April 29, 2011

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 implementation of Executive Order 13526, costs for all areas of security classification increased during FY 2010. Sustaining and increasing investment in classification and security measures is necessary to maintain the classification system and is fundamental to the principles of transparency, participation, and collaboration. As ISOO oversees the trends in this system, we will continue to focus on enhancing the policy and guidance directed towards maintaining an efficient and effective classification management program.

Respectfully,

William A. Cira

WILLIAM A. CIRA
Acting Director

Enclosure

cc: Thomas Donilon
   Assistant to the President for National Security Affairs
BACKGROUND AND METHODOLOGY


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 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, 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

The total security classification cost estimate within Government for Fiscal Year (FY) 2010 is $10.17 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 $1.36 billion in FY 2010, an increase of 15 percent from FY 2009.
For FY 2010, agencies reported $1.6 billion in estimated costs associated with Personnel Security, an increase of $343.2 million, or 28 percent.

Estimated costs associated with Physical Security were $1.4 billion, an increase of $154 million, or 12 percent, from FY 2009.

Estimated costs associated with Information Security were $5.2 billion. Information Security continues to be the main driver of all the costs, representing 51 percent of the total security classification costs for FY 2010. There are four subcategories within Information Security: Classification Management, Declassification, Information Systems Security for Classified Information, and Miscellaneous (OPSEC and TSCM). Of these subcategories, Information Systems Security for Classified Information continues to be the most costly, at $4.7 billion, or 90 percent of estimated costs for Information Security. Classification Management costs showed an increase of $3.1 million, or 1 percent; Declassification costs increased $5.8 million, or 13 percent; Information Systems Security costs increased $430 million, or 10 percent; and Miscellaneous costs, which include OPSEC and TSCM, increased $0.5 million, or 0.5 percent. Overall, Information Security increased $439.7 billion, a 9 percent increase.

The FY 2010 estimated costs for Professional Education, Training, and Awareness were $400.4 million, a $174.3 million, or 77 percent increase in costs from FY 2009. This significant increase was due primarily to additional resources required to update or create on-line training courses to meet the requirements of E.O. 13526.

Estimated costs associated with Security Management, Oversight, and Planning were $1.5 billion. The costs for FY 2010 increased $238.3 million, an 18 percent increase over the FY 2009 costs.

**Government Security Classification Costs FY 1995 - FY 2010**

*Excluding Information Security (see next chart)
Although costs associated with Unique Items increased by $6.2 million, or 39 percent, this category continues to be the smallest at $21.9 million, less than 0.2 percent of the total. The increase in this category was mainly due to equipment upgrades.

The three smaller subcategories of Information Security — Classification Management, Declassification, and Miscellaneous (OPSEC and TSCM) — were first reported separately in FY 2003. That year, they comprised 5.1 percent of the total Government security classification costs. In FY 2010, they again comprised 5.1 percent of the total Government costs. From FY 1998, the first year Declassification costs were reported, through FY 2010, Declassification costs have decreased by $149.2 million. However, in FY 2010, spending on Declassification increased $5,796,455 (13 percent) over FY 2009 costs. Classification Management costs continue to increase slightly each year. From FY 1995 through FY 2010, these costs have increased by $52.2 million. In FY 2010, Classification Management increased $3 million, or 1 percent. OPSEC and TSCM costs have increased $91.6 million since they began to be reported as a separate category in FY 2003.

*Prior to 1998, Declassification costs were included in Classification Management costs.
*Prior to 2003, Miscellaneous (OPSEC and TSCM) costs were not reported.
Information Systems Security for Classified Information has been the most costly subcategory of Information Security, comprising more than 44 percent of all the total costs yearly from FY 1995 to FY 2009. Although in FY 2009 costs decreased, in FY 2010 costs in this category increased $430.3 million or 10 percent. The increase was due to the establishment of new secure facilities, and the installation of secure communication systems.

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 2010, 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 2010 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 843 companies included in the sample, December 31, 2010, was the end of the fiscal year. The estimate of total security classification costs for FY 2010 within industry is $1.25 billion; an increase of $128.3 million from $1.12 billion in FY 2009, or 11 percent.

**Conclusion**

This year’s estimate for Government and industry shows an increase of $1.5 billion or 15 percent. From FY 1995 through FY 2010, there was an increase of $5.8 billion in total costs. The average annual increase from FY 2002 through FY 2005 was $911.8 million compared to an average annual increase of only $485.2 million from FY 2006 through FY 2010.
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