750
Debt	-	-	-	20,525	-	-	-	20,525	-	20,525
Other Liabilities	14	-	40	2	4	-	40	100	5	95
Total Intragovernmental Liabilities	**$ 14**	**$ 1,609**	**$ 119**	**$ 20,528**	**$ 230**	**$ -**	**$ 55**	**$ 22,555**	**$ 185**	**$ 22,370**
With the Public:										
Accounts Payable	-	5	97	186	4	172	40	504	-	504
Federal Employee and Veteran Benefits Payable	-	-	249	-	-	-	2	251	-	251
Insurance and Guarantee Program Liabilities	-	-	-	5,848	-	-	-	5,848	-	5,848
Other Liabilities	2	(28)	3,632	457	7	50	21	4,141	-	4,141
Total With the Public	**$ 2**	**$ (23)**	**$ 3,978**	**$ 6,491**	**$ 11**	**$ 222**	**$ 63**	**$ 10,744**	**$ -**	**$ 10,744**
Total Liabilities	**$ 16**	**$ 1,586**	**$ 4,097**	**$ 27,019**	**$ 241**	**$ 222**	**$ 118**	**$ 33,299**	**$ 185**	**$ 33,114**

	Customs User Fees	Sport Fish Restoration and Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Combined Funds from Dedicated Collections	Eliminations between FFDC	Consolidated Funds from Dedicated Collections
NET POSITION										
Unexpended Appropriations	$ -	$ -	$ 193	$ 698	$ -	$ -	$ -	$ 891	$ -	$ 891
Cumulative Results of Operations	1,043	948	610	(16,474)	9,297	1,262	1,512	(1,802)	-	(1,802)
Total Liabilities and Net Position	**$1,059**	**$ 2,534**	**$ 4,900**	**$ 11,243**	**$ 9,538**	**$ 1,484**	**$ 1,630**	**$ 32,388**	**$ 185**	**$ 32,203**

Statement of Net Cost for the Year Ended September 30, 2022

	Customs User Fees	Sport Fish Restoration and Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Combined Funds from Dedicated Collections	Eliminations between FFDC	Consolidated Funds from Dedicated Collections
Gross Program Costs	$ 583	$ 96	$ 4,448	$ 6,346	$ 80	$ 186	$ 1,356	$ 13,095	$ 1	$ 13,094
Less: Earned Revenue	-	-	(4,533)	(4,668)	86	(250)	(985)	(10,350)	(1)	(10,349)
Net Cost of Operations	**$ 583**	**$ 96**	**$ (85)**	**$ 1,678**	**$ 166**	**$ (64)**	**$ 371**	**$ 2,745**	**$ -**	**$ 2,745**

Statement of Changes in Net Position for the Year Ended September 30, 2022

	Customs User Fees	Sport Fish Restoration and Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Combined Funds from Dedicated Collections	Eliminations between FFDC	Consolidated Funds from Dedicated Collections
Unexpended Appropriations										
Beginning Balance	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Appropriations Received	-	-	193	700	-	-	-	893	-	893
Transfers and Adjustments	-	-	-	(2)	-	-	-	(2)	-	(2)
Total Unexpended Appropriations: Ending	**$ -**	**$ -**	**$ 193**	**$ 698**	**$ -**	**$ -**	**$ -**	**$ 891**	**$ -**	**$ 891**

	Customs User Fees	Sport Fish Restoration and Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Combined Funds from Dedicated Collections	Eliminations between FFDC	Consolidated Funds from Dedicated Collections
Cumulative Results of Operations										
Beginning Balance	$ 739	$ 882	$ 266	$ (14,807)	$ 8,806	$ 1,117	$ 1,270	$ (1,727)	$ -	$ (1,727)
Other than Intra-governmental Non-Exchange Revenue										
Excise Tax and Customs Duties	-	541	-	-	(98)	-	-	443	-	443
Other Taxes and Receipts	703	-	-	4	117	-	442	1,266	-	1,266
Total Other than Intragovernmental Non-Exchange Revenue	703	541	-	4	19	-	442	1,709	-	1,709
Intragovernmental Non-Exchange Revenue	-	204	-	-	755	-	1	960	1	959
Donations and Forfeitures of Cash and Property	-	-	-	-	-	41	4	45	-	45
Transfers In/(Out) without Reimbursement	(3,465)	(583)	(3)	-	(117)	40	(602)	(4,730)	-	(4,730)
Imputed Financing	-	-	262	7	-	-	3	272	-	272
Other	3,649	-	-	-	-	-	765	4,414	(1)	4,415
Net Cost of Operations	(583)	(96)	85	(1,678)	(166)	64	(371)	(2,745)	-	(2,745)
Net Change in Cumulative Results of Operations	304	66	344	(1,667)	491	145	242	(75)	-	(75)
Cumulative Results of Operations: Ending	**1,043**	**948**	**610**	**(16,474)**	**9,297**	**1,262**	**1,512**	**(1,802)**	**-**	**(1,802)**
Net Position, End of Period	**$ 1,043**	**$ 948**	**$ 803**	**$ (15,776)**	**$ 9,297**	**$ 1,262**	**$ 1,512**	**$ (911)**	**$ -**	**$ (911)**

Customs User Fees

Enacted in 1986, the *Consolidated Omnibus Budget Reconciliation Act (COBRA)* (P.L. 99-272) required CBP to collect user fees for certain services. The law initially established processing fees for air and sea passengers, commercial trucks, rail cars, private vessels and aircraft, commercial vessels, dutiable mail packages, and CBP broker permits. An additional fee category was added later that year for processing barges and bulk carriers for Canada and Mexico. These fees for certain customs services are provided by 19 U.S.C. 58c. These fees are deposited into Customs User Fees accounts (Treasury Appropriation Fund Symbol (TAFS) 705695.30 and 70X5695).

In addition to the collection of user fees, other changes in CBP procedures were implemented because of the COBRA statute. Most importantly, provisions were included for providing non-reimbursable inspectional overtime services and paying for excess preclearance costs from COBRA user fee collections.

The *Customs and Trade Act of 1990* amended COBRA to provide for the hiring of inspection personnel, the purchasing of equipment, and the covering of related expenses with any surplus monies available after overtime and excess preclearance costs are satisfied. Expenditures from the surplus can only be used to enhance the service provided to those functions for which fees are collected.

The *Miscellaneous Trade and Technical Corrections Act of 1999* (P.L. 106-36) also amended COBRA and made miscellaneous and technical changes to various trade laws.

Section 892 of the *American Jobs Creation Act of 2004* (P.L. 108–357) amended 19 U.S.C. 58c to renew the fees provided under COBRA, which would have otherwise expired March 1, 2005, and to allow the Secretary of the Treasury to increase such fees by an amount not to exceed ten percent in the period beginning fiscal year 2006. The ten percent increase took effect in FY 2007. See 72 Fed. Reg. 3730 (Jan. 26, 2007).

Section 601 of the *United States-Colombia Trade Promotion Agreement Implementation Act of 2011* (P.L. 112-42) lifted the exemption that excluded air and sea passengers from Canada, Mexico, the Caribbean, and adjacent islands, from having to pay the COBRA air, sea, and cruise vessel passenger fees. Thus, only arriving passengers whose journeys originated in a territory or possession of the United States, or originated in the United States and were limited to territories and possessions of the United States, are exempt from the customs user fees prescribed by 19 U.S.C. 58c(a)(5). These free trade agreements are referred to as COBRA FTA. While most COBRA fees are mandatory (with permanent authorization to use the fees), COBRA FTA revenues are discretionary and must be authorized through annual appropriations acts. This distinction can impact how and when the fees are available to CBP.

The *Trade Preference Extension Act of 2015* (P.L. 114-27) was signed into law to extend the charging of COBRA user fees through 2025. The *Fixing America's Surface Transportation Act* (FAST Act, P.L. 114-94) was also signed into law in the same year. Section 32201 of the FAST Act amended section 13031 of COBRA by requiring certain COBRA user fees and corresponding limitations to be adjusted by the Secretary of the Treasury to reflect certain increases in inflation. Increases first took effect in FY 2018 and continued in subsequent years.

Sport Fish Restoration and Boating Trust Fund

Section 1016 of the *Deficit Reduction Act of 1984* (P.L. 98-369) established the Aquatic Resources Trust Fund, which was composed of two accounts, the Boating Safety Account and the Sport Fish Restoration Account.

In 2005, the *Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users* (P.L. 109-59) amended the *Deficit Reduction Act of 1984* by combining the Boating Safety and the Sport Fish Restoration accounts as the SFRBTF. The *Safe, Accountable, Flexible, Efficient Transportation Equity Act* was later amended by the *Sportfishing and Recreational Boating Safety Amendments Act of 2005* (P.L. 109-74).

The SFRBTF is a Treasury-managed fund and provides funding to states and other entities to promote boating safety and conservation of U.S. recreational waters. The most recent reauthorization was in 2021 via H.R. 5434, the *Surface Transportation Extension Act of 2021*.

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

Immigration Examination Fees

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

Enacted on September 30, 2021, P.L. 117-43, the *Extending Government Funding and Delivering Emergency Assistance Act*, Division C Title V, appropriated $193 million to remain available until expended, for expenses in support of Operation Allies Welcome. These appropriated funds are reported with funds from dedicated collections.

The primary sources of revenue are the application and petition fees that are collected during the course of the fiscal year and deposited into the IEFA (TAFS 70X5088). In addition, USCIS provides specific services to other federal, state, and local agencies, such as the provision of immigration status information under the Systematic Alien Verification for Entitlements program for use in adjudicating aliens' eligibility for public benefits. These services result in the collection of revenue from intragovernmental activities.

National Flood Insurance Program

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

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

The *National Flood Insurance Reform Act of 1994* (P.L. 103-325) reinforced the objective of using insurance as the preferred mechanism for disaster assistance by expanding mandatory flood insurance purchase requirements and by prohibiting further flood disaster assistance to participants who received flood disaster assistance that was conditional on first having obtained flood insurance and subsequently failed to obtain and maintain flood insurance.

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

The *Biggert-Waters Flood Insurance Reform Act of 2012* (P.L. 112-141) and the *Homeowner Flood Insurance Affordability Act of 2014* (P.L. 113-89) amended the *National Flood Insurance Act of 1968* to establish a National Flood Insurance Reserve Fund to meet the expected future obligations of the NFIP. The acts authorized FEMA to secure reinsurance coverage from private reinsurance and capital markets to maintain the financial ability of the program to pay claims from major flooding events.

Although P.L. 117-103 Division 0 Title I enacted on March 15, 2022 continues to extend the NFIP as is through September 30, 2022, it has been almost 10 years since the last reauthorization made programmatic changes.

Enacted on November 15, 2021, P.L. 117-58, the *Infrastructure Investment and Jobs Act*, Division J Title V, appropriated $3.5 billion to remain available until expended for flood mitigation assistance. $700 million shall be made available per year over the next five fiscal years. These appropriated funds are reported with Funds from Dedicated Collections.

Under the NFIP, the Department pays claims to policyholders who experience flood damage. The write your own (WYO) companies that participate in the program have authority to use departmental funds (revenue and other financing sources) to respond to the obligations to the policyholders. Congress has mandated that the premium collections be used to pay claims and commissions and taxes of agents, insurance operations, interest on the debt, and for flood mitigation assistance actions.

