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DHS FINANCIAL MANAGEMENT: EVALUATING PROGRESS IN IMPROVING INTERNAL CONTROLS

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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DHS FINANCIAL MANAGEMENT: EVALUATING PROGRESS IN IMPROVING INTERNAL CONTROLS

WEDNESDAY, SEPTEMBER 13, 2006

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
FINANCE, AND ACCOUNTABILITY,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 p.m., in room 2247, Rayburn House Office Building, Hon. Todd Russell Platts (chairman of the subcommittee) Presiding.

Present: Representatives Platts and Towns.

Staff present: Mike Hettinger, staff director; Tabetha Mueller, professional staff member; Erin Phillips, clerk; Seth Lennon, staff assistant; Jean Gosa, minority assistant clerk; and Adam Bordes, minority professional staff member.

Mr. PLATTS. A quorum being present, this hearing of the Government Reform Subcommittee on Government Management, Finance, and Accountability will come to order.

Five years ago on this day, we were still reeling from the devastating attacks of September 11th. Over the course of the next year, the President and Congress took steps to transform the Federal Government. The result was the creation of the Department of Homeland Security, an ambitious and sweeping change in focus that brought 22 agencies together to combat terrorism and to better protect the security of our citizens here at home.

One of the primary objectives was to streamline our operations and create economies of scale, to spend less on overhead and more on the mission at hand. Sound financial management is an important part of that equation, and DHS inherited agencies with significant problems in this area. In order to ensure that DHS would have the best chance to establish sound business practices, I, along with the ranking member, Mr. Towns, introduced H.R. 4259, the DHS Financial Accountability Act, which President Bush signed into law on October 16, 2004.

The DHS Financial Accountability Act mandated a structure in line with the Chief Financial Officers Act of 1990, establishing a Senate-confirmed CFO with direct access to the Secretary. We certainly are pleased to welcome this new CFO, the Honorable David Norquist, who will be with us and testify here today. In addition, the act imposed on the Department the most stringent audit requirements of any Federal agency, an audit of internal controls.

Internal controls are the checks and balances intended to prevent and detect mistakes. They are the key to accountability. Unfortunately, financial audits of DHS have identified 10 material weaknesses in internal control. These problems affect more than just financial reports. They can adversely impact operations. In 2005, the Bureau of Immigration and Customs Enforcement experienced some budget shortfalls because of accounting problems, and the Federal Emergency Management Agency's internal control problems contributed to millions of dollars in misspent funds in response to Hurricane Katrina.

By subjecting DHS to increased scrutiny through the audit process mandated in the DHS Financial Accountability Act, our intent was to address the root causes of these problems. We did not intend for the internal controls audit to be a paperwork exercise; and I am pleased to hear that DHS is taking a proactive, collaborative approach. In order to fix weaknesses, not just identify them, the Office of the Inspector General is working alongside the CFO performing ongoing audits that focus on specific goals and action plans. These audits set specific goals and measure progress. The end result will be a Department that can focus more effectively on its critically important mission.

Today, we are focused on the results of the first several audits and provide the subcommittee with the chance to discuss the results of these audits.

We are pleased again to be joined by Mr. Norquist, as well as Mr. David Zavada, Assistant Inspector General for Audits, who will testify today. We thank you both for being here. As always, we appreciate your written testimony ahead of time to give us some more in-depth background on what we will discuss today. We certainly look forward to your opening comments and expect that we will have a very good dialog as we move forward.

[The prepared statement of Hon. Todd Russell Platts follows:]

COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE AND ACCOUNTABILITY

OPENING STATEMENT OF
CHAIRMAN TODD RUSSELL PLATTS
SEPTEMBER 13, 2006

Five years ago on this day we were still reeling from the devastating attacks of September 11th. Over the course of the next year the President and Congress took steps to transform the Federal government. The result was the creation of the Department of Homeland Security, an ambitious and sweeping change in focus that brought 22 agencies together to combat terrorism.

One of the primary objectives was to streamline operations and create economies of scale – to spend less on overhead and more on the mission at hand. Sound financial management is an important part of that equation, and DHS inherited agencies with significant problems in this area. In order to ensure that DHS would have the best chance to establish sound business practices, I, along with Ranking Member Towns, introduced H.R. 4259, the *DHS Financial Accountability Act*, which President Bush signed into law on October 16, 2004.

The *DHS Financial Accountability Act* mandated a structure in line with the *Chief Financial Officers Act of 1990,* establishing a Senate-Confirmed CFO with direct access to the Secretary. We welcome this new CFO, **the Honorable David Norquist**, who will testify today. In addition, the Act imposed on the Department the most stringent audit requirements of any Federal agency – an audit of internal controls.

Internal controls are the checks and balances intended to prevent and detect mistakes. They are the key to accountability. Unfortunately, financial audits of DHS have identified ten material weaknesses in internal control. These problems affect more than just financial reports – they can adversely impact operations. In 2005, the Bureau of Immigration and Customs Enforcement experienced budget shortfalls because of accounting problems, and the Federal Emergency Management Agency's internal control problems contributed to millions of dollars in misspent funds in response to Hurricane Katrina.

By subjecting DHS to increased scrutiny through the audit process mandated in the *DHS Financial Accountability Act*, our intent was to address the root causes of problems. We did not intend for the internal controls audit to be a paperwork exercise. I am pleased to hear that DHS is taking a proactive, collaborative approach. In order to fix weaknesses – not just identify them – the DHS OIG, working with the DHS CFO, is performing on-going audits that focus on specific material weaknesses and measure progress.

This hearing will focus on the results of the first several audits and provide the Subcommittee with a chance to discuss the results. We are pleased to be joined by Mr. Norquist and **Mr. David Zavada**, Assistant Inspector General for Audits, who will testify today. Thank you both for being here, and I look forward to your testimonies.

Mr. PLATTS. I am now pleased to yield to our ranking member, Mr. Towns, from New York.

Mr. TOWNS. Thank you very much, Mr. Chairman, for holding this hearing today to discuss ways in which we can improve the internal controls over financial management at the Department of Homeland Security. I am hopeful that today's witnesses can shed some light on the progress being made toward this important goal.

The creation of DHS in 2003 was daunting, as it required the merging of 22 separate legacies agency into one management framework. Unfortunately, the integration of uniform financial management practices has proved overwhelming to agency leadership at all levels, and DHS continues to demonstrate significant material weaknesses in its financial reporting process and internal control functions.

In response, Chairman Platts and this subcommittee worked to enact the Department of Homeland Security Financial Accountability Act, which finally brought DHS under the CFO Act umbrella for all financial management activities. It also requires DHS to assess their internal control functions on an annual basis in order to insure that appropriate safeguards are built into agency financial practices.

I am hopeful our witnesses today will be able to explain how the weaknesses identified in the DHS fiscal year 2005 review of internal controls are being addressed for future financial reporting activities. With many State and local governments dependent upon DHS for vital resources, it is imperative that controls be in place to govern the disbursement and collection of revenues for all agency operations.

Once again, I thank my friend and chairman for his tireless work. He has done a major job in terms of keeping this in the forefront and continuing the discussions. He realizes how important it is, and I would like to say to him I really appreciate that.

This concludes my statement, and I yield back.

[The prepared statement of Hon. Edolphus Towns follows:]

STATEMENT OF CONGRESSMAN ED TOWNS
HEARING ON DHS INTERNAL CONTROLS
SEPTEMBER 13, 2006

Thank you, Mr. Chairman, for holding this hearing today to discuss ways in which we can improve the internal controls over financial management at the Department of Homeland Security. I am hopeful that today's witnesses can shed some light on the progress being made towards this important goal.

The creation of DHS in 2003 was daunting, as it required the merging of 22 separate legacy agencies into one management framework. Unfortunately, the integration of uniform financial management practices has proved overwhelming to agency leadership at all levels, and DHS continues to demonstrate significant material weaknesses in its financial reporting processes and internal control functions.

In response, Chairman Platts and this subcommittee worked to enact the Department of Homeland Security Financial Accountability Act, which finally brought DHS under the CFO Act umbrella for all financial management activities. It also requires DHS to assess their internal control functions on an annual basis in order to ensure that appropriate safeguards are built into agency financial practices.

I believe these requirements are productive and reasonable for achieving the full integration of DHS accounting, grants management, and IT systems. Furthermore, strong internal controls are already required for publicly traded companies under Sarbanes-Oxley, so it only makes sense to require them for taxpayer funded agencies.

I am hopeful our witnesses today will be able to explain how the weaknesses identified in DHS' FY 2005 review of internal controls are being addressed for future financial reporting activities. With many state and local governments dependent upon DHS for vital resources, it is imperative that controls be in place to govern the disbursement and collection of revenues for all agency operations.

Once again, I thank my friend and Chairman for his tireless work and dedication to this issue, and look forward to hearing from our witnesses. This concludes my statement.

Mr. PLATTS. Thank you, Mr. Towns; and I appreciate your kind words. But it truly has been a team effort with you and your staff working with our staff on the Republican side, and I think it is a good example that partisanship doesn't happen here in this subcommittee. It is about good work and the joint effort to just ensure that the taxpayer funds are well invested and a good return for our citizens back home.

So we will turn to our witnesses. If I could ask both of you to stand. Our practice is to swear in both of our witnesses before your testimony. If you could raise your right hands.

[Witnesses sworn.]

Mr. PLATTS. Mr. Norquist, we'll begin with you; and we'll give you roughly, I guess, a 6-minute timeframe. But if you need to go over, we're glad to have you here; and if you need a little more time than that, feel free to take that. Then we'll go into questions.

So, Mr. Norquist.

STATEMENT OF DAVID NORQUIST, CHIEF FINANCIAL OFFICER, DEPARTMENT OF HOMELAND SECURITY

Mr. NORQUIST. Thank you, sir.

Chairman Platts, Ranking Member Towns, thank you for this opportunity to testify before you today.

As you have heard from past witnesses, DHS has many challenges to overcome to improve its financial management. My purpose before you today is to report to you on what I am doing about those challenges, consistent with the language and spirit of Public Law 108–330, the Department of Homeland Security Financial Accountability Act.

My goals as CFO of Homeland Security are to make measurable progress in a number of areas, to include providing timely, accurate and useful financial data; improving our systems and processes eventually leading to sustainable, clean audit opinions; and implementing a sound internal control program.

