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MEETING THE CHALLENGE: ARE MISSED OPPORTUNITIES COSTING US MONEY?

HEARING

BEFORE THE

FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY SUBCOMMITTEE

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
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MEETING THE CHALLENGE: ARE MISSED OPPORTUNITIES COSTING US MONEY?

THURSDAY, JUNE 28, 2007

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, FEDERAL SERVICES,
AND INTERNATIONAL SECURITY,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 3:03 p.m., in Room 342, Dirksen Senate Office Building, Hon. Thomas R. Carper, Chairman of the Subcommittee, presiding.

Present: Senators Carper, McCaskill, and Coburn.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. The Subcommittee will come to order. First, let me just welcome back my colleague, Dr. Coburn, who was out for a week or two, bounced back from an operation, and he is back. He said to me yesterday he is about 80 percent back to where he was. Dr. Coburn at 80 percent is better than most of us at 180 percent, so we are happy you are back and feeling well.

Senator COBURN. Thank you. Glad to be with you.

Senator CARPER. I want to say a special welcome to our witnesses today. This is a conversation we have been having for a while and this is really the continuation of a conversation that we have had and need to have. I think it was last June, Senator Coburn and I asked GAO to determine three things.

The first thing we asked them to do was to look at the Department of Homeland Security and to tell us whether or not they had fully developed plans for implementing or migrating to an integrated Department-wide financial management system. That was the first thing we asked them to do. The second thing we asked them to do was to tell us whether or not the work produce received for the funds spent on the eMerge 2 modernization effort could be used. And finally, the third thing we asked them was how the Department could incorporate best practices into its plan for migrating to an integrated Department-wide financial management system moving forward.

Today, we are going to hear what GAO found, and unfortunately, the news is not as good as we had hoped it might be. GAO is certainly here to speak for themselves, but GAO found that the Department continues to lack a clearly defined financial management

strategy and a plan to move forward with financial management modernization efforts.

We will also hear today from two knowledgeable take-charge Department officials about the ongoing efforts to transform, to consolidate, to integrate their financial management systems, and we look forward to hearing what progress the Department is beginning to make, as well.

As we all know, the Department has faced a number of overwhelming challenges since its creation in 2003, and while the Department has made some progress, a whole lot of work remains to be done. I sort of liken that your job at Homeland Security is a little bit like what we used to do in Navy Aviation. Every now and then, you have to change an engine on your airplane, and it is a job that took maybe 24 hours. It took a while. It is not easy to do. But the job that they are trying to do in terms of developing a financial management system that is good, that is effective, and to run the Department well, it is a little like changing an aircraft engine with the aircraft airborne, and not an easy thing to do, and we realize that. But aircraft engines need to be changed and we are looking for better progress here in the months to come.

I think it is unfortunate that this iteration of the eMerge 2 project has been officially pronounced, maybe denounced, as dead, particularly after some $50, $52 million or so was spent trying to make it operational. But in declaring it dead, the Department did something that Federal agencies rarely do, and what you did is you stopped a flawed and failing program before even more money was wasted, and for that, I think the Department should be commended.

I look forward to hearing from GAO and the Department as to what, if anything, can be salvaged from the work products developed for eMerge 2 and for all the money that was spent in paying for these efforts. Most importantly, I am interested in learning how the situation can be avoided in the future.

Given the enormity and the complexity of the problems facing the Department over 4 years following its creation, I am personally not surprised that eMerge 2 failed. Bringing together 22 different organizations with different missions and different cultures is not an easy thing to do. It is sort of like trying to merge, if you will, 22 large corporations, not just two large corporations into one, but 22 large corporations with different missions, different personnel systems, different cultures and putting them in together and make it work. That is not easy and this hasn't been easy and we realize that.

But we have to make sure that the Department has learned from its failures so we don't repeat the same mistake as the Department moves forward. We all share, I believe, the same objective, and that is how can the Department of Homeland Security successfully transform and modernize its financial management systems so that you can do your jobs better, and when we have a Hurricane Katrina or we have threats to our homeland, that you are there to protect us and do the job.

I have a couple of questions I am going to be asking later on, but I will just telegraph them now. Here are several of my questions. Where do we go from here? What tools does the Department need

to accomplish that objective or those objectives? What assurances do we have that the Department will not fail as you undertake the transformation and systems consolidation program? In other words, have the lessons learned from the eMerge 2 failure been incorporated into your plan for moving forward, and how can Congress play a constructive role in that path forward?

The Department of Homeland Security has needed a Chief Financial Officer who puts taxpayers first and who is committed to sound financial management and transparency, and Mr. Norquist, by all accounts, you are making a diligent and, I am told, impressive effort to do just that. As I am sure you know, your partnership with Mr. Charbo is central to the success of that effort. Additionally, your ability to incorporate GAO's recommendations with which the Department concurs is also critically important.

Sound financial management is critical to the success of the Department and to all of our departments. It is the foundation of any organization, any program, or any activity.

Last year, there were reports by the GAO and Inspector General of the Department revealing delays, revealing cost overruns, revealing design inadequacies and operating deficiencies in the Deepwater contract, the largest contract ever awarded, I believe, by the Coast Guard. A separate GAO report released this past January estimated that the total wasted funds related to Hurricane Katrina relief may top $2 billion, largely as a result of the continuing prevalence of no-bid reconstruction contracts. The $52 million that went into eMerge 2 is yet another example of that.

As elected Members of Congress, our greatest stakeholders are the American people and we have an obligation to ensure the dollars are being used as effectively and efficiently as possible. The war in Iraq has cost us roughly a half-trillion dollars. The deficit this year is forecast at roughly $180 billion, and although that is better than last year, it is nothing to brag about. Such sectors as housing are experiencing challenging times. Consumer spending is down. This is a time not to be frivolous with our hard-earned money.

In closing, let me just add, Congressional oversight, I believe, and Senator Coburn knows, and Senator McCaskill, who is a Member of this Subcommittee and will probably join us, we were in Kuwait and Iraq about 10 days ago doing oversight there on a lot of the contracting work that had been done, no-bid contracts, cost-plus contracts, sole-source contracts, not the kind of thing that would make most of us proud. But I think we are doing a better job of oversight there and I think they are starting to clean up their act over there, at least in that regard.

But Congressional oversight is imperative to make sure that Federal agencies like this Department are stepping up to the plate, confronting the waste of precious taxpayer dollars, and taking immediate corrective actions so our dollars are supporting the real mission of the Department, and that is protecting our country and nearly 300 million Americans who live here.

We look forward to hearing from each of you and we look forward to continuing to work closely with GAO and with the Department in achieving a successful implementation of modern financial management systems.

With that, Dr. Coburn.

OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. Thank you, Mr. Chairman. I have a statement that I would like to have submitted for the record.

Senator CARPER. Without objection.

Senator COBURN. I want to welcome you. I want to say again how much I appreciate GAO and the work that they do. I continue to be impressed by all aspects of GAO and their dedication to helping us solve the problems that we find in front of us.

I also want to thank you, Mr. Norquist. We spent some time in my office and I am not sure I can make any judgment about what you have done yet. I think it is way too early, and so I am not critical at this juncture.

I think the most important thing, and we saw on the vote—this whole week has been a great week for America because what you saw is America tuned in to what is happening in Washington, and I don't think there is anybody sitting at that table that can be proud of the financial mess that we have, and not just at Homeland Security, but in many other areas. And with that comes about $200 billion a year in waste, fraud, abuse, and duplication. I think there is a rumble in America. I think they are awake. I think they are listening, and what they are wanting is transparency and accountability.

The real problem is you can't manage what you can't measure, and you all can't measure it. Now, that is not necessarily your fault sitting at this table because you haven't been in the position of responsibility. But I think we are very blessed to have GAO help us and to be a positive critique in the areas where you may not have the insight or you may not be looking at all the areas when you thank you are.

So we look forward to your testimony. I do have to excuse myself early and I apologize for that. Again, I am not going quite at the speed that I would like to go, and so I can't accomplish everything that I want to accomplish in a day, but I am encouraged by the attitudinal change. I am encouraged by the prospects of change. Don't let the American people down. Change it. Fix it. Make it to where it is auditable. Make sure that the $40 billion that comes your way, you can account for, they can see it in a transparent way, and they can make a judgment about whether or not you are good stewards with their hard-earned money. Thank you.

[The prepared statement of Senator Coburn follows:]

PREPARED STATEMENT OF SENATOR COBURN

I am under no illusion that the theme of this hearing is glamorous or will catch many headlines. Frankly, the arcane and technical nature of financial management will probably never grab the attention of the American people as well. But what the American people *do* care about is *results*. When the job can't get done and security is compromised, people are not likely to have sympathy simply because financial management systems were not working properly—they will only ask why we didn't get it right. When Katrina victims were trying to get assistance to rebuild homes, or find temporary housing, nobody wanted to hear about problems with DHS financial systems.

The Department of Homeland Security gets tens of billions of dollars every year. We will soon be debating an almost $40 billion approps bill for the Department. Without proper financial controls, we have no way of ensuring that this money is

buying us the security Americans expect. DHS does not have an operational management plan currently in place to effectively manage it finances.

For example, this past month the DHS Inspector General published an audit report on grant management for American Samoa. In it, the Inspector General examined homeland security grant awards from fiscal years 2002 to 2004, totaling more than $12 million. Of that total, the IG found over $1.7 million in questionable spending. Money was spent sending staff on questionable trips to Las Vegas and Hawaii, fancy furniture, and an illegal interagency transfer with the National Weather Service.

I do not need to remind people of the travesty that befell New Orleans and the Nation in August 2005. Hurricane Katrina displaced hundreds of thousands of residents from their homes, leaving vulnerable families and individuals to depend on the government for assistance in the wake of the unspeakable tragedy. Regrettably and inexcusably, DHS and FEMA subsequently made over $800 million in improper payments in assistance efforts following Katrina. Let's put that figure in more tangible terms: For $800 million, FEMA could have provided over 13,000 trailers for families to live in for 18 months. The Gulf Coast and the Nation deserve better.

These examples are no surprise, given how dysfunctional financial management is at DHS. The Departments independent auditor, KPMG, noted that The Department of Homeland Security is out of compliance with eight separate laws and regulations—and these include our most basic financial management statutes. DHS also has never received an Unqualified Audit Opinion (UAO)—This means that the financial information they have is not timely, reliable, or DHS has never gotten an auditor to say that DHS's financial statements, on the whole, are presented fairly in all material respects in conformity with Generally Accepted Accounting Principles. In other words, they can't undergo an audit, much less pass one. If Congress applied the same standards to DHS that we have forced on the private sector, Secretary Chertoff and most of his senior management would be in jail.

That's not to say that DHS is staffed by bad actors, or incompetent managers. Congress created this behemoth bureaucracy as a knee-jerk reaction to 9/11. The Department faced the nearly insurmountable task of integrating and streamlining *22 disparate agencies* upon the Department's inception in 2003. The first attempt at comprehensive integration ended miserably, with the failure and abandonment in 2005 of the Electronically Managing Enterprise Resources for Government Effectiveness and Efficiency project, otherwise known as Emerge 2. Clearly, The Department of Homeland Security is now at an important crossroads regarding financial management. DHS must implement a plan that will successfully carry the Department to a reliable, consistent, and functional financial management operating system.

First we need political will at the highest levels of leadership. This will force the interagency coordination and the prioritization required to get results. Next, we need transparency. I'm expecting to get clear commitments for deliverables in this project today, and a public reporting on a regular basis of progress against those commitments. Specifically, I would like a commitment for a timeframe on producing an auditable financial statement and also a detailed strategy to clean up the financial management disaster at the Coast Guard.

I would like to commend the efforts at DHS, and David Norquist in particular who has an unenviable task, to say the least. I also want to thank GAO, who is truly fulfilling its mission as our investigator and auditing arm, investing the time and resources into a level of detailed oversight that we are not able to invest directly. I look forward to hearing your testimonies, thank you.

Senator CARPER. Thank you, Dr. Coburn.

I am not going to provide in the introductions the background. Biographies of all of our witnesses—although I would ask that, I call them the PG versions of your biographies, that I could disclose those, but they were not provided, so we are just going to provide for the record what we received.

Some of you have been before us a couple times before. We are delighted that you are here again. McCoy Williams from GAO, we are delighted that you are here again and we would ask you to go ahead and present your testimony. If you have full testimony you would like to present for the record, we will certainly, for every one of our witnesses, that will be presented and included in the record, and if you want to summarize, fine. I would say, just try to keep

your testimonies fairly close to 5 minutes, but if you go 6 or 7 minutes, we are not going to shut you down. Welcome.

TESTIMONY OF McCOY WILLIAMS,[1] DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, ACCOMPANIED BY KEITH RHODES, CHIEF TECHNOLOGIST, APPLIED RESEARCH AND METHODS, CENTER FOR ENGINEERING AND TECHNOLOGY, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. WILLIAMS. Thank you, Mr. Chairman. Mr. Rhodes and I thank you for the opportunity to discuss our recent work related to DHS's efforts to transform its financial management systems.

As you know, the Department of Homeland Ssecurity has faced a difficult challenge of bringing together 22 diverse agencies. Since 2003, when DHS began operations, GAO has designated implementing and transforming DHS as a high risk. Our related report released today discusses the significant problems we identified with DHS's financial management system modernization efforts. Today, we would like to provide our perspectives on the importance of DHS following best practices in developing and implementing its financial management systems.

First, since we last testified in March 2006, DHS officials ended its eMerge 2 program. eMerge 2 was expected to establish the strategic direction for modernization and integration of DHS financial management systems, processes, and policies. DHS officials have stated that approximately $52 million in total was spent on this project before it was halted, although DHS did not provide us documentation to support these reported costs. DHS's decision to end the project before spending an estimated $229 million on a financial management system that would not provide the expected system functionality and desired performance was prudent and we support the decision to cut its losses.

According to DHS officials, several of the work products developed for eMerge 2 will be useful as they move forward with their financial management modernization efforts. However, we found that the usefulness of these work products is questionable due to the lack of disciplined processes in their development.

Second, we would like to point out key financial management system transformation challenges at DHS. While DHS officials have recognized the need for an integrated financial management system, the Department has not developed a transformation effort that includes key elements, such as standard business processes, a human capital strategy, and effective internal controls.