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

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

Oil Spill Liability Trust Fund

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

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

The OSLTF includes two major funds managed by the USCG: the Principal Fund (TAFS 70X8185) and the Payment of Claims (TAFS 70X8312). All revenue is deposited directly into the Principal Fund. The recurring and nonrecurring revenue is derived from a number of sources, including barrel tax, interest from U.S. Treasury investments, cost recoveries, and fines and penalties. Additionally, two of the six expenditure accounts are managed by the USCG. These include Oil Spill Recovery (TAFS 70X8349) and Trust Fund Share of Expenses (TAFS 70_8314). Oil Spill

Recovery funds the activities overseen by federal on-scene coordinators in response to covered discharges and the activities of federal trustees to initiate natural resource damage assessments. This account annually receives a $50 million appropriation that remains available until expended. Trust Fund Share of Expenses receives annual appropriations from the OSLTF that are then distributed to the USCG Operations and Support; Procurement, Construction and Improvement; and Research and Development appropriations. By statute, the maximum amount that can be expended from the OSLTF with respect to any single incident shall not exceed $1,000 million, of which no more than $500 million may be spent on natural resource damage assessments. The maximum amount expended with respect to a single incident is net of amounts expended and amounts recovered.

On April 20, 2010, the offshore drilling platform, Deepwater Horizon, exploded and sank 52 miles southeast of Venice, Louisiana. An estimated 4.9 million barrels of oil leaked from the sunken platform's undersea ruptured pipe. The states of Louisiana, Mississippi, Alabama, Florida, and Texas were affected by the spill. On April 4, 2016, the U.S. District Court approved a settlement plan between the Department of Justice and British Petroleum (BP). The consent decree requires BP to pay a penalty to the U.S. Government under a 15-year payment plan that requires annual payments beginning on April 4, 2017. Of the total amount owed to the U.S. Government, the OSLTF will receive a total of $935 million plus interest. The final installment payment will be the accrued interest of $60 million. In addition, BP was assessed $374 million for unpaid costs and damages paid from the OSLTF through July 2, 2015, to be paid in annual installments over eight years beginning in 2016. No interest will be accrued on this amount.

Contingent Liabilities. The OSLTF, which is administered by the USCG National Pollution Funds Center (NPFC), may be available to pay claims for OPA specified costs and damages, not paid by the responsible party. Under OPA, claimants are required to present their claims first to the responsible parties; if the responsible party is not identified or denies the claims, the claimant may then file an action in court or file a claim against the OSLTF through the NPFC. For additional information, see Note 21, Commitments and Contingencies.

Aviation Security Capital Fund

In 2003, *Vision 100--Century of Aviation Reauthorization Act* (P.L. 108-176) established the Aviation Security Capital Fund (TAFS 70X5385 and 70C5385). The fund's revenue is derived from security service fees in accordance with 49 U.S.C. 44940(a)(1). Annually, the first $250 million derived from Aviation Security fees are deposited into this fund. TSA provides funding to airport sponsors for projects to (1) replace baggage conveyor systems related to aviation security, (2) reconfigure terminal baggage areas as needed to install EDS, (3) deploy EDS behind the ticket counter, in the baggage sorting area, or in line with the baggage handling system, and (4) make other airport security capital improvements.

All Other Funds from Dedicated Collections

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

CBP

- 70X4363: Enhanced Inspectional Services; 127 Stat. 378
- 70_5087: Immigration User Fees; 116 Stat. 2135
- 70X5087: Immigration User Fees; 116 Stat. 2135

- 70X5089: Land Border Inspection Fees; 116 Stat. 2135
- 70X5451: Immigration Enforcement Account; 116 Stat. 2135
- 70X5543: International Registered Traveler Program Fund; 121 Stat. 2091-2092
- 70X5569: Asia-Pacific Economic Cooperation Business Travel Cards; 125 Stat. 551
- 70X5595: Electronic System for Travel Authorization (ESTA) Fees; P.L. 110-53, 121 Stat. 344; P.L. 111-145, 124 Stat. 56
- 70_5694: User Fees, Small Airports; 116 Stat. 2135
- 70X5694: User Fees, Small Airports; 116 Stat. 2135
- 70X5702: 9-11 Response and Biometric Exit Account; P.L. 114-113, Sec. 402(g)
- 70X8870: Harbor Maintenance Fee Collection; 116 Stat. 2135

FEMA

- 70_0715: Radiological Emergency Preparedness Program; 117 Stat. 516
- 70X0715: Radiological Emergency Preparedness Program; 117 Stat. 516

FLETC

- 70X8360: Gifts and Bequests; 116 Stat. 2135

ICE

- 70X5126: Breach Bond/Detention Fund; 116 Stat. 2135
- 70X5378: Student and Exchange Visitor Program; 110 Stat. 3009-706, Sec. (e)(4)(B)
- 70X5382: Immigration User Fee Account; 116 Stat. 2135
- 70X5542: Detention and Removal Operations; 8 U.S.C. 1356(m)-(n); P.L. 107-296, Sec. 476c

TSA

- 70X5390: Unclaimed Checkpoint Money; 118 Stat. 1317-1318, Sec.515(a)
- 70X5545: Airport Checkpoint Screening Fund; P.L. 110-161

USCG

- 70_5677: Abandoned Seafarers Fund; 128 Stat. 3051
- 70X5677: Abandoned Seafarers Fund; 128 Stat. 3051
- 70_5710: Coast Guard Housing Fund; 14 U.S.C. 687(c)
- 70X5710: Coast Guard Housing Fund; 14 U.S.C. 687(c)
- 70X8533: General Gift Fund; 116 Stat. 2135

USCIS

- 70X1910: Citizenship Gift and Bequest Account; 131 Stat. 422
- 70_5106: H-1 B Nonimmigrant Petitioner Account; 116 Stat. 2135
- 70X5106: H-1 B Nonimmigrant Petitioner Account; 116 Stat. 2135
- 70_5389: H-1B and L Fraud Prevention and Detection Account; 118 Stat. 3357, Sec. 426(b)(1)
- 70X5389: H-1B and L Fraud Prevention and Detection Account; 118 Stat. 3357, Sec. 426(b)(1)

Multiple Components

- 70X8244: Gifts and Donations; 116 Stat. 2135

23. Available Borrowing Authority

For the Years Ended September 30 (in millions):	2022	2021
Beginning Borrowing Authority	$ 15	$ 20
Current Year Borrowing Authority Realized	9,970	10,012
Decrease in Current Year Borrowing Authority Realized	(9,966)	(9,980)
Net Current Year Borrowing Authority Realized	4	32
Less: Borrowing Authority Converted to Cash	(9)	(37)
Less: Borrowing Authority Withdrawn	(1)	-
Ending Borrowing Authority	**$ 9**	**$ 15**

FEMA has borrowing authority to pay insurance claims as part of the NFIP and to finance CDLs under DADLP. Borrowing authority is budget authority enacted by law to permit an agency to borrow money and then obligate and disburse against amounts borrowed for a specified purpose. As of September 30, 2022, and 2021, net current year borrowing authority realized presented in the Statement of Budgetary Resources (SBR) totaled $4 million and $32 million, respectively.

FEMA is authorized to borrow from Treasury up to $30,425 million to fund the payment of flood insurance claims and claims-related expenses of the NFIP. Amounts borrowed at any time are not predetermined, and authority is used only as needed to pay existing obligations for claims and expenses. Insurance premiums collected are used to pay insurance claims and to repay borrowings. As of September 30, 2022, and 2021, FEMA had drawn from Treasury $20,525 million, leaving $9,900 million available to be borrowed.

FEMA also requests borrowing authority annually to cover the unsubsidized portion of loans made, finance downward re-estimates, modifications, modification adjustment transfers, and annual interest payment to Treasury at year-end. In FY 2022 and FY 2021, FEMA requested borrowing totaling $70 million and $112 million, respectively. As of September 30, 2022 and 2021, the ending available borrowing authority of $9 million and $15 million, respectively, was to cover current obligations for CDLs still disbursing.

24. Legal Arrangements Affecting the Use of Unobligated Balances

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

Included in the cumulative results of operations and Fund Balance with Treasury are special funds of $1,598 million and $1,102 million at September 30, 2022, and 2021, respectively, that represents the Department's authority to assess and collect user fees relating to merchandise and passenger processing; to assess and collect fees associated with services performed at certain small airports or other facilities; to retain amounts needed to offset costs associated with collecting duties; and taxes and fees for the Government of Puerto Rico. These special fund balances are restricted by law in their use to offset specific costs incurred by the Department. Part of the passenger fees in the COBRA User Fees Account are restricted by law in their use to offset specific costs incurred by the Department.

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

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

The table below documents the material differences between the FY 2021 Statement of Budgetary Resources and the actual amounts reported for FY 2021 in the Budget of the U.S. Government. Since the FY 2022 financial statements will be reported prior to the release of the Budget of the U.S Government, DHS is reporting for FY 2021 only. Typically, the Budget of the U.S Government with the FY 2022 actual data is published in February of the subsequent year. Once published, the FY 2022 actual data will be available on the OMB website.

	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
FY 2021 Actual Balances per the FY 2023 Budget of the U.S. Government (in millions)	**$ 188,874**	**$ 135,112**	**$ 12,137**	**$ 103,230**
Reconciling Items:				
Accounts that are expired that are not included in Budget of the U.S. Government	2,113	-	-	-
Distributed Offsetting Receipts not included in the Budget of the U.S. Government Net Outlays	-	-	-	(12,137)
Refunds and drawbacks not included in the Budget of the U.S. Government	7,077	7,077	-	6,966
Byrd Program (Continued Dumping and Subsidy Offset) not included in the Budget of the U.S. Government	162	58	-	58
Miscellaneous Differences	763	(75)	-	(25)
Per the 2021 Statement of Budgetary Resources	**$ 198,989**	**$ 142,172**	**$ 12,137**	**$ 98,092**

The Miscellaneous Differences amount includes adjustments to obligations reported on the Statement of Budgetary Resources but not included in the Budget of the U.S. Government. The SBR Net Outlays also includes the SBR line Disbursement, net amounts.

26. Undelivered Orders, End of Period

An unpaid undelivered order exists when a valid obligation has occurred, and funds have been reserved but the goods or services have not been received by the Department. A paid undelivered order exists when a valid obligation has occurred, and funds have been advanced, but the goods or services have not been received by the Department. Undelivered Orders consisted of the following (in millions):

As of September 30, 2022:	Federal	Non-Federal	Total
Undelivered Orders – Unpaid	$ 10,880	$ 95,426	$ 106,306
Undelivered Orders – Paid	$ 761	$ 824	$ 1,585

As of September 30, 2021:	Federal	Non-Federal	Total
Undelivered Orders – Unpaid	$ 10,938	$ 80,987	$ 91,925
Undelivered Orders – Paid	$ 849	$ 924	$ 1,773

27. Net Adjustments to Unobligated Balance, Brought Forward, October 1

For the Years Ended September 30 (in millions):	2022	2021
Unobligated Balance, Prior Year	$ 56,817	$ 36,106
Other Balances Withdrawn from Treasury	(676)	(575)
Recoveries of Prior Year Obligations	9,374	11,428
Other	190	(4)
Unobligated Balance from Prior Year Budget Authority, Net	**$ 65,705**	**$ 46,955**

The FEMA Disaster Relief program was the primary contributor to Recoveries of prior year obligations. DHS COVID-19 related recoveries and refunds totaled $2,164 million for FY 2022 and $5,404 million for FY 2021. For further information, please see Note 31, COVID-19 Activity.

28. Custodial Revenue

The Department collects revenue from a variety of duties, excise taxes, fines and penalties, and various other fees. Revenue collections primarily result from current fiscal year activity. Current Taxes, Duties, Trade Receivables, Net are collected within 90 days of the assessment. Therefore, the Department considers Tax Year to be same as the fiscal year when assessments are made. CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. CBP's mission requires the collection of non-exchange and exchange revenue for interest and Agricultural Quarantine Inspection fees collected on behalf of the U.S. Department of Agriculture. The majority of CBP's revenue is considered non-entity revenue and is reported on the Department's Statement of Custodial Activity and includes duties, excise taxes, and various other fees collected by CBP.