I firmly believe that success in achieving these goals begins by recognizing that strengthening financial management is about more than systems. To address the root cause of the problem, we must address people, policies, processes, systems and assurance.

Regarding people, I have met with the agency chief financial officers to evaluate their hiring and training challenges. I believe there is a core set of knowledge that all financial and management employees should be trained to when they come on board in DHS. I have formed a task force to make that happen. I am also starting a DHS-wide CFO mentorship program so that we can identify and train the next generation of chief financial officers.

With regard to policy, DHS needs to develop a Department-wide financial management regulation. We are developing one DHS way of conducting financial management. One set of regulations will give us a common standard and understanding from which we will operate. It will simplify our control environment and provide us the standards for training and accountability.

The centerpiece of our effort to improve our financial processes is our Internal Controls Over Financial Reporting Playbook. The Playbook will be completed this fall and is the culmination of an effort led by my office and supported by the Inspector General's Of-

fice to identify the root causes that underlie the material weaknesses. This will lead to more robust and detailed corrective action plans and to achieve the goals of the Financial Accountability Act.

With respect to our systems modernization efforts, let me state that eMerge2 is dead. We do not have plans to launch the development of a new, Department-wide financial management system. The project documentation created at the inception of eMerge2 identified the right goals. Its goals run along the same lines as these I have outlined as my goals for DHS financial management. However, the approach was not balanced well enough across the framework of those five areas I mentioned: people, policy, process, systems and assurance.

DHS still has a need to improve its resource management systems, but before we begin making migrations we must have a solid business case and know how the migrations tie into our longer range plans. We need to separate our process problems from the true system problems so we know which of our existing systems can be our foundation to buildupon.

The final piece is assurance. DHS must have in place a means by which we can test whether our internal controls are well designed and operating effectively and for management to be in a position to find what is wrong and fix it. To this end, I am creating the CFO's assurance team to check our controls and to direct and monitor our execution of the Playbook.

I would like to particularly thank the Office of the Inspector General for their support of this effort.

We are working with the OIG on the internal control audit for this year, as required under the Financial Accountability Act. But, in addition, the IG is conducting a series of performance audits that are helpful in improving our corrective action plans, and I appreciate their strong participation.

DHS has come a long way since its inception in financial management. During my tenure as the CFO, I intend to move DHS's financial management beyond that of an agency in transition. I know from my 3 months on the job that I have a big task in front of me.

Thank you for your leadership and your continued support of the Department of Homeland Security, and I would be happy to answer any questions you may have.

Mr. PLATTS. Thank you, Mr. Norquist.

[The prepared statement of Mr. Norquist follows:]

Statement by

David Norquist

Chief Financial Officer

Department of Homeland Security

Before the

House Government Reform Subcommittee on

Government Management, Finance, and Accountability

Hearing on

The Department of Homeland Security's

Ongoing Efforts to Improve Agency Financial Management

September 13, 2006

Thank you Chairman Platts, ranking member Towns, and members of the Subcommittee for allowing me this opportunity to testify before you regarding the Department of Homeland Security's (DHS) efforts to improve its financial management practices. As this subcommittee has heard from past witnesses, DHS has many substantial challenges to overcome in its effort to improve financial management. I started at DHS on June 5, 2006. So my statement before you today will not dwell on what has transpired at DHS since its creation, or on the history of efforts such as the eMerge^2 project.

My purpose before you today is to report to you on the challenges facing DHS as I see them, what I am doing about the challenges, and how DHS is complying with the provisions of P.L. 108-330, *the Department of Homeland Security Financial Accountability Act (FAA).*

Over the next two years, I intend to move DHS financial management beyond that of an agency in transition. My predecessors struggled with the challenges of creating DHS financial management from scratch. The DHS CFO's office started with a dozen staff, most of whom were detailees, and has grown to an office of approximately 80 full time staff. The early leaders of DHS financial management consolidated 18 financial service providers down to 8. They built budgets and the Future Years Homeland Security Plan, and developed the ability to review programs and spending during the year. They learned how to produce financial statements that the auditors could review, and met the aggressive new audit deadline last year. They tackled numerous, thorny issues involving hundreds of millions of dollars between Customs and Border Protection, Immigration and Customs Enforcement, and Citizenship and Immigration Services. I am the beneficiary of all they have accomplished and I will build upon their efforts as I approach the many challenges still facing the Department of Homeland Security.

Goals and Framework for Success

My goals as CFO of Homeland Security are to make measurable, demonstrable progress in the following areas:

- To provide greater visibility into DHS' financial activity, through timely, accurate and useful financial-related data.
- To improve systems and processes eventually leading to sustainable clean audit opinions.
- To provide reasonable assurance about our internal controls over financial reporting, via a sound internal controls program.
- To provide efficient financial management services.
- To integrate the budget process with the policy and planning process.
- To support my counterparts, the Chief Information Officer, Chief Procurement Officer, Chief Human Capital Officer, and Chief Administrative Officer, by supporting integration and standardization of our resource management systems.

Success in achieving these goals rests upon a framework of people, policies, processes, systems, and assurance. This is important because these goals are complementary to each other. Attention is needed in all of these areas, and balance must exist among them to fully realize the spirit of the FAA. Improving the training we offer to our people will make the data we obtain through our financial visibility effort more reliable. Improving our processes will enable us to become more efficient, and we will become more effective as we integrate and standardize our systems. Having clear established policy will provide a framework to measure performance in our accountability and assurance initiatives.

My vision for DHS-wide financial management is to create a quality operation that enhances DHS' ability to achieve its core mission of securing the Homeland and preserving our freedoms. The purpose of sound financial management and resolution of material weaknesses is not just to produce statements for audit; it is a vital activity that supports mission related decisions. For example, the Coast Guard's effort to fix its material weakness in operating materials and supplies is having a meaningful impact on the operations of the Coast Guard. It is cutting down on needless expenses and freeing up valuable, limited space aboard ship. Additionally, Immigration and Customs Enforcement's effort to have contracts and work orders entered timely into the financial system will allow decision makers to have more accurate information with which to manage resources. Reliable systems of internal control help protect the taxpayers' dollars against waste, fraud and abuse.

People

Regarding our financial management staff, I have begun moving out on several fronts. First, I have met with the DHS agency CFO's to gauge their hiring challenges. Many face similar challenges, and rather than working separately, we will work more collaboratively to meet the needs of the Department. I am creating a CFO mentorship program, so that we can identify and train the next generation of CFO's. Employees in financial management tend to progress through either the budget or finance operations. I need to identify our rising stars, and give them a broader exposure to financial disciplines and organizations to ensure DHS has developed future leaders.

We are also collaborating across the Department on training requirements. I believe there is a core set of knowledge that all CFO employees should be exposed to when they come on board in DHS. We will identify that knowledge, document it, and make it available to our new employees.

Policy

DHS lacks a comprehensive set of Financial Management Regulations. As a result, DHS agencies revert to their legacy policies. We need to develop one DHS way of conducting financial management, from budgeting policy, to financial reporting, to what to do when one suspects there may be a violation of the anti-deficiency act. One set of regulations

gives us a common standard and understanding from which we will operate. It simplifies our control environment. It provides us the standards of accountability. It gives our people increased mobility between agencies, because the rules of the game will be the same across the board.

While the CFO's office issues various instructions and guidance throughout the year, we need to develop a deeper and broader set of standard policies. In our effort to do so, we will not seek to reinvent the wheel. Many good policies already exist in the Federal Government. My plan is to outline the set of policies that we need in DHS, to gather together examples of policies from across the government, and then have representative experts from our agencies determine which best fit the DHS operating environment, and represent the best practices of the Federal government. Our progress will be measured as we move down the list of policies we need to develop, so that in FY 2008 we will have the full spectrum of financial policies for DHS. Along the way, we will need to train our employees on our new policies as they are developed.

Process

The centerpiece of our effort to improve our financial processes is our Internal Controls over Financial Reporting (ICOFR) Playbook. I am excited about the ICOFR Playbook because it is a roadmap to achievement of the goals of the FAA. DHS corrective action plans have not been effective. Measurable progress at improving controls related to our 10 material weaknesses is hard to find. The ICOFR Playbook draws from internal controls best practices that we have observed at DoD, Energy and other agencies to establish a proven management control program that measures performance with accountability for improvement. It will also provide the basis for DHS assurance statements required by the FAA.

The ICOFR Playbook, which will be completed this Fall, is the culmination of an effort the OCFO started this Spring, where we worked with the components to identify the root causes that underlie the problems found by our auditors. This is leading to corrective action plans that are more robust and detailed.

We developed an automated tracking system that lets us systemically track the components progress against their corrective action plans. We meet regularly with the components and OMB to track their progress. Rather than just accepting what the components told us were their improvement plans, we have held a series of corrective action plan workshops to meet with the components on how to improve their plans, and brought in outside expertise such as the Office of the Inspector General to bolster our effort.

We completed the workshops with our components in late August and have given feedback to the components on how to improve their plans. As we get in their final corrective action plans this month, we will work with OMB and our OIG to pull together the ICOFR Playbook, which will be the overall DHS strategy and milestones for making improvements to our audit weaknesses. Once we have this final plan, we will measure

our progress against the plan. The OIG is already auditing our development and execution of this plan and we will continue to meet with OMB on the plan. The ICOFR Playbook will evolve over time, as we make progress and as new issues arise. However, we will continue to use this plan as the means to monitor and guide our efforts. The ICOFR Playbook is meant to be our way ahead for the next several years for fundamental financial management improvement across the spectrum of financial activities supporting the DHS mission.

We are tying in the ICOFR Playbook with our A-123 implementation. The auditor's past reports certainly contain a good share of the challenges we face and provide ample opportunity for improvement in developing our roadmap ahead. But we are not stopping at simply fixing what the auditors find. Under the new paradigm of financial accountability, management is responsible for finding, reporting and fixing its own weaknesses. Through our multi-year internal controls assessments, we are documenting the design of our controls. We will then test their operating effectiveness and use the corrective action plan process to monitor our improvements.

One other process improvement I would highlight for you is the development of our Future Years Homeland Security Plan, which is required as part of the DHS Financial Accountability Act. Coming from Defense, I am very familiar with the reasons for 5-year planning and the importance of multi-year budgeting. I have recently led a series of meetings with the DHS leadership on the FY 2008 budget. Fundamental to this review are the out-year targets DHS has set as part of the FY 2007 budget. This was the first time that DHS reviewed its upcoming budget request in the context of previously-established out-year targets.