In March 2007, DHS issued its Internal Controls Over Financial Reporting Playbook, a high-level plan intended to address existing internal control weaknesses. DHS officials have acknowledged that the Playbook has a policy and process focus and does not comprise a strategy for financial management system modernization. DHS's high-level financial management system strategy, called Transformation and Systems Consolidation, focuses on leveraging existing systems investments across DHS components and is still in the early stages of development. More detailed implementation strate-

[1] The prepared joint statement of Mr. Williams with Mr. Rhodes appears in the Appendix on page 27.

gies will be necessary to fully address financial management system integration efforts.

The Transformation and Systems Consolidation strategy calls for DHS to consolidate its financial management systems into one of two models, the Transportation Security Administration systems model, or the U.S. Customs and Border Protection Systems model, which the Department refers to as shared baselines. DHS and OMB officials told us that OMB approved DHS's decision to rely on its in-house core financial management operations. Our concern is that these components have numerous financial management weaknesses and consequently do not appear to be good models for an entity with an annual budget in excess of $40 billion.

For example, the financial statement auditors for TSA reported that TSA was unable to support key fiscal year 2005 and 2006 transactions and account balances. It is imperative that DHS fully understands the weaknesses at TSA in order to prevent these issues from affecting subsequent users.

Finally, we would like to highlight the building blocks that form the foundation for successful financial management transformation. Our previous testimony and our current report pointed out that careful consideration of these four concepts, each one building upon the next, will be key to the success of DHS's strategy. The four concepts are developing a concept of operations, defining standard business processes, developing a migration and/or implementation strategy for DHS components, and defining and effectively implementing disciplined processes necessary to properly manage the specific projects.

Fully embracing human capital best practices will be another critical success factor. For example, DHS will need to have people with the right skills in the right place and at the right time.

In conclusion, Mr. Chairman, given that DHS is one of the largest and most complex Executive Branch agencies in the Federal Government, modernizing its financial management systems represent a monumental challenge. This challenge is compounded by the poor condition of the legacy financial and related business systems it inherited. If properly implemented, the recommendations included in our related report, which are based on best practices, will help reduce the risk associated with a project of this magnitude and important to an acceptable level. Ultimately, DHS will be able to provide reliable, useful, and timely financial management information so that DHS leadership and the Congress are well positioned to make fully-informed decisions to secure America's homeland.

We look forward to continuing to work with you to monitor DHS's progress in this area. Mr. Chairman, this concludes our statement. We will be pleased to respond to any questions that you may have.

Senator CARPER. Mr. Williams, thank you very much. Are you still the Director of Financial Management and Assurance at GAO?

Mr. WILLIAMS. That is correct.

Senator CARPER. And how long have you been in that post?

Mr. WILLIAMS. I have been a Director in that team for approximately 7 years, 2 of those years in an acting position.

Senator CARPER. This may not be a fair question, but at GAO, who is your Chief Technologist for Applied Research and Methods at your Center for Engineering and Technology? Who does that work?

Mr. WILLIAMS. That would be Keith Rhodes.

Senator CARPER. The fellow sitting right next to you.

Mr. WILLIAMS. That is correct.

Senator CARPER. I understand he is taking a pass on testifying, but he is here to respond to any questions that Senator McCaskill and I might have?

Mr. WILLIAMS. That is correct.

Senator CARPER. All right. Good. We will save the really tough ones for him.

Mr. WILLIAMS. OK. [Laughter.]

Senator CARPER. I was fortunate to travel with Senator McCaskill back about a week and a half ago. I talked about that a little bit earlier and the work that you and your staff have done. Wendy Anderson and I were just privileged to go with you to see the efforts that are underway there to try to fix our contracting problems and we appreciate your work to help this Department get its act together. We know that they are trying to, and we know that your efforts are helpful there.

Mr. Rhodes, we welcome you here today and we look forward to asking you some questions a little later, too.

The Chief Financial Officer at the Department of Homeland Security is David Norquist and he is joined today by Scott Charbo, who is the Chief Information Officer (CIO). We are happy you are both here. You have been in your job for about a year, is that right, Mr. Norquist?

Mr. NORQUIST. That is correct, sir.

Senator CARPER. And Mr. Charbo, how long have you been at it, a couple of years?

Mr. CHARBO. It will be 2 years in July.

Senator CARPER. Alright. Does it seem longer?

Mr. CHARBO. There is normal time and there is DHS time, yes, sir. [Laughter.]

Senator CARPER. Well, we are glad you are here today, and Mr. Norquist, you are recognized. Again, your entire statement will be made a part of the record. Proceed as you wish.

TESTIMONY OF DAVID NORQUIST,[1] CHIEF FINANCIAL OFFICER, ACCOMPANIED BY SCOTT CHARBO, CHIEF INFORMATION OFFICER, U.S. DEPARTMENT OF HOMELAND SECURITY

Mr. NORQUIST. Thank you, Senator. Mr. Charbo and I have a joint statement. Thank you, Chairman Carper, Members of the Subcommittee, for allowing us this opportunity to testify before you regarding financial management system modernization at the Department of Homeland Security. Scott Charbo and I are pleased to discuss with you the Department's strategy and progress in transforming and consolidating financial management systems throughout the Department. We also appreciate the work done by the Gov-

[1] The prepared joint statement of Mr. Norquist and Mr. Charbo appears in the Appendix on page 40.

ernment Accountability Office and concur with all six of their recommendations.

The Department of Homeland Security was formed from the merger of 22 distinct agencies. Given our origin, it is not surprising that we would have multiple financial systems. In the long run, however, this is not cost effective. Too many systems complicate financial reporting, internal controls, systems security, and software maintenance.

In 2003, to address this problem, the Department began an initiative called eMerge and contracted out for the development of a financial solution that integrated finance, accounting, procurement, and asset management systems. That integration effort ran into technical challenges and, as GAO describes it, the Department made a prudent decision to cut its losses.

This, however, is not the end of the story. With Department approval, Customs and Border Protection successfully implemented the SAP Financial Package that includes finance, accounting, procurement, and asset management. This strengthens CBP's financial reporting and internal control processes, and last year, CBP received an unqualified opinion on its financial statement.

About the same time, the Transportation Security Administration needed to migrate off the system it used at the Department of Transportation. In response, the U.S. Coast Guard provided TSA an Oracle package that also included procurement and asset management. Other offices expressed an interest in this solution, and over the last 2 years, the Department has migrated the Federal Air Marshals Service and the Domestic Nuclear Detection Office to the same solution. While TSA is still addressing some material weaknesses, it is now the system that stands between them and a clean audit opinion.

When you review the different systems the Department has, these two agencies' solutions stand out. They use core accounting applications that are also used by other large Federal agencies with unqualified audit opinions. They were successfully and broadly implemented inside DHS, so we have people who are experienced with these applications. The products are also commercially available and supported by multiple vendors, which promotes competition.

So rather than pursue the acquisition, configuration, and implementation of a new system within DHS, we will leverage our existing investments by continuing the migration of components to these two proven financial management systems. We have briefed the system, called Transformation and System Consolidation, to the Office of Management and Budget and we meet with OMB routinely to discuss progress.

The next stage of the consolidation plan will begin with the migration of small components, such as the Office of Health Affairs and Science and Technology. The goal is to repeat, refine, and build upon each successful migration. The plan will continue with the migration of larger components, such as FEMA and Immigration and Customs Enforcement. By fiscal year 2009, we expect 50 percent of DHS components to be on the Consolidated Financial Management System. By fiscal year 2011, we expect 97 percent of the Department will be on these systems.

After the completion of this consolidation plan, a single baseline will be chosen. Migration onto a single baseline will then be planned and implemented. The Department is committed to a single baseline as the end state for its financial management needs.

There are a number of financial and performance benefits associated with this initiative. This includes a reduction in maintenance cost, a significant cost avoidance for future integration expenses, and it promotes competition for systems operation and maintenance services by making sure that you can have multiple vendors to support your system. It also provides more accurate, timely, and reliable financial data, provides a foundation for effective internal controls and segregation of duty, and reduces the errors by the removal of manual processes.

Modernizing financial management systems is an inherently complex and challenging endeavor. It requires careful planning, patient implementation, and strong collaboration among senior leaders. The strategy I have described today provides for improving financial systems by migrating components to existing DHS systems that are proven and for which we have a record of successful implementation. I am confident that, working together, we will be successful.

Sir, I thank you for your leadership and your continued support of the Department of Homeland Security, and if I may add, I also appreciate the close working relationship I have been able to develop with your staff. I have been up here before to give them updates. They are a very good group to work with and I appreciate the ongoing dialogue that we have.

Senator CARPER. We appreciate your saying that and thank you for being so accessible and your willingness to come here. That is much appreciated.

We have been joined by Senator Claire McCaskill of Missouri. Senator McCaskill, if you have a comment or two you would like to offer, and why don't you lead off with the questions.

OPENING STATEMENT OF SENATOR MCCASKILL

Senator MCCASKILL. Thank you, Mr. Chairman. I am a little discombobulated about leading off.

Senator CARPER. You don't have to.

Senator MCCASKILL. That is not the way it works around here.

I am very concerned about financial management systems at Homeland Security. Frankly, you are in a little better shape than the Department of Defense. I think they have been on the high-risk since, if my memory serves me correctly, since 1991, would that be right, Mr. Rhodes?

Mr. RHODES. [Nodding head.]

Senator MCCASKILL. And since you have not been around long enough, we hope that you beat them off the list and that would be a great thing.

I am going to spend my time talking about accountability issues, and I know it is slightly off topic in terms of financial management systems, but let us start with this. The $52 million that you have indicated was spent on eMerge, is it possible for you to document in any way how that $52 million was spent?

Mr. NORQUIST. We have provided from my office a spreadsheet to GAO on the range of things. Of that amount, $18 million, for example, went specifically to the contractor. The $52 million is a broader range of initiatives that occurred during this time period. It is my understanding that the documentation that couldn't be achieved was out of our procurement office, and I am happy to go back and find out why that wasn't available and to follow up on that for you.

Senator MCCASKILL. Yes. I am really worried about that procurement office. I couldn't help notice that the *Washington Post* did not do your Department a favor by the article that appeared this morning in light of this hearing coming. The procurement office is problematic. What percentage of the money that you have spent in trying to get off the high-risk list would you say has been spent on private contractors?

Mr. NORQUIST. I wouldn't know the number for that.

Senator MCCASKILL. Would you hazard a guess? More than 50 percent?

Mr. NORQUIST. I can only use my own office as an example. I have in my office about $12 million that we spend on salaries of government officials and $8 million that we do on other contract support, which is heavily contracted individuals, internal controls, improper payments, that sort of area. So it is not a 50–50 split. It is less than that.

In fact, in my office, when we submitted our budget request, I notified the Appropriations Committee of my intent to increase the number of government employees that we have. As we were created at DHS, there was an initial shortage of career civil servants that wwould be used to build with, so people relied on contractors. Over time, we have tried to move away from that. I am doing that within my own organization to increase our reliance on career civil servants. I myself started as a GS–9 back in 1989, and so I have got a lot of initiatives focused on training them, getting the skill sets. I believe that in the long run, they are more important to our stable success.

Clearly, there are places where we need contractors for independent verification, validation, other functions, but I think that in the near-term, at least in my organization, there is a need to shift and I have indicated so in our budget submissions.

Senator MCCASKILL. Do you have a sense that the leadership at the Department of Homeland Security has your bias as it relates to the apparent inefficiencies of contracting that we are witnessing at the Department of Homeland Security?

Mr. NORQUIST. There are trade-offs between the two, and in meetings, I have been with the Deputy Secretary as we build the budget. He has gone and raised the issue with components of what do you have in your organization that is only contractor because that is the way you started and tell me when you can do that and what your hiring skills are. So I know he shares that interest. I know he recognizes that as an opportunity for improvement.

We can't leave the function undone, but in my office, for example, we had staffing shortages a year ago. We weren't able to fill our own positions. We went and created a number of efforts to improve recruiting and retention. Working with our Chief Human Capital

Officer, there have been job fairs and advertisements. We have tried to make life easier for people to find us. I have a little business card that simply says, CFOjobs@dhs.gov. Send me an e-mail. So when we reach people and we go to areas where there are skill sets that I am looking for, financial management communities, we have promoted that in order to get the folks inside and get them in the government service.

We have been successful. We have filled the positions that Congress has provided us, and we have, and again, as I mentioned before, told them that we are looking to go beyond that and in exchange drive down the amount of money that I spend on contractor support for these types of functions.

Senator MCCASKILL. Well, as the CFO, do you feel like that you have information Department-wide in terms of the way money is being spent within the Department?

Mr. NORQUIST. You can do it by various categories. It is hard to break it out the way people normally ask the question. For example, if you buy something, you are usually buying a service or a deliverable, not a number of people, and so you cannot easily get a contractor number. That is why in my office I use the dollar amount. I don't know if I tried to ask that question department-wide how the numbers would come up or how we would present it.

Senator MCCASKILL. Well, did you read the article in the *Washington Post* this morning?

Mr. NORQUIST. Yes, I did.

Senator MCCASKILL. OK. And do you think taxpayers should be worried?

Mr. NORQUIST. My understanding of the article was the need to stand up the staffing and the requirement to use contractor support in the first place. I can't speak to the contracting procedures that were used to do that, but I know that there is an essential mission that they are trying to perform. And this is one of the challenges I run into in financial management, is I put a great emphasis on internal controls, on strengthening procedures, and I need to be cognizant of the component's requirement to perform its mission, and so we work very closely with others to ensure that we accomplish both at the same time.

Senator MCCASKILL. Are you aware of any contracts currently within the Department of Homeland Security that are not competed?

Mr. NORQUIST. I actually wouldn't know. I am generally only aware of the ones in my office and I believe those are all competed, but I will check that for the record.

Senator MCCASKILL. Well, for the record, Mr. Chairman, I would basically summarize as follows. We have a project in Homeland Security that began in 2003 with a $2 million contract. It was no-bid. It soared by millions of dollars per month, and in December 2004, the payments had exceeded $30 million and 15 times the contract's original values. When the Department lawyers looked at it, they said it was grossly beyond the scope of the original contract and that it violated government procurement rules. The lawyers then advised the Department to immediately stop making payments through the contract.

That did not happen. Payments continued under the contract. In fact, the payments to the consultant more than doubled again under the second no-bid arrangement, this time to $73 million. And it goes on to set out in some detail that this was a situation where the rules were waived, routinely waived, to, in fact, continue to support this contract.

