June 20, 2013

The President
The White House
Washington, DC 20500

Dear Mr. President:

I am pleased to submit the Information Security Oversight Office's (ISOO) Report for Fiscal Year 2012, as required by Executive Order 13526, "Classified National Security Information" (the Order).

This report provides statistics and analysis of the system of classification and declassification based on ISOO's review of Departments' and Agencies' programs, including agency self-reporting. It also contains information with respect to industrial security in the private sector as required by Executive Order 12829, as amended, "National Industrial Security Program."

This year, we have incorporated our cost report on security classification activities into this consolidated annual report. Overall, reported costs for Government and industry combined are $10.96 billion. This is a decrease from last year of $1.66 billion, or 13 percent.

Agencies completed the first executive branch-wide Fundamental Classification Guidance Review in FY 2012, a major investment in combating over-classification and limiting secrecy to only that information truly necessary to protect the national security. Twenty-five agencies with original classification authority conducted comprehensive reviews of their classification guidance, streamlining and consolidating 3,103 classification guides, to reflect current circumstances.

ISOO also completed its five-year on-site assessment of agency declassification programs. This oversight and assistance program garnered significant measureable improvements in the quality of declassification reviews conducted by departments and agencies across the executive branch. ISOO will continue its assessment program in a form that sustains this high level of quality.

ISOO continues to develop and refine its ability to monitor agency efforts at self-assessment. For two years we have worked vigorously to help agencies improve the coverage and quality of their self-inspection programs, as required by the Order. ISOO's analysis of these efforts also contributes to the White House Senior Information Sharing and Safeguarding Steering Committee's annual report to you.

The Interagency Security Classification Appeals Panel (the Panel) continued adjudicating declassification appeals while also launching a new web site that makes declassified documents publically available. The collection of documents now online fulfills the Order's requirement that the Panel inform senior agency officials and the public of its decisions on mandatory declassification review appeals and classification challenges. This tool is now available to agencies to help them conduct more consistent and accurate declassification reviews.

The National Industrial Security Program Policy Advisory Committee (NISPPAC) made meaningful improvements in the areas of personnel security clearances and certification and accreditation of information systems. Importantly, by improving linkages with the Office of the Director of National Intelligence in its government-wide role as Security Executive Agent, NISPPAC is better able to monitor and characterize the industry experience in the government-wide security clearance process. The NISPPAC continues to ensure the requirements for the protection of classified information by the private sector are consistent with those established by the Order.

Respectfully,

JOHN P. FITZPATRICK
Director

Cost Estimates for Security Classification Activities

Background and Methodology

The Information Security Oversight Office (ISOO) reports annually to the President on the estimated costs associated with agencies' implementation of Executive Order (E.O.) 13526, "Classified National Security Information," and E.O. 12829, as amended, "National Industrial Security Program."

ISOO relies on the agencies to estimate and report the costs of the security classification system. The collection methodology used in this report has consistently provided a good indication of the trends in total cost. It is important to note that even if reporting agencies had no security classification activity, many of their reported expenditures would continue in order to address other, overlapping security requirements, such as work force, facility and information systems protection, mission assurance operations and similar needs.

The Government data presented in this report were collected by categories based on common definitions developed by an executive branch working group. The categories are defined below:

Personnel Security: A series of interlocking and mutually supporting program elements that initially establish a Government or contractor employee's eligibility and ensure suitability for the continued access to classified information.

Physical Security: That portion of security concerned with physical measures designed to safeguard and protect classified facilities and information, domestic, or foreign.

Classification Management: The system of administrative policies and procedures for identifying, controlling, and protecting classified information from unauthorized disclosure, the protection of which is authorized by executive order

or statute. Classification Management encompasses those resources used to identify, control, transfer, transmit, retrieve, inventory, archive, or destroy classified information.

Declassification: The authorized change in the status of information from classified information to unclassified information. It encompasses those resources used to identify and process information subject to the automatic, systematic, and mandatory review programs established by E.O. 13526, as well as discretionary declassification activities and declassification activities required by statute.

Protection and Maintenance for Classified Information Systems: An information system is a set of information resources organized for the collection, storage, processing, maintenance, use, sharing, dissemination, disposition, display, or transmission of information. Security of these systems involves the protection of information systems against unauthorized access to or modification of information, whether in storage, processing, or transit; and against the denial of service to authorized users, including those measures necessary to detect, document, and counter such threats. It can include, but is not limited to, the provision of all security features needed to provide an accredited system of computer hardware and software for protection of classified information, material, or processes in automated systems.

Operations Security (OPSEC) and Technical Surveillance Countermeasures (TSCM)

   OPSEC: Systematic and proven process by which potential adversaries can be denied information about capabilities and intentions by identifying, controlling, and protecting generally unclassified evidence of the planning and execution of sensitive activities. The process involves five steps: identification of critical information,

analysis of threats, analysis of vulnerabilities, assessment of risks, and application of appropriate countermeasures.