Systems (and *eMerge²*)

With respect to our systems modernization efforts, let me state that ***eMerge²*** is dead. Without getting into the specifics of what went wrong in the past, going forward we do not have plans to launch the development of a new, department-wide financial management system. The project documentation created at the inception of ***eMerge²*** identified the right goals—its goals run along the same lines as those that I have outlined as my goals for DHS financial management. The problem is that success in all of these areas—from consolidated financial reporting, to internal controls, to the standardization of policies and processes was all wrapped around the implementation of a new system. The approach was not balanced enough across the framework of people, policies, processes, systems, and assurance—it was too heavily weighted on systems transformation to lead changes in the other areas. So as our signature systems effort struggled, progress along many related fronts also struggled.

One thing the Department has learned about financial management is that fixing our systems is not the linchpin to our success. Systems are often easy to fault when things go wrong, but the truth is our challenges are as much about our people, policies and processes. We can not expect a new system to fix everything when problems also exist in these other areas.

DHS still has a need to improve its resource management systems. We know that we have some systems that are aging; some that fail to fully meet user requirements; and some that are not fully integrated between finance, procurement, and asset management. To meet these needs, rather than acquiring, configuring, and implementing a new system within DHS, we are looking to leverage investments that have already been made. While DHS had discussed beginning a series of systems migrations this year, I am not going to undertake this approach until I know that the benefits will outweigh the costs. Migrations can be costly and risky. Migrations take time and effort, and are disruptive. Before we begin making migrations, we must have a solid business case and know how the migrations tie into our longer-range plans.

I do not have all of the information I need to make this business case. DHS has many pieces to this puzzle, in part from work done in past audits and from reviews performed under ***eMerge²***. But some additional review is needed. I need this review to help separate out the process problems from the true systems problems. I expect this review, to be conducted over the next several months, will yield an assessment that tells me which systems today meet the basic standards for financial management and which can meet standards with modest improvement. These are the systems that we will look to leverage as solutions for those who are using systems that fail to meet standards.

As part of our ongoing systems efforts, I will work with the CIO, CPO, CAO, and CHCO about how we integrate procurement and asset management with our financial systems.

Assurance

This final piece of my financial management framework is assurance. This ties in directly to the requirements and expectations of the Financial Accountability Act, which requires the Secretary to provide an annual assurance statement. To support this statement, DHS must have in place a means by which we can test whether our internal controls are well designed and operating effectively. This means that management must move away from reliance on what outside auditors tell us is wrong with DHS, and for management to be in a position to find what is wrong and fix it before it becomes a major problem. Management can not assume that controls are working well just because the auditors don't tell us to the contrary. Management must create an infrastructure that is self-monitoring and can provide internal assurance that a sound, reliable controls environment exists within DHS. To this end, I am creating the CFO's assurance team, which will be an office that directs and monitors our execution of the ICOFR Playbook.

As DHS closes out its corrective action plans, and as managers are willing to provide assurance that improvements have been made and are effective, my assurance team will ensure that we test our processes to validate the improvements. This assurance team will also be my first response team for financial problems, which will invariably surface. As the problems arise, the team will make sure that management takes the appropriate steps, such as developing corrective actions plans, to fix the problems.

Working with OMB and the OIG

In these efforts to improve DHS' people, policies, processes, systems and assurance, DHS will continue to work closely with OMB and the OIG. My philosophy is that openness and transparency with the OIG in the audit process will get us all where we want to be, which is in a position to better secure the Homeland and use the taxpayers' dollars wisely. We are working with the OIG on the internal control audit for this year, as required under the FAA. The OIG and KPMG are conducting a series of performance audits that are helpful in improving our corrective action plans

We have also sought to include OMB to a greater extent in our review this year. Dr. Combs and her staff can bring us a cross-government view on ways to solve their problems. I am working with her and her staff on how we can form a body of government experts to review and improve our plans, including our ICOFR Playbook.

I support the ideas behind the OMB financial management line of business. I think our approach to financial systems—to assess and leverage our best performers—is in keeping with OMB's direction. In time, I see DHS migrating to shared providers, as we need to reach outside DHS to modernize and update our systems.

Conclusion

Secretary Chertoff has expressed as one of his key goals for DHS to develop a culture of metrics and accountability. As CFO, I will help implement that approach. DHS has come a long way since its inception in financial management. I intend to move DHS beyond an agency in transition during my tenure as the CFO. In this statement I have spelled out my key goals, and given you a sense of what I want to achieve during my tenure. I know from my 3 months on the job that I have a big job in front of me. Thank you for your leadership and your continued support of the Department of Homeland Security and its management programs. I would be happy to answer any questions you may have.

Mr. PLATTS. Mr. Zavada.

STATEMENT OF DAVID ZAVADA, ASSISTANT INSPECTOR GENERAL, DEPARTMENT OF HOMELAND SECURITY

Mr. ZAVADA. Good afternoon, Chairman Platts, Ranking Member Towns and members of the subcommittee. Thank you for inviting me to testify before the subcommittee today on DHS financial management and internal control.

Strong financial management and accountability are essential to effectively and efficiently accomplish DHS's mission. The Congress recognized this in establishing the Department of Homeland Security Financial Accountability Act by emphasizing financial management leadership and internal control as essential elements of a sound financial management system.

Financial management has been a management challenge for DHS since its creation in 2003. DHS was created by consolidating 22 separate domestic agencies with different business processes and pre-existing internal control weaknesses. In addition, DHS needed to create-a-department wide capacity to lead, manage and oversee financial management.

For fiscal year 2005, DHS was unable to receive an opinion on its financial statements, and 10 material internal control weaknesses were reported for the 2nd straight year. The number and extent of these weaknesses across the Department's components are indicative of the challenges the Department faces in improving financial management and producing timely and reliable financial information.

To move forward, DHS must develop a comprehensive financial management strategy that addresses organizational resources and capabilities, inconsistent and flawed business processes, and unreliable financial systems. An initial step in this process is to prepare well-developed and comprehensive corrective action plans to address known internal control weaknesses.

During 2006, we anticipated progress in addressing internal control deficiencies. The Department identified four areas for priority attention and improvement this year. These priority areas were financial management oversight, financial reporting, fund balance with Treasury and actuarial liabilities.

Over the past several months, we conducted a series of performance audits to assess the effectiveness of DHS's corrective action plans to address internal control weaknesses. The audits are intended to provide ongoing feedback to the Department as they develop and implement their plans. To date, we have completed two audits focused on assessing the overall corrective action plan process and specific corrective action plans for 4 of the 10 material weaknesses. These weaknesses are attributable to significant internal control problems within the Office of the Chief Financial Officer, ICE and Coast Guard.

We recommend that the DHS take greater responsibility for assessing internal control deficiencies and provide additional tools for identifying root causes of weaknesses. Further, we recommend that they closely integrate their corrective action plans with the assessment being implemented as part of OMB Circular A–123, Management's Responsibility for Internal Control, and also with corrective

action plans being implemented to address information technology weaknesses.

The Office of the Chief Financial Officer has initiated a Department-wide corrective action plan process and begun to actively monitor progress. However, its own corrective action plans need further development.

Weaknesses within the OCFO related to financial management, oversight and reporting continue to exist. The OCFO plans to conduct a comprehensive organizational staffing and human resource needs study. We endorse this type of comprehensive assessment in gap analysis.

At ICE, we found its corrective action plans and priority areas to be comprehensive and well-developed. On its own initiative, ICE began its corrective action plan processing in the first quarter of fiscal 2006. Consequently, they are further along in developing and executing corrective action plans than the other DHS components.

The Coast Guard does not yet have a well-developed corrective act plan. They have not yet thoroughly analyzed the business processes and financial systems to determine the underlying causes for many of its internal control weaknesses. This analysis is crucial to identifying and implementing the appropriate steps to actually move forward and correct these weaknesses.

Financial management will continue to be a high priority area for the OIG. We intend to continue our proactive and engaged approach to overseeing DHS financial management improvement efforts through our financial statement audit and through a series of performance audits. We look forward to conducting these audits and providing the results to the Secretary and the Congress.

Mr. Chairman, this concludes my prepared remarks. I would be happy to answer any questions.

[The prepared statement of Mr. Zavada follows:]

STATEMENT OF DAVID M. ZAVADA

ASSISTANT INSPECTOR GENERAL FOR AUDITS

U.S. DEPARTMENT OF HOMELAND SECURITY

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON
GOVERNMENT MANAGEMENT, FINANCE AND ACCOUNTABILITY

U.S. HOUSE OF REPRESENTATIVES

SEPTEMBER 13, 2006

Mr. Chairman Platts, Ranking Member Towns, and Members of the Subcommittee.

I am David M. Zavada, Assistant Inspector General for Audits of the Office of Inspector General (OIG) at the Department of Homeland Security (DHS). Thank you for the opportunity to discuss the status of financial management at DHS, efforts to address the Department's internal control weaknesses, and implementation of the *Department of Homeland Security Financial Accountability Act*, P.L. 108-330 (Accountability Act).

Office of Inspector General Partnerships

The Office of Inspector General partners with the Secretary of Homeland Security and Congress to ensure that the Department accomplishes its mission in the most effective, efficient, and economical manner. Key to achieving these objectives is sound financial management. Through our audits, we provide independent, objective information and identify issues and opportunities for improvements in financial management and other areas.

We share with the Chief Financial Officer (CFO) a vision of world-class financial management that delivers reliable, timely, and useful information to support the critical mission of DHS. Financial management is a high-priority area for our office - - it is an area where we plan an ongoing and proactive presence. Our goal is to provide the Department with real-time analysis and feedback to assist them as they are developing and executing financial improvement plans.

The DHS Financial Accountability Act and Internal Control

Strong financial management and accountability are essential to effectively and efficiently accomplish DHS's mission. The Accountability Act recognizes this and emphasizes effective financial management leadership and internal control as essential elements of a sound financial management program. This Act made DHS subject to the *Chief Financial Officers Act of 1990,* P.L. 101-576, similar to other large departments and agencies. As a result, the Department now has a Senate- confirmed CFO with a statutorily established direct reporting relationship to the Secretary and clearly defined responsibilities.

The Accountability Act also emphasizes the importance of good internal control as a foundation for timely and reliable financial information. To this end, the Accountability Act has very specific requirements with respect to internal control over financial reporting by requiring the Secretary to include in the Department of Homeland Security (DHS) *Performance and Accountability Report* (PAR) an assertion on internal control over financial reporting. DHS met this requirement in 2005 with the Secretary asserting that the Department was unable to provide reasonable assurance that internal control over financial reporting was effective.