For additional information, see Note 1.X., Exchange and Non-Exchange Revenue.

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

1. **Duties:** amounts collected on imported goods collected on behalf of the Federal Government.
2. **User fees:** amounts designed to maintain U.S. harbors and to defray the cost of other miscellaneous service programs.
3. **Excise taxes:** amounts collected on imported distilled spirits, wines, tobacco products, and other miscellaneous taxes collected on the behalf of the Federal Government.
4. **Fines and penalties:** amounts collected for violations of laws and regulations.

Custodial revenue collected from the public, broken out by revenue type and by tax year, were as follows for the fiscal year ended September 30, 2022 (in millions):

Custodial Revenue	2022	2021 and Prior Years	2022 Collections
Excise Tax	$ 4,489	$ 140	$ 4,629
Customs Duties	97,825	6,799	104,624
User Fees, Fines and Penalties, Interest, and Other Revenue	2,245	121	2,366
Total Amount of Federal Revenues Collected	**$ 104,559**	**$ 7,060**	**$ 111,619**

Custodial revenue collected from the public, broken out by revenue type and by tax year, were as follows for the fiscal year ended September 30, 2021 (in millions):

Custodial Revenue	2021	2020 and Prior Years	2021 Collections
Excise Tax	$ 4,423	$ 350	$ 4,773
Customs Duties	79,175	6,291	85,466
User Fees, Fines and Penalties, Interest, and Other Revenue	1,751	154	1,905
Total Amount of Federal Revenues Collected	**$ 85,349**	**$ 6,795**	**$ 92,144**

CBP's increase in custodial collections from the public is a result of an increase in duties collected based upon higher volume of entry summaries and user and ESTA fees related to increased international travel.

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

Tax disbursements from the refunds and drawbacks account, broken out by revenue type and by tax year, were as follows for the fiscal year ended September 30, 2022 (in millions):

Refunds/Payments	Tax Year				
	2022	2021	2020	Prior Years	2022 Refunds
Customs Duties	$ 3,149	$ 826	$ 627	$ 1,658	$ 6,260
Excise Tax	224	57	43	113	437
Fines, Penalties, Interest, and Other Revenue	64	16	12	32	124
Total Tax Refunds and Drawbacks Disbursed	**$ 3,437**	**$ 899**	**$ 682**	**$ 1,803**	**$ 6,821**

Tax disbursements from the refunds and drawbacks account, broken out by revenue type and by tax year, were as follows for the fiscal year ended September 30, 2021 (in millions):

Refunds/Payments	Tax Year				
	2021	2020	2019	Prior Years	2021 Refunds
Customs Duties	$ 2,554	$ 2,236	$ 1,354	$ 693	$ 6,837
Excise Tax	122	107	65	33	327
Fines, Penalties, Interest, and Other Revenue	76	67	41	21	205
Total Tax Refunds and Drawbacks Disbursed	**$ 2,752**	**$ 2,410**	**$ 1,460**	**$ 747**	**$ 7,369**

The disbursements include interest payments of $246 million and $219 million for the fiscal years ended September 30, 2022 and 2021, respectively.

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

29. Reconciliation of the Net Cost to Net Outlays

The reconciliation of net outlays presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information.

The first section includes the total DHS Net Cost of Operations for the period ending September 30, 2022. Items include gross cost, earned revenue, net cost of operations before (gain)/loss on pension, ORB, or OPEB assumption changes, and (gain)/loss on pension, ORB, or OPEB changes. All section totals are added to the Net Cost of Operations.

The second section, Components of Net Operating Cost Not Part of the Budgetary Outlays, includes items such as property, plant and equipment depreciation expense, disposal, and revaluation. The cost of goods sold, applied overhead, cost capitalization offset, (gains)/losses on all other investments are also part of the calculation. The next subsection, Increase/(Decrease) in Assets Not Affecting Budget Outlays, consists of items such as accounts receivable, net and other assets. The subsection titled (Increase)/Decrease in Liabilities Not

Affecting Budget Outlays, consists of accounts payable, insurance and guarantee program liability (Non-FCRA)/loans payable, environmental and disposal liabilities, federal employee and veteran benefit payable, other liabilities, and imputed costs.

The third section, Components of the Budget Outlays That Are Not Part of Net Operating Cost, consists of the acquisition of capital assets, inventory, and other investment activity. Financing sources from donated revenue and transfers out/(in) without reimbursements are part of the calculated total.

The fourth section, Miscellaneous Items, consists of distributed offsetting receipts, custodial/non-exchange revenue, and other temporary timing differences.

As of September 30, 2022 (in millions):

	Intragovernmental	With the Public	Total
Net Cost of Operations	**$ 18,362**	**$ 72,389**	**$ 90,751**
Components of Net Operating Cost Not Part of the Budgetary Outlays:			
Property, Plant, and Equipment Depreciation Expense	-	(2,471)	(2,471)
Property, Plant, and Equipment Donations, Applied Overhead, Cost Capitalization Offset, Disposals, and Revaluations	(11)	4,144	4,133
Cost of Goods Sold	-	(247)	(247)
(Gains)/Losses on All Other Investments	-	(18)	(18)
Increase/(Decrease) in Assets Not Affecting Budgetary Outlays:			
Accounts Receivable, Net	(143)	(337)	(480)
Other Assets	(154)	(143)	(297)
(Increase)/Decrease in Liabilities Not Affecting Budget Outlays:			
Accounts Payable	629	(161)	468
Insurance and Guarantee Program Liability (Non-FCRA)/Loans Payable	-	(2,412)	(2,412)
Environmental and Disposal Liabilities	-	(180)	(180)
Federal Employee and Veteran Benefits Payable[6]	-	58,630	58,630
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	261	4,039	4,300
Other Financing Sources:			
Imputed Costs	$ (1,976)	$ -	$ (1,976)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**$ (1,394)**	**$ 60,844**	**$ 59,450**
Components of the Budget Outlays That Are Not Part of Net Operating Cost:			
Acquisition of Capital Assets	$ 948	$ 2,251	$ 3,199
Acquisition of Inventory	58	338	396
Other Investment Activity	(1)	-	(1)
Financing Sources			
Donated Revenue	$ -	$ (4)	$ (4)

	Intragovernmental	With the Public	Total
Transfers Out/(In) Without Reimbursements[6]	(63,541)	(23)	(63,564)
Total Components of the Budget Outlays That Are Not Part of the Net Operating Costs	**$ (62,536)**	**$ 2,562**	**$ (59,974)**
Miscellaneous Items			
Distributed Offsetting Receipts	$ (184)	$ (5,312)	$ (5,496)
Custodial/Non-Exchange Revenue	6,274	254	6,528
Other Temporary Timing Differences	(556)	(3,652)	(4,208)
Appropriated Receipts for Trust/Special Funds	-	(1)	(1)
Total Miscellaneous Items	**$ 5,534**	**$ (8,711)**	**$ (3,177)**
Total Net Outlays	**$ (40,034)**	**$ 127,084**	**$ 87,050**

As of September 30, 2021 (in millions):

	Intragovernmental	With the Public	Total
Net Cost of Operations	**$ 19,081**	**$ 72,462**	**$ 91,543**
Components of Net Operating Cost Not Part of the Budgetary Outlays:			
Property, Plant, and Equipment Depreciation Expense	-	(2,087)	(2,087)
Property, Plant, and Equipment Donations, Applied Overhead, Cost Capitalization Offset, Disposals, and Revaluations	256	(282)	(26)
Cost of Goods Sold	-	(336)	(336)
(Gains)/Losses on All Other Investments	-	(16)	(16)
Increase/(Decrease) in Assets Not Affecting Budgetary Outlays:			
Accounts Receivable, Net	(773)	(51)	(824)
Other Assets	(117)	(153)	(270)
(Increase)/Decrease in Liabilities Not Affecting Budget Outlays:			
Accounts Payable	(634)	508	(126)
Insurance and Guarantee Program Liability (Non-FCRA)/Loans Payable	-	(606)	(606)
Environmental and Disposal Liabilities	-	(6)	(6)
Federal Employee and Veteran Benefits Payable	-	(3,735)	(3,735)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	88	8,782	8,870
Other Financing Sources:			
Imputed Costs	$ (1,877)	$ -	$ (1,877)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**$ (3,057)**	**$ 2,018**	**$ (1,039)**

[6] These lines include the activity related to the transfer of USCG's Military Retirement System actuarial liability to DoD. While this activity represents balances from the Balance Sheet and Statement of Changes in Net Position, the transfer does not have any impact on Net Cost or Net Outlays.

Components of the Budget Outlays That Are Not Part of Net Operating Cost:			
Acquisition of Capital Assets	$ (263)	$ 3,708	$ 3,445
Acquisition of Inventory	80	425	505
Other Investment Activity	(1)	-	(1)
Financing Sources			
Donated Revenue	$ -	$ (3)	$ (3)
Transfers Out/(In) Without Reimbursements	182	(51)	131
Total Components of the Budget Outlays That Are Not Part of the Net Operating Costs	**$ (2)**	**$ 4,079**	**$ 4,077**
Miscellaneous Items			
Distributed Offsetting Receipts	$ (114)	$ -	$ (114)
Custodial/Non-Exchange Revenue	6,989	(3,630)	3,359
Other Temporary Timing Differences	(8)	274	266
Total Miscellaneous Items	**$ 6,867**	**$ (3,356)**	**$ 3,511**
Total Net Outlays	**$ 22,889**	**$ 75,203**	**$ 98,092**

30. Reclassification of Statement of Net Cost for Financial Reporting Compilation Process

To prepare the *Financial Report of the U.S. Government (Financial Report)*, the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Statement of Net Cost. Treasury eliminates intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the *Financial Report* statements. This note shows the Department's financial statements and the Department's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated *Financial Report* line items. A copy of the 2021 *Financial Report* can be found at the Reports, Statements, and Publications page within the Bureau of Fiscal Service website and a copy of the 2022 *Financial Report* will be posted to this site as soon as it is released.

The term "intragovernmental" is used in this note to refer to amounts that result from other components of the Federal Government.

The term "non-federal" is used in this note to refer to Federal Government amounts that result from transactions with non-federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments.