I think that this is one of those situations that if we do not get to the bottom of what has actually happened at the Department of Homeland Security, we have no lessons learned, and I think Congress, when they created the Department of Homeland Security, had an old-fashioned notion that they were consolidating and making something more efficient. I don't think that people anticipated that the skill sets were not going to be present within this newly-created Department to do basic functions that were being given to it, and I don't think anybody—I can't imagine they envisioned that we would embark upon a protracted period of time with vague contract requirements, with no-bid contracts blowing the lid off the original scope of the contracts, and I know that this is not your Department. However, when you have the title CFO and you are part of an organization that has this kind of systemic problems, whether it is bringing together financial systems or whether it is appropriate oversight of procurement, I think it is fair to make this part of the record.

I am going to ask the Secretary specific questions about the Boos Allen consultant contract that was delineated in the newspaper this morning and I am particularly interested how many other contracts like this are out there. I mean, the cost of these contract employees is an average of $250,000. That is an expensive government employee. I don't have anybody in my office making $250,000 a year, and I am willing to bet there is nobody in your office making $250,000 a year.

I am trying to figure out why we have gotten into this privatization, this wave of privatization where we are blowing the top off average costs of work being done. I have never been opposed to privatization as a principle, but the way it is being done right now, whether we are in Iraq and we are talking about what is happening in Iraq or we are talking about within the Department of Homeland Security, something is terribly wrong and I think it is really incumbent upon Congress and this Subcommittee to get a handle on it, and I appreciate, Mr. Chairman, the opportunity to put that in the record and certainly appreciate the opportunity to participate in this hearing today. I thank you all for being here.

Senator CARPER. You are quite welcome, and we are just delighted that you are here.

Does anybody want to respond to some of what Senator McCaskill has stated or asked?

Mr. NORQUIST. Just one follow-up, because among the things that do fall under the CFO is the budget. In the President's budget submitted to the Hill, there are a number of initiatives that we have supported, particularly to strengthen——

Senator CARPER. Is this the budget for 2008?

Mr. NORQUIST. This is the budget for 2008, the one that is on the Hill—to strengthen the Office of the Chief Procurement Officer precisely to ensure that she has the training programs, the hiring pro-

grams, and the initiatives to strengthen her oversight of the program in the same way the Congress has been supportive in strengthening the Chief Financial Officer's program. So I hope you would give consideration to those and recognize how directly related they are to helping her organization get a similar handle on the challenges that they face.

Senator MCCASKILL. You will never have to worry about me supporting more money for GAO, more money for IGs, or more money for procurement officials. I am there.

Mr. NORQUIST. Thank you, ma'am.

Senator CARPER. I think you can take that to the bank. [Laughter.]

I want to back up just a little bit, if we could, back to the time that this Department was created some 4 years ago, and it was created, some of the early work was done by the Committee on which Senator McCaskill and I serve, and we acknowledged at the time that what we were putting together was a little bit of a dog's breakfast in terms of all these different 22 agencies coming together with a wide variety of responsibilities. I know there was some discussion about how well their financial systems would blend together and it has been every bit as challenging to get the Department formed up, staffed, getting people to sort of understand who is doing what and developing relationships and trying to be effective.

At the time when we created the agency, we never talked about, at least in my recollection, about eMerge 2, and what I want really for my first question is I would like for somebody to back up and just give us the history, if you will, for this initiative and explain it in terms that regular lay people can understand. Sometimes we get talking about this stuff and you hear it and you say, what did they really say? So just kind of put it in layman's terms. Could somebody give us the history, what we were trying to accomplish within the Department when eMerge 2 was launched?

When I heard about it, my question to my staff was, whatever happened to eMerge 1, and it turns out there was no eMerge 1. They went right to eMerge 2. I was going to say, three strikes and you are out. If you don't get eMerge 3 right, you are really in trouble. But there was no eMerge 1, so whatever comes next, and I think you have mentioned what comes next, will be the second time out. But it is important to get that one right.

But would somebody give us a little bit of history on eMerge 2, please, someone who feels comfortable with it? Everybody looks the other way. [Laughter.]

Mr. NORQUIST. Well, I was just expecting that they had probably been on this topic——

Senator CARPER. Yes, you are probably right——

Mr. NORQUIST [continuing]. Since I wasn't here.

Senator CARPER. You all can just give me a team effort in giving us the history, if you will.

Mr. NORQUIST. Well, let me start with just a general overview, recognizing that I wasn't here at the time, so I don't want to put words in their mouth, but they came together and they realized that they had a large number of different financial systems and that creates a lot of challenges.

The first challenge it has is every time you want to build something to go with it, a travel system, something else, you have to build a link between your new application and every different system that you have, and in some cases, it is not just different systems, there are multiple variations on the same system. We have a number of different types of Oracle that are being run inside the Department. So you end up spending a lot of money building more bridges than you need to make a link to each of these. So there is an opportunity for cost avoidance if you can get down to fewer systems.

In addition, the shared data across the system is a challenge if you are operating differently.

Another essential one is if you want your—if you don't have an integrated system, when your procurement office enters a PO into their system, they then take a hard copy and walk it down the hallway and give it to their finance office, who logs it into their accounting system. You have two opportunities here for a problem. One is the time delay. Timely and accurate data runs into trouble every time you are depending on somebody walking a stack of documents down the hall, and accuracy suffers every time you require somebody to re-enter it. So to have a system of when it is entered on the contracting side it automatically appears correctly on the accounting statement gives you much better timely and accuracy in your data.

And so those types of accomplishments, those are the things you are looking for. In addition, if you have the right system, it is a big benefit for internal controls. So, for example, if you have a policy that says in order to commitment the government to so much money, you have to have a warrant of greater than that amount, now, you can have manual processes to enforce that, but if your financial system looks at the warrant of the person entering the data and says, I am sorry, you don't have a high enough warrant to do this, I am rejecting the transaction, the system is reinforcing that control.

Or if it is looking at a place where you have multiple—you want to have segregation of duties. You don't want the same person ordering the item as the one who has accepted it as the one who is paying for it. You break those up, you greatly complicate fraud. If the system doesn't let that data get entered by those three as the same individual, it is reinforcing your internal processes.

So when somebody looks at that, having a modern, integrated financial system is a huge step forward. Now, the challenge is how you get there, and there are a number of different ways to do it. The one they chose probably had the biggest potential payoff, but I would also suggest had the biggest risk. You have somebody, you make a list of the thousands of requirements, which they did. I think GAO counted and said 8,000 and climbing.

Senator CARPER. Now say that again. When they are trying to create the system, or envision it, they had 8,000 requirements that were laid out?

Mr. NORQUIST. Well, if I ask you, what do you need your accounting system to do, the list is endless if you approach it that way, and then you turn to someone and say, please deliver me a system that does this, and then they have to do software development, and

software development is also very challenging. All of those steps add risk.

The reverse of that is, for example, what our approach would be. We have an accounting system and an integrated system at CBP and over at TSA. You go to somebody who is moving and saying, why can't that meet your needs? Give us an example of what it does that you need to. So rather than do thousands of requirements, you are doing what is called gap analysis. All of those make it easier.

But their approach to the solution, I think, had a high opportunity for payoff, but it is a very challenging task and I think the way they went about it probably increased the risk. But having not been there at the time, I think I will of defer to GAO now in terms of having looked at the records, anything they found about the challenges in that approach and what went wrong.

Senator CARPER. Good. That is very helpful for background.

Can you just take it up from there and fill in the gaps?

Mr. WILLIAMS. Yes, I can, and I think just to summarize it real short, I was asked by the full Committee to take a look at what the agency was doing to consolidate its operations from a financial management standpoint when the agency was formed, and we basically concluded that eMerge at the time, that it was really too soon to tell whether it would succeed or not, that it appeared to be a good idea, that if you wanted to consolidate all your systems, because you had these 22 agencies.

The bottom line was Homeland Security was basically looking at a situation in which there were all these agencies coming together, components coming together, and everybody was basically carrying out their operations based on what they had been accustomed to doing from wherever they came from, and the concept was, we will have one system that will be able to gather data and produce data that will be consistent across the entire Department.

A case in point was at the time, I was asked to do a job at FEMA and there were some issues that had been raised about some capitalization thresholds and just how they were accounting for their property. And we had some suggestions and were basically told that we cannot make these changes for FEMA because the Department is looking at everything that is going on in the financial management arena, from systems to policies to procedures, and we are going to try to standardize everything so that everything can be done across the agency the same way so we will have the consistency.

So that was the objective when this whole process started, we wanted one system that can gather data for all of these agencies or components that we are bringing together and we will have this one system. We will have the consistency. We will also be able to reduce our costs because we will cut down on a lot of the redundancy that is going on. So that was the basic overall agenda when this process first started.

Senator CARPER. Where do you think it started to come apart?

Mr. WILLIAMS. I will let you take that one.

Mr. RHODES. In the requirements, the requirements failure regarding eMerge. So you have 22 pieces of broken pottery, and I don't know what the pot looks like. Now I am supposed to glue

them all together and make something of it. I am not an accountant. I am an engineer. But my accounting colleagues have sat me down and showed me a 32-column piece of paper and said the number in the lower left-hand corner is supposed to add up to something. Fine. Now what do I feed into that eMerge 2 system?

Well, none of the systems that the Department of Homeland Security inherited—and that is the key term, they inherited them—none of them had actually been designed. They had all evolved. Like all the departments they came from, they had evolved. They were unique. They were one of a kind. They were, oh, we do things differently here designs. They were, gee, we can't actually get a clean opinion system, but now DHS has to take that system and bring it in.

So it begins with a requirement set. One of the reasons it was 8,000 and climbing is that if you don't apply the discipline to say, you are done, you are done, you are done, I don't want to hear from you anymore, we are going to do it this way, if either you don't do that or you can't do it, then you are in the position of having zero discipline in your process. You are just trying to draw all of the requirements together into the dog's breakfast, as you are talking about, and say, oh, well, whatever comes up will come up, which, of course, is a vendor's dream and the oversight's nightmare.

Senator CARPER. Mr. Charbo, do you want to add anything?

Mr. CHARBO. No, I think that was well said. At the end of the day, if we were successful in that new system, you still had the challenge of the internal control processes and migrating things that didn't add up into a new system. Those were a lot of the points that we were pointing out to the Department as I came in in July and trying to point out some of the flaws, as well, which led to some of the cancellation of the contracts and deciding to move on with another strategy. I think all those points were well said.

Senator CARPER. Alright. Fair enough. Senator McCaskill.

Senator MCCASKILL. So 8,000 requirements is ludicrous on its face. Was there no one there to say that is too many? Are you saying there were 8,000 requirements because they were trying to accommodate 22 different evolved systems and everything that they had traditionally gotten out of their product, they wanted all of that to come out of this new product?

Mr. RHODES. In effect, the lack of discipline that they were applying was doing that by default. You are correct. I don't know that anyone was getting up in the morning and saying, gee, let us just have it be all things to all people. But what we saw in the initial reviews was that no one knew how to put the brake on, and therefore the requirements list goes up and the money goes out and the oversight on the part of DHS was not in place.

Contracting out, fine. That is not supposed to be abdication of responsibility. It is contracting out. It is not abdication. It is not, because then the contractor—I have been a contractor. I came out of the contracting world. All it takes is money and I will make you happy. Well, fine. So you keep giving me enough rope in terms of dollars and I will keep weaving a basket out of it. That is what was happening. There wasn't anything in place to stop throwing coal into it to keep the engine burning.

Senator MCCASKILL. And I have to assume, in the private sector, you have mergers and acquisitions as commonly as you have anything else. I have to assume there are products even off the shelf that could be adjusted to accommodate different functions coming together for the first time.

Mr. RHODES. You are correct. There are products out there, but often, commercial off-the-shelf does not mean one-size-fits-all. Likewise, just because you have bought commercial software does not mean that you now give up being ultimately the system engineer.

Senator MCCASKILL. Right.

Mr. RHODES. You have to understand your requirements. You have to come in with a discipline. You have to lay them out. You have to say, what is my concept of operations? What is my target? What am I trying to do? Well, if I am trying to be all things to all people, there is nothing on the shelf that is going to——

Senator MCCASKILL. Right. It is not going to be there and it is going to cost——

Mr. RHODES. Forever.

Senator MCCASKILL [continuing]. $52 million and then you are going to cancel the contract.

Mr. RHODES. It is going to cost forever.

Senator MCCASKILL. Do you believe that the problem of discipline when it comes to financial management has, in fact, been addressed at the Department of Homeland Security?

Mr. RHODES. I cannot say that I have hard evidence that it has. The movement to kill eMerge is a sign. The movement—as the CFO stated, they concur with everything we have said.

Senator MCCASKILL. Sometimes that feels like kissing your sister. We don't get it fixed.

Mr. RHODES. Right. Exactly.

Senator CARPER. To which my sister would say, even sisters need to be kissed. [Laughter.]

Senator MCCASKILL. Well, do you sense that they now have that discipline, though? I know you are saying you have no hard evidence that the discipline is now in place to not abdicate?

Mr. RHODES. Right.

Senator MCCASKILL. Alright.

Mr. RHODES. I do not have the hard evidence. I will have to see what goes on from now. I have good words. I have good intentions. I do not believe I am being lied to. Fine. Now let us see, because our joint testimony this year is no different than our joint testimony last year.

Senator MCCASKILL. Right. And do you all have a sense that there is any hope of discipline at the Department of Homeland Security as it comes to the abdication that was documented in the *Washington Post* concerning contract oversight?

Mr. RHODES. Do you want to take that?

Mr. WILLIAMS. It is a process, a discipline that must be put in place in the financial management arena, and I would say in looking at the overall process, you are talking about internal controls within the entire Department. And I have done a lot of work over the years in the area of internal controls and working with what we call our Green Book, which basically lays out the framework of what you need to have in place, and I think that it is important

that the agency as a whole take a look at those five pillars, as I call them.

I think the key one is that we talk about the tone at the top, and that is that you have to start at the top of any organization and make sure that the right tone is set as far as we will have the good controls in place. We will have accountability in place. And that has to filter down throughout the organization.

Once you start with that and you take those other four concepts that are laid out in that document, then you have the framework in place to make sure that you have good controls.