The Act further requires the Secretary to include an audit opinion on the Department's internal control over financial reporting in DHS's PAR, beginning in FY 2006. The Department will meet this requirement, with our office providing this opinion.

In addition, to further promote internal control improvements, we have undertaken a series of performance audits focusing on the Department's corrective action plans to address internal control weaknesses. Performance audits assess the effectiveness and efficiency of program management and initiatives. The intent of these audits is to assess the Department's progress in preparing well-developed corrective action plans to support internal control improvements. Our corrective action plan audits are being conducted on a real-time basis by providing recommendations to strengthen plans as they are being developed. I will discuss the results of these audits later in this statement.

Status of Financial Management at DHS

Creating a Financial Management Capacity
Financial management has been a major challenge for DHS since its creation in 2003. DHS was created by consolidating 22 domestic agencies, many of these agencies brought to DHS different business processes and pre-existing internal control weaknesses. In addition, DHS needed to create a Department-level capacity to lead, manage, and oversee financial management. We have reported in our financial audit report that this has proven to be a challenging task for the Department. Specifically, in our past audits we have identified resource and capability deficiencies in Department-level financial management oversight and reporting.

2005 Financial Audit Results
For FY 2005, financial management within the Department continued to falter. The Department was again unable to receive an opinion on its financial statements and ten material internal control weaknesses were reported for the second straight year. KPMG, LLP, under contract with the OIG, issued a disclaimer of opinion primarily due to problems at Immigration and Customs Enforcement (ICE) and the Coast Guard. However, the Office of Financial Management (OFM), within the OCFO, Transportation Security Administration (TSA), State and Local Government Coordination and Preparedness (SLGC&P), and Emergency, Preparedness and Response (EP&R) also experienced difficulties they could not overcome by the reporting deadline, and joined ICE and the Coast Guard in contributing to the Department's overall disclaimer of opinion. Those difficulties included: a systems conversion at TSA, problems involving timely access to information from SLGCP's accounting service provider, and Hurricane Katrina, which stretched EP&R's accounting resources late in the fiscal year.

The Department's ten material internal control weaknesses ranged from financial management oversight and reporting at the department-level to controls surrounding the recording of individual account balances within DHS bureaus. The material weaknesses are pervasive throughout the Department and are indicative of the challenges the Department faces in producing timely and reliable financial information.

Many of these weaknesses are attributable to significant internal control problems at ICE, Coast Guard and the OCFO. These control weaknesses, due to their materiality, are impediments to obtaining a clean opinion and positive assurance over internal control at the department level.

FY 2006 Activities

To move forward, DHS must develop a comprehensive financial management strategy that addresses organizational resources and capabilities, inconsistent and flawed business processes, and unreliable financial systems. An initial step in this process is to prepare well-developed and comprehensive corrective action plans to address known internal control weaknesses.

During FY 2006, we anticipated progress in addressing internal control deficiencies. The Department identified four areas where internal control weaknesses exist for improvement during the year. However, a coordinated Department-wide effort to develop corrective action plans did not begin until the third quarter of 2006; and as of the completion of our recent performance audits, the Department did not yet have a Department-wide plan in place.

Many of the Department's material weaknesses, to varying degrees, are attributable to the Coast Guard. Achieving a clean financial statement audit opinion and providing positive assurance over internal control at the Department level is highly dependent upon internal control improvements at the Coast Guard.

The Coast Guard does not yet have well-developed corrective action plans to address their internal control weaknesses. For example, a milestone of their plan to address weaknesses in financial management oversight and structure is to form a transformation team to develop a plan - - this amounts to a plan to develop a plan. The Coast Guard also has not yet undertaken a through analysis of its business processes and financial systems to determine the root causes of its many internal control weaknesses.

Also, ICE began its component corrective action plan process early, during the first quarter of 2006, and should show signs of internal control improvements this year. It is also evident that senior financial management leadership within the Department are actively engaged in developing an overall financial management strategy, corrective action plans and in developing systems to monitor overall internal control improvement efforts.

However, these steps alone will not be sufficient to turn the corner for FY 2006. Weaknesses within the OCFO rooted in resources and capabilities continue to exist along with the work of remediation of most other weaknesses. Given these weaknesses and the lack of progress in addressing them, producing a PAR, including consolidated financial statements, on an accelerated schedule, remains a considerable challenge. Existing internal control weaknesses at the OCFO, Coast Guard, and ICE remain the primary reasons.

Performance Audits of Department Corrective Action Plans

Over the past several months we initiated a series of performance audits to assess the effectiveness of DHS's corrective action plans to address internal control weaknesses. Our objective in conducting these performance audits is to assess the thoroughness and completeness of both the overall corrective action plan process and individual plans developed to address specific weaknesses. The performance audits are intended to provide ongoing feedback to the Department as they are developing and implementing corrective action plans.

Our performance audit analysis and related recommendations focus on four essential elements of good corrective action plans. These areas are: identification of "root cause" problems, development of critical milestones, accountability for accomplishing corrective actions and validation that actions taken were effective. We also looked for linkage between critical milestones in the plans with overall goals, and for integration of the corrective action plan process with other related management activities; the most significant of which is implementation of the internal control assessment requirements in OMB Circular A-123, *Management's Responsibility for Internal Control*. To date, we have completed two audits focused on assessing the overall corrective action plan process and specific corrective action plans for four of the ten material weaknesses the Department prioritized for improvement in 2006.

Performance Audit Report No. 1: The Overall Corrective Action Plan Process

During 2006, DHS initiated a formal corrective action plan effort aimed at developing corrective action plans and tracking specific milestones for its material internal control weaknesses. As part of this effort, the Department developed a detailed automated tracking system to monitor corrective action plan progress. Our first performance audit focused on assessing the process and guidance the Department has put in place and the overall progress in developing a Department-wide corrective action plan.

We recommended that the Department enhance its process and guidance by:

- further emphasizing management's responsibility for internal control and move away from a disproportionate reliance on external audits;
- providing additional tools for analyzing the "root cause" of internal control deficiencies;
- better integrating corrective action plans with other related management assessment and corrective action plan initiatives; and
- establishing clearer accountability for completing corrective actions.

To date, much of the Department's identification of internal control deficiencies has been through the financial statement audit. While our financial audit will continue to report on internal controls, we recommend that greater responsibility be taken by the Department for assessing and correcting internal control deficiencies. As the Department develops these processes further, we recommend that they be closely integrated and leveraged with

the OMB Circular A-123 assessment process. We also recommended greater coordination with corrective action plans being developed and implemented to address information technology weaknesses. Similarly, roles and responsibilities of responsible officials and accountability need to be clear and coordinated.

Our audit also reported that the Department did not begin a coordinated corrective action plan effort until the third quarter of FY 2006. Although DHS now has a formal corrective action plan process in place and has begun to implement this process within DHS components, it has not yet prepared an overall Department-wide corrective action plan.

Performance Audit Report No. 2 - - Assessing Corrective Action Plans for 2006 Department Priority Areas

Our second performance audit focused on assessing the Department's progress in developing specific corrective action plans for four internal control weaknesses it prioritized for improvement in FY 2006. These weaknesses are:

- financial management oversight,
- financial reporting,
- accounting for Fund Balance with Treasury, and
- accounting for Actuarial Liabilities.

These weaknesses are primarily attributable to three entities within the Department: the OCFO, ICE, and Coast Guard.

In auditing the Department's corrective action plan efforts in these four areas, we assessed specific corrective action plans developed to address these weaknesses within the above three entities. Consistent with our approach in performance audit number one, we looked for all the elements of well-developed corrective action plans.

Overall we identified well-developed corrective action plans at ICE and some progress at the OCFO. We reported very little progress in developing effective corrective action plans at the Coast Guard. Our audit report provides recommendations for improvement for all three entities.

Office of the Chief Financial Officer
Weaknesses related to financial management oversight and financial reporting relate primarily to resource and capability issues within the OCFO. We have reported a need for increased OCFO oversight and financial reporting capabilities since FY 2004. Proper resourcing at the OCFO is critical to improving financial management within the Department. The OCFO has developed corrective action plans for material weaknesses related to its financial management oversight and financial reporting, but the plans need further development.

During FY 2006, the OCFO demonstrated some progress in initiating a Department-wide corrective action plan process and taking steps to actively monitor progress. As part of its corrective action plan process related to financial management oversight, management has identified the need for a comprehensive organizational, staffing, and human resource needs study to carry out its responsibilities in this area. We recommended that management conduct its planned study as a basis for developing a more robust corrective action plan to address its oversight responsibilities.

Corrective action plans related to financial reporting contained routine financial management task rather than specific actions to address underlying problems. To address financial reporting weaknesses the OCFO has hired a contractor to enhance its financial reporting capability. To achieve lasting improvements in this area corrective actions need to be better developed. We recommended that further analysis of "root causes" be performed and detailed corrective action tasks with time sensitive milestones be developed, assigned for completion and validated.

Immigration and Customs Enforcement
ICE proactively began its corrective action plan process in the first quarter of FY 2006. Consequently, they are further along in developing and executing corrective action plans than the other DHS entities. ICE created a Program Management Office (PMO) to develop and implement a three-year Financial Action Plan. The PMO reports directly to the ICE CFO and provides program management infrastructure, guidance and support to staff developing and implementing corrective action plans. We found corrective action plans to be comprehensive and well developed. In addition, ICE senior leadership has set a positive tone for financial management improvements and actively monitors progress.

For FY 2006, ICE prioritized implementation of its plans, with a goal of fully remediating its Fund Balance with Treasury material weakness. The 2006 financial statement audit underway will assess the effectiveness of ICE's implementation of its plan.

To improve further their corrective action plans, we recommended that ICE better define the criteria used to determine when a corrective action is complete and integrate the validation process with control testing planned for conducting management's OMB Circular A-123 assessment.

Coast Guard
The Coast Guard developed corrective action plans intended to address weaknesses in each of the four priority areas. We reported that these plans were general in nature and lacked adequate detail. Underlying root causes were limited to only those previously identified through the financial statement audit. Consequently, the corrective action plans did not include a fully developed and detailed listing of tasks to correct weaknesses, a timeframe for completion or adequate accountability.