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ending September 30, 2022 (in millions)

FY 2022 DHS SNC		Line Items Used to Prepare FY 2022 Government-wide SNC					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated and All Other**	**Total**	**Reclassified Financial Statement Line**
Gross Costs	**$ 105,853**						***Non-Federal Costs***
		$ 9,764	$ -	$ 75,831	$ -	$ 85,595	Non-Federal Gross Cost
		-	-	26	-	26	General PP&E Partial Impairment Loss
		9,764	***-***	***75,857***	***-***	***85,621***	***Total Non-Federal Costs***
							Intragovernmental Costs
		575	-	6,687	-	7,262	Benefit Program Costs
		272	-	1,705	1	1,976	Imputed Costs
		2,078	1	7,735	556	9,256	Buy/Sell Costs
		300	-	2	-	302	Borrowing and Other Interest Expense
		106	-	1,330	-	1,436	Other Expenses (w/o Reciprocals)
		3,331	***1***	***17,459***	***557***	***20,232***	***Total Intragovernmental Costs***
Total Gross Costs	*105,853*	*13,095*	*1*	*93,316*	*557*	*105,853*	*Total Reclassified Gross Costs*
Earned Revenue	**(16,283)**	(10,265)	-	(4,148)	-	(14,413)	Non-Federal Earned Revenue
							Intragovernmental Revenue
		(62)	(1)	(2,341)	(556)	(1,846)	Buy/Sell Revenue
		(23)	-	-	-	(23)	Federal Securities Interest Revenue Including Associated Gains/Losses
		-	-	(1)	-	(1)	Borrowing and Other Interest Revenue
		(85)	***(1)***	***(2,342)***	***(556)***	***(1,870)***	***Total Intragovernmental Earned Revenue***
Total Earned Revenue	*(16,283)*	*(10,350)*	*(1)*	*(6,490)*	*(556)*	*(16,283)*	*Total Reclassified Earned Revenue*
(Gain)/Loss-Pension/ORB/OPEB Assumptions	1,181	-	-	1,181	-	1,181	(Gain)/Loss on Changes in Actuarial Assumptions (Non-Federal)
Net Cost	**$ 90,751**	**$ 2,745**	**$ -**	**$ 88,007**	**$ 1**	**$ 90,751**	**Net Cost**

31. COVID-19 Activity

For the Years Ended September 30 (dollars in millions):	2022			2021		
COVID-19 Activity by Funding Source:	DRF	DEF Code (N,V)	DHS All Other Appropriations	DRF	DEF Code (N,V)	DHS All Other Appropriations
Budgetary Resources:						
Unobligated (and unexpired) Balance Carried Forward from PY	$ 33,985	$ 74	$ -	$ 15,792	$ 591	$ -
New Budget Authority	18,999	-	650	69,142	13	840
Rescissions/Other Changes to Budgetary Resources	2,140	21	3	5,362	35	7
Available Budgetary Resources	**$ 55,124**	**$ 95**	**$ 653**	**$ 90,296**	**$ 639**	**$ 847**
Status of Budgetary Resources						
Obligations Incurred:						
Individual Assistance Program						
Lost Wages Program	$ 21	$ -	$ -	$ 694	$ -	$ -
Funeral Assistance	(22)	-	-	4,857	-	-
Other Individual Assistance	1,002	-	-	235	-	-
FEMA Public Assistance	23,546	-	-	32,167	-	-
Other Programs	-	77	683	-	526	1,186
Total Obligations Incurred	**$ 24,547**	**$ 77**	**$ 683**	**$ 37,953**	**$ 526**	**$ 1,186**
Budgetary Resources: Ending Unobligated (and unexpired) Balance to be Carried Forward	**$ 15,833**	**$ -**	**$ -**	**$ 33,985**	**$ 74**	**$ - -**

For the Years Ended September 30 (dollars in millions):	2022			2021		
	DRF	DEF Code (N,V)	DHS All Other Appropriations	DRF	DEF Code (N,V)	DHS All Other Appropriations
Outlays, Net						
Individual Assistance Program						
Lost Wages Program	$ 34	$ -	$ -	$ 9,881	$ -	$ -
Funeral Assistance	869	-	-	1,247	-	-
Other Individual Assistance	1,159	-	-	218	-	-
FEMA Public Assistance	17,362	-	-	20,828	-	-
Other Programs	-	241	673	-	439	1,242
Outlays, Net (Total)	$ 19,424	$ 241	$ 673	$ 32,174	$ 439	$ 1,242

Most of DHS obligations incurred in response to COVID-19 were obligations within FEMA's Disaster Relief Fund (DRF). Pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act, the DRF is used to direct, coordinate, manage, and fund eligible response and recovery efforts associated with domestic major disasters and emergencies – including COVID-19 related activities - that overwhelm State resources. Budgetary resources available to the DRF consists of both normal annual appropriations and specific supplemental emergency appropriations which provide funding for all Stafford Act activities. These supplemental appropriations that provide additional funding to the DRF are generally not designated to be used for any specific disaster event but are available for response to all declared disasters that fall under the Stafford Act. Due to the nature of how resources are made available to the DRF and how they are expended, FEMA utilizes a First In – First Out (FIFO) methodology to report obligation and disbursement data for DEF Code information in its monthly Government-wide Treasury Account Symbol (GTAS) Adjusted Trial Balance submission for the DRF.

Budgetary resources available for FEMA's DRF include funding from the following COVID-19 supplemental appropriations:

- The "Coronavirus Aid, Relief, and Economic Security (CARES) Act" (P.L. 116-136), Emergency (Disaster Emergency Fund (DEF) Code N);
- The "American Rescue Plan Act (ARPA) of 2021" (P.L. 117-2), Nonemergency (DEF Code V); and
- The "Consolidated Appropriation Act (CAA), 2021" (PL 116-260), (Division M), (DEF Code U).

DEF Codes N and V column is presented separately to highlight budgetary resources and obligation activities pertaining specifically to the CARES Act and the ARPA of 2021 for DHS Components, including FEMA's non-DRF appropriations. DHS All Other Appropriations column presents budgetary resources and obligation activities from all other funding sources (e.g., annual and permanent appropriations) used to support COVID-19 activity for all DHS Components.

In FY 2021, DHS Components received $50,013 million in funding from the ARPA of 2021 with $50,000 million being appropriated to FEMA DRF and $13 million being directed to TSA for the Emergency TSA Employee Leave Fund to assist employees who were unable to work due to COVID-19. FEMA DRF carried over $15,792 million of funding from FY 2020 and received $19,142 million from the CAA, 2021 to carry out disaster relief activity, including COVID-19 related activity. For all appropriations other than DRF, DHS Components carried over $591 million of the remaining CARES Act funding from FY 2020 and CBP received $840 million from the CAA, 2021 to offset the decrease in Immigration User Fees collected because of the coronavirus pandemic. Total available budgetary resources for FY 2021 also included COVID-19 related recoveries of prior year obligations totaling $5,404 million, consisting of $5,362 million from FEMA DRF and $42 million from all other DHS Components.

In FY 2022, FEMA DRF carried over $33,985 million of funding from FY 2021 and received $18,999 million in funding, consisting of $18,799 million from the CAA, 2022 (P.L. 117-103) and $200 million from the Infrastructure Investment and Jobs Act (IIJA) 2022 (P.L. 117-58) to carry out disaster relief activity, including COVID-19 related activity. For all appropriations other than DRF, DHS Components carried over $70 million of remaining CARES Act funding, and $4 million of ARPA funding from FY 2021. CBP also received $650 million from the CAA, 2022 to offset the decrease in Immigration User Fees collected as a result of the coronavirus pandemic. Total available budgetary resources for FY 2022 also included COVID-19 related recoveries of prior year obligations totaling $2,164 million, consisting of $2,140 million from FEMA DRF and $24 million from all other DHS Components.

COVID-19 Programs & Activities Funded

The appropriations received from the CARES Act, ARPA, 2021, CAA, 2021, 2022 and other regular annual and multi-year appropriations were used to support the following DHS Components, programs, and activities:

For the Periods Ended September 30, 2022 and 2021

Component	Program	Activities
CBP	Medical support; COVID-19 test kits; detainee transport; decontamination transportation; and Consumables	Expand medical services contract; provide testing kits to frontline personnel and detainees; provide ground transportation; decontaminate vehicle assets; care and sustenance of detainees; temporary duty and overtime pay; and offset reduced fee collections.

Component	Program	Activities
CISA	National Infrastructure Simulation and Analysis Center (NISAC) Lab projects for modeling impact; teleconference lines for large critical functions, COVID emergency support function program analyst support, and critical function mapping and mission support	Supply chain risk analysis and communication; development of strategic risk assessments of the 55 National critical functions; development of analytical assessments on lessons learned for risk management efforts; COVID-19 Secretary's Advisory Group analytical support focused on expediting DHS's contribution to recovery and restoration; supply chain assessment and capability development; supply chain risk analysis and communication; support for the Supply Chain Stabilization Task Force; support for the implementation of the National Response Framework; COVID-19 business continuity analysis.
CWMD	Bio support; research and development; and maintenance of the Medical and Public Health Information Sharing Environment System (MPHISE)	Airport passenger COVID screening; Southwest border COVID testing; surface contamination studies; maintain the MPHISE to prevent, prepare for, and respond to coronavirus domestically.
FEMA	Mission support; disaster relief; firefighter grants; Emergency Management Performance Grants; and Emergency Food & Shelter Program	Provide individual assistance limited to the Crisis Counseling Program, Lost Wages Assistance Program[7], and Funeral Assistance Program[8]; provide public assistance for emergency protective measures, including direct federal assistance, and administrative expenses; expand access to vaccines and support vaccine distribution[9]; provide resources for Personal Protective Equipment, State and Local emergency operations centers, non-congregate sheltering, medical field stations, medical ships, personnel to support medical sites, National Guard deployments, Crisis Counseling, and State administrative expenses; and the Assistance to Firefighter Grants (AFG) program, which provides critically needed resources that equip personnel to respond to the COVID-19 public health emergency and support community resilience.

[7] The Presidential Memorandum issued on August 8, 2020 authorized the Acting Secretary of Homeland Security, acting through the FEMA Administrator to award grants to state and territory governments to administer supplemental payments for lost wages in accordance with section 408(e)(2) of the Stafford Act (42 U.S.C. 5174(e)(2)). The program provided $400 per week consisting of a $300 federal contribution and $100 state contribution per eligible claimant.

[8] The CAA, 2021 and ARPA, 2021 directed FEMA to provide financial assistance to individuals with funeral expenses incurred on or after January 20, 2020, as a result of COVID-19 under section 408(e)(1) of the Stafford Act (42 U.S.C. 5174(e)(1)). The federal share of the cost shall be 100 percent with a maximum of $9,000 per deceased individual and $35,500 per application.

[9] As the federal government worked to increase the supply of COVID-19 vaccines across the nation, FEMA took steps to build the national infrastructure to readily distribute vaccines. Vaccination centers are established by state, local, tribal or territorial partners and may receive any combination of federal equipment, funding and personnel. These locations may vary in size and number of vaccinations they can administer in a day.

Component	Program	Activities
ICE	Medical screening; hoteling cost; transportation cost; sanitation costs; and Dilley Quarantine Neighborhood	Medical screening for COVID-19 medical care of quarantined individuals at detention facilities; hoteling cost for individuals at three commercial hotels; transportation of COVID-19 positive ICE detainees from medical quarantine or treatment facilities; sanitation costs for ICE detention facilities quarantine areas, and intake and check-in locations, as well as transportation vehicles due to the exposure; and establishing a COVID-19 quarantine neighborhood at a family residential center to allow for improved isolation of unaccompanied children and family units.
FLETC	Personal protective equipment and cleaning supplies for the FLETC students and staff	Provide personal protective equipment and cleaning supplies for FLETC students and staff to make for a safe training and working environment.
MGMT	Personal protective equipment and cleaning related supplies for the DHS workforce	Provide personal protective equipment and cleaning related supplies for DHS to make it safe for DHS employees to work in buildings.
OIG	Oversight of CARES Act funding	Salaries and expenses to provide oversight of activities supported by CARES Act funding.
S&T	Bioagent threat assessment and defense; counterterrorism; probabilistic analysis for national threats, hazards and risks; and research on operational efficiency	Environmental and aerosol sampling; DNA synthesis and gene assembly to rapidly characterize novel sequences; economic modeling; incident response planning; research and development.
TSA	Cleaning and sanitization at domestic and international checkpoints and other airport common areas; paid leave; overtime and travel costs; and explosive detection materials	Enhanced sanitization of passenger checkpoint, checked baggage, and TSA facilities; overtime for Transportation Security Officers; travel for National Deployment Officers to airports hard hit with COVID illness; purchase of single-use explosives detection swabs to protect against COVID transmission; and provide employee paid COVID leave to employees (including leave covered through the American Rescue Plan).
USCG	Reservists' Activities and IT Improvements	Mobilize USCG Reservists to prevent, prepare for and respond to coronavirus domestically and internationally; and improve the capability and capacity of USCG information technology systems and infrastructure to prevent, prepare for, and respond to coronavirus outbreaks.
USCIS	Immigrant benefit and petitions applications processing	Process immigrant benefit requests at domestic and international field and asylum offices with additional precautions to prevent the spread of COVID-19, including providing services without charge to applicants or petitioners whose fees are waived or exempted.

