June 25, 2010

The President
The White House
Washington, DC  20500

Dear Mr. President:


This report provides information on the cost estimates of the security classification program as required by Executive Order 13526, “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.

With the issuance of Executive Order 13526, there is a strong need for an increased emphasis on “Professional Education, Training, and Awareness,” and as stated last year, this area will require additional investment. Positive developments were reported by the agencies concerning the “Classification Management” and “Security Management, Oversight, and Planning” categories. The increased attention reported in these areas must be sustained and even increased since they are crucial to the efficient and effective implementation of Executive Order 13526. The agencies also reported a modest, but welcome increase in spending on declassification programs. Sustaining and increasing investment in declassification is necessary to maintain the classification system and is fundamental to the principles of transparency, participation, and collaboration.

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**

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 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. It is important to note that absent any security classification activity, many of the expenditures reported would continue to be made in order to address other, overlapping security requirements.

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.

**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. 13526, as well as discretionary declassification activities and 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 transmit; 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, 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.

**Survey Results and Interpretation - Government**

The total security classification cost estimate within Government for Fiscal Year (FY) 2009 is $8.81 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.

The cost estimates of these agencies are classified in accordance with Intelligence Community classification guidance and are included in a classified addendum to this report. The total security classification costs for Executive branch agencies increased $176.65 million in FY 2009, an increase of 2 percent from FY 2008.

For FY 2009, agencies reported $1.21 billion in estimated costs associated with Personnel Security, an increase of $116.75 million, or 11 percent. This was mainly due to an increased number of background investigations for new personnel, as well as periodic reinvestigations for current employees.

Estimated costs associated with Physical Security were $1.28 billion, a decrease of $8.23 million, or 1 percent decrease, from FY 2008. Most decreases in costs were due to completion of projects begun in FY 2008.

Estimated costs associated with Information Security were $4.77 billion. Information Security continues to be the main driver of all the costs, representing 54 percent of the total security classification costs for FY 2009. There are four subcategories within Information Security: Classification Management, Declassification, Information Systems Security for Classified Information, and Miscellaneous (OPSEC and TSCM). Of these four subcategories, Information Systems Security for Classified Information continues to be the most costly, at $4.26 billion, or 89 percent of estimated costs for
Information Security. Classification Management costs showed an increase of $27.46 million, or 8 percent; Declassification costs increased $1.92 million, or 4 percent; Information Systems Security costs decreased $74.51 million, or 2 percent; and Miscellaneous costs, which include OPSEC and TSCM, increased $15.99 million, or 18 percent. Overall, Information Security decreased $29.14 million, a 1 percent decrease.

The FY 2009 estimated costs for Professional Education, Training, and Awareness were $226.11 million, a $17.32 million, or 7 percent decrease in costs from FY 2008. Overall, the majority of agencies increased their costs for the development of new training programs; however, some agencies completed projects carried over from FY 2008, thus driving down the overall costs in this category.

Estimated costs associated with Security Management, Oversight, and Planning were $1.3 billion. The costs for FY 2009 increased $107.65 million, a 9 percent increase over the FY 2008 costs.

Although costs associated with Unique Items increased by $6.94 million, or 79 percent, this category continues to be the smallest at $15.73 million, less than 1 percent of the total. The increase for FY 2009 was primarily due to installation and upgrades of secure equipment needed for communication security (COMSEC) offices and Sensitive Compartmented Information Facilities (SCIF).

The three smaller subcategories of Information Security are Classification Management, Declassification, and Miscellaneous (OPSEC and TSCM). In FY 2003, the first year that all three subcategories were reported, they comprised 5.12 percent of the total Government security classification costs and in FY 2009 they composed 5.81 percent. From FY 1998, the first year Declassification costs were reported as a separate subcategory, through FY 2009, Declassification costs have decreased by $155 million. They have decreased by $188.53 million from the high of $233.18 million of 1999. However, in FY 2009, spending on Declassification increased by 4 percent. Despite this increase, Declassification costs make up just over .5 percent of the total security classification costs. Classification Management costs continue to increase slightly each year. From FY 1995 through FY 2009, these costs have increased by $49 million. In FY 2009, Classification Management
increased $27.46 million, an 8 percent increase. OPSEC and TSCM costs have increased $91 million since they began to be reported as a separate subcategory in FY 2003.

Information Systems Security for Classified Information has been the most costly subcategory of Information Security, comprising more than 40 percent of all the total costs yearly from FY 1995 to FY 2009. From FY 2006 through FY 2008, the average annual increase for information systems security was $155.11 million. In FY 2009, this cost decreased $74.51 million, or 2 percent.
Survey Results and Interpretation - Industry

To fulfill the cost reporting requirements, 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 2009, 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 2009 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 under the National Industrial Security Program.

For most of the 699 companies included in the sample, December 31, 2009, was the end of their fiscal year. The estimate of total security classification costs for FY 2009 within industry is $1.12 billion, a decrease of $89.96 million from $1.21 billion for FY 2008. This is the first year since FY 2005 that industry costs have dropped below $1.20 billion.

Conclusion

This year’s estimate for Government and industry shows an increase of $86.51 million. From FY 1995 through FY 2009, there was an increase of $4.33 billion in total costs. The increase for FY 2009 was driven by Government in the Personnel, Security Management, and Classification Management categories. These increases in costs come mainly from new hires, reinvestigations, security awareness training, and upgrade or installation of secure information systems. The average annual increase from FY 2002 through FY 2005 was $911.82 million compared to an average annual increase of only $152.25 million from FY 2006 through FY 2009.
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