May 19, 2009

The President
The White House
Washington, DC 20500

Dear Mr. President:

I am pleased to submit the Information Security Oversight Office’s (ISOO) Cost Report for Fiscal Year 2008.

This report provides information on the cost estimates of the security classification program as required by Executive Order 12958, as amended, “Classified National Security Information.” It provides statistics and analysis concerning key components of the system from 41 Executive branch agencies. It also contains cost information with respect to industrial security in the private sector as required by Executive Order 12829, as amended, “National Industrial Security Program.” The cost estimates from 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, are compiled in a classified addendum to this report that is being transmitted separately.

Our interaction with Executive branch agencies has revealed that the category, “Professional Education, Training and Awareness,” requires additional investment, and the categories of “Security Management and Planning” and “Declassification” need to be examined by agencies to support increased capability to oversee classification activity and to better implement declassification. These three categories are critically important to a sound classification system, particularly at this time, given the national security challenges we face and the limited resources available to classify, safeguard, and declassify national security information.

A responsible and efficient security classification program requires commitment, diligence, and integrity. It is of particular importance that the classification system be implemented in a manner that makes for the most efficient and effective use of the finite resources available to departments and agencies. As ISOO oversees the trends in this system, we will continue to focus on enhancing the policy and guidance to this end.

Respectfully,

WILLIAM J. BOSANKO
Director

Enclosure

cc: General James L. Jones, USMC, Ret.
Assistant to the President for National Security Affairs
BACKGROUND AND METHODOLOGY

As part of its responsibilities to oversee agency actions to ensure compliance with Executive Order (E.O.) 12958, as amended, "Classified National Security Information," and E.O. 12829, as amended, "National Industrial Security Program," the Information Security Oversight Office (ISOO) annually reports to the President on the estimated costs associated with the implementation of these Executive orders.

ISOO relies on the agencies to estimate the costs of the security classification system. Requiring agencies to provide exact responses to the cost collection efforts would be cost prohibitive. The collection methodology used in this report has consistently provided a good indication of the trends in total cost. Nonetheless, it is important to note that absent any security classification activity, many of the expenditures reported herein would continue to be made in order to address other, overlapping security requirements.

The data for Government 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.

**Information Security:** Includes four subcategories:

*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. 12958, as amended, as well as declassification activities required by statute.

*Information Systems Security for Classified Information:* 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.

Miscellaneous: Includes two subcategories:

Operations Security (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.

Technical Surveillance 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 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- or agency-specific activities that are not reported in any of the primary categories but are nonetheless significant and need to be included.

SURVEY RESULTS AND INTERPRETATION

The total security classification cost estimate within Government for Fiscal Year (FY) 2008 is $8.64 billion. This figure represents estimates provided by 41 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, which those agencies have classified in accordance with Intelligence Community classification guidance. However, those costs are reported to ISOO and are included in a classified addendum to this report.
The total security classification costs for Executive branch agencies decreased by $13 million in FY 2008. In addition to reporting estimated costs for six security classification categories, some agencies also provided explanations for significant decreases or increases in costs.

Information Security continues to be the most costly category reported by agencies, representing 56 percent of total security classification costs for FY 2008. Of the four subcategories of Information Security, Information Systems Security continues to be the most costly, at $4.3 billion, or 90 percent of estimated costs for Information Security.

For FY 2008, Executive branch agencies reported a $78 million decrease in costs associated with Physical Security. This 5.7 percent decrease was primarily attributed to the completion of physical projects, including Sensitive Compartmented Information Facilities, emergency operational control centers, Continuity of Operations sites, and enhanced physical security features to existing facilities.

Agencies reported a $134 million decrease in Security Management and Planning costs for FY 2008. This 10.1 percent decrease was primarily a result of a $137 million decrease in the cost estimate reported by DoD.
For FY 2008, agencies reported a slight decrease of $629,000 in estimated costs associated with Personnel Security. While several agencies reported an increase in costs associated with security clearances, several agencies reported decreases in these costs.