Other COVID-19 Financial Statement Footnote Impacts

For more information regarding COVID-19's impact on the Department's assets, refer to Note 3, Fund Balance with Treasury. For information on the impact to the Department's liabilities, refer to Note 18, Other Liabilities. Also, for information on the impact to the Department's Budgetary Resources, refer to Note 24, Legal Arrangements Affecting the Use of Unobligated Balances, and Note 27, Net Adjustments to Unobligated Balances, Brought Forward, October 1.

32. Non-Custodial Non-Exchange Revenues

The majority of DHS non-custodial non-exchange revenues are collected by USCG and CBP. The USCG SFRBTF collects motorboat fuel taxes, excise taxes on sport fishing equipment, and import duties on fishing tackle and yachts. The USCG OSLTF collects taxes on oil, reimbursements from parties responsible for oil spills, fines, and penalties. Both trust funds collect interest revenue earned. The CBP Customs User Fees fund collects processing fees for air and sea passengers, commercial trucks, rail cars, private vessels and aircraft, commercial vessels, dutiable mail packages, and customs broker permits.

Non-custodial non-exchange revenues reported on the Consolidated Statements of Changes in Net Position were as follows for the fiscal year ended September 30, 2022 (in millions):

Non-Exchange Revenues	**2022**	**2021**	**2022 Collections**
Excise Taxes	$ 345	$ -	$ 345
Customs Duties	98	-	98
Federal Securities Interest Revenue	108	-	108
Other Taxes and Receipts	2,120	(1)	2,119
Total Amount of Federal Revenues Collected Less Refunds	**$ 2,671**	**$ (1)**	**$ 2,670**

Non-custodial non-exchange revenues reported on the Consolidated Statements of Changes in Net Position for fiscal year ended September 30, 2021 consisted entirely of the tax year 2021 collections (in millions):

Non-Exchange Revenues	**2021**	**2021 Collections**
Excise Taxes	$ 354	$ 354
Customs Duties	86	86
Federal Securities Interest Revenue	84	84
Other Taxes and Receipts	1,355	1,355
Total Amount of Federal Revenues Collected Less Refunds	**$ 1,879**	**$ 1,879**

Required Supplementary Information

Unaudited, see accompanying Independent Auditors' Report

1. Deferred Maintenance and Repairs

The Department presents deferred maintenance and repairs as of the end of the fiscal year in accordance with SFFAS No. 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32.* Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Deferred maintenance and repairs are activities that were not performed when they should have been, or that were scheduled to be performed but were delayed for a future period.

Deferred maintenance and repair amounts represent the cost to restore an asset's condition so that the asset provides acceptable services and achieves its expected life. Mission performance metrics reports, scorecards, and historical records are used as objective evidence of deficiencies in deferred maintenance and repairs. Project management reviews of the inputs are conducted to identify maintainability and reliability, labor costs, design costs, technical expertise required, organizational reparability, organizational spares availability, and opportunities to use spare parts from property that may be retired.

Defining and Implementing Maintenance and Repairs Policies. The Department measures deferred maintenance and repairs for each class of asset using condition assessments performed at least once every five years. These assessments include surveys, inspections, operating evaluations, regional strategic assessments, facility quality ratings, and consolidated support function plans. Deferred maintenance and repair procedures are performed for capital and non-capital accountable personal and real property, capitalized stewardship PP&E including multi-use heritage assets—such as buildings and structures, memorials, and recreational areas—as well as inactive and excess property that is not required to fulfill the Component missions or have been withdrawn from operational service. Most of these assets have been fully depreciated. The condition of the assets included in these assessments ranges from good to poor. Components identify maintenance not performed as scheduled and establish future performance dates.

The Department allows Components the flexibility to apply industry standard methods commensurate with each asset's condition and usage, unless more thorough procedures are mandated by federal, state, or local codes. Components estimate the cost to address deferred maintenance and repair deficiencies using construction, maintenance, and repair cost data available through the Components' real property structure.

Ranking and Prioritizing Maintenance and Repair Activities. The Department ranks and prioritizes deferred maintenance and repair activities based on mission criticality to the operations of the Department and legal requirements, as well as the condition of the asset. Deferred maintenance and repair projects are prioritized among other activities as part of the Department's five-year strategic plan and annual capital budgeting processes.

Factors Considered in Setting Acceptable Condition. Acceptable condition is primarily prescribed by the facility condition assessments or other similar methodology. The condition assessment process includes factors such as asset age, operating environment, inventory levels, threat vulnerability, and current condition as determined by physical inspection, operating environment, and maintenance and repair history of the asset under assessment. The Department also considers federal requirements (including OMB's Federal Real Property Profile), accessibility, mission criticality, and needs.

Heritage Assets Excluded under Deferred Maintenance and Repairs. The Department possesses certain types of heritage assets that are not reported in deferred maintenance and repairs. These heritage assets include artifacts, artwork, display models, and sunken vessels and aircraft that have deteriorated through damage due to moving and transportation, storage or display, or environmental degradation.

Significant Changes from Prior Year. As of September 30, 2022, $2,019 million in deferred maintenance and repairs was estimated to return real property assets to acceptable operating condition. This is an overall increase of $251 million.

Deferred maintenance and repairs for FY 2022, by asset class, consisted of (in millions):

	Ending	Beginning
Active:		
Buildings, Structures, and Facilities	$ 1,607	$ 1,498
Furniture, Fixtures, and Equipment	317	210
Other General PP&E	43	47
Heritage assets	46	8
Total Active	**$ 2,013**	**$ 1,763**
Inactive and Excess:		
Buildings, Structures, and Facilities	$ 4	$ 3
Heritage assets	2	2
Total Inactive and Excess	**$ 6**	**$ 5**
Total Deferred Maintenance	**$ 2,019**	**$ 1,768**

2. Combining Statement of Budgetary Resources

The principal Statement of Budgetary Resources combines the availability, status, and outlays of the Department's budgetary resources during FY 2022. The following table provides the Statement of Budgetary Resources disaggregated by DHS Components rather than by major budget account because the Department manages its budget at the Component level.

Combining Statement of Budgetary Resources by Sub-Organization Accounts
For the Year Ended September 30, 2022 (in millions)

	CBP	FEMA	ICE	TSA	USCG	USCIS	USSS	CISA	Dept Ops. and Others	TOTAL
BUDGETARY RESOURCES										
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory) (Note 27)	$ 5,130	$ 49,208	$ 1,069	$ 902	$ 4,188	$ 1,823	$ 291	$ 579	$ 2,515	**$ 65,705**
Appropriations (discretionary and mandatory)	25,134	26,916	8,928	6,460	14,041	5,500	2,876	2,600	5,494	**97,949**
Borrowing Authority (discretionary and mandatory) (Note 23)	-	4	-	-	-	-	-	-	-	**4**
Spending Authority from Offsetting Collections (discretionary and mandatory)	1,907	3,580	216	2,562	587	77	25	3	2,140	**11,097**
TOTAL BUDGETARY RESOURCES	**$ 32,171**	**$ 79,708**	**$ 10,213**	**$ 9,924**	**$ 18,816**	**$ 7,400**	**$ 3,192**	**$ 3,182**	**$ 10,149**	**$ 174,755**
STATUS OF BUDGETARY RESOURCES										
New Obligations and Upward Adjustments (total)	$ 27,480	$ 54,764	$ 9,449	$ 9,069	$ 15,043	$ 4,969	$ 3,006	$ 2,936	$ 6,483	**$ 133,199**
Unobligated Balance, End of Year										
Apportioned, Unexpired Accounts	3,747	24,449	418	537	3,498	567	89	180	3,150	**36,635**
Exempt from Apportionment, Unexpired Accounts	2	-	-	-	4	-	1	-	-	**7**
Unapportioned, Unexpired Accounts	296	226	2	62	69	1,831	2	1	108	**2,597**
Unexpired Unobligated Balance, End of Year	4,045	24,675	420	599	3,571	2,398	92	181	3,258	**39,239**
Expired Unobligated Balance, End of Year	646	269	344	256	202	33	94	65	408	**2,317**
Unobligated Balance Brought Forward, End of Year	**4,691**	**24,944**	**764**	**855**	**3,773**	**2,431**	**186**	**246**	**3,666**	**41,556**
TOTAL BUDGETARY RESOURCES	**$ 32,171**	**$ 79,708**	**$ 10,213**	**$ 9,924**	**$ 18,816**	**$ 7,400**	**$ 3,192**	**$ 3,182**	**$ 10,149**	**$ 174,755**
OUTLAYS, NET AND DISBURSEMENTS, NET										
Outlays, Net (total) (discretionary and mandatory)	24,026	35,886	8,867	6,171	12,380	4,400	2,750	2,221	3,746	**100,447**
Distributed Offsetting Receipts (-)	(5,406)	(940)	(256)	(1,727)	432	(5,490)	(2)	-	(8)	**(13,397)**
Agency Outlays, Net (discretionary and mandatory)	$ 18,620	$ 34,946	$ 8,611	$ 4,444	$ 12,812	$ (1,090)	$ 2,748	$ 2,221	$ 3,738	$ 87,050
Disbursements, Net (total) (mandatory)	$ -	$ (93)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (93)

3. *Custodial Activity*

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

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

For FY 2022 and FY 2021, CBP had the legal right to collect $8,633 million and $8,093 million of receivables, respectively. In addition, there were $2,924 million and $3,821 million representing records still in the protest phase for both FY 2022 and FY 2021, respectively. CBP recognized $318 million and $461 million as write-offs, respectively, for assessments the Department had statutory authority to collect at September 30, 2022, and 2021, but have no future collection potential. Most of this amount represents duties, taxes, and fees.

4. Land

DHS has both general property, plant, and equipment and stewardship land.

DHS follows the *Federal Land Policy and Management Act of 1976* (P.L. 94-579), 43 U.S.C. Chapter 35: Federal Land Policy and Management, SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, SFFAS No. 29, *Heritage Assets and Stewardship Land*, and SFFAS No. 59, *Accounting and Reporting Government Land,* for the acquisition, maintenance, use, and disposal of General-PP&E and stewardship land. Stewardship land includes both public domain and acquired land and land rights owned by the DHS that is intended to be held indefinitely.

General Property, Plant, and Equipment Land as of September 30, 2022 consisted of the following:

Estimated Acreage by Predominant Use – General PP&E Land

	Conservation and Preservation	Operational	Total Estimated Acreage
Start of Prior Year	84	82,973	83,057
End of Prior Year/Start of Current Year	84	83,562	83,646
End of Current Year	84	84,564	84,648
Held for Disposal or Exchange			
End of Prior Year	-	7,042	7,042
End of Current Year	-	6,613	6,613

CBP currently holds land used in both operations and held in an administrative capacity. For border security operations, land has been acquired for border barriers, land ports of entry, and border patrol stations.

FEMA's Center for Domestic Preparedness (CDP), located in Alabama, is committed to having an emergency response community prepared for and capable of responding to hazardous events. The CDP identifies, develops, tests, and delivers training to state, local, and tribal emergency response providers. The CDP provides on-site and mobile training at the performance, management, and planning levels. This location also facilitates the delivery of training by the training partners of DHS.

ICE maintains a portfolio of federally owned land used to support the ICE missions to protect America from the cross-border crime and illegal immigration that threaten national security and public safety. The land and associated facilities are used by Enforcement and Removal Operations (ERO) entities to identify, arrest, transport, detain, and remove noncitizens in the U.S. illegally. Similarly, ICE-owned land and facilities to support Homeland Security Investigations (HSI) in conducting federal criminal investigations into the illegal cross-border movement of people, goods, money, technology, and other contraband throughout the U.S.