Mr. RHODES. Let me make one additional point about that tone at the top. The tone at the top has to last longer than the life expectancy of the appointee. It has to be institutional. It can't be, fine, all well and good, Mr. Norquist, and he has the good intentions and then he leaves after his half-life of 18 months or——

Senator MCCASKILL. Maybe gets hired by one of those contractors.

Mr. RHODES. Perhaps.

Senator MCCASKILL. Because he could make $250,000 a year. Why would he hang out with us poor saps on the public payroll? [Laughter.]

Mr. RHODES. Yes, ma'am. The point is that whoever comes in has to be able to keep that target in mind, and that is why we talk about concept of operations, discipline in the process, and Mr. Williams' discussion about internal controls. If those are there and they are taken seriously, then it doesn't really matter who is in the seat. They are still acting according to this road map.

Senator MCCASKILL. Well, and this reminds me that there are so many similarities between the Department of Defense and the Department of Homeland Security because the context of the mission overshadows the need for fiscal accountability. In other words, the piece this morning in the *Washington Post,* it was about the intelligence operation. So it was like what we are trying to do is so important, we don't need to worry about cost value. We don't need to worry about whether or not we are following Contracting 101. We don't need to worry about whether or not we are actually overseeing the contract in a cost-effective way, because this is way more important than how much it costs, which is what you hear from sometimes commanders in the Department of Defense and the military. What we are doing is so important, who cares if the contract is not specific and is cost-plus and it costs billions of dollars more than it should? I shouldn't say, who cares. That is not fair.

But the point is, do you believe that we need to do something in the process of confirming the secretaries of these departments as it relates to commitment to financial accountability?

Mr. WILLIAMS. Just a quick history on this. I have heard that statement before. I also have responsibility for the financial management issues at the Department of Defense and I can recall when we were trying to get——

Senator MCCASKILL. You poor thing. [Laughter.]

Mr. WILLIAMS [continuing]. Financial data related to Desert Shield. This was back in 1991, I believe, and I think the response that I got was that I do not have time to stop and keep these

records. I am fighting a war. So I have heard that story for many years going back.

But my response then and my response now is that if you put good policies, good procedures in place and you have that structure there, when you go to war, there will be policies and procedures, that information will be rolled up. It is not something that you want to have to just stop while you are in the middle of a war to put in place. You want to have that in place well in advance. You want to have the internal controls. You want to have the policies and procedures. You want to have the systems.

And as I always like to point out, you need to have all of those things because that old saying about you are only as strong as your weakest link, you can have the good systems, poor internal controls, you are still going to have problems. You can have the best system in the world, but if you lack the quality staff to either run and to manage your operations, you are still going to have some problems.

So you have all those components that you need to have in place and you need to put that structure in place. Whether you require that from management or leadership of the organization, anything that we can do to make sure that there is good accountability within an organization when it comes to financial systems, financial reporting, it has got to be a good idea. You have to look at it from a cost-benefit standpoint, of course. But improving it through holding people accountable, GAO has always supported that.

Senator MCCASKILL. Thank you, and I hope, Mr. Chairman, that the testimony next year is different. I can only hope.

Senator CARPER. Well, I hope so, too. I know we will be here asking for your testimony, and I think that is an important thing for us in exercising our oversight responsibilities, is to make sure that GAO, in the exercise of your responsibilities, that we are there backing you up and we appreciate your support and working with the IGs and the CFOs.

A member of my staff handed me a note. It said, maybe the CFOs shouldn't be Presidentially appointed, and I am sure we have some Presidentially appointed that are quite good, but I worry about the turnover, and someone said 18-month half-lives in some of these positions.

Mr. Norquist, any thoughts along those lines?

Mr. NORQUIST. Yes, a couple. First is, originally, the CFO at DHS was not. It was the DHS Financial Accountability Act that required Senate confirmation and hence I am here.

The thing I would say to also reassure the Subcommittee about continuity is in the entire financial management community at DHS, I am the only political appointee. I am there because of the Senate confirmation rules, but everyone below me, the CFO and the Deputy CFO of FEMA, CBP, ICE, and so forth, my own deputy, all career civil servants. I am happy either here or later to talk about the initiatives we have to mentor and develop the next generation of CFOs. That is one of the initiatives that I have been pushing, because we have no natural career pipeline. We are only 4 years old. And I want to make sure that we keep that path of career civil servants strong.

The other side is I have great support from my leadership. I have strong backing from the Secretary and the Deputy and the Under Secretary for Management. I meet with them regularly, not just about this, but also the entire audit, the financial statements, how we are doing on the corrective action plans. But GAO, and you are right in that at a certain point in time, all of us will be asked to move on. Others will come in, and making sure that the leadership down the pipeline shares the same commitment that our current Secretary has is very important. I convey it to my staff.

The thing that is interesting about what they call sort of the tone at the top and what your staff says is, does anyone care about me, is it shows up. They know when the Deputy Secretary shows up to the new hire training program for the Financial Management staff and tells them about how important it is, what they are doing. They know when the Secretary is asked at the hearing, every appropriation budget hearing, about the status of the audit. They understand when the leadership provides us an additional SES position to strengthen our Finance and Accounting Office. All of those things that are the tone at the top are conveyed to the career civil servants and they understand and appreciate that commitment.

But they are right. If I didn't have that, I am not even sure I would undertake an endeavor because I wouldn't be confident in its success.

Senator CARPER. Thank you for that statement.

I want to move on to a couple different questions, if I could. Mr. Charbo or Mr. Norquist, your Department has already embarked on a new project you have alluded to. I just want to thank you for not using the acronym, but I think it is called the Transformation and Systems Consolidation. And I think you have embarked on a new project without fully implementing GAO's recommendations that were released in their report today. Did you agree with that assessment, and if you do or don't, within the Department, how will you avoid repeating the problems and failures, if you will, that we realized in eMerge 2?

Mr. NORQUIST. There are some of them we have done. There are some of them that still remain to be done, and I certainly appreciate their feedback on any one that we can make stronger. We have the software development life cycle documentation. We have done our analysis of alternatives. Certain ones, like the concept of operation, which as GAO points out is so essential, we developed one for DNDO and we moved them in the fall of last year and we will update each component that we move. The CONOPS will be specific to that move. Likewise, the reengineering which they talked about which is so important is part of our A–123 process, and we go through each item over a 3-year period.

So I think the answer at the beginning is, I believe we had made significant progress in each of these areas, but it is important that we see them through because I think their recommendations are sound. I have relied on them in other areas and I think that those things are very important.

In terms of how do you avoid repeating the mistakes, I think it gets back to understanding what they did and trying to do it differently. For example, we are not asking people to develop thousands of requirements and then hoping a vendor can fire into a

wave meeting them. We have two components that use applications that are widely used by the government and they are the private sector, and we are saying to folks, we are ready to move you to one. Tell me why it can't meet all your needs. And I suspect that if it can't, the problem may be with the organization I am trying to move, not with the system. If you don't like the process, I think you may need to fix the process before we change the system.

There will be some exceptions. ICE has to handle bonds. Our system that CBP and others have don't necessarily do that. We are happy to build that specific item that the system was not designed to accommodate. But this will be by exception, and my general inclination will be if it works for other large Federal agencies and major corporations, what makes you special? I think this is the place where the discipline comes in. But it is not trying to gather the 8,000, it is trying to operate with something you have and you use today.

Senator CARPER. Good. Alright. Thank you.

Mr. Rhodes, I believe the GAO has reported that many longstanding problems that plague financial management system improvement efforts, do you think the Department was just not getting the message before?

Mr. RHODES. In our experience, public pain is what gets the message across.

Senator CARPER. Is this sufficient, do you think? Are we inflicting enough today, or did we last year?

Mr. RHODES. I think that they have gotten part of the message, and they did kill eMerge. They didn't continue eMerge. We have certainly other examples where far more than the money claimed there that was lost was lost, upwards of hundreds of millions of dollars. So when it becomes so unavoidable that it is public and people are being chastised publicly through oversight, they tend to get the message.

I go back to my earlier point. Everything that has been said relative to our report, the complete concurrence, what Mr. Norquist just said, that is the right thing to say. But it is a function of, now let us see the integration plan and the critical path for tying all these systems together.

Yes, you are moving to a shared baseline. You are also running multiple instances of one part of that baseline right now and it has unique applications running on it. How will you migrate away from that and not lose functionality? I mean, yes, I am putting on my propeller hat and being the engineer here at the moment, but that is ultimately where it starts to break down, and coming to someone and saying, tell me why you are not unique, and you say, well, I am unique because of this and this and this. A lot of times, it is not somebody necessarily coming up and saying, well, I am unique because my requirements are special. It is coming up and saying, I am unique because I am running software that I can't get anywhere else, or I have software and I am not really certain what it does, but it serves this function and we have used it forever. Now you are in a decomposition and a reengineering and an understanding of the requirement as established in the piece of software that is already there. Those are the complicating factors.

Senator CARPER. OK. How should this Department especially incorporate some of the lessons learned to avoid unwise spending, unneeded, unnecessary spending on projects that are doomed to fail?

Mr. WILLIAMS. Well, I think, as we stated earlier, that the bottom line is that if they follow those recommendations that we have in the report and if they follow the discipline processes as they go forward, if they utilize the results from their A–123 assessments, because I think in those assessments, if properly done, in the internal control area, there should be some efficiencies that should come out of that from the standpoint of looking at the internal controls, they will probably find that in some places, that they have too many in place. In other places, they might find that they have gaps to fill. So I think if they utilize all of the tools and all of the things that we have talked about here, in going forward, you have got the framework for making some progress.

The thing that I guess I reflect back on in this overall process is something that I also mentioned earlier, and that was a report that I did about 4 years ago, and I believe it was done for Senator Lieberman, in which I basically concluded that at this particular point in time, eMerge is a project that is just too soon to tell, but if things are done as laid out, then you have laid the groundwork for success. Four years later, I am basically saying the same thing, that we have a process here that is laid out. If successfully carried out, then we have an opportunity for success. It sounds like, in my mind, that I am repeating myself 4 years later.

The other component of that is that I reflect back again to the early 1990s when I was detailed to Congress and involved in drafting of the Chief Financial Officer Act. The big debate then was why do you put these laws in place, and the bottom line conclusion on that was you put these laws in place so that you will have them there because Administrations will come and Administrations will go, so you want to have a framework in place for what you are trying to accomplish, it doesn't matter who is there.

So I think it is another area that is good for debate, is what type of structure do you need to have in place to make sure that regardless of who is in place, that there are continuous efforts to achieve progress in these areas and you have that continuity and that consistency.

Along that line, as GAO has testified in the past, we have kicked around the concept and supported the concept of maybe a Chief Management Officer for agencies in which you have situations in which you have these major management challenges. So it is something I think we need to continue to debate and have more discussions about.

Senator CARPER. Alright. Thank you.

Let me yield to Senator McCaskill. We have a vote underway, the first of four votes, and I would ask Senator McCaskill to ask questions for a bit if she will and then I will ask one more and we will call it a day.

Senator MCCASKILL. I only have one more question. There was previous testimony earlier in the year where I had read that Homeland Security was putting lawyers in the room with GAO auditors when GAO auditors were coming in to do audit work and that they

were—the Department lawyers were sitting in on interviews between the auditors and the employees there. I had questioned Secretary Chertoff about that, was not thrilled with the answer I got because it appeared to me he didn't understand that there is review up-chain of an audit. You don't put a lawyer in the room with the government official that you are getting information from during the process of the audit.

Is there any indication that practice is still being done at the Department of Homeland Security? Are they still putting lawyers in the room during interviews with GAO auditors, to your knowledge?

Mr. WILLIAMS. To my knowledge, I can speak about this particular job. There were no attorneys present with the work that my staff was performing on this particular assignment. I will admit that we did have some delays at one point in time, and to the credit of this Subcommittee, we placed a couple of phone calls and we were able to get some assistance and information that we needed was provided in a timely manner. But to my knowledge, I do not recall any attorneys during our assignment.

Senator MCCASKILL. Mr. Norquist.

Senator CARPER. Mr. Norquist, is it true that those two rows of people behind you are lawyers?

Mr. NORQUIST. No, sir. Actually, they are the good career civil servants, and I asked them if there were any lawyers—I asked the same question he just answered, which was I have had many meetings with GAO without lawyers present. Did you have lawyers during our meetings? And they said the same thing, which was they didn't. I actually once a month meet with a representative from GAO and have opted to go through the status of things that GAO has asked for and whether or not they are getting it in a timely manner in order to ensure that we respond to items for GAO. That is just one of the additional things I do. Frankly, I am used to having my auditors in the room. I am used to having the IG in the room. So I get kind of familiar with having those folks around.

Senator MCCASKILL. Thank you. Thank you, Mr. Chairman.

Senator CARPER. Thanks so much for being here and for your comments and your excellent questions.

Mr. Rhodes and Mr. Williams, I believe the Department of Homeland Security is required by law to prepare expenditure plans for some of its information technology projects. I believe these expenditure plans must then be approved by the Office of Management and Budget, and I think reviewed by GAO before Department management can obligate any project funds.

First, is that a correct assumption, and second, if it is, what level of oversight is needed and by whom?

Mr. WILLIAMS. The first answer is yes. That is our understanding, also, is that is the process.

I would say in general that I would consider this process to be an internal control, because you are basically putting a process in place in which, first of all, you are putting some visibility over what is being spent and you are putting some discipline in that process in which the information is basically out there for review.

Now, the concern, what could be a problem with that is that when you put those numbers out there and nothing is done about them or there are no controls, that is where you basically have

form over substance in which you are going through an exercise. The key is not so much the exercise but what is done as a result of the exercise, and I think that is where the focus needs to be, is to make sure that there is some action behind putting those numbers out there.

Senator CARPER. Alright. Do you want to add anything or take anything away, Mr. Rhodes?

Mr. RHODES. I wouldn't dare take anything away——

[Laughter.]

But the point I would emphasize is that an expenditure plan has to have what went on before and what goes on after, so there is an audit—there has to be a continual audit function around it so that the expenditure plan is not just some document sitting in isolation. They can be extremely valuable. They can be very helpful. And they can also be a paper exercise, as Mr. Williams said. It is a function of the oversight that goes on around it.

Senator CARPER. Mr. Charbo, you have not had a chance to say a whole lot here today. Do you want to give the benediction for us or add anything before we leave?