   TSCM: Personnel and operating expenses associated with the development, training and application of technical security countermeasures such as non-destructive and destructive searches, electromagnetic energy searches, and telephone system searches.

Professional Education, Training, and Awareness: The establishment, maintenance, direction, support, and assessment of a security training and awareness program; the certification and approval of the training program; the development, management, and maintenance of training records; the training of personnel to perform tasks associated with their duties; and qualification and/or certification of personnel before assignment of security responsibilities related to classified information.

Security Management, Oversight, and Planning: Development and implementation of plans, procedures, and actions to accomplish policy requirements, develop budget and resource requirements, oversee organizational activities, and respond to management requests related to classified information.

Unique Items: Those department specific or agency specific activities that are not reported in any of the primary categories, but are nonetheless significant and need to be included.

Results – Government Only

The total security classification cost estimate within Government for FY 2012 is $9.77 billion, a decrease of $1.59 billion, or 14 percent, from FY 2011. This figure represents estimates

provided by 42 executive branch agencies, including the Department of Defense (DoD). It does not include the cost estimates of the Central Intelligence Agency, the Defense Intelligence Agency, the Office of the Director of National Intelligence, the National Geospatial-Intelligence Agency, the National Reconnaissance Office, and the National Security Agency. The cost estimates of these agencies are classified in accordance with Intelligence Community (IC) classification guidance and are included in a classified addendum to this report. If added in, the total costs of the IC agencies would add approximately 20% to the overall government total.

For FY 2012, agencies reported $1.38 billion in estimated costs associated with Personnel Security, a decrease of $25.25 million, or 2 percent.

Estimated costs associated with Physical Security were $1.69 billion, a decrease of $47.47 million, or 3 percent.

Estimated costs associated with Classification Management were $327.92 million, a decrease of $24.47 million, or 7 percent.

Estimated costs associated with Declassification were $48.65 million, a decrease of $4.11 million, or 8 percent.

Estimated costs associated with Protection and Maintenance for Classified Information Systems were $4.03 billion, a decrease of $1.61 billion, or 29 percent. The majority of this decrease is due to agencies improving their ability to distinguish systems security costs for classified systems from those of their unclassified systems. Only costs for classified systems are to be reported to ISOO.

Estimated costs associated with OPSEC and TSCM were $124.46 million, a decrease of $4.51 million, or 3 percent.

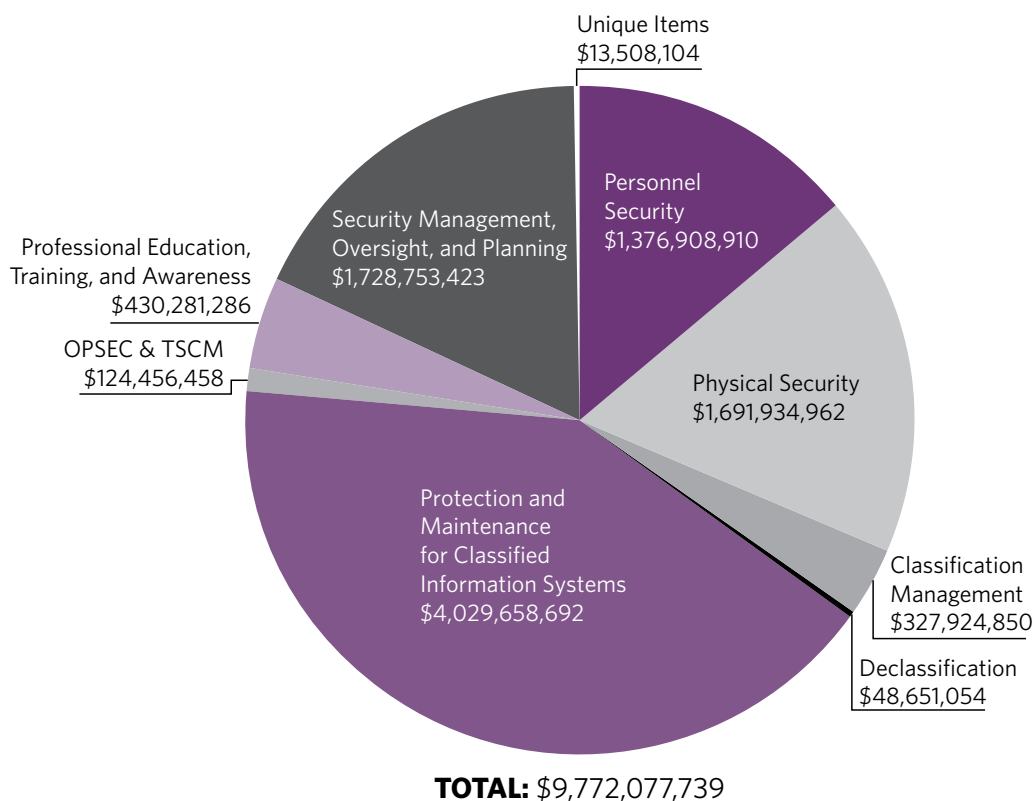Together, costs for Classification Management, Declassification, Protection and Maintenance for

Classified Information Systems, and OPSEC and TSCM make up the total cost for Information Security which is $4.53 billion, a decrease of $1.65 billion, or 27 percent.