USCG's land holdings mainly support ports, waterways, and coastal security, aids to navigation, search and rescue, and eight other agency missions.

USSS owns federal land at the James J. Rowley Training Center that is used for various mission support and training purposes.

Stewardship Land as of September 30, 2022 consisted of the following:

Estimated Acreage by Predominant Use – Stewardship Land

	Conservation and Preservation	Operational	Total Estimated Acreage
Start of Prior Year	647	107	754
End of Prior Year/Start of Current Year	647	107	754
End of Current Year	647	107	754

FEMA's National Emergency Training Center (NETC) in Maryland offers educational resources. The NETC campus houses the U.S. Fire Administration and the National Fire Academy.

S&T's Plum Island Lighthouse and the Fort Terry Historic District are listed in the National Register of Historic Places.

For additional information on stewardship property, plant, and equipment, see Note 12, Stewardship Property, Plant, and Equipment.

Independent Auditor’s Report

OFFICE OF INSPECTOR GENERAL

Independent Auditors’ Report on the Department of Homeland Security’s Consolidated Financial Statements for FYs 2022 and 2021 and Internal Control over Financial Reporting

Homeland Security

November 15, 2022

OIG-23-02

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

November 15, 2022

MEMORANDUM FOR: The Honorable Alejandro Mayorkas
Secretary
Department of Homeland Security

FROM: Glenn Sklar GLENN E SKLAR Digitally signed by GLENN E SKLAR Date: 2022.11.15 12:39:06 -05'00'
Principal Deputy Inspector General

SUBJECT: *Independent Auditors' Report on the Department of Homeland Security's Consolidated Financial Statements for FYs 2022 and 2021 and Internal Control over Financial Reporting*

The attached report presents the results of an integrated audit of the Department of Homeland Security's consolidated financial statements for fiscal years 2022 and 2021 and internal control over financial reporting as of September 30, 2022. This audit is required by the *Chief Financial Officers Act of 1990,* as amended by the *Department of Homeland Security Financial Accountability Act* (October 16, 2004).

We contracted with the independent public accounting firm KPMG LLP (KPMG) to conduct the audit. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget audit guidance, and the GAO/CIGIE *Financial Audit Manual.*

The Department achieved an unmodified (clean) opinion on all financial statements. However, KPMG issued an adverse opinion on DHS' internal control over financial reporting because of material weaknesses in internal control. KPMG identified material weaknesses in internal control in four areas and significant deficiencies in two areas. KPMG also reported two instances of noncompliance with laws and regulations.

Below are the areas in which KPMG identified material weaknesses and significant deficiencies, and laws and regulations with which KPMG identified noncompliance.

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OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Material Weaknesses in Internal Control

- Information Technology Controls and Information Systems
- Financial Reporting
- Insurance Liabilities
- New System Obligations

Significant Deficiencies in Internal Control

- Custodial Activities: Seized and Forfeited Property
- Grants Management

Noncompliance with Laws and Regulations

- *Federal Managers' Financial Integrity Act of 1982* (FMFIA)
- *Federal Financial Management Improvement Act of 1996* (FFMIA)

Moving DHS' Financial Management Forward

This past fiscal year, the Department continued its commitment to identifying areas for improvement, developing and monitoring corrective actions, and establishing and maintaining effective internal control over financial reporting. Looking forward, to sustain a clean opinion on its financial statements and obtain a clean opinion on its internal control over financial reporting, the Department must continue remediation efforts and stay focused.

*****

KPMG is responsible for the attached Independent Auditors' Report dated November 14, 2022, and the conclusions expressed in the report. We do not express opinions on DHS' financial statements or internal control over financial reporting or conclusions on compliance and other matters.

Consistent with our responsibility under the *Inspector General Act of 1978, as amended*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Bruce Miller, Deputy Inspector General for Audits, at (202) 981-6000.

Attachment

DHS OIG HIGHLIGHTS

Independent Auditors' Report on the Department of Homeland Security's Consolidated Financial Statements for FYs 2022 and 2021 and Internal Control over Financial Reporting

November 15, 2022

Why We Did This Audit

The *Chief Financial Officers Act of 1990* (Public Law 101-576) and the *Department of Homeland Security Financial Accountability Act* (Public Law 108-330) require us to conduct an annual audit of the Department of Homeland Security's consolidated financial statements and internal control over financial reporting.

What We Recommend

KPMG made 19 recommendations that, when implemented, may help improve the Department's internal control.

For Further Information:
Contact our Office of Public Affairs at (202) 981-6000, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

The independent public accounting firm KPMG LLP (KPMG) has issued an unmodified (clean) opinion on DHS' consolidated financial statements. KPMG noted that the financial statements present fairly, in all material respects, DHS' financial position as of September 30, 2022 and 2021.

KPMG issued an adverse opinion on DHS' internal control over financial reporting as of September 30, 2022. KPMG's report identified material weaknesses in internal control in four areas and other significant deficiencies in two areas. KPMG also reported instances of noncompliance with two laws and regulations.

Material Weaknesses

- Information Technology Controls and Information Systems
- Financial Reporting
- Insurance Liabilities
- New System Obligations

Other Significant Deficiencies

- Custodial Activities: Seized and Forfeited Property
- Grants Management

Noncompliance with Laws and Regulations

- Federal Managers' Financial Integrity Act of 1982
- Federal Financial Management Improvement Act of 1996

Management's Response

DHS concurred with all of the recommendations.

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OIG-23-02

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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Appendixes

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

Independent Auditors' Report

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

Report on the Consolidated Financial Statements and Internal Control

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the consolidated financial statements of the U.S. Department of Homeland Security (DHS), which comprise the consolidated balance sheets as of September 30, 2022 and 2021, and the related consolidated statements of net costs, changes in net position, and custodial activity, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of DHS as of September 30, 2022 and 2021, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

We also have audited DHS's internal control over financial reporting as of September 30, 2022, based on criteria established in the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States. In our opinion, because of the effect of the material weaknesses described in the Basis for Adverse Opinion on Internal Control Over Financial Reporting section on the achievement of the objectives of the control criteria, DHS has not maintained effective internal control over financial reporting as of September 30, 2022, based on criteria established in the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States.

We considered the material weaknesses described in the Basis for Adverse Opinion on Internal Control Over Financial Reporting section in determining the nature, timing, and extent of audit procedures applied in our audit of the fiscal year 2022 consolidated financial statements, and the material weaknesses do not affect such report on the consolidated financial statements.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 22-01 are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of DHS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on Internal Control Over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. The following material weaknesses have been identified and included in the accompanying *Management's Report on Internal Control over Financial Reporting* and are further described in the accompanying Exhibits as items A through D.

A. Information Technology Controls and Information Systems
B. Financial Reporting
C. Insurance Liabilities
D. New System Obligations

Emphasis of Matter

As discussed in Note 15 to the consolidated financial statements, DHS had intragovernmental debt used to finance the National Flood Insurance Program (NFIP) of approximately $21 billion as of September 30, 2022 and 2021. The principal and interest payments are financed by the flood premiums from policyholders. Given the current rate structure, DHS will not be able to pay its debt from the premium revenue alone; therefore, DHS does not anticipate repaying the debt. Our opinion is not modified with respect to this matter.

Other Matters - Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the *Agency Financial Report* to provide additional information for the users of its consolidated financial statements. Such information is not a required part of the consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Responsibilities of Management for the Consolidated Financial Statements and Internal Control Over Financial Reporting

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*.

Auditors' Responsibilities for the Audits of the Consolidated Financial Statements and Internal Control Over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditors' report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of consolidated financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin No. 22-01 will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit of consolidated financial statements and an audit of internal control over financial reporting in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin No. 22-01, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.

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- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the consolidated financial statement audit in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control over financial reporting relevant to the audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the consolidated financial statement audit.

We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982.*

Definition and Inherent Limitations of Internal Control Over Financial Reporting

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

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

Required Supplementary Information

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

Other Information

Management is responsible for the other information included in the *Agency Financial Report*. The other information comprises the About this Report, Message from the Secretary, Message from the Chief Financial Officer, Introduction, Other Information, and Acronym List sections but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting on Internal Control

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

E. Custodial Activities: Seized and Forfeited Property
F. Grants Management

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether DHS's consolidated financial statements as of and for the year ended September 30, 2022 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 22-01, and which are described in the accompanying Exhibits as item G.

G. *Federal Managers' Financial Integrity Act of 1982* (FMFIA)

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

DHS's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on DHS's response to the findings identified in our audit and described in Appendix A. DHS's response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements or the audit of internal control over financial reporting and, accordingly, we express no opinion on the response.

Purpose of the Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting on Internal Control and the Report on Compliance and Other Matters sections is solely to describe the deficiencies we consider to be significant

KPMG

deficiencies and the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 14, 2022

Independent Auditors' Report
Exhibits Overview

The weaknesses in internal control over financial reporting (internal control) existed as of September 30, 2022, and the instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements were identified during the year ended September 30, 2022. The determination of which control deficiencies rise to the level of a material weakness or a significant deficiency is based on an evaluation of the impact of control deficiencies identified in all components, considered individually and in the aggregate, on the DHS consolidated financial statements as of September 30, 2022. Component-level deficiencies vary in severity. The associated entity level controls, as defined by the Government Accountability Office's *Standards for Internal Control in the Federal Government,* issued by the Comptroller General of the United States (Green Book), are also identified in relation to the control activities in the corresponding areas of the following Exhibits.

The findings are presented in three Exhibits:

Exhibit I Material Weaknesses. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. DHS has material weaknesses within each of the following areas:

A. Information Technology Controls and Information Systems
B. Financial Reporting
C. Insurance Liabilities
D. New System Obligations

Exhibit II Significant Deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by DHS management and others in positions of DHS oversight. DHS has significant deficiencies within each of the following areas:

E. Custodial Activities: Seized and Forfeited Property
F. Grants Management

Exhibit III Compliance and Other Matters. The compliance and other matters identified included instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters that are required to be reported under *Government Auditing Standards* or Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*. DHS has instances of noncompliance as follows:

G. *Federal Managers' Financial Integrity Act of 1982*
H. *Federal Financial Management Improvement Act of 1996*

Criteria DHS's internal control over financial reporting is based on the criteria established by the Green Book.

I.1

I-A Information Technology Controls and Information Systems

Background:

Information technology (IT) controls are a critical subset of an entity's internal control. There are two main types of IT controls: IT general controls (ITGCs) and application controls. ITGCs operate over entire or large portions of systems and represent the foundation of an IT control structure. They are applied at the entity-wide, operating system, database, or application level, and include controls over access, segregation of duties, configuration management, and security management. Effective ITGCs are necessary to create the foundation for the operation of application controls. Application controls are those controls that directly relate to specific IT applications and ensure completeness, accuracy, validity, confidentiality, and availability of data. The deficiencies indicated in this Exhibit are representative of ITGC and application control deficiencies at headquarters and various components across DHS including U.S. Customs and Border Protection (CBP), Federal Emergency Management Agency (FEMA), U.S. Immigration and Customs Enforcement (ICE), Transportation Security Administration (TSA), U.S. Coast Guard (USCG), and U.S. Citizenship and Immigration Services (USCIS).