We made specific recommendations related to all key elements of the Coast Guard's plans. Our primary recommendations are for the Coast Guard to improve its corrective

action plans by performing a thorough root cause analysis of weaknesses that includes a review of financial systems, processes and human resources and develop a detailed list of tasks and milestones based upon this analysis. We also recommended the Coast Guard make a realistic assessment of the resources required to plan and execute corrective actions. Further, in filling key financial management vacancies, ensure that the position holders have the necessary skills to execute corrective action plans and seek sustained support for the plan from executive leadership.

Other Corrective Action Plan Performance Audits

We are currently working to complete our third performance audit of corrective action plans. This performance audit is targeted at the Department's efforts to address six material weaknesses in the areas of Property, Plant and Equipment; Operating Materials and Supplies; Undelivered Orders; Accounts and Grants Payable; Disbursements; Budgetary Accounting; and Intragovernmental and Intradepartmental Balances. The OCFO, Coast Guard, ICE, TSA, and Office of Grants and Training have drafted corrective action plans intended to address their respective contribution to these material weaknesses. For our fourth audit, we plan to focus in greater depth on further plans being developed by the Coast Guard to transform and improve overall financial management. We look forward to briefing this Committee on both of these reviews in the future.

Conclusion

We intend to continue taking a proactive and engaged approach to overseeing DHS' financial management improvement efforts through our financial statement audits and performance audits covering DHS's financial systems, corrective action plans, and the implementation of OMB Circular A-123. We look forward to conducting these audits and providing the results to the Secretary and the Congress.

Mr. Chairman, this concludes my prepared remarks. I would be happy to answer any questions that you or the Committee Members might have.

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Mr. PLATTS. Thank you both for your testimony. And I appreciate both of you in your written and referencing in your oral testimony the importance of financial management as it relates to the core mission of the Department of Homeland Security, that if we get this right it will enhance that mission capability and effectiveness.

I want to start with maybe a question to both of you. In response to the DHS Financial Accountability Act and the audit of internal controls, you have kind of jointly moved forward with the work on the performance audits and relating to the corrective action plans. Can you summarize, maybe each of you, how you see what's the greatest benefit of those corrective action plans and the performance audits of them as we go forward? What are you really looking for that will get us further down the path to what we all want, which is good financial management across the Department?

Mr. Norquist, if you would.

Mr. NORQUIST. Sure. Let me start with the performance audits.

One of the major advantages of the performance audits is the way that the IG is doing them, which is as we are developing the corrective action plan so that their recommendations and their findings are able to be built into these corrective action plans from the beginning, this allows us to start the process with much stronger corrective action plans and with a much stronger process. So I really appreciate that working relationship we have with them and the value of those performance audits.

I think the advantage of the CAPs is it maps the way forward. It gives a tool for myself to use with the components to say, here was your problem, here was your plan. We've sat down and had workshops to discuss was it sufficiently detailed, is it effective. Now I'm going to be meeting with you on a regular basis to discuss your progress against these plans.

Not every corrective action plan will move forward on schedule. There will be hiccups. But it gives me a basis by which to meet with them and say, are you addressing these? Is it moving forward? It gives us performance metrics, it gives us milestones to have, and it provides a map of the way forward. I think that's an essential part of solving the problem, and I think that's why these two things are so essential.

Mr. ZAVADA. In terms of the performance audits, what the performance audit—the benefit of that was that we were able to craft an audit that specifically addressed a particular element of financial management, as opposed to a financial statement audit which would be much broader. So what we've been able to do is put a spotlight on an issue that we feel is very important, the development of good corrective action plans.

Second, as David mentioned, certainly being able to provide input to management on a real-time basis, to be able to validate and work with them as they are developing this program was certainly a secondary benefit.

In terms of corrective actions themselves, we see this as the beginning of a process to implement A–123 effectively to get to a clean opinion and to provide positive assurance on internal control; and that is why we emphasize corrective actions in the performance audit.

Mr. PLATTS. I share that perspective of the benefits that we can achieve here and the kind of benchmarks that these corrective action plans will give us.

One of the concerns—and I do appreciate, Mr. Norquist, this may be not a fair question to you because of your recent arrival. But one of the issues that the IG has pointed out is the fact that there is not a Department-wide corrective action plan. It wasn't begun until the third quarter and I believe is still a work in progress. It seems that would be pretty important to send that message through all the agencies. Here's our Department-wide, you know, plan, and then it breaks down into the individual agencies and programs that you are looking at.

Can you give us an update of where that is? Why, I guess, was there such a delay?

ICE moved forward right away with their individual plan. But—and I don't know if you can adequately answer because of not having been there. But your best understanding why the delay to the third quarter and where do we stand now for that Department-wide approach.

Mr. NORQUIST. Sure. Let me talk to that.

There's actually two parts to this. There is the corrective action plan that relates specifically to the Office of the Chief Financial Officer, as well as the Department-wide, which is one we are going to build from the components. So let me talk to both of those pieces.

The Office of the CFO contributes to some of the material weaknesses, particularly on oversight; and I wasn't here at the time that the original weakness was identified or that the process began, so I may turn it over to David to talk to some of that.

I suspect part of the problem was simply a workload issue. As you've commented on before, we've been doing a lot to try and strengthen the size and the training base of our work force. We are continuing to do that. And so there was a challenge as one financial audit ended and we began the other to have the people identified to also build the corrective action plan.

One thing I would note is when you commented about sort of the different status of the corrective action plans of the components, ICE, for example, under Assistant Secretary Julie Meyers and CFO Debra Bond, were both in place by January and have begun very aggressively tackling this issue.

The new head of the Coast Guard, the new CFO of the Coast Guard came in in about June of this year, and so I think you see that sort of a lag. I see a similar energy and focus from them; and, hopefully, in several months we'll see the same type of achievements that we are seeing out of ICE.

But there is a clear connection, I believe—and I'll let the IG comment on this—between the leadership coming in and grasping challenge and taking it as their own and providing that sort of focus and energy. So when you see one place have that change and then another not, it's OK. When you see the other leadership change and the same type of energy coming in behind it you can anticipate and look forward to working with them to achieve similar results.

The Department, in terms of tackling the corrective action plan for the Office of Chief Financial Officer, there were several weak-

nesses identified. One is the number of people. We have about 20 who are doing the accounting type of functions. We have five people we have identified for hiring that are coming on board. We will be getting additional positions, I believe, in the appropriation bill. Both the House and the Senate supported it. So that will continue to strengthen our hand.

As David pointed out, we'll also be doing a study of skill mix, which is, do our people who are there, many of whom—all of whom are very talented, but do they have the particular training and the skill sets to match the tasks we have? And where there are gaps we'll provide the training classes. We'll get them that experience so we can eliminate and close those weaknesses. We will make a point of addressing the CFO corrective action plan and fixing it. And I appreciate their comments and their insights on the draft.

The second step is, once all the corrective action plans are done—or not literally all because we will continue to generate corrective action plans as management identifies problems that need to be addressed—but as we wrap those up at the end of September and October, we'll produce a Department-wide plan which is the summation of those. This is similar to what the Department of Defense did, which is to allow everybody else to understand, here is how we are going to tackle this issue across the Department. It gives a better idea as to when these weaknesses will be addressed.

Just for an example, one of the things we have to do is fix our financial management policy. The order in which we tackle those policies will be informed by the corrective action plans, where are the weaknesses, where are the most urgent needs, and so we can tie our training, our policy adjustments, our system migrations to the schedule of the corrective action plans so we're tackling them in the right priority order. So that is sort of the overview of both the CFO and the integrated Department-wide plan.

Mr. PLATTS. Mr. Zavada, maybe if you want to comment on your assessment of that overall plan, the Department-wide plan, and then specifically—and you touched on it in your testimony—with the Office of CFO and where they stand, in your perspective, with staffing, you know, the training and the skill sets and things as far as being able to improve on the past.

Mr. ZAVADA. Well, in terms of the Department-wide corrective action plan, we are certainly hopeful that the Department will go back and—as they get their bureau corrective action plans in and take the input that we have given them in our performance audits and develop a Department-wide corrective action plan. Certainly, you know, we have not seen that yet. We understand that they do—they are preparing that in what they are calling the ICOFR Playbook, and we're anxious to take a look at that, and we will in future performance audits.

In terms of the OCFO specifically, from our perspective, DHS needs to build a capacity there to do the things that every other Federal agency, or most every other Federal agency, can do in financial management, and that is issue policies, that's monitor progress of the components, it's facilitate solutions to financial management problems within the agency and, finally, to prepare and analyze financial statements and reliable financial reports. Those capabilities are not there yet; and we are hopeful that

through—by conducting a study and looking for gaps between the current skills and future, to be a type model, that will give them a better understanding of the issues and a clearer path to move forward.

Mr. PLATTS. And before I turn to the ranking member, just a followup there on the make-up of the staffing. I know that certainly at the beginning it was simply numbers where the CFO started, and as that office has grown and the number of personnel, still that breakout. And, Mr. Norquist, of the roughly 80 employees there, how do they shake out in general terms from budgetary versus accounting, you know, in the skill sets? And how does that relate, then, Mr. Zavada, to your office and seeing is the personnel there not just in bodies but in actual skill to meet the challenges that the office of the CFO is facing?

Mr. NORQUIST. Well, let's see. We have—if you break out the 80, there's about 40 people doing what you call traditional budgeting in one form or another. Part of those associated with the fact that we provide budget support to parts of the headquarters as well, like a component would. We have about 20 doing various forms of accounting, and then the balance would be in places like program analysis and evaluation, one of the requirements of the Financial Accountability Act, as well as our link to the IG and sort of my immediate staff. Of those 20 accounting people, we have about seven who are certified CPAs. We have—what I am very excited about, we have four who are preparing to sit for the exam who are going through that process.

I, frankly, am very supportive of providing the support and encouragement for people to get the professionalization. We are hiring five more that we have already identified. Of those, three are CPAs as well. So, you know, when all of that is done, we will have effectively doubled the number of CPAs. But that's—you know, that's not a perfect measure, but, frankly, I think it's an important indicator, building that type of core skill set.

Mr. ZAVADA. I would just get back to my earlier answer and say that I think the CFO office has a very dedicated staff. But we do not believe—we believe that there is a lack of skills and capabilities to do the things that I had mentioned earlier that most other agencies can do in the area of financial management, oversight and financial reporting. We had reported this issue as early as 2004 in terms of the lack of capability at that level. In some respects, it is not an issue that is unique to financial management. We have seen the same thing in acquisition management and reported on that at DHS as well at the Department level.