The FY 2012 estimated costs for Professional Education, Training, and Awareness were $430.28 million, a decrease of $72.23 million, or 14 percent. Agencies are attending fewer training conferences and are increasing use of web-based training.

Estimated costs associated with Security Management, Oversight, and Planning were $1.73 billion, an increase of $201.04 million, or 13 percent. This increase is due to additional funding required to conduct compliance surveys, assessments, inspections, and accreditation of classified systems.

Estimated costs associated with Unique Items were $13.51 million, an increase of $1.60 million, or 13 percent.

Government Security Classification Costs FY 2012

Unique Items
$13,508,104

Personnel Security
$1,376,908,910

Security Management, Oversight, and Planning
$1,728,753,423

Professional Education, Training, and Awareness
$430,281,286

OPSEC & TSCM
$124,456,458

Physical Security
$1,691,934,962

Protection and Maintenance for Classified Information Systems
$4,029,658,692

Classification Management
$327,924,850

Declassification
$48,651,054

TOTAL: $9,772,077,739

Government Security Classification Costs FY 1995–FY 2012*

	Personnel Security	Physical Security	Classification Management	Declassification*	Protection & Maintenance for Classified Information Systems	OPSEC & TSCM+	Professional Education, Training, & Awareness	Security Management, Oversight, & Planning	Unique Items	TOTAL
1995	$633 million	$175 million	$312 million	—	$1.2 billion	—	$67 million	$257 million	$6.4 million	$2.7 billion
1996	$479 million	$308 million	$325 million	—	$1.2 billion	—	$72 million	$343 million	$5.6 million	$2.7 billion
1997	$390 million	$345 million	$429 million	—	$1.79 billion	—	$78 million	$399 million	$4.2 million	$3.4 billion
1998	$398 million	$386 million	$212.96 million	$199.65 million	$1.82 billion	—	$93 million	$487 million	$5.7 million	$3.6 billion
1999	$426 million	$410 million	$219 million	$233.18 million	$1.91 billion	—	$97 million	$480 million	$0.8 million	$3.77 billion
2000	$426 million	$272 million	$212.75 million	$230.90 million	$2.55 billion	—	$112 million	$439 million	$25 million	$4.27 billion
2001	$859 million	$217 million	$221.30 million	$231.88 million	$2.50 billion	—	$106 million	$539 million	$25 million	$4.7 billion
2002	$941 million	$367 million	$236.97 million	$112.96 million	$3.12 billion	—	$134 million	$742 million	$26 million	$5.68 billion
2003	$950 million	$536 million	$264.66 million	$53.77 million	$3.66 billion	$15.01 million	$158 million	$858 million	$27.7 million	$6.52 billion
2004	$941 million	$691 million	$323.87 million	$48.26 million	$3.90 billion	$12.22 million	$178 million	$1.15 billion	$6.4 million	$7.25 billion
2005	$1.15 billion	$1.04 billion	$309.93 million	$56.83 million	$3.64 billion	$33.64 million	$219 million	$1.21 billion	$6.6 million	$7.66 billion
2006	$1.11 billion	$1.06 billion	$312.90 million	$43.99 million	$4.02 billion	$88.42 million	$237 million	$1.36 billion	$7.3 million	$8.24 billion
2007	$1.10 billion	$1.37 billion	$323.50 million	$44.59 million	$4.18 billion	$85.57 million	$211 million	$1.33 billion	$7.9 million	$8.65 billion
2008	$1.10 billion	$1.29 billion	$333.71 million	$42.73 million	$4.34 billion	$90.15 million	$243 million	$1.20 billion	$8.8 million	$8.65 billion
2009	$1.21 billion	$1.28 billion	$361.17 million	$44.65 million	$4.26 billion	$106.14 million	$226 million	$1.30 billion	$15.7 million	$8.80 billion
2010	$1.56 billion	$1.43 billion	$364.22 million	$50.44 million	$4.69 billion	$106.65 million	$400 million	$1.54 billion	$21.9 million	$10.16 billion
2011	$1.40 billion	$1.74 billion	$352.40 million	$52.76 million	$5.65 billion	$128.97 million	$502.51 million	$1.53 billion	$11.9 million	$11.36 billion
2012	$1.38 billion	$1.69 billion	$327.92 million	$48.65 million	$4.03 billion	$124.46 million	$430.28 million	$1.73 billion	$13.51 million	$9.77 billion

*Prior to 1998, Declassification costs were included in Classification Management costs.
+Prior to 2003, OPSEC and TSCM costs were not reported.