Conditions:

DHS did not design and implement the entity's information systems and related control activities to achieve objectives and respond to risks as required by Green Book principles 11, *Design Activities for the Information System*, and 12, *Implement Control Activities*. Specifically, DHS had:

- Ineffective design, implementation, or operating effectiveness of ITGCs over IT operating systems, databases, and applications supporting financial reporting processes across DHS in the following areas:

  Access control and segregation of duties

  - User, service, shared, privileged, and generic (including emergency, temporary, developer, and migrator) accounts not properly authorized, recertified, and revoked timely;
  - The principles of least privilege and segregation of duties not applied;
  - Login events not monitored or reviewed;

  Configuration management

  - Systems not properly configured;
  - System changes not documented, authorized, or monitored;

  Security management

  - Assessments and documentation required for a system Authority to Operate (ATO) not completed or approved;
  - Internal manuals not timely updated for current industry guidance; and
  - Identified vulnerabilities not timely remediated.

- Ineffective implementation of ITGCs prior to system migration.
- Ineffective design, implementation, or operating effectiveness of ITGCs at service organizations.
- Ineffective operating effectiveness of application controls and manual controls that are dependent upon the information derived from DHS information systems.

DHS continued to have deficiencies in its design and implementation of controls related to information technology. These deficiencies have persisted since the inception of DHS. As a result, DHS did not remediate identified internal control deficiencies on a timely basis as required by Green Book principle 17, *Evaluate Issues and Remediate Deficiencies*. Specifically, DHS had:

- Ineffective design and implementation of controls to remediate IT findings, including insufficient corrective actions to address deficiencies that have existed for several years in multiple information systems.

Causes:

These deficiencies are a result of the failure of entity level controls, as follows:

Green Book principle 7 requires that "Management should identify, analyze, and respond to risks related to achieving the defined objectives." DHS did not effectively implement and operate Green Book principle 7. Specifically:

- DHS did not fully implement a robust risk assessment to identify and mitigate the risks arising from IT.
- DHS did not resolve the risks created by historic limitations in the functionality of its information systems.
- DHS did not successfully mitigate the risk created by implementing manual controls to compensate for risks resulting from decentralized systems and records management processes or utilities with limited automated capabilities.

Green Book principle 14 requires that "Management should internally communicate the necessary quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 14. Specifically:

- DHS did not communicate internally to properly authorize, recertify, or revoke access to systems or to authorize and monitor system changes.
- DHS did not timely update and distribute internal manuals based on industry guidance.

Green Book principle 16 requires that "Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results." DHS did not effectively implement and operate Green Book principle 16. Specifically:

- DHS did not effectively implement a formalized process to monitor the third-party service organizations responsible for maintaining the infrastructure support for various IT systems.
- DHS established corrective action plans but did not effectively monitor them to track progress towards timely remediation of deficiencies.

Effects:

Deficiencies in access controls and segregation of duties increase the risk that current employees, separated employees, or contractors may obtain unauthorized or inappropriate access to information systems or data. Such access could lead to unauthorized activities or inappropriate disclosures of sensitive data. Deficiencies in configuration management increase the risk that unauthorized or inappropriate changes to systems will be applied and go undetected by management, resulting in lower assurance that information systems will operate as intended and that data is reliable, valid, and complete. Deficiencies in security management increase the risk that system vulnerabilities will not be identified and remediated, compromising the reliability and integrity of data and increasing the risk of data loss.

In addition, system limitations contribute to deficiencies in multiple financial process areas across DHS. Many key DHS information systems are not compliant with Federal financial management system requirements as defined by FFMIA, as noted in Exhibit III. These system limitations cause a greater risk of error and result in inconsistent, incomplete, or inaccurate control execution.

Independent Auditors' Report
Exhibit I – Material Weaknesses

Collectively, DHS's lack of an appropriate risk assessment to identify and mitigate the ITGC and application control deficiencies limits DHS's ability to process, store, and report financial data in a manner that ensures accuracy, confidentiality, integrity, and availability. In some cases, in response to these deficiencies, DHS intended to utilize manual controls; however, these manual controls often were not properly designed or implemented, or did not operate effectively, as reported in Exhibits I and II.

Recommendations:

We recommend that DHS:

1. Office of the Chief Financial Officer (OCFO), in coordination with the Office of the Chief Information Officer (OCIO), the Office of the Chief Information Security Officer (OCISO), and component IT and financial management, complete a comprehensive risk analysis and develop a mitigation plan to reduce risks related to ITGC and application control deficiencies timely;

2. OCFO, in coordination with the OCIO, the OCISO, and component IT and financial management, design, implement, and communicate effective internal control processes to address the risk of errors due to IT system functionality issues, the inability to rely on information derived from systems, and the inability to rely on application controls until system deficiencies are remediated;

3. OCISO, the OCIO, and component IT management sufficiently monitor IT vulnerabilities and limitations, and coordinate with the OCFO and component financial management to implement manual controls to mitigate risk;

4. OCFO, in coordination with the OCIO, the OCISO, and component IT and financial management, design and implement an effective internal control process to review service organization risks and evaluate ineffective service organization ITGCs and design and implement appropriate compensating controls; and

5. OCFO, in coordination with the OCIO, the OCISO, and component IT and financial management, develop, implement, and monitor internal manuals and corrective action plans.

Independent Auditors' Report
Exhibit I – Material Weaknesses

I-B Financial Reporting

Background:

Internal control is a process effected by those charged with governance, management, and other personnel, and is designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles.

Conditions:

DHS did not design control activities to achieve internal control objectives and respond to risks as required by Green Book principle 10, *Design Control Activities*, or implement the entity's information systems and related control activities through policies as required by Green Book principles 11, *Design Activities for the Information System*, and 12, *Implement Control Activities*. Specifically, DHS had:

- Ineffective design, implementation, or operating effectiveness of controls supporting financial reporting processes across DHS in the following areas:

  Journal entries

  - Recurring manual journal entries not analyzed for completeness at USCG;
  - Manual journal entry amounts and attributes not validated with appropriate supporting documentation at CBP and USCG;

  Service organization control (SOC) reports

  - Service provider risks not addressed by obtaining and effectively reviewing SOC reports, or by assessing the risks when a SOC report does not exist, at multiple components across DHS;

  Application controls and information derived from systems

  - Manual controls to compensate for application control deficiencies not designed and implemented at multiple components across DHS;
  - Baseline assessments of application controls and information derived from systems with effective ITGCs not performed at CBP and ICE;

  Application of accounting standards

  - Accounting standards related to the recognition and disclosure of certain liabilities not properly reviewed at FEMA; and

  Response to risk presented by the USCG financial system migration

  - Risks over various business processes not adequately identified, analyzed, or responded to at USCG.

DHS continued to have deficiencies in its design and implementation of controls over Financial Reporting. DHS did not remediate identified internal control deficiencies on a timely basis as required by Green Book principle 17, *Evaluate Issues and Remediate Deficiencies*.

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 5 requires that "Management should evaluate performance and hold individuals accountable for their internal control responsibilities." DHS did not effectively implement and operate Green Book principle 5. Specifically:

- DHS did not enforce accountability of personnel responsible for the review of SOC reports.

I.5

Independent Auditors' Report
Exhibit I – Material Weaknesses

Green Book principle 7 requires that "Management should identify, analyze, and respond to risks related to achieving the defined objectives." DHS did not effectively implement and operate Green Book principle 7. Specifically:

- DHS did not sufficiently respond to the risk posed by incomplete or inaccurate journal entry supporting documentation.
- DHS did not fully implement a robust risk assessment to identify and mitigate the risks arising from IT, including those related to inappropriate reliance on information derived from systems.
- DHS did not assess the risks created by IT deficiencies and their impact on other controls.

Green Book principle 9 requires that "Management should identify, analyze, and respond to significant changes that could impact the internal control system." DHS did not effectively implement and operate Green Book principle 9. Specifically:

- DHS did not sufficiently identify, analyze, and respond to the changes presented by USCG's financial system migration and certain programs at FEMA.

Green Book principle 13 requires that "Management should use quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 13. Specifically:

- DHS did not obtain the appropriate information timely to support proposed journal entries.
- DHS did not process data into quality information that was useable for operating controls effectively.
- DHS did not perform baseline testing of information generated by applications prior to relying on that information as part of a control.

Green Book principle 16 requires that "Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results." DHS did not effectively implement and operate Green Book principle 16. Specifically:

- DHS did not perform continuous monitoring and testing of IT and financial controls for all significant areas, including monitoring the activities and controls performed by service organizations.
- DHS did not sufficiently monitor the status of corrective action plans.
- DHS did not design and implement sufficient procedures to review SOC reports, including identification and assessment of complementary user entity controls.
- DHS did not monitor changes to the internal control system to identify the need for a liability disclosure.

Effects:

The failure to adequately design, implement, and operate internal controls over journal entries resulted in misstatements that occurred without being prevented, or detected and corrected timely.

The failure to adequately design, implement, and operate internal controls related to oversight of service organizations increases the risk that misstatements can occur without being prevented, or detected and corrected timely.

The failure to adequately identify, analyze, and assess changes to the internal control system, including the risks arising from the implementation of a new financial system, increases the risk that the financial information used in controls is not reliable. This failure also resulted in the omission of a liability disclosure, which management subsequently corrected.

The failure to adequately design, implement, and operate internal controls related to the baseline assessment of application controls and information derived from systems prevents management from relying on application controls. It also prevents management from relying on the information derived from systems used to record transactions and perform control activities.

Independent Auditors' Report
Exhibit I – Material Weaknesses

The lack of compensating controls for IT deficiencies also results in noncompliance with Federal financial management system requirements, as defined by FFMIA and reported in Exhibit III.

The improper review of accounting standards also results in noncompliance with FFMIA, as reported in Exhibit III.

The failure to perform continuous monitoring and testing of IT and financial controls results in lack of timely remediation of existing deficiencies and noncompliance with FMFIA, as reported in Exhibit III.

Recommendations:

We recommend that DHS:

6. perform an analysis to assess the risks of the migration to a new general ledger system and implement controls to ensure all necessary journal entries are completely recorded each period;
7. develop new policies or improve and reinforce existing policies, procedures, and related internal controls, to ensure journal entries are adequately researched, supported, and reviewed before and after recording in the general ledger;
8. enforce accountability for adherence to policies and procedures and provide the necessary financial reporting oversight;
9. improve the process for identification, analysis, and response over significant changes and updates to risks assessments related to financial reporting, including risks associated with changes to financial systems and new liabilities;
10. align knowledgeable individuals to monitor and evaluate the roles of service organizations, assess controls at those service organizations, and identify and assess complementary user entity controls within the components relying on those service organizations; and
11. improve monitoring controls over assessing internal controls and remediating known internal control deficiencies timely.

Independent Auditors' Report
Exhibit I – Material Weaknesses

I-C Insurance Liabilities

Background:

DHS manages the NFIP, a program to provide flood insurance to policyholders through a network of write-your-own (WYO) insurance companies. These insurance companies provide services on behalf of DHS, including underwriting premium policies and processing claims. DHS used the WYO data, along with NFIP loss and loss adjustment expense factors, to estimate the liabilities. DHS's insurance liabilities include an actuarially derived insurance liability for claims incurred but not yet reported and a liability for losses on remaining coverage as of September 30, 2022. The liability for losses on remaining coverage results from DHS's FY 2022 implementation of a new premium policy rating system referred to as Risk Rating 2.0.

Conditions:

DHS did not design control activities to achieve objectives and respond to risks as required by Green Book principle 10, *Design Control Activities*, or implement the related control activities through policies as required by Green Book principle 12, *Implement Control Activities*. Specifically, at FEMA, DHS had:

- Insufficient design of the controls over the validation of the underlying data used in the valuation of the flood insurance liabilities; and
- Insufficient design and implementation of the controls over the assumptions, methods, and models used in the valuation of the flood insurance liabilities.

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 3 requires that "Management develops and maintains documentation of its internal control system." DHS did not effectively implement and operate Green Book principle 3. Specifically:

- DHS did not adequately document the determination and appropriateness of the methods, models, and assumptions used in the actuarial insurance liability estimates.