Mr. PLATTS. Are you comfortable with the new individuals coming on board and with the training that is being pursued, that, in your opinion, we are going to get the office of CFO in the near term to its staffing level and skills that we need to address the concerns that you have appropriately raised?

Mr. ZAVADA. No. No. We feel they need to undertake a more in-depth study. They need to look more closely at the skill gaps, at what they need to do and the current skills that they have. And I don't think it's just a matter of training. I think the issues run deeper than that.

Mr. PLATTS. And, Mr. Norquist, the additional—the new slots that you are looking to come through the appropriations process, what are they in this area of——

Mr. NORQUIST. They'll be in both. They address a number of areas. One of them will be particularly in the accounting side.

In addition, one of the things I feel is very important is we do not—we need to not rely on the auditors to identify the weaknesses. Management should be identifying the weaknesses. Management should be making the statements that they have fixed them. And the auditors have pointed this out to us on a number of occasions, that we should be doing our own assurance tests and not simply relying on the audit.

So I want to take some of those folks and build a management assurance team that will go out and check our processes, check organizations who have asserted that they have completed their corrective action plans and have that accountability. So we will be putting additional people against this as well, and part of this is to make sure that when we post the advertisements and we do the recruiting that we're matching it to the skill sets that are needed and identified by the study that he's talking about.

Mr. PLATTS. And that study is under way or planned?

Mr. NORQUIST. I don't know if they have actually begun the study, but the steps to put it in place are under way, and it's going to happen soon.

Mr. PLATTS. I guess because in various agencies and departments what we come back to often is that human capital issue and the ability to have people in place, not just bodies, but who have the skills to perform the duties. And it seems like from the IG's perspective that there's still a significant challenge in this area of human capital and with the importance of the Office of CFO setting the example that, while I like the idea of the assurance teams and that ability to kind of go out there and be that check and in an urgent situation you have a team that you can call on to go out, I hope that's not going to be at the expense of that first responsibility, which is the staffing of the CFO office itself and to meet the needs that have been identified by the Inspector General.

Mr. NORQUIST. I believe it'll be complementary.

I think the other thing about the assurance team is much of their work would probably involve support from contractors who had a particular skill or expertise that you could employ for a short-term basis to target an area, but you are going to have that sort of government leadership on a continuing basis through it. But I would not want to set it up in a way that it drew away from our needing to address the material weaknesses that affect the Office of the Chief Financial Officer.

Mr. PLATTS. As we go forward I hope and one of the purposes of our hearing, of this one, is to encourage the communications. And, obviously, there is a very good working relationship between the CFO and the IG's office, that continue, and especially here in the concerns that still seem pretty strong about the human capital within the Office of the CFO that there remains a good dialog and interaction between your two offices on that human capital side.

Mr. Towns.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Let me begin with you, Mr. Norquist. I would like to know more about the internal control committee. Could you tell us more about how that works?

Mr. NORQUIST. We have a management process using the internal control committee that tries to ensure that the steps forward on the internal control process brings in all the different components. Although the CFO has the lead in internal controls, many of the weaknesses, many of the challenges to fix them extend into procurement, asset management, information technology. So the internal control committee brings together those groups of players to help make sure that there is that connection.

In addition to which, working alongside the internal control committee is the senior management committee. It will be the group that makes a recommendation to the Secretary on his statement of assurance, insures that there are accountable officials for the internal control plans, and represents sort of the leadership part of that activity.

So I think this is an important function in order to make sure that everyone understands that they are part of the internal control process, not simply it's a delegated function to one person, because in that case it wouldn't execute correctly.

Mr. TOWNS. I don't want to start a debate between you and the IG, but he said something that I think that we need to pursue. He mentioned that the skill gap—now, is it that—first of all, do you agree with that? I don't want to put you on the spot, but is it a fact that it is a big turnover or people are not paid enough? I mean, that seems to be a problem of some sort. So what do you think the problem might be?

I'm really not wanting to put you on the spot, but I really want to see how we might be able to help you up here to be able to really come to some kind of real—real working kind of agreement that we can sort of move forward. Because there are some problems, and I know you will agree with that. I'm happy that you're on board, and I know you have only been there 3 months, and we're all excited about your being there, and I want you to know that. But what—do you think that's going on here, the reason we want to get a fix?

Mr. NORQUIST. Well, I sort of accept the auditor's—the finding that there's a skill gap. I mean, I've worked with these folks. I'm comfortable in their abilities. But there's a number of tasks they have to be able to accomplish. I mean, there is a wide range; and the fact that you're good at one area doesn't mean that the Department is covered in all of the areas it needs to tackle.

In addition, one of their findings a number of the auditors pointed out is, because of the amount of work they spend working with the components, they're not necessarily covering the tasks that the headquarters is supposed to do. So some of this is workload.

But I do believe that there is a need to address the skills that we have, and that's why I agree with them on the need for the assessment study. I'm quite open to whatever the study comes back and says is the required set of skills versus the ones we have, and I'm committed to—you know, we have a lot of dedicated Federal civil servants, and we need to make sure that if there is something they need to be trained on to do their job that we get them that

training. If there's a skill that you can't simply train somebody to, then we need to hire people with those backgrounds to make sure we fill in those gaps.

If somebody comes into my organization and identifies a problem, my initial reaction isn't to disagree but to say, OK, let's talk through it. I'm happy to look into how we're going to fix that problem; and if this is one of the underlying challenges, let's dedicate the resources and the people to tackling it.

Mr. TOWNS. Mr. Zavada, do you think that it might be connected with how much they are able to pay them as to that might precipitate the skill gap? Because there is a correlation between salary and performance. It should be.

Mr. ZAVADA. I'm not sure if pay is—would make a difference or not. I do know that it's not just DHS, that other agencies, to lesser degrees, have trouble attracting and retaining good talent in the area of financial management. So it is a broader problem. You know, as the bars have increased in financial management and as we have accelerated and lessened the time to prepare financial statements, for example, we haven't really adjusted government-wide on the skills side. So it's a broader problem. It's just a little bit more severe—much more severe at DHS, and I don't know if pay would make the difference or not.

Mr. TOWNS. What about the turnover? Is it a big turnover? Because I'm thinking about in terms of you're spending time and you're training and you're getting them ready to be able to assist, and then all of a sudden they say goodbye.

Mr. NORQUIST. There is a lot of challenge with turnover. In our actual—in our financial management shop, I believe our turnover has been relatively low. But turnover throughout the Department is a challenge. We lose chief financial officers who move on. We lose individuals.

Sometimes they are moving from one component in DHS to another. In that case, I am actually pretty excited. I think the more people DHS has who have worked for ICE and then for the Coast Guard or for another organization, they get that integrated broader view. I'm fine.

But the challenge becomes—for example, you train good government accountants, you teach them all they need to know to be good on financial statements, and then a private sector comes along and hires them because there's a great demand for people who understand the government accounting system. It's the type of challenge that the information technology community had, both inside the government. And so I think we need to be—to look at that. And if——

You know, one of the points I made to the CFOs in our organizations is we can't simply hire each other's staff and think we're solving the problem. If we need to go out and recruit, then we either need to target the skill set or we need to find a different group of employees, bring them in and train them and give them that skill set so they can develop and grow inside our organization.

In some cases, you can find it. In some cases, you have to build it. You find the right people with talent and enthusiasm and you give them the training they need to tackle the mission.

You know, if it turns out that pay is a decisive factor in this, I'll be certainly happy to get back with you on that. Because I have seen different places where the Congress has acted on that to address specific weaknesses in the hiring challenges; and if that's the case here, if that's the result of the study, I'll certainly get back to you on that issue.

Mr. TOWNS. Also, a part of that, I'm concerned about whether or not you have the resources to really recruit, which I think is also an issue. So, I mean, I know you have additional funds coming in the appropriations, but the point is that it might not be the kind of thing that will fix—I mean, the point is that if you get additional money and you're able to hire a few more people but you still have a turnover problem or the salary is not where it should be, they're got going to stay; and then we'll continue to come and have these kind of sessions as to how do we fix it.

Mr. NORQUIST. That's right. It's not how many you hire. It's how many you hire above what you're losing on a given basis. And you can easily be excited about how you're bringing on board and then watch a similar number of people move on to other things.

Mr. TOWNS. Right.

Mr. Chairman, I yield back. My time has expired. Thank you.

Mr. PLATTS. Thank you, Mr. Towns.

I want to just followup briefly on the human capital issue and the reference to the other agency. And we've heard that in other hearings, too, the challenge of getting sufficient qualified personnel in financial management positions.

I guess one—in your experience, Mr. Zavada, at OMB and FAA, I guess, in the past as well, do you have any gauge for a CFO office, out of 80, having 7 and going up to, say, 14 or so CPAs, is that typical, that 10 percent or so? Or is that one of the issues that we should have a higher percentage of actual CPAs for the challenge that we are—what we're demanding of this office?

Mr. ZAVADA. I don't know what the exact mix is. I think that is why it is very important to do this study and do some benchmarking. You know, let's see what other departments have. Let's see what their capabilities are to address these common needs that other agencies have as well as DHS.

So I think we just need to take a little bit of a deeper dive on the issue. It's not just doing an internal assessment. I mean, we have been very—we feel very strongly that an expert in the area of human resources, probably an independent expert, you know, really needs to come in and perform this study.

The CFO's office has done an internal study. It was a very frank study, an assessment, and I think it identified gaps generally, but what we need now is a more detailed study done by somebody who has—with expertise in this area, so that we can answer the questions that you're asking: How does DHS stack up against other agencies, and what are the right ratios?

Mr. PLATTS. This may be a question you don't have the knowledge to give an informed answer, but is there, in your knowledge, a CFO office in another Department or agency that you think does kind of epitomize the role model for not just DHS but across the board that jumps out that maybe, you know, we want to be looking at?

Mr. ZAVADA. Well, I think, you know, if you look at the scorecard, the President's management agenda scorecard, there are seven or eight green agencies. Those agencies have met the standards. Obviously, they are able to do the things that I outlined earlier. They would probably be a good place to start.

I also think possibly looking into the private sector at private companies that are the same size as DHS, maybe doing some benchmarking there might be helpful.