Executive branch agencies reported a 15.4 percent increase in costs for Professional Education, Training and Awareness for FY 2008. This $32.5 million increase was primarily attributed to the development of aggressive training programs, including computer-based training, for many agencies.

Although costs associated with Unique Items increased by $888,000 (11 percent), this category continues to be the smallest at $8.8 million, or less than one percent of the total.

All five categories of Government Security Classification costs represented in the above graph increased from FY 1995 (see below for Information Security costs). Physical Security costs increased $1.1 billion from FY 1995, more than any other category. Security Management and Planning costs increased $939 million since FY 1995, representing the second largest increase in costs. Personnel Security increased $464 million from FY 1995, the third largest increase in costs. In FY 1995, agencies spent more on Personnel Security ($633 million) than Security Management and Planning ($257 million) and Physical Security ($175 million). In FY 2008, Physical Security was more costly for agencies ($1.289 billion) than Security Management and Planning ($1.196 billion) and Personnel Security ($1.097 billion). Professional Education, Training and Awareness costs increased $176 million from FY 1995, representing an increase of 263 percent. Costs associated with Unique Items have increased $2.4 million from FY 1995, or 38 percent.
From FY 1995 through FY 2008, Information Systems Security has been the most costly subcategory of Information Security. Information Systems Security costs increased by $3.1 billion since FY 1995, or 258 percent. From FY 2001 through FY 2004, the average annual increase was $500 million, whereas from FY 2005 through FY 2008, the average annual increase was $250 million.

The three smaller subcategories of Information Security are Classification Management, Miscellaneous (OPSEC and TSCM), and Declassification. From FY 1995 through FY 2008, Classification Management was the most costly subcategory, with the exception of three years.
when costs for Declassification were higher. In FY 1999, FY 2000, and FY 2001, agencies spent an average of $14 million more on Declassification than on Classification Management. As represented on the graph above, Classification costs from FY 1995 through FY 1997 also include Declassification costs, which were not separated into its own subcategory until FY 1998. From FY 1998 through FY 2008, Declassification costs decreased by $157 million. This fiscal year, spending on Declassification decreased by 4.2 percent and constituted only 0.5 percent of total security classification costs for FY 2008.

In FY 2003, agencies began reporting OPSEC and TSCM costs in the Miscellaneous subcategory within Information Security. Prior to that, these costs had not been reported at all. From FY 2003 through FY 2008, agencies have reported an increase of $75 million in these costs. Only a small number of agencies are reporting significant costs in this subcategory. This year, four agencies (DoD, Department of State, Department of Energy, and Department of Justice) accounted for 82 percent of the total in this subcategory.

![Total Costs for Government and Industry](image)

To fulfill the cost reporting requirements of E.O. 12829, as amended, a joint DoD and industry group developed a cost collection methodology for those costs associated with the use and protection of classified information within industry. For FY 2008, the Defense Security Service collected industry cost data and provided the estimate to ISOO.

Cost estimate data are not provided by category because industry accounts for its costs differently than Government. Rather, a sampling method was applied that included volunteer companies from four different categories of facilities. The category of facility is based on the complexity of security requirements that a particular company must meet in order to hold and perform under a classified contract with a Government agency.

The FY 2008 cost estimate totals for industry pertain to the twelve-month accounting period for the most recently completed fiscal year of the companies that were part of the industry sample.
For most of the 590 companies included in the sample, December 31, 2008, was the end of their fiscal year. The estimate of total security classification costs for FY 2008 within industry is $1.21 billion, a decrease of $50 million from $1.26 billion for FY 2007.

CONCLUSION

This year's estimate for Government and industry shows a decrease of $63 million. From FY 1995 through FY 2008, there was an increase of $4.25 billion in total costs. The decrease for FY 2008 suggests a continuing stabilization in security requirements and programs generated by the homeland defense concerns in the post-2001 environment. The average annual increase from FY 2002 through FY 2005 was $927.5 million compared to an average annual increase of only $220.2 million from FY 2006 through FY 2008.