Mr. CHARBO. I would just add on the last question that Secretary Chertoff did pass or create a management directive around IT investments in the Department which does provide oversight on the budget side on the capital planning for IT investments. That is coordinated very closely between the CFO and myself, as well as IT investment acquisition reviews, which also was a requirement in the appropriations act. So if it is over $2.5 million, it requires the CIO to review that expenditure, and we do look to assure that it is meeting certain expenditure requests. I don't believe all expenditures go through to GAO. We do submit our CPIC, our investment guidelines, after the budget is released. Those are submitted over to GAO. Appropriations do require certain expenditures to be submitted for approval to the Congress and then back over to GAO. We appreciate the opportunity.

Senator CARPER. Fair enough. Let me just say in closing, again, our thanks to each of you for being here today. Thank you for your testimony and for responding to our questions. Thank you for your stewardship to our taxpayers and for helping us in our exercise of our constitutional responsibility to conduct oversight in instances like this.

I would like to think that all of our Federal agencies and our departments perform major and important responsibilities for our taxpayers, for the citizens of this country. A few departments really exist that are more important in providing our security. I know when we created the Department of Homeland Security, we knew it would be a bumpy start and we knew it would not be easy. We look back at the creation of the Department of Defense all those years ago and we recall how difficult it was for them to get their act together. In fact, some would argue they are still trying to get their act together in certain respects.

But we need for Homeland Security to get this right, and you had an opportunity to try to get it right the first time, which eMerge 2 didn't. You wisely pulled the plug. And now you have an opportunity to get it right this second time.

I would just urge you to do all that you can to restore, particularly in this regard, a measure of our faith and confidence in the ability of this Department to stand up and begin to handle, in this case it is financial affairs, in a way that we can all be proud of and you can be proud of.

I think with that having been said, we are going to stay on this and we will be here to be helpful, not just to be critical. We will be here to be helpful, as well, and to partnering with GAO and your IGs and the other folks that work with and for both of you, Mr. Norquist and you, Mr. Charbo.

With that having been said, this hearing is adjourned. Thank you.

[Whereupon, at 4:22 p.m., the Subcommittee was adjourned.]

APPENDIX

GAO

United States Government Accountability Office

Testimony

Before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

For Release on Delivery
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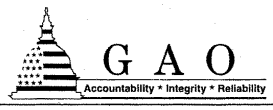
HOMELAND SECURITY

Transforming Departmentwide Financial Management Systems Remains a Challenge

Statement of McCoy Williams
Director, Financial Management and Assurance

Keith Rhodes
Chief Technologist, Applied Research and Methods
Center for Technology and Engineering



GAO-07-1041T

June 28, 2007

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-07-1041T, a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

HOMELAND SECURITY

Transforming Departmentwide Financial Management Systems Remains a Challenge

Why GAO Did This Study

Since 2003, when the Department of Homeland Security (DHS) began operations, it has faced the difficult challenge of bringing together 22 diverse agencies and developing an integrated financial management system to provide reliable, timely, and useful financial information. GAO's 2007 report, *Homeland Security: Departmentwide Integrated Financial Management Systems Remain a Challenge*, GAO-07-536, emphasized the key issues related to DHS attempting to transform its financial management systems.

For today's hearing, this testimony, based on GAO's recent report, (1) summarizes DHS's financial system transformation efforts, (2) points out key financial system transformation challenges at DHS, and (3) highlights the building blocks that DHS should consider to form the foundation for successful financial management system transformation efforts.

What GAO Recommends

Though there are no recommendations in this statement, in its related report (GAO-07-536), GAO made six recommendations focused on the need for DHS to define a departmentwide financial management strategy and embrace best practices, including human capital practices, to foster its systems integration effort. DHS concurred with GAO's recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-1041T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at (202) 512-9095 or Keith Rhodes at (202) 512-6412.

What GAO Found

DHS began implementation of the Electronically Managing Enterprise Resources for Government Effectiveness and Efficiency (eMerge^2) program in January 2004 to integrate financial management systems across the entire department and to address the multitude of financial management weaknesses DHS inherited. In December 2005, the DHS Chief Financial Officer (CFO) decided not to exercise the next contract option with the systems integrator, and by September 2006, DHS's new CFO stated that eMerge^2 was officially "dead." DHS officials have stated that about $52 million was spent on this project before it was halted but could not provide documentation to support this amount. DHS's decision to end the project before spending an estimated $229 million was prudent; however, the agency has made little progress since that time and as a result has missed an invaluable opportunity to address existing financial management problems.

While DHS officials have recognized the need for an integrated financial management system, the department has not yet developed an overall transformation strategy that includes financial management policies and procedures, standard business processes, a human capital strategy, and effective internal controls. DHS officials have acknowledged that the *Internal Controls Over Financial Reporting Playbook* issued in March 2007 has a policy and process focus and does not comprise a strategy for financial systems modernization. DHS's recently developed high-level financial management systems strategy, the *Transformation and Systems Consolidation*, focuses on leveraging existing systems investments across DHS components and is still in the early stages of development. More detailed implementation strategies will be necessary to fully address financial management system integration efforts.

Consolidating financial management systems for an entity as large and diverse as DHS poses significant management challenges. DHS also has an opportunity to reap substantial benefits by reengineering business processes and standardizing those processes in terms of both productivity gains and staff portability across the various components. Based on industry best practices, GAO has identified four key building blocks that will be critical to DHS's ability to successfully complete its financial management transformation:

- developing a concept of operations,
- defining standard business processes,
- developing a migration and/or implementation strategy for DHS components, and
- defining and effectively implementing disciplined processes necessary to properly manage the specific projects.

Fully embracing these four building blocks and human capital best practices will be critical to the success of any future financial management plan or strategy that addresses implementing and/or migrating to an integrated departmentwide financial management system at DHS.

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be here today to participate in this hearing on the Department of Homeland Security's (DHS) ongoing efforts to effectively modernize its financial management systems. Modern financial management systems are a critical component to instituting strong financial management as called for by the Chief Financial Officers (CFO) Act of 1990,[1] the Federal Financial Management Improvement Act of 1996,[2] and other legislation. Hearings such as this one today can be very useful to foster meaningful financial management reform.

Over the years, we have reported on various agencies' financial management system implementation failures. As we testified[3] in March 2006, agencies continue to struggle with developing and implementing integrated financial management systems that achieve expected functionality within cost and timeliness goals. Our recent report,[4] which was prepared at the request of this subcommittee, discusses in detail some of the most significant problems and observations we identified with DHS's financial management system modernization efforts. Since 2003, GAO has designated implementing and transforming DHS as high risk[5] because the agency has yet to implement a corrective action plan that includes a comprehensive transformation strategy, and because its management systems—especially related to financial, information, acquisition, and human capital management—are not yet integrated and wholly operational. Today, we would like to provide our perspectives on the importance of DHS following best practices in developing and implementing its financial management systems. Specifically, we would like to

[1]Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990). The Department of Homeland Security Financial Accountability Act of 2004, Pub. L. No. 108-330 § 3, 118 Stat. 1275, 1276 (Oct. 16, 2004), added DHS to the list of CFO Act agencies.

[2]Pub. L. No. 104-208, div. A., § 101(f), title VIII, 110- Stat. 3009, 3009-389 (Sept. 30, 1996).

[3]GAO, *Financial Management Systems: DHS Has an Opportunity to Incorporate Best Practices in Modernization Efforts*, GAO-06-553T (Washington, D.C.: Mar. 29, 2006).

[4]GAO, *Homeland Security: Departmentwide Integrated Financial Management Systems Remain a Challenge*, GAO-07-536 (Washington, D.C.: June 21, 2007).

[5]GAO, *High-Risk Series: An Update*, GAO-07-310 (Washington, D.C.: January 2007).

- summarize DHS's financial management systems transformation efforts,
- point out key financial management system transformation challenges at DHS, and
- highlight the building blocks that form the foundation for successful financial management system transformation efforts.

Our statement is based upon our recently issued report,[6] as well as our previous reports and testimonies, which were performed in accordance with U.S. generally accepted government auditing standards.

Background

Since DHS began operations in March 2003, as mandated by the Homeland Security Act of 2002,[7] it has faced the daunting task of bringing together 22 diverse agencies and developing an integrated financial management system. DHS inherited many financial management weaknesses and vulnerabilities from the 22 agencies. Auditors had identified 30 reportable conditions,[8] 18 of which were considered material internal control weaknesses[9] in the components prior to the transfer to DHS. In fiscal year 2003, the DHS financial statement auditors reported 14 reportable conditions, of which 7 were considered to be material weaknesses. While incremental progress has been made, the material internal control weaknesses and financial reporting problems continued in fiscal year

[6]GAO-07-536.

[7]Pub. L. No. 107-296, 116 Stat. 2135 (Nov. 25, 2002).

[8]Under standards issued by the American Institute of Certified Public Accountants (AICPA), reportable conditions are matters coming to the auditors' attention relating to significant deficiencies in the design or operation of internal controls that, in the auditors' judgment, could adversely affect the department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The AICPA recently revised its guidance for audits of financial statements beginning on or after December 15, 2006, to replace the term "reportable condition" with "significant deficiency."

[9]A material weakness was previously defined as a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The new definition of a material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. According to AICPA guidance, this change is effective for audits of financial statements beginning on or after December 15, 2006.

2006. In fiscal year 2006, while the total number of reportable conditions decreased to 12, the number of material weaknesses increased to 10. Some of the more recent material weaknesses identified by the auditors include problems with fund balance with treasury, budgetary accounting, and intergovernmental balances.

In early March 2007, DHS officials issued the *Internal Controls Over Financial Reporting (ICOFR) Playbook*, a high-level plan with a stated purpose of addressing the existing internal control weaknesses. DHS officials have reported that the *ICOFR Playbook* draws from internal control best practices to establish a management control program that measures performance and provides accountability for improvement. DHS officials expect the *ICOFR Playbook* to guide DHS for the next several years through fundamental financial management improvement across the spectrum of financial activities supporting the agency's mission.

eMerge^2 Project Was Unsuccessful

DHS began implementation of the Electronically Managing Enterprise Resources for Government Effectiveness and Efficiency (eMerge^2) program in January 2004 to integrate financial management systems across the entire department and to address the department's financial management weaknesses. eMerge^2 was expected to establish the strategic direction for migration, modernization, and integration of DHS financial, accounting, procurement, personnel, asset management, and travel systems, processes, and policies. In February 2005, the DHS CFO conducted a review of the eMerge^2 effort. DHS chose not to exercise the next contract option, and DHS's contract with Bearing Point, Inc. (Bearing Point), the systems integrator, to acquire and implement eMerge^2 expired in December 2005.

In March 2006, DHS's Deputy CFO testified[10] that eMerge^2 was taking a new direction in that the department was going to perform an assessment of existing financial management systems at the component level to determine whether internal resources could be leveraged. DHS officials also reported that they were going to review the Office of Management and Budget's (OMB) Financial Management Line of Business initiative to assess whether migration to a shared service provider was a feasible

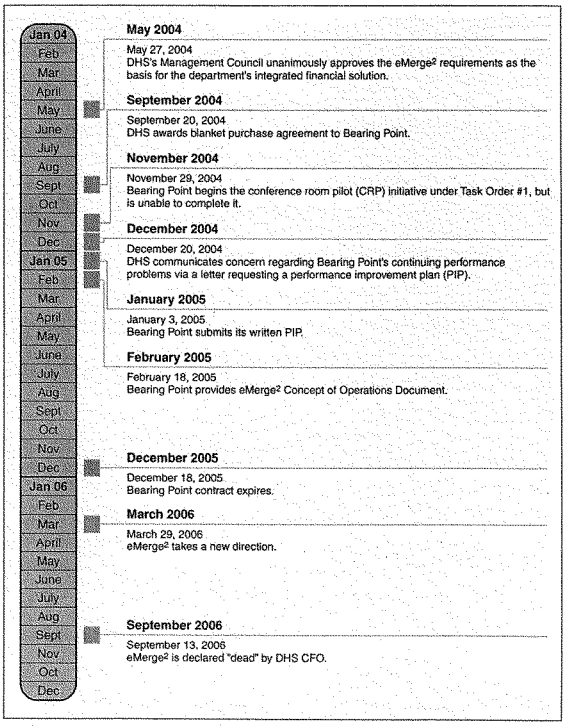
[10]Department of Homeland Security, March 29, 2006, testimony before the House Government Reform Subcommittee on Government Management, Finance, and Accountability and the House Homeland Security Subcommittee on Management, Integration, and Oversight.

option. In March 2006, we testified[11] that DHS was at an important crossroads in implementing a financial management system, and we discussed the necessary building blocks that form the foundation for successful financial management system implementation efforts.

Finally, in September 2006, the newly appointed CFO stated that eMerge^2 was officially "dead." See figure 1 for a summary of the eMerge^2 timeline. DHS officials have stated that approximately $52 million was spent on the eMerge^2 project before it was halted in December 2005. DHS could not provide any documentation to support these reported costs. DHS's decision to end the project before spending an estimated $229 million on a financial management system that would not provide the expected system functionality and desired performance was prudent, and we support the decision to cut its losses. However, the agency has made little progress since that time and has missed an invaluable opportunity to address existing financial management problems.

[11]GAO-06-553T.

Figure 1: Timeline of Key eMerge^2 Events



Source: GAO.

Financial Management Systems Transformation Efforts Are Incomplete

While DHS officials have recognized the need for an integrated financial management system, the department has not developed an overall financial management transformation strategy that includes financial management policies and procedures, standard business processes, a human capital strategy, and effective internal controls. DHS officials have acknowledged that the *ICOFR Playbook* has a policy and process focus and does not comprise a strategy for financial systems modernization. DHS's high-level financial management systems strategy, *Transformation and Systems Consolidation* (TASC), focuses on leveraging existing systems investments across DHS components, and is still in the early stages of development. More detailed implementation strategies will be necessary to fully address financial management system integration efforts.

DHS recently provided us with its high-level strategy—TASC—which calls for DHS to consolidate its financial management systems into one of two models: the Transportation Security Administration (TSA) systems model or the U.S. Customs and Border Protection (CBP) systems model, which the department refers to as shared baselines. Some of the main objectives of this strategy are to realize cost savings and operational efficiencies, reduce the number of financial systems, and ensure that internal controls are embedded in these financial systems. DHS and OMB officials told us that OMB approved DHS's decision to rely on its in-house core financial management operations.