Mr. PLATTS. Mr. Norquist, with the CFO Council and the fact that the hiring and finding of qualified people is a challenge—and I know there's a lot of interaction with you and your colleagues on the CFO Council—is there an ongoing dialog about a partnership, you know, and going after, you know, a pool of individuals so it's not each of you competing and stealing from each other or competing with each other but you're kind of a clearinghouse for qualified financial management personnel that can then come into a kind of a pool of applicants that each of you can turn to?

Mr. NORQUIST. I have talked to Linda Combs about this issue and specifically talked about recommendations for CFOs, places to go. She has several ideas on ways to search for CFOs, both in the private sector and elsewhere, to bring into the government to give us that expertise. She's not as enthusiastic as my approach as to go and find them and take them from other organizations because she's got that broader perspective.

But one of the points that I made to her and I asked for her to think about and get back to me with some feedback is we also need to start growing the civil servants who will become the next generation of CFOs. So one of the things I put forward is a proposal to our CFO Council, is to say let's take nominees from each of our organizations, very talented, successful individuals, and give them an opportunity to rotate for a period of time with different CFOs in the Department so they see how other organizations inside DHS work, not just the one they grew up in. Let them see the range of tasks that a CFO does. Let them develop some understanding of whether or not that's something that interests them and start getting people who think "I can do that."

Then when it becomes time to find the next Deputy CFO in an organization, you've got a group of people who are thinking of themselves as potential future CFOs, who understand the range of responsibilities, who can have—if they've got an accounting background, they've learned about budgeting; if they've got a budgeting background, they've got to learn about accounting; and they've understood more than just their component.

I think all of that, you know, is a management responsibility. It's hard when you're trying to deal with tomorrow's task to remember that part of this is the long-term solution.

Again, this gets to the sort of importance of the corrective action plans and others, is to keep focusing. What's not just the solution for tomorrow, what's the long-term solution? How do we keep growing the people, the skill set and so forth to address this as the long-term solution?

Mr. PLATTS. I think that the IG's reference to the private sector—and I don't know for certain if it's still the case, but I know in many years past a friend whose father was an executive within

McDonalds, and they had what they called Hamburger U, where they brought management trainees from all over the country, all the stores, to that central training program. I think that's kind of what you're talking about, is let each Department or agency say here's one or two or three or four, whatever, this year, that we would like to be part of a kind of a CFO training program that's governmentwide.

And something that, from the testimony that we have received, probably bears some great merit of being looked at to address the needs across the agencies and something that in our discussions with Linda and those at OMB—because it's certainly I know in the individual agency departments finding that in your budget is not going to be a case with the demands in the sense of whether that can be something that's led by OMB in looking long term.

Another question that relates to personnel and, Mr. Norquist, to your interaction with all of the 22 agency CFOs out there that, ultimately, what they do impacts what you are able to do, and as the Department CFO you're the one that's going to ultimately bear the responsibility and have, you know, to answer for their actions.

Can you describe your relationship with them and how your authority—as far as having input into who is in those positions now or in the future with the various agency heads and making sure there is a good understanding of their relationship to you as the CFO for the whole Department?

Mr. NORQUIST. Sure. I have a very good working relationship with the CFOs in the Department. I have found them very responsive. I have found them very dedicated.

I meet with them in several different ways. One is, as the CFO Council, we all have to come together as group. But I also have a series of regularly scheduled meetings with particularly the large components so that I sit down one on one on with the CFO from the Coast Guard and with others to talk about what their issues are, what's going on in their organization to help me understand and to work with them.

I haven't had a problem with responsiveness or chain-of-command-type relationships. I do play a role in helping organizations select their next CFO or deputy CFO. I play a role, and as we get into the evaluation period and we will be more actively involved in the evaluations of their performance for the year in setting their standards.

I believe those types of things set out in the CFO Act are all very helpful. I am frequently asked in these type of forums if it's enough, and the answer is I haven't run into a problem yet in this process, but if I discovered a place where the relationship was not as effective as it would be because of something in the legislation, I'd let you know. But I think, right now, it works very smoothly, and the legislation accomplishes what it was intended to.

Mr. PLATTS. That's good to hear. And we do always welcome and are glad to have feedback if there's areas of the law that need to be fine-tuned, whether it's the CFO Act or others.

In your answer, you reference especially the Coast Guard and ICE and the importance and, in both of your testimonies, how critical a role that those two play in long-term success of getting a clean and, you know, really a workable opinion that day to day

means good management practices at the Department as a whole. Can you each describe your perspective on where you see ICE, where you see Coast Guard today and what's their biggest challenges remaining to get to good management practices? And then comparison, you know, to each other. You know, maybe one needs to be looking at versus the other and learning from each other.

Mr. NORQUIST. OK. Did you want to start or do you want me to?

Mr. ZAVADA. Sure. I don't mind.

Certainly, ICE—the reason why ICE stands out is because they started early. They have a—they have put together a solid plan. They did the analysis to know what the underlying causes are of some of their weaknesses. They have leadership support, both at the CFO—in the CFO office with a strong CFO as well as at the Assistant Secretary level; and they have dedicated resources.

What they've established is a project management office that's sole purpose is to oversee and execute corrective actions. Everyone has another job to do, and if corrective actions are done as a collateral duty they're less likely to get executed. So that's what sets ICE apart.

And ICE is at the point now where they are—and you see this in the recommendations that we made to them. They're further along the continuum of corrective actions. They're at the point where they're thinking about how do we validate some of the things that we have done and how do we integrate the A–123 assessment process in terms of executing some of those validations of corrective action. So they're thinking further along the continuum.

They're also thinking in terms of the project management office, which is highly dependent upon contractor resources, how do we transition that to be a more stable CFO office and CFO organization. So they're just clearly further along in terms of their thinking on corrective actions and the relationship between corrective actions and good financial management practices in the long run.

Coast Guard is one of our primary areas of concern when it comes to financial management. Their organization, in terms of financial management, is in flux. They have not done that underlying root cause analysis to know what their problems relate to. They are probably the exception within the Department in terms of looking more or needing to look more deeply at their financial systems to understand what type of problems are short term and what type of problems are long term. But the Coast Guard, as opposed to ICE, is at the very beginning of the corrective action plan process, at the beginning of the continuum.

Mr. PLATTS. Thank you.

Mr. NORQUIST. I think that's a fair assessment.

One of the things I noticed, for example, is Debra Bond, the CFO of ICE, is very aggressive, very forward leaning, very engaged on the corrective action plans; and frequently she shows up at my office to discuss a financial issue. She'll often have her Assistant Secretary, Julie Meyers, with her, which shows me the amount of support she's getting from her leadership, that dedication that when we move an organization is so critical for their success. So I see that teamwork, and that's reassuring.

I have found one of the valuable things in the performance audit was it showed clearly, from the IG's perspective, that they had

been making the progress, that energy and drive was producing results. It is my hope that is what we see from the Coast Guard in a period of time. I have seen a similar shift with the new Coast Guard leadership and the new Chief Financial Officer, the same willingness to tackle the issue.

When I read the performance audits, I had a meeting I think the next day with the Coast Guard. I said, we need to sit down with ICE and have them talk you through what they did because, clearly, what they did is working. And as you begin to develop your plans I want you to learn both—granted, they're not perfect matches. There's going to be differences—but to learn the lesson of what successes they have had to help you map the same way. Because I want the Coast Guard—and they're equally important that they get off on the right foot, and I don't want that management and leadership enthusiasm to sputter with the difficulty in executing a plan.

So I want to help them as much as possible and to capitalize on the strong support they have from the top.

Mr. PLATTS. A quick followup, and I want to get to Mr. Towns again.

Why hasn't the Coast Guard been more proactive, and your statement was that they have not really done that underlying root cause analysis. Why not, since we know—I mean, you know early on when we transitioned in the Department, we are now several years down the path, and all along we have known the Coast Guard is one of the challenges. Why hasn't Coast Guard done it, and, quite frankly, why hasn't the Secretary of the Department said, hey, you are behind the eight-ball here; we need to get on the stick here and get this done? Why are we still talking about getting them on the right track as opposed to them being on the right track like ICE is?

Mr. NORQUIST. I actually defer to the IG on this because the new leadership came in at the same time I did, so I am not sure of the history of their predecessor.

Mr. ZAVADA. Since I've been at the Department since January, I might be able to take the same route.

Mr. PLATTS. I think it is a question that we will probably be following up on and to the Secretaries and the—you know, the senior leadership, that when you have within the Department two of the key areas of focus, ICE and Coast Guard, you have one that is aggressively moving forward, the other one is not, and perhaps will now with the new leadership. And that may be a part of the reason why we have new leadership in the sense of the CFO efforts. But, you know, it doesn't really, you know, kind of come together well as to why you know we are not seeing that same effort on the Coast Guard's part.

Mr. ZAVADA. Well, I will say that the Coast Guard is a contributor also to the departmentwide material weakness on financial management oversight and reporting. It is not—those problems are not just within the OCF at the Department level. So a lot of the skill and capability issues are resident there, and they are trying to inform a transformation team, and they are trying the deal with those. But I think that to some extent there may have been a contributing factor in the past.

Mr. PLATTS. It is clear that until they get on the ball and get working, the efforts of your office, no matter how well the office of CFO for the Department is operating, we are never going to get to what we are all after, which is a clean opinion that is not clean once a year, but means year round we have good systems in place. We are never going to get there until all entities, and especially the large ones like Coast Guard—and I—my ranking member has been very patient with me as I have gone way over my time.

So Mr. Towns.

Mr. TOWNS. Thank you very much. No problem.

You know, in the beginning, you know, we talked about the possibility of the culture of independence might be difficult, Mr. Zavada, with some of the legacy agencies that would be difficult, you know, to break. Have you encountered that?

Mr. ZAVADA. I have encountered that in my own office. It is—we are a collection, as the rest of the Department, of a lot of different pieces, a lot of different departments, and departments have different ways of doing things, and it is—it has been a challenge, and I am sure it is a challenge DHS-wide to make those processes consistent and uniform. So, yes, I think that is something that I have seen.

Also, I would say that getting back to when DHS was created, as I said in my testimony, some of these problems do go back to the way that some of these initial departmentwide management functions were resourced from the start, and as I said, we have seen—we have reported on issues related to acquisition management and the skills and capabilities there, and similarly within the CFO's office. So, you know, there is a lot of catch-up to do.

Mr. TOWNS. All right. Let me ask you one of the most significant challenges you believe DHS will face in complying with 123 for internal controls.