Green Book principle 5 requires that "Management should evaluate performance and hold individuals accountable for their internal control responsibilities." DHS did not effectively implement and operate Green Book principle 5. Specifically:

- DHS did not enforce accountability of personnel responsible for reviewing the underlying data and the appropriateness of the assumptions, methods, and models used in the actuarial insurance liability estimates.

Green Book principle 9 requires that "Management should identify, analyze, and respond to significant changes that could impact the internal control system." DHS did not effectively implement and operate Green Book principle 9. Specifically:

- DHS did not properly assess and document the appropriateness of changes to the methods, models, and assumptions for the actuarial insurance liability estimates.

DHS continued to have deficiencies in its design and implementation of controls over insurance liabilities. DHS did not remediate identified internal control deficiencies on a timely basis as required by Green Book principle 17, *Evaluate Issues and Remediate Deficiencies*.

Effect:

The failure to adequately design, implement, and operate internal controls over the actuarially derived estimates increases the risk that misstatements to insurance liabilities on the Balance Sheet can occur without being prevented, or detected and corrected, timely.

Independent Auditors' Report
Exhibit I – Material Weaknesses

Recommendations:

We recommend that DHS:

12. develop new policies, or improve and reinforce existing policies, procedures, and related internal controls, to ensure that:
    a. the underlying data to actuarially derived estimates is reviewed timely;
    b. information derived from the systems used in the operations of controls is determined to be complete and accurate;
    c. risks related to the methods, models, assumptions, and data elements are assessed each year to identify, plan, and respond to changes; and
    d. changes to the methods, models, assumptions, and data elements are sufficiently documented.

I-D New System Obligations

Background:

In FY 2022, USCG migrated to a new financial system. The financial system migration resulted in significant changes to existing processes, including changes to the process for recording obligations and expenditures incurred against obligations. USCG personnel record key data elements for new contracts and receipts of goods and services in the financial system, which drive the accounting for the transactions.

Conditions:

DHS did not design control activities to achieve objectives and respond to risks as required by Green Book principle 10, *Design Control Activities*, or implement the related control activities through policies as required by Green Book principle 12, *Implement Control Activities*. Specifically, at USCG, DHS had:

- Insufficient design and implementation of controls over the review of obligations incurred; and
- Insufficient design and implementation of controls over recording the receipt of goods and services to ensure the accuracy of expenditure records.

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 3 requires that "Management develops and maintains documentation of its internal control system." DHS did not effectively implement and operate Green Book principle 3. Specifically:

- DHS did not adequately document changes to their internal control system to allow control owners to effectively operate controls over obligations incurred and the related expenditures.

Green Book principle 4 requires that "Management recruits, develops, and retains competent personnel to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 4. Specifically:

- DHS did not sufficiently train control owners on the necessary knowledge and skills related to the new financial system to enable them to properly operate controls over obligations incurred and the related expenditures.

Green Book principle 7 requires that "Management should identify, analyze, and respond to risks related to achieving the defined objectives." DHS did not effectively implement and operate Green Book principle 7. Specifically:

- DHS did not fully implement a robust risk assessment to identify and mitigate the risks arising from IT.
- DHS did not assess the risks created by IT deficiencies and their impact on other controls.

Green Book principle 9 requires that "Management should identify, analyze, and respond to significant changes that could impact the internal control system." DHS did not effectively implement and operate Green Book principle 9. Specifically:

- DHS did not sufficiently identify, analyze, and respond to the risks presented by USCG's financial system migration.

Effects:

The failure to adequately design, implement, and operate internal controls over the review of obligations incurred and related expenditures increases the risk that misstatements to obligations incurred and upward adjustments on the Statement of Budgetary Resources and expenditures on the Balance Sheet and Statement of Net Cost can occur without being prevented, or detected and corrected, timely. These deficiencies resulted in misstatements to Other Liabilities and Accounts Payable on the Balance Sheet.

Recommendations:

We recommend that DHS:

13. perform a robust risk assessment related to the financial system migration and design and implement controls to respond to identified risks; and
14. provide training to enable control operators to properly perform control responsibilities.

II-E Custodial Activities: Seized and Forfeited Property

Background:

DHS is responsible for reporting seized and forfeited property that is in its custody. DHS seizes various items, including prohibited drugs and counterfeit goods. DHS relies on several of its components to enter case information, including weights and measures, into the seized and forfeited property system.

Conditions:

DHS did not design and implement control activities to achieve objectives and respond to risks as required by Green Book principle 10, *Design Control Activities*, or implement control activities through policies as required by Green Book principle 12, *Implement Control Activities*. Specifically, at CBP and ICE, DHS had:

- Ineffective design, implementation, and operating effectiveness of controls over seized and forfeited asset transactions not recorded properly and timely in the seized and forfeited assets tracking system by CBP and ICE personnel.

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 7 requires that "Management should identify, analyze, and respond to risks related to achieving the defined objectives." DHS did not effectively implement and operate Green Book principle 7. Specifically:

- DHS did not respond to identified risks related to seized and forfeited property information inputted and updated in the system of record.

Green Book principle 13 requires that "Management should use quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 13. Specifically:

- DHS did not use reliable information to identify the need to revise seized and forfeited property information, when necessary.

DHS continued to have deficiencies in its design and implementation of controls over seized and forfeited property. DHS did not remediate identified internal control deficiencies on a timely basis as required by Green Book principle 17, *Evaluate Issues and Remediate Deficiencies*.

Effect:

Failure to effectively operate control activities related to seized and forfeited property resulted in misstatements of the Seized and Forfeited Property note to the financial statements.

Recommendation:

We recommend that DHS:

15. enhance existing controls, including using quality information, to prevent and detect material errors in the seized property footnote.

Independent Auditors' Report
Exhibit II – Significant Deficiencies

II-F Grants Management

Background:

DHS manages multiple Federal disaster and non-disaster grant programs, as well as other needs assistance programs, including programs related to the coronavirus pandemic. In FY 2018, DHS began implementation of the process to standardize all grant management activities, which continued into FY 2022. This included coordination among the grant regional offices and central management as well as among the various grant programs. To monitor the spending of the disaster and non-disaster grant funding, DHS performs site visits and monitors Federal Financial Reports submitted by grant recipients.

Conditions:

DHS did not design control activities to achieve objectives and respond to risks as required by Green Book principle 10, *Design Control Activities*, or implement control activities through policies as required by Green Book principle 12, *Implement Control Activities*. Specifically, at FEMA, DHS had:

- Ineffective controls over monitoring of grant recipients; and
- Insufficient delegation of authority documentation for controls over the review of disaster grant obligations and deobligations.

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 5 requires that "Management should evaluate performance and hold individuals accountable for their internal control responsibilities." DHS did not effectively implement and operate Green Book principle 5. Specifically:

- DHS did not enforce accountability of personnel responsible for monitoring grant recipients and documenting the delegation of authority for the review of disaster grant obligations and deobligations.

Green Book principle 7 requires that "Management should identify, analyze, and respond to risks related to achieving the defined objectives." DHS did not effectively implement and operate Green Book principle 7. Specifically:

- DHS did not establish control thresholds to determine the appropriate scope of grant monitoring site visits and desk reviews to minimize residual risk.

DHS continued to have deficiencies in its design and implementation of controls over grants management. DHS did not remediate identified internal control deficiencies on a timely basis as required by Green Book principle 17, *Evaluate Issues and Remediate Deficiencies*.

Effects:

The failure to enforce the accountability of personnel during FY 2022 caused ineffective monitoring of open and closed grants. Ineffective monitoring may result in inaccurate or unauthorized expense reporting by grant recipients and increases the risk that DHS may not identify corrective actions for grant recipients timely. Unauthorized approval of disaster grant obligations and deobligations increases the risk that misstatements can occur without being prevented, or detected and corrected, timely.

Recommendations:

We recommend that DHS:

16. perform a robust risk assessment to assess and minimize the residual risk related to unmonitored grants; and
17. enforce accountability for adherence to policies and procedures for monitoring grant recipients and documenting the delegation of authority for the review of disaster grant obligations and deobligations.

Independent Auditors' Report
Exhibit III – Compliance and Other Matters

III-G *Federal Managers' Financial Integrity Act of 1982*

FMFIA requires agencies to establish effective internal control and information systems, and to continuously evaluate and assess the effectiveness of their internal control. DHS has implemented a multi-year plan to implement OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, to comply with FMFIA. However, the DHS *Secretary's Assurance Statement*, dated November 14, 2022, as presented in *Management's Discussion and Analysis* of DHS's FY 2022 *Agency Financial Report*, acknowledged the existence of control activities demonstrating material weaknesses, and therefore provided qualified assurance that internal control over financial reporting was operating effectively as of September 30, 2022. Management's findings were similar to the control deficiencies described in Exhibits I and II. DHS did not perform continuous monitoring and testing of both IT and financial controls for all significant areas.

In FY 2022, DHS did not fully establish effective systems, processes, policies, and testing procedures to ensure that internal controls were operating effectively throughout DHS. Deficiencies related to monitoring the internal control system are discussed in Exhibit I, Sections **I-A**, *Information Technology Controls and Information Systems*, and **I-B**, *Financial Reporting*.

Recommendation:

We recommend that DHS:

18. continue its corrective actions to address internal control deficiencies to ensure compliance with FMFIA, and implement the recommendations provided in Exhibits I and II.

Independent Auditors' Report
Exhibit III – Compliance and Other Matters

III-H *Federal Financial Management Improvement Act of 1996*

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

As of September 30, 2022, DHS did not comply with applicable Federal accounting standards, Federal financial management system requirements, and application of the USSGL at the transaction level, as described in Exhibit I, Section **I-A**, *Information Technology Controls and Information Systems*, Exhibit I, Section **I-B**, *Financial Reporting*, and Exhibit I, Section **I-C**, *New System Obligations*. The DHS Secretary stated in the *Secretary's Assurance Statement*, dated November 14, 2022, that DHS's financial management systems did not substantially comply with government-wide requirements mandated by FFMIA. DHS's remedial actions and related timeframes are also presented in Table 3 of *Management's Discussion and Analysis* in the FY 2022 *Agency Financial Report*.

Recommendation:

We recommend that DHS:

19. improve its financial management systems to ensure compliance with FFMIA, and implement the recommendations provided in Exhibit I.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix A
Management Comments to the Draft Report

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

Homeland Security

November 14, 2022

MEMORANDUM FOR: The Honorable Joseph V. Cuffari
Inspector General

FROM: Stacy Marcott
Senior Official Performing the Duties of the Chief Financial Officer

STACY A MARCOTT
Digitally signed by STACY A MARCOTT
Date: 2022.11.10 15:36:19 -05'00'

SUBJECT: Fiscal Year 2022 Financial Statement and Internal Control Over Financial Reporting Audit

Thank you for your audit report on the Department's Financial Statements and Internal Control over Financial Reporting for Fiscal Years (FY) 2022 and 2021. We agree with the Independent Public Accountant's conclusion. We are pleased to have earned an unmodified (clean) opinion on our consolidated financial statements for the tenth consecutive year.

The Department continues to prioritize maturing information technology controls and is implementing an aggressive plan to modernize our financial systems. In early FY 2022, the United States Coast Guard (USCG) migrated to our new Financial Systems Modernization Solution (FSMS). Migrating a complex system to a new platform presented challenges we worked to overcome throughout the year. Our focus for FY 2023 is to apply these lessons learned and opportunities to refine USCG financial system performance, accounting, and reporting.

The Department is committed to advancing our controls and remediating known challenges using a multi-year, risk-based approach.

I look forward to our continued partnership and collaboration with the Office of the Inspector General and the Independent Public Accountant in the years ahead.

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OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B
Report Distribution

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