Our concern is that the components where the proposed shared baselines are currently in use have numerous financial management weaknesses and consequently do not appear to be good candidates to be the models for an entity with an annual budget in excess of $40 billion. For example, the financial statement auditors for TSA reported[12] that TSA—which is serviced by the Coast Guard—was unable to provide sufficient evidential matter or make knowledgeable representations to support fiscal year 2005 and 2006 transactions and account balances, particularly for budgetary accounting and undelivered orders and property, plant, and equipment, among others. While DHS officials have stated that TSA's audit shortcomings were centered on policies and procedures and are not systems-oriented problems, our analysis of the auditor's report indicated that the problems were broad based. As DHS has recognized, success in

[12]Department of Homeland Security, *Performance and Accountability Report Fiscal Year 2006* (Washington, D.C.: November 2006).

financial management rests upon a comprehensive framework of people, policies, processes, systems, and assurance. Accordingly, it is imperative that DHS fully understands the policy and procedures weaknesses at TSA in order to prevent such weaknesses from affecting subsequent users.

In addition, the TASC strategy document and other draft documents DHS recently provided to us are incomplete. The documents provide a high-level perspective of the systems comprising the TSA shared baseline and broad time frames for migrating various DHS components. Much more detailed planning is needed to ensure that DHS has a solid foundation and road map for this transformation effort. For example, it is not clear which DHS component is expected to host[13] the TSA shared baseline and what other services will be provided. Issues related to how this change will affect DHS's human capital are not yet addressed. Further, the TASC strategy does not address the CBP baseline nor, most importantly, how these various systems will ultimately be unified for departmentwide information needs. Much more detail is needed to provide a financial management strategy or plan for integrating and modernizing DHS's financial management systems.

Moreover, we would like to highlight the need for a close interrelationship between TASC and the *ICOFR Playbook*. The *ICOFR Playbook* calls for policies and procedures to be developed in a variety of financial management areas, such as intragovernmental transactions; legal and other liabilities; budgetary accounting; property, plant, and equipment; and operating materials and supplies. It is important that these policies and procedures be embedded in the financial systems that are discussed in TASC so that rework is minimized. While the *ICOFR Playbook* in particular continues to focus primarily on getting a "clean" audit opinion on DHS's annual financial statements, getting a "clean" audit opinion, although important, is not the end goal. The end goal is to establish a fully functioning CFO operation that includes (1) modern financial systems that provide reliable, timely, and useful information to support day-to-day decision making and oversight and for the systematic measurement of performance; (2) a cadre of highly qualified senior-level and supporting staff; and (3) sound internal controls that safeguard assets and ensure proper accountability. Ultimately, DHS must be able to provide reliable,

[13]Information technology hosting involves providing secure facility space, networks, and hardware to host software applications and providing the necessary personnel to operate this secure environment.

useful, and timely financial management information so that DHS leadership and the Congress are well positioned to make fully informed decisions to secure America's homeland.

Four Key Building Blocks and Effective Human Capital Management Must Drive DHS's Financial Management Transformation Efforts

Mr. Chairman, at this time I would like to point out that based on industry best practices, we have identified four key building blocks that will be critical to DHS's ability to successfully complete its financial transformation. Our March 2006 testimony[14] and, more recently, our report for this subcommittee,[15] pointed out that careful consideration of these four concepts, each one building upon the next, will be integral to the success of DHS's strategy. The four concepts are (1) developing a concept of operations, (2) defining standard business processes, (3) developing a migration and/or implementation strategy for DHS components, and (4) defining and effectively implementing disciplined processes necessary to properly manage the specific projects. Fully embracing these four building blocks and human capital best practices will be critical to the success of any future financial management system plan or strategy for transforming departmentwide financial management systems at DHS. We have continued to refine these key issues to ensure they remain closely aligned with DHS's stated approach—most recently, the department's TASC strategy.

DHS also has an opportunity to reap substantial benefits by reengineering business processes and standardizing those processes to realize productivity gains and staff portability across the various components. In addition, identifying staff with the requisite skills to implement such systems and identifying gaps in needed staff skills and filling them are necessary to successfully implementing and operating a new financial management system. Any DHS financial management system transformation plan or strategy will be inherently complex and challenging, making the adoption of best practices even more important for this undertaking. Table 1 highlights the key issues to be considered for each of the four areas.

[14]GAO-06-553T.

[15]GAO-07-536.

Table 1: Key Issues for DHS to Consider Based on the Four Building Blocks

Building block	Key issues
Concept of operations: Describe systems characteristics for a proposed system from a user's perspective	• Define how DHS's day-to-day financial management operations are and will be carried out to meet mission needs. • Clarify which component and departmentwide systems are considered financial management systems. • Include a transition strategy that is useful for developing an understanding of how and when changes will occur. • Develop an approach for obtaining reliable information on the costs of its financial management systems investments. • Link DHS's concept of operations to its enterprise architecture.
Standard business process: Identify preferred business processes to standardize applications and training and portability of staff	• Assign responsibility for developing departmentwide standard business processes that meet the needs of its component agencies. • Develop an approach to encourage agencies to adopt new processes rather than selecting other methods that simply automate old ways of doing business. • Provide a foundation for component efforts to describe the business processes needed for unique missions, or develop subprocesses to support those at the departmentwide level.
Strategy for implementing the shared baseline approach: Utilize a detailed plan to consolidate financial management operations	• Develop specific criteria for requiring component agencies to migrate to one of the shared baselines rather than attempting to develop and implement their own stovepiped business systems. • Provide the necessary information for a component agency to make a selection of a shared baseline system. • Define and instill new values, norms, and behaviors within component agencies that support new ways of doing work and overcoming resistance to change. • Build consensus among customers and stakeholders on specific changes designed to better meet their needs. • Plan, test, and implement all aspects of the transition from one organizational structure and business process to another.
Disciplined processes: Reduce development time and enhance effectiveness by adopting industry standards and best practices	• Incorporate industry standards and best practices into DHS-wide guidance related to financial management systems implementation efforts. • Take actions to reduce risks and costs associated with data conversion and interface efforts. • Adopt an oversight process to ensure that modernization efforts effectively implement the prescribed policies and procedures.

Source: GAO.

As we previously stated, effective human capital management is critical to the success of any transformation effort. We reported in our *Executive Guide: Creating Value Through World-class Financial Management*[16] that having staff with the appropriate skills is key to achieving financial

[16]GAO/AIMD-00-134.

management improvements, and managing an organization's employees is essential to achieving results. Strategic human capital management for financial management projects includes organizational planning, staff acquisition, and team development. The independent public accountants who conducted DHS's fiscal year 2006 audit have stated that many of the department's difficulties in financial management and reporting can be attributed to the original stand-up of a large, new, and complex executive branch agency without adequate organizational expertise in financial management and accounting. Moreover, DHS's Resource Management Transformation Office officials have stated that because of staffing shortages, outside contractors are currently performing some of the financial management activities or duties that internal DHS staff would normally perform. Some of the most pressing human capital challenges at DHS include (1) successfully completing its ongoing transformation; (2) forging a unified results-oriented culture across the department; (3) obtaining, developing, providing incentives to, and retaining needed talent; and (4) most importantly, maintaining leadership at the top, to include a chief operating officer or chief management officer.

Having adequate and sufficient human resources with the requisite training and experience to successfully implement a financial management system is a critical success factor. Strategic human capital planning is necessary for all stages of a financial systems implementation. Agencies across the federal government face the challenge of sustaining the momentum of transformation because of the limited tenure of key administration officials. Managing the transformation of financial management systems at an organization the size and complexity of DHS requires comprehensive coordinated planning and integration of key management functions across all components of the department.

In our related report, released today, we made six recommendations focused on the need for DHS to develop a financial management plan or strategy and to fully adopt the building blocks and human capital practices that are vital to minimizing the risk related to modernizing its financial management systems. In written comments on a draft of this report, DHS concurred with our recommendations and described the approach and steps that are planned to improve DHS's financial management systems.

Concluding Observations

GAO and others have found that the key to implementing systems that meet cost, schedule, and performance objectives is to have effectively implemented the disciplined processes necessary to reduce risks to acceptable levels. Ending eMerge^2 was a prudent decision; however, we

are concerned that DHS still lacks a clearly defined financial management strategy or financial management system implementation effort to even begin to address the integration and transformation issues highlighted in our most recent high-risk report.

Given that DHS is one of the largest and most complex executive branch agencies in the federal government, developing, operating, maintaining, and transforming its financial management systems represent a monumental challenge. This challenge is compounded by the relatively recent creation of DHS and the poor condition of the range of legacy financial and related business systems it inherited. Critical success factors for DHS's transformation efforts will include using the four building blocks and human capital best practices to provide reasonable assurance that the risks associated with implementing a departmentwide integrated financial management system are minimized. If properly implemented, the recommendations included in our related report released today, which are based on best practices, will help reduce the risk associated with a project of this magnitude and importance to an acceptable level. Otherwise, DHS runs the risk of repeating the failure of eMerge[2]. At the request of this subcommittee, this testimony summarizes the results of our first review of DHS's financial management transformation efforts. We look forward to continuing to work with you as we continue to monitor DHS's efforts to transform its financial management systems. As DHS moves forward, your subcommittee's continuing efforts to oversee the status of this transformation will be critical to its success.

Mr. Chairman, this concludes our prepared statement. We will be happy to respond to any questions you or other members of the subcommittee may have at this time.

Contacts and Acknowledgments

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Statement by

David Norquist, Chief Financial Officer

and

Scott Charbo, Chief Information Officer

Department of Homeland Security

Before the

U.S. Senate Committee on Homeland Security and Governmental Affairs

Subcommittee on Federal Financial Management, Government Information,

Federal Services and International Security

Hearing on

Financial Management Systems Modernization

June 28, 2007

Opening Statement

Thank you Chairman Carper, Senator Coburn and Members of the Subcommittee for allowing us this opportunity to testify before you regarding *Financial Management Systems Modernization at the Department of Homeland Security* (DHS). Scott Charbo and I are pleased to discuss with you the Department's strategy and progress in transforming and consolidating financial management systems throughout the Department. We also appreciate the work done by the Government Accountability Office (GAO) and concur with all six of their recommendations.

The Department of Homeland Security was formed from the merger of 22 distinct agencies. Given our origin, it is not surprising that we would have multiple financial systems. In the long run, however, this is not cost effective. Too many systems complicate financial reporting, internal controls, system security and software maintenance.

In 2003, to address this problem, the Department began an initiative called *eMerge²* and contracted out for the development of a financial solution that integrated finance, accounting, procurement and asset management systems. That integration effort ran into technical challenges and, as GAO describes it, the Department made a "prudent" decision to cut its losses.

This, however, is not the end of the story. With Department approval, Customs and Border Protection (CBP) successfully implemented the SAP financial package that includes finance, accounting, procurement and asset management. This strengthened CBP's financial reporting and its internal controls processes and last year CBP received an unqualified opinion on its financial statements.

At about the same time, the Transportation Security Administration (TSA) needed to migrate off of the financial system it used at the Department of Transportation. In response the United States Coast Guard provided TSA an Oracle package that also

included procurement and asset management. Other offices expressed an interest in this solution and over the last two years the Department has migrated the Federal Air Marshal Service (FAMS – realigned from ICE to TSA in FY06) and the Domestic Nuclear Detection Office (DNDO) to the same solution. While TSA is still addressing some material weaknesses, it is not the system that stands between them and a clean audit opinion.

When you review the different systems the Department has, these two agency's solutions stand out. They use core accounting applications that are also used by other large federal agencies with unqualified audit opinions. They were successfully and broadly implemented inside DHS, so we have people who are experienced with the applications. The products are also commercially available and supported by multiple vendors, which promotes competition.

Transformation and Systems Consolidation (TASC)

So rather than pursue the acquisition, configuration, and implementation of a new system within DHS, we will leverage our existing investments by continuing the migration of Components to these two proven financial management systems. We have briefed this initiative, called Transformation and Systems Consolidation (TASC), to the Office of Management and Budget (OMB) and we meet with OMB routinely to discuss progress.

The next stage of the consolidation plan will begin with the migration of small Components such as the Office of Health Affairs (OHA) and Science and Technology (S&T). The goal is to repeat, refine and build upon each successful migration. The plan will continue with the migration of larger Components such as the Federal Emergency Management Agency (FEMA) and Immigration and Customs Enforcement (ICE). By Fiscal Year 2009, we expect 50 percent of DHS Components to be on the consolidated financial management systems. By Fiscal Year 2011, we expect 97 percent of the Department will be on these systems. After the completion of this consolidation plan (Phase 1), a single Baseline will be chosen. Migration onto a single Baseline will then

be planned and implemented. The Department is committed to a single Baseline as the end state for its financial management needs.

Key Benefits

There are a number of financial and performance benefits associated with TASC. These include:

- A reduction in maintenance costs, freeing internal resources from the maintenance of outdated, highly customized systems;
- A significant cost-avoidance for future integration expenses. For example, integrating a new Department-wide travel or grants management system would require the development of fewer interfaces, realizing a significant cost-avoidance;
- Promoting competition for systems operation and maintenance services which eliminates the financial risk associated with reliance on a single vendor.

TASC also provides DHS with:

- More accurate, timely and reliable financial data;
- The foundation for effective internal controls and segregation of duties supported by a compliant software system;
- Real-time interoperability across the financial management enterprise, improving operations and leveraging investments;
- An approved Chart of Accounts compliant with the United States Standard General Ledger (USSGL);
- A reduction in reporting errors via the removal of manual processes, yielding streamlined financial reporting in a more secure environment;
- Support of the Secretary's priority to unify IT infrastructure; and

- Support of the President's Management Agenda (PMA) framework, which strengthens Department-wide financial accountability.

TASC overall meets DHS' requirements to provide better mission support through efficient integration of financial, accounting, procurement and asset management operations and moves DHS closer to a sustainable, unqualified audit opinion.

Responding to GAO Recommendations

This approach is consistent with GAO recommendations for strengthening DHS financial management. For example, we recognize that the success of TASC is predicated on having a disciplined set of processes from requirements to acceptance. To this end, we developed key program documents early in the program that detail the strategies, plans and processes for all of the areas cited in the GAO report including Program Management, Configuration Management, and Quality Management. In addition, we developed strategies, plans and processes for Architecture Management, Change Management and Communications, Independent Verification and Validation and Contract Deliverables.

We further acknowledge the importance of another key document, the Concept of Operations (ConOps). The Resource Management Transformation Office (RMTO) is currently drafting an IEEE compliant update to the ConOps developed from the previous migrations of TSA, FAMS and DNDO. This ConOps describes the current business processes and technical specializations of the system. As components migrate, the ConOps will describe how the migrating component will use the system to support its business processes.

The Department also has efforts underway to reengineer and standardize key business processes. This includes the A-123 review which is part of our internal controls processes, as well as the creation of a Department-wide financial policy manual. The

selected systems provide effective and efficient operations and reliable financial reporting to include transaction-level detail and system-controlled segregation of duties. One example is the ability to perform an automated funds check. The system will check the general ledger account to ensure that funds are available prior to a purchase request being released in the system.

Additional information on how we have addressed the six recommendations is included in our Management Response to the GAO Report.

Financial Management Improvement Initiatives

As we move forward with TASC, we recognize that other initiatives significantly contribute in transforming the Department. While systems consolidation will provide the technological foundation to many of these efforts, our financial management improvement strategy is centered on the broader framework of People, Policy, Process, Systems and Assurance. For example,

- In March, we launched our new hire orientation program. Sixty-seven DHS accounting and budget staff from across the country completed the inaugural program, which provided targeted training on the budget cycle, financial systems, contracting, internal controls and fiscal law. The program not only provides a foundational level of financial management knowledge but also supports the framework for a unified financial management culture. It is now required for all new hires in DHS financial management. The next orientation is scheduled for the end of August.

- This winter we completed the first cycle of the CFO Mentorship program, to develop a pipeline of strong candidates with leadership competencies for senior financial management roles throughout the Department. Five managers from CBP, ICE, FEMA, TSA and DHS Headquarters completed the 4-month program

consisting of component rotations and residential training. We are now accepting applications for our fall and winter sessions.

- We are developing a department-wide financial management policy manual to instill best practices and consistency in the execution of all DHS financial activity. We have conducted 30 policy workshops so far and drafted 40 new policies in an effort to complete a web-based, searchable manual by summer 2008.

- Finally, we released the Internal Controls Over Financial Reporting (ICOFR) Playbook which outlines our strategy and process to resolve material weaknesses and build management assurances. This is a critical initiative that supports, but should be not be confused with, the systems migration.

Conclusion

Modernizing financial management systems is an inherently complex and challenging endeavor. It requires careful planning, patient implementation and strong collaboration among senior leaders. The strategy we have described today provides for improving financial systems by migrating components to existing DHS systems that are proven and for which we have a record of success in implementation. I am confident that working together we will be successful. Thank you for your leadership and your continued support of the Department of Homeland Security.

Question#:	1
Topic:	Emerge
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Thomas R. Carper
Committee:	HOMELAND SECURITY (SENATE)

Responses to Questions from David Norquist

Question: The Electronically Managing Enterprise Resources for Government Effectiveness and Efficiency (Emerge2) program began in January 2004 to integrate financial management systems across the Department. GAO testified that the Department could not determine or support the cost of $52 million spent on the Emerge2 project. Prudently, you declared the project "dead" before spending an estimated $229 million on a system that would not provide the desired functionality or performance.

How will you prevent wasting money, time, and effort on future projects?

Where is the remaining $150 million from the Emerge2 project?

Answer:

How will you prevent wasting money, time, and effort on future projects?

Unlike eMerge2, the Transformation and Systems Consolidation (TASC) plan leverages successful implementations of proven applications – SAP and Oracle Federal Financials – to which Department components will be migrated. SAP and Oracle are market leaders in financial management software in the Federal space and leveraging these existing systems will allow the Department to increase the transparency of its financial data and accountability to Congress and the American taxpayer.

The TASC approach reduces the cost of building or configuring a new system from scratch and leverages the Department's current systems investments. Consolidation also means avoiding the future costs of multiple integrations for system initiatives and upgrades like eTravel and NFC (payroll).

The TASC approach also yields significant savings in time and effort. Since the systems are already successfully in use at Customs and Border Protection (CBP) and the Transportation Security Administration (TSA), we know the systems and are repeating proven and successful migration processes. Also, under TASC, we are systematically applying a phased migration approach which allows us to utilize lessons learned from previous migrations in all subsequent migration efforts. The phased migration approach promotes greater understanding of the Components' business processes and provides for

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flexibility in sequencing Component migrations (i.e., if one component is not ready to begin a migration, we will move another).

Where is the remaining $150 million from the Emerge2 project?

While the five-year life cycle costs were projected at $252M including development, implementation, operations and maintenance, and program support costs, the vast majority of the projected cost was never requested from or appropriated by Congress. The Department had $43M of unobligated funds at the end of Fiscal Year (FY) 2006. Consistent with Congressional direction, the unobligated balances from the eMerge2 project will fund the following activities in FY 2007 and FY 2008:

1. Creation of Financial Management Policy Manual ($1.5M) – DHS recognizes the importance of standardizing processes and procedures throughout the Department in order to improve financial management knowledge, ensure compliance, enhance data accuracy, promote accountability, and sustain internal controls. We are building a web-based comprehensive set of financial management policies, which is planned for roll out in summer of 2008. The policy database will be searchable and will incorporate best practices from other agencies and departments.
2. Financial Systems Consolidation ($21.2M) – This is the TASC initiative that is described in the first part of the question. These investments will be in the form of upgrades to existing systems; new functionality and interfaces; and consolidation to a shared baseline.
3. Expanding of a Shared Baseline ($9M) – This funding provides for the standup, assessments, hosting and investments in a DHS shared baseline. The shared baseline provides DHS with a viable system for Components of DHS on which to migrate.
4. Business Intelligence ($2.6M) – This initiative improves existing reporting processes and capabilities, such as the monthly obligation report that is sent to Congress. With improved reporting capabilities and increased data visibility, we will be able to more easily and accurately monitor and track budget and financial management information across DHS.
5. Program Management ($5.8M) – The Resource Management Transformation Office (RMTO) is the program management office that is charged with leading and managing the system consolidation effort and the establishment of a Shared Baseline. Program management investments include program and project

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oversight, Earned Value Management, and contract administration for RMTO programs.

6. Certification and Accreditation (C&A) and Independent Verification and Validation (IV&V) ($3M) – We will ensure that C & A activities are conducted to ensure that our financial systems meet the documented security requirements and maintain the accredited security posture throughout their lifecycle. To ensure the quality of our systems, we will conduct IV&V activities to ensure that requirements are satisfied and deliverables meet the defined objectives.

Question#:	2
Topic:	TASC
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Thomas R. Carper
Committee:	HOMELAND SECURITY (SENATE)

Question: You have already embarked on a new project – the Transformation and Systems Consolidation (TASC) – without fully implementing the GAO's recommendations released in their report today.

How will you avoid repeating the Emerge2 failures?

How will the Department incorporate lessons learned to avoid unnecessary spending on projects doomed to fail?

Answers:

eMerge2 began with thousands of requirements and then asked the contractor to implement a new system to meet them. For TASC, we are starting with existing systems and performing gap analyses to understand what , if any, needs the Department might have that this system cannot meet. In addition, we are conducting the migrations in phases using a proven methodology. We have already successfully migrated the Transportation Security Administration (TSA), the Domestic Nuclear Detection Office (DNDO), and the Federal Air Marshal Service (FAMS) to the Shared Baseline and we are able to use lessons learned for future migrations. In addition, by using the phased approach under TASC, we will be starting with smaller Components and incorporating lessons learned as we move forward.

With regard to GAO, we concur with their findings and we are currently implementing their recommendations. In this regard, we are developing a detailed plan to migrate Components to proven financial systems baselines within the Department. As part of this plan, we have developed many of the documents required for execution of TASC including the Project Management Plan, Analysis of Alternatives, Software Development Life Cycle, comprehensive migration schedules, Acquisition Plan, and Risk Management Plan. In addition, as recommended by GAO, we are modifying the Concept of Operations (CONOPS) document to conform to Institute of Electrical and Electronics Engineers (IEEE) standards. This CONOPS will be a living document and will be updated for each migration to reflect lessons learned from previous migrations.

Also in line with the GAO's recommendations, we are standardizing business processes across the Department including applicable internal controls to support OMB A-123 compliance. We are also using disciplined processes to minimize project risk in the areas

Question#:	2
Topic:	TASC
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Thomas R. Carper
Committee:	HOMELAND SECURITY (SENATE)

of program management, configuration management, and quality assurance. We will continue to reengineer our business processes throughout the project lifecycle.

To ensure the quality of the work completed under TASC, we are requiring CMMI III certification from our future industry partner and are following a performance-based approach to contracting which ensures the government only pays for the deliverables received. We are also using the Earned Value Management (EVM) approach to objectively measure our project progress and ensure that the contractor deliverables have value to the government. Also, with staff experienced in leading successful consolidation effort, the Resource Management Transformation Office (RMTO) is well-positioned to manage the large-scale effort required under TASC.

Question#:	3
Topic:	human capital
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Thomas R. Carper
Committee:	HOMELAND SECURITY (SENATE)

Question: One of the primary issues raised in this GAO report deals with human capital challenges at the Department.

Mr. Norquist, when will the Department complete a comprehensive assessment of its human capital needs?

What type of personnel is needed to accomplish your financial management goals?

How will you obtain these staff?

Mr. Norquist, in a recent briefing to committee and subcommittee staff, you laid out your plans and program for developing future leaders from within your shop.

Should this program be replicated in other areas within the Department?

Answers: The Department has conducted extensive assessments of its workforce needs. In this regard, we have identified 115 occupations and relevant competencies key to our success, as well as hiring targets for mission critical occupations. We have also conducted department-wide career expos and recruitment events to educate and attract professionals to occupations that are found across the Department (e.g., IT and acquisition professionals) and developed career paths to create opportunities for professional growth in the Department.

To complement our hiring initiatives, our Chief Human Capital Officer has developed a *Learning and Development Strategy* that outlines a series of educational and training opportunities in four areas of emphasis including: the Leadership Institute, Preparedness Center, Homeland Security Academy, and Academic Outreach.

We recently completed a human capital assessment in the Department's Office of Financial Management to help us improve the quality and efficiency of DHS financial reporting.

We seek candidates with the specific skills needed to help us achieve our financial management goals which includes, accounting, budget formulation, cost analysis, financial systems and audit experience. In addition, we look for people with a strong

Question#:	3
Topic:	human capital
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
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understanding of federal laws, regulations, and financial management policy. The Department also encourages current and prospective employees to achieve and maintain certifications such as: Certified Government Financial Manager, (CGFM), Certified Public Accountant (CPA), Certified Management Accountant (CMA), Certified Internal Auditor (CIA), Certified Financial Manager (CFM) or Project Management Professional (PMP) – to name a few.

We have used a number of efforts to successfully recruit additional staff. We attend key trade conferences to distribute DHS OCFO recruiting materials and talk with potential candidates about the benefits and opportunities of working at DHS. We participate in job fairs and have established a recruiting address for potential OCFO candidates to submit their resumes (CFOjobs@dhs.gov). We also emphasize training for our current staff including the New Hire Orientation Training and the CFO Mentorship Program.

The CFO Mentorship Program and New Hire Orientation Training are in their second cycle and we continue to incorporate lessons learned. We have received positive feedback from participants and Components about both of these programs.

We launched the CFO Mentorship Program to develop a pipeline of strong CFO candidates with leadership competencies for senior financial management roles throughout the Department. This type of program does have broader application and some of the Department-wide programs mentioned above also have mentoring and rotational assignments built into the requirements. The CFO will continue to work with the Chief Human Capital Officer to incorporate lessons learned from the CFO Mentorship Program into the programs implemented across the Department.

Question#:	4
Topic:	contractors
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Thomas R. Carper
Committee:	HOMELAND SECURITY (SENATE)

Question: Many federal agencies, including the Department, have hired contractors to provide expertise in information technology transformation efforts, yet GAO continues to report that many of these projects fail to achieve their cost, schedule, and performance goals.

Do contractors fill a role other skilled staff could play?

How many contractors work with you at the Department?

How many contractors total has the Department brought on board?

Answers: Contractors provide specific, necessary technical expertise within the OCFO. The CFO's Resource Management Transformation Office (RMTO) is the program office for the Transformation and Systems Consolidation (TASC) initiative. This is the DHS financial system consolidation effort. A Solutions Architect contracted through the DHS Eagle procurement vehicle will be tasked with COTS application support and provide COTS application expertise.

The RMTO Office currently employs 14 full-time contractors. Many of these professionals have been assisting the RMTO office for several years. Specific technical roles include: Chief Architect, Information Systems Security Officer, Independent Verification and Validation and Compliance Program Support. These professionals are in addition to the Solutions Architect team that has the responsibility to deliver the solution.

Strong government oversight is essential. All contractors are under the supervision of federal, COTR-certified management. We will continue to increase the size of the government workforce as appropriate to keep pace with the task initiative. Contractor performance is reviewed regularly to ensure performance goals are met. Additionally new contract awards are performance-based. If the contractor does not deliver, the contractor does not get paid.

We often acquire support on a fixed price basis or based on performance objectives. The number of personnel the contractor employs is often not available since we are paying for a deliverable or outcome rather than man-hours. In those instances where DHS is acquiring a specific "level of effort" or man-hours, contractors may use several employees to accomplish tasks that total the number of man-hours in one FTE. Thus, it is not possible to track or provide this information Department-wide.

Question#:	5
Topic:	CFO budget
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Thomas R. Carper
Committee:	HOMELAND SECURITY (SENATE)

Question: During the hearing, you stated that the CFO's budget was about $20 million and that about $8 million of this was for contractors.

Please provide the amount of funds budgeted or expected to be budgeted for all of the Department's financial management operations for fiscal years 2007 and 2008 and the portion of those funds that are expected to go to contractors. (We would like this broken out by major component, e.g., Coast Guard, TSA, Customs, etc.)

In addition, please identify the amount of funds expected to go to contractors under "no bid" or sole source contracts.

Answer: The tables below detail by Component, the funds budgeted or expected to be budgeted for contractor support for DHS's financial management operations in 2007 and 2008. The figures in the tables are in millions of dollars.

Of the $8 million that was put on contract from the CFO's budget, two were sole source. One was a contract for administrative support in the amount of $304,000. This contract was a small disadvantaged business contract authorized under 8A. The other sole source contract was with General Dynamics IT in the amount of $482,000. This contract involved the customization and configuration for the OCFO of an electronic Project Management Office system already owned and used by the US Coast Guard.

Exhibit 52 Consolidated by Component

For Budget Year 2007

$ Amounts in Millions

	Consolidated	ICE	USCG	CBP	FLETC	USSS	SLGCP	FEMA	TSA	OIG
Financial Management Costs										
In-house	93.30	22.30	34.70	12.57	1.23	6.60	0.37	10.00	5.10	0.43
Contractor Costs	38.55	29.42	0.72	0	0	0	0.35	0	8.06	0
Total obligations/Budgetary resources	131.85	51.72	35.42	12.57	1.23	6.60	0.72	10.00	13.16	0.43
Audit of Financial Statements - Costs										
In-house	2.07	0	0	0.50	0	0	0	0	0	1.57
Contractor Costs	30.55	0	5.00	3.95	0.14	0.28	0.42	1.00	0	19.76
Total obligations/Budgetary Resources	32.62	0	5.00	4.45	0.14	0.28	0.42	1.00	0	21.33
Financial Management Systems - Costs										
Obligations/Budgetary Resources	75.24	0.75	0	64.49	0.23	0.50	0	0	9.27	0
Contract Costs	31.87	13.07	12.51	0	0.74	3.30	0	0	2.25	0
Total obligations/Budgetary Resources	107.11	13.82	12.51	64.49	0.97	3.80	0	0	11.52	0
Total Resources	271.58	65.54	52.93	81.51	2.34	10.68	1.14	11.00	24.68	21.76

Financial Management FTEs In-house	1181.45	263.00	405.00	166.00	16.00	72.73	3.20	221.00	31.00	3.52
Audit of Financial Statements - FTEs In-house	18.84	0	0	5.00	0.00	0	0	0	0.00	13.84
Financial Management Systems - FTEs In-house	120.95	6	98.68	0.00	3.00	0.27	0.00	6	7	0
Total FTEs	1321.24	269.00	503.68	171.00	19.00	73.00	3.20	227.00	38.00	17.36
Grants Management Resources	3.03	0	0	0	0	0	0.03	3	0	0

Exhibit 52 Consolidated by Component

For Budget Year 2008

	Consolidated	DHS HQ	ICE	USCG	CBP	FLETC	USSS	CIS	PREP	G&T	FEMA	TSA	US-VISIT	DNDO	IA OPS	S&T	OIG
Financial Management Costs																	
In-house	152.67	5.39	22.34	90.79	19.43	1.24	5.9	0	0.36	0	2	5.22	0	0	0	0	0
Budget formulation	23.07	5.01	2.8	4.88	1.38	0.16	0.61	0.3	2.14	0.26	1	2.25	0.33	0.3	1.08	0.41	0.16
Budget Execution	28.25	5.01	2.8	4.86	1.84	0.47	0.55	0	0.89	1.06	1	0.45	0.49	0.46	1.21	6.86	0.3
Contractor costs - in-house support	54.64	12.09	26.73	2.7	2.2	0	0	0.1	0.41	0.07	0	9.01	0.57	0	0	0.76	0
Total obligations/Budgetary resources	258.63	27.5	54.67	103.23	24.85	1.87	7.06	0.4	3.80	1.39	4	16.93	1.39	0.76	2.29	8.03	0.46
Audit of Financial Statements - Costs																	
In-house	10.54	0	0	3.97	3.84	0	0	0	0.37	0.06	0	0.75	0	0	0	0.08	1.47
Contractor Costs	50.98	0	0	30.50	0	0.20	0.14	0	1.61	0	5.00	0	0	0	0	1.00	12.53
Total obligations/Budgetary Resources	61.52	0	0	34.47	3.84	0.20	0.14	0	1.98	0.06	5.00	0.75	0	0	0	1.08	14.00
Financial Management Systems - Costs																	
In-house	101.33	0	1.17	11.14	84.21	0.23	1.78	0	0	0	2.00	1	0	0	0	0	0
Budget Formulation	1.25	0	0	0.25	0	0	0	0	0	0	1.00	0	0	0	0	0	0
Budget Execution	1.34	0	0	0.34	0	0	0	0	0	0	1.00	0	0	0	0	0	0
Contract Costs - in-house support	70.58	0	18.86	26.01	18.00	0.79	4.30	0	0	0	0	2.62	0	0	0	0	0
Total obligations/Budgetary Resources	174.50	0	20.03	37.74	102.21	1.02	6.08	0	0	0	4.00	3.42	0	0	0	0	0
Total Resources	494.65	27.50	74.70	175.44	130.90	3.09	13.28	0.40	5.78	1.45	13.00	21.10	1.39	0.76	2.29	9.11	14.46

Financial Management FTEs																	
In-house	2052.85	85.00	257.00	947.00	246.00	24.00	73.00	2.00	16.15	11.50	302.00	65.00	6.00	5.00	0.00	9.00	4.20
Audit of Financial Statements - FTEs																	
In-house	56.00	0	0	28.00	7.00	0	0	0	3.05	2.50	0	0	0	0	0	2.00	13.45
Financial Management Systems - FTEs																	
In-house	146.90	0	9.10	76.00	28.00	3.00	16.80	0	0	0	5.00	9.00	0	0	0	0	0
Total FTEs	2255.75	85.00	266.10	1051.00	281.00	27.00	89.80	2.00	19.20	14.00	307.00	74.00	6.00	5.00	0	11.00	17.65
Grants Management Resources	15.73	2.01	0	0	0	0	0	0	0	12.72	1.00	0	0	0	0	0	0

$ Amounts in Millions

Question#:	6
Topic:	consolidation
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Thomas R. Carper
Committee:	HOMELAND SECURITY (SENATE)

Question: One of the advantages cited during the hearing in consolidating the financial management systems is reduced support costs.

Please provide the amount of funds that are have been spent during fiscal year 2007 and are expected to be spent during the next four years for major system upgrades and whether any of those funds are reflected in the fiscal year 2008 budget submission. (For example, it is our understanding that Customs is planning to upgrade its SAP application.) How much is this expected to cost and when is it expected to occur?

Please provide the principal appropriation accounts that are used to pay for financial management operations.

Answer: The TASC initiative targets the system migrations over the next five years. four years. The amount outlined in our Expenditure Plan for TASC migrations for Fiscal Year (FY) 2007–2011 is $45.6 M. The projected annual breakdown is as follows:

- FY07: $11.9M
- FY08: $9.3M
- FY09-11: $24.39M

The amount of funds spent for major system upgrades are as follows:

Customs and Border Protection (CBP) has not performed any major system upgrades in 2007 and has no plans for any new major system upgrades over the next four fiscal years. Annual maintenance costs with SAP and any development/configuration work that might be required is funded out of our existing base funding to support the system.

Immigration and Customs Enforcement (ICE) has not spent any funds for major Financial Systems Upgrades in FY 2007 and is not planning to do so in FY 2008. Spending in the out years will be targeted towards their migration to a Department baseline.

The **Federal Emergency Management Agency (FEMA)** has spent $1,606,570 in FY 2007 for system upgrades. In FY 2008, FEMA has budgeted $8,600,000 for migration of

Question#:	6
Topic:	consolidation
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Thomas R. Carper
Committee:	HOMELAND SECURITY (SENATE)

Grants and Training (G&T) to FEMA's IFMIS; $4,000,000 for IFMIS enhancements; and $2,600,000 for IFMIS maintenance. FEMA has budgeted $1,153,000 for FY 2009 system upgrades; $1,163,000 for FY 2010 system upgrades; and $1,174,000 for FY 2011 system upgrades. G & T is currently running a version of IFMIS which is different from the version of IFMIS the rest of FEMA is running. To facilitate the migration of FEMA to the shared baseline, it is prudent for all of FEMA to be running the same version of IFMIS.

The **Federal Law Enforcement Training Center (FLETC)** monies spent on licenses and technical services for Momentum and Procurement Desktop for FY 2007 through June 30th is $542,483.71. The amount obligated for FY 2007 for these services is $827,000.00. The remaining unbilled contract balance is $284,516.29.

The FY 2007 Momentum upgrade monies committed is $2.49 Million. FLETC expects to incur the same amount for the next four years for upgrades. Recurring costs for licenses and technical services for Momentum for the next four years is estimated at $800,000 per year.

The **United States Secret Service (USSS)** has not spent any funds for FY 2007 on major system upgrades and does not have any planned during the next four years.

The **Unites States Coast Guard (USCG)** will spend $9M in FY 2007 for system upgrades. It projects an $8M upgrade in FY 2008 and a $5M upgrade in FY 2009. The USCG has no projected upgrade costs for FY 2010 and FY 2011. The projected costs for system upgrades include technology, as well as process improvements and costs associated with addressing deficiencies identified in the financial audits. Many of these issues cannot be resolved by simply changing to the TASC Oracle baseline (TSA baseline).

Regarding the principle appropriation accounts, this information is not tracked centrally at the Department level. Components have varying models of how these costs are paid for within their organization. While some Components pay for these services through a centralized M&A account, others have a different cost distribution model. Regardless of the source of the costs, the cost savings would be applicable to their individual models.

Question#:	7
Topic:	accountability
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Thomas R. Carper
Committee:	HOMELAND SECURITY (SENATE)

Question: A common theme that we hear about in federal agency information technology modernization efforts is the need for sustained leadership. That leadership needs to have a vision of the department as a whole. It has been suggested that for large complex agencies, such as the Department, that an individual should be designated to provide overall responsibility and accountability for agency modernization efforts.

What accountability mechanisms are in place to make sure the Department's leaders (like you) are making progress on financial management modernization?

Answer: DHS has established an Enterprise level program management office to plan and execute the financial management modernization, the Transformation and Systems Consolidation (TASC) Program Management Office. TASC is run by a certified Program Manager and is staffed with appropriate supporting personnel. The continuity of the TASC Program is assured regardless of changes in DHS senior leadership.

The TASC Program Manager reports to the Chief Financial Officer and also receives oversight from the Chief Information Officer who controls the budget that supports the modernization effort. The CFO and CIO are accountable to the Under Secretary for Management, who is in turn accountable to the Deputy Secretary and Secretary of DHS. Key TASC program milestones are tracked and reported under the Secretarial Priority Goal entitled "Strengthen and Unify DHS Operations and Management." Progress against this Secretarial Goal is briefed periodically to the OMB.

Currently, DHS uses several integrated decision support processes and supporting governance authorities to manage and oversee the DHS IT Portfolio. Principal IT investment management processes include the following:

- Capital Planning and Investment Control (CPIC);
- Information Technology Investment Review Process (IRP);
- Enterprise Architecture/Program Analysis Decision Review;
- DHS Systems Development Life Cycle Guide;
- Information Technology Acquisition Approval Process;
- Information Technology Budget Review Process; and
- Information Technology Portfolio Management.

In conclusion, the financial management modernization at DHS has clear accountability through the appropriate management chain to the DHS Secretary. The TASC Program Management Office is an Enterprise entity and executes a departmental strategy promulgated by the DHS Secretary. Governance processes are in place to ensure that the TASC program is managed effectively throughout the lifecycle and regardless of changes in leadership.

Question#:	8
Topic:	business requirements
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Thomas R. Carper
Committee:	HOMELAND SECURITY (SENATE)

Question: During the Emerge2 program, the Department had identified over 7,000 system and business requirements. Department officials believe many of these requirements are reusable for future information technology projects. However, GAO has raised concerns about whether any of the 7,000 requirements are salvageable.

In your view, what requirements can be reused for future projects?

How did you reach that decision and who was involved in the decision-making process?

Answer: The requirements from the eMerge2 program can be used as a reference and as a baseline for a point in time. They provide a valuable view and understanding of the systems the Department inherited. Although each requirement is not of equal weight, it is a basis for evaluating and moving forward. The Department achieved a greater understanding of the needs and desires of the components through the requirements process as well as a clearer understanding of the state of financial management in the Department.

We looked at the eMerge2 artifacts, looked at the process used during previous successful migrations along with the associated documentation and made a determination about our future approach. The CFO, RMTO and the components were involved in the decision making process.

Question#:	9
Topic:	systematic methods
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Thomas R. Carper
Committee:	HOMELAND SECURITY (SENATE)

Question: GAO said the Department needs to follow systematic methods or "disciplined processes."

Does the Department use systematic methods in its information technology development efforts?

Can you describe them?

Answer:
The Department has developed and implemented several processes to effectively manage IT investments. For example, the Department issued a Management Directive earlier this year which provided the DHS Chief Information Officer with the authority to review and approve the Department's entire information technology budget.

The Department also requires programs to submit Periodic Reporting (PR) information for all major investments on a quarterly basis. In addition, the Department published and distributed Periodic Reporting (PR) Guidance in the first quarter of Fiscal Year 2006 and provided associated training courses to personnel within the DHS Program Management Offices (PMOs). The Department implemented Earned Value Management (EVM) and Operational Analysis (OA). Guidance documents for these two processes were developed, vetted and implemented throughout the Department. These processes have led to more effective management of IT investments by significantly improving tracking and reporting of investment costs, schedules, and performance variances. The analysis from these processes has been provided to GAO.

The Department is also currently deploying a business tool that will enable DHS management to view trends of quarterly Periodic Reporting (PR) information. In this way, senior DHS officials will be able to assess the performance of the systems and enhance supervisory oversight of IT investments.

In addition, the Department has already implemented an IT acquisition review (ITAR) process to improve the alignment of IT purchases to the homeland security mission and Department architecture. The ITAR process requires that the DHS CIO review and approve IT acquisitions of $2.5M and greater, while component CIOs are authorized to approve IT acquisitions of less than this value. The ITAR process has thus improved IT management by providing the DHS OCIO with supervisory control over IT investments

Question#:	9
Topic:	systematic methods
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
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and identifying duplicative investments. Over the first six months of its implementation, the ITAR process has been successful in reviewing 189 IT Acquisition Requests representing over $2B in IT investments.

DHS has also implemented the IT Portfolio Management Process, whereby the Department developed and applied portfolio tools, methodologies, and techniques to assist in making sound IT investment decisions based on quantifiable measurements. The Portfolio Management program incorporates specific management processes to establish performance goals, transition plans, architectural targets, and performance measures. In this way, the Department can continue to govern the balance of investments to more effectively meet Departmental goals and objectives. The IT Portfolio Management Process has already been used to assist the DHS CIO in selecting and prioritizing IT investments based on alignment to DHS Enterprise Architecture.

The