Mr. ZAVADA. Well, in my view, implementation of Circular A–123 for DHS is about corrective actions. It makes no sense to document processes that are broken, to test controls that are broken where you know that there are already weaknesses that exist. So the ability for DHS to effectively implement Circular A–123 relies on their ability to put together well-developed corrective action plans and to execute those corrective action plans.

In our audit reports we have tried to identify the linkages as we see them between the A–123 assessment process and the corrective action plan process, and the Department understands this, and clearly I am sure when their Echifer playbook comes out, it will be reflective of that understanding and that linkage.

Mr. TOWNS. Let me ask both of you this. And "leave me alone" will not be an acceptable answer. What more can we do? What do you see as Members of Congress that we could do to assist you both of you? What more can we do? Is there anything that we need to be doing?

Mr. NORQUIST. Well, first of all, let me start by expressing my appreciation for everything you have done so far. As I have mentioned to people, this is not an area where I can have conversations and get sustained interest and enthusiasm. It is important, but it is important in a way that is hard for people to appreciate how in-

ternal controls play into sound financial management and sound financial management plays into protecting tax dollars.

So I appreciate the seriousness this committee and the two of you in particular have taken with this issue and the thoughtfulness in this legislation as I have been part and parcel in going through this, being one of the CFO Senate-confirmed positions the act calls for. I have studied the language and appreciated the careful balance that was put into it.

I think that going forward there are several places of importance. One is, for example, when we have identified solutions or areas such as the additional people in the appropriations bill to make sure that is not lost in the enactment in the bill. That is certainly not a high-profile item that there will be additional finance and accounting people in the Office of the Chief Financial Officer in an appropriation act. But making sure that is there—and, again, I appreciate the two committees because they've both been supportive of this—but working in a Member-to-Member level to make sure that people understand these small things make a difference, that is certainly very valuable and greatly appreciated.

The other is the helpfulness of the individual meetings, being able to get together with you, giving you an update of where we are, letting people inside the Department and elsewhere know that you are paying attention, that you care, that you are there to support us as we move forward, I think, is very valuable. People look for that constructive engagement, and I appreciate that.

So I think those are two areas, and I mentioned everything, the ability to go to you if I see something where it is beyond my capacity to fix because it requires a legislative change. Knowing that there is a group of people who understand the issue, who will be able to understand the point that they were trying to make in how that would improve financial management is very valuable. It give us a place to go to in working on a solution to go forward.

Mr. ZAVADA. I would agree with David in terms of your interest, certainly the committee's interest, in financial management, broad interest in internal control, which is not a very sexy topic, but is really the foundation of timely and reliable information and the beginning of being able to better manage programs. So certainly your committee's interest more broadly in financial management, your committee's interest in DHS, this hearing, being able to discuss corrective action plans and put a spotlight on corrective action plans as the beginning of the process toward financial management improvement at DHS, I think, has been very helpful.

Mr. TOWNS. Thank you. On that note I thank both of you, and I yield back, Mr. Chairman.

Mr. PLATTS. Thank you, Mr. Towns. And I often kid about getting interested in these topics which to me are so important because it is how we spend the public's money and the effectiveness in spending that money, and I joke that if I could get one of you to admit that you have been using steroids, we would have a packed room here. The media would be really interested in covering.

Mr. NORQUIST. Would it help me to get a clean opinion?

Mr. PLATTS. We—you know, maybe Mr. Towns' next hearing, you know, is going to be about how steroids is—it is unfortunate, you

know, you talk about hearings on baseball players using steroids, and you get a packed room. You talk about how we are spending $2 trillion of the public's money and how we are trying to improve the effectiveness of that expenditure, and we are grateful for the members of the media who are here, but it is a fraction of those who cover the steroid hearings. So unfortunately, we think it is important, we know you do, and you are devoting your professional lives to it, so we are glad to be partnered with you.

Let me—I have two other areas I want to touch on. One is relating to the financial management line of business and the consolidation of how you are operating now with your systems and who is managing them, and I know ICE is serving some of them, Coast Guard and the Federal Law Enforcement Center, Training Center, is serving some of the smaller bureaus.

Is there, first, any plans internally for any further consolidation, you know, to Coast Guard or the Federal Law Enforcement Training Center? I mean, where do things stand, and where do you see yourself going?

Mr. NORQUIST. Here is the way forward as I see it. What I have asked folks to do is, based on either audits that we have already done, work that has carried over from the original merge, or from additional work that we have to do, triage our component and their financial systems. Some of them work fine. They support clean opinions. They may not be the same system everyone else uses, but they are doing just fine. They are not my first priority to fix. They are not contributing to a material weakness.

The second group of those components show the system can operate fine, but there has either been some minor modification to it or some process change about the way they are using it. This is contributing to the problem, and the answer is let us tackle that as part of the corrective action plan and fix it.

The third group would be those components who have either got a version of the application that is no longer supported, does not support a clean opinion, or has been so modified as to not necessarily be recoverable the way it is. And those are the places I want to focus the migration strategy on, which is they are going to be biggest improvement, they are going to make the biggest contribution to improving our financial statement. I will start by targeting them, and again, consistent with OMB line of business, the question is let us not build a new system, let's find an instance of that system or different system we are already using we can migrate them to. My preference is let us find something that has a track record or capability to support the clean opinion, to do the things we know the system to do. And then let us spend our energy moving that component over.

Migration is very time-consuming. It creates a lot of challenges. It can create disruption. So I want to make sure we are very careful about the moves and the cost/benefit is there. But I want to target the ones that have the greatest challenges and make them the lead cases to move, because then we will get the biggest results for the most we make.

Mr. PLATTS. What is your understanding from OMB on the requirement for the line of business in either, you know, migrating in house to identified Centers of Excellence, as they have been

called, or having to go outside within government or outside privately? What is your understanding from OMB of how that is supposed to play out in the sense of doing that analysis of, you know, competing possibilities, public to public or public/private, and the timeframe from when you are expected to have your systems either internally with the Center of Excellence or elsewhere with the Center of Excellence?

Mr. NORQUIST. Well, I have given them the same type of briefing which is the basis of the statement that I have prepared for this committee where I talk them through the types of changes I saw, and one of them was this issue of triaging the system and identifying the ones to move first. The core principle which they have, which is the same as ours, which is don't build a new system, find one to migrate them, we can do it by moving to somebody in house. We can do it by moving to someplace in the private sector. I am very open depending on what the analysis says is the most efficient way to move forward both in terms of these and the migration and the long-term savings to the taxpayer.

In terms of time line, you know, there is little patientce in letting us do our analysis, but they would very much like us to be able to lay out for them who is next and when do we see that migration happening, and I told them I need more information to be able to pick out which of the candidates are the ones that need to meet first, and what the right pros and cons are, and how to move them. But they have been meeting with us on this. We are going to work very closely with them on it and make sure we are on board.

Mr. PLATTS. But at this point there is no date certain that you have been told that you are expected to have the entire Department either migrated internally or externally to a Center of Excellence?

Mr. NORQUIST. They haven't conveyed that to me, no.

Mr. PLATTS. OK. Also related to that is about building a data warehouse or other enterprise data reporting solution. What is the plan there? You know, how you are approaching that, that challenge?

Mr. NORQUIST. Well, timely and accurate financial data is absolutely essential. It is a very high priority for me. A data warehouse is one way to get there. There are several options, so we are going to look through those to figure out which one gives us the information we need. That is certainly an option we are going to consider, but I haven't made a decision that is necessarily the way to move forward, but it is certainly one of our options.

Mr. PLATTS. OK. I think maybe a final question, Mr. Zavada. In your remarks earlier talking about the benefits of the performance audits and this dialog here internally within DHS, do you see the approach that you are taking, partnering with the CFO and the performance audits kind of hand in hand with the correction and action plan development implementation, something that we should be looking to help promote across the Department and agencies in the Federal Government, that it is a way to get to a better foundation for financial management?

Mr. ZAVADA. Well, I think the most important element of solving these problems is good communication between management and

the auditors, and certainly we have that, and the performance audits have helped to facilitate that even further.

I think governmentwide there may be certain cases, certain material weaknesses that are intractable really, or there has been—not really been activity on them, where putting a spotlight on it through a separate, more flexible audit and providing more detailed recommendations as to how management can go about fixing those problems could work. I don't think it is something that across the board you could say works in every situation, but there could be cases where putting that spotlight on and providing that additional in-depth analysis can be helpful.

I think certainly in DHS's case this has given us an opportunity to work closely with the CFO's office to improve management, to improve financial management, and to provide some constructive recommendations as plans were being developed. And we are trying to do more of that in the work that we do. We are doing some of that in acquisition management, where we are looking at procurement risks before you enter into procurements as opposed to looking after the fact and saying—pointing out errors. So this is very much in line with the type of work that we would like to do in the IG's office.

Mr. PLATTS. Actually I have one final—more of a comment, and, Mr. Norquist, it kind of comes back to the challenge that we have touched on about Coast Guard and the critical role they play. I kind of see it as a similar analogy when we have worked with NASA and the CFO at NASA and the interactions between her and all of the CFOs at the different centers around the country. And thankfully she has a lot more direct input to the CFOs and authority relating to their reviews and who is in those positions. I think it gives her a greater ability to have a good operation at the agency level.

With your counterpart or colleague now, the new CFO at the Coast Guard entity, is, in your dialog, is—we appreciate being new and apparently about the same time I think as you came in, and—but that while we are patient, we also do want to see the Coast Guard take a more aggressive approach as we talked about with ICE. And they would probably rather have you up here having to take the questions than be here themselves. And as we have told NASA, if we are not able to get the answers from you or, in the case of NASA, with the agency CFO, that means we will have to—the entity CFO—and because we certainly need to see improvement there if we are going to get to the departmentwide advancement, which is what we are all after in this particular effort.

Mr. NORQUIST. I will be happy to make that observation at the next CFO council.

Mr. PLATTS. And that interaction—and I am sure they are wanting to do just that, and we have high hopes for their success because it does play such a critical role.

We again appreciate both of your testimonies here today, your written testimonies, your work from your staff leading up to the hearings, and just in general your dedication as public servants to the good of our Nation and the benefits to our citizens.

We will keep the record open for 2 weeks, if there is any additional information that you feel the need to supply to us.

We are grateful for your work, and this hearing stands adjourned.

[Whereupon, at 3:25 p.m., the subcommittee was adjourned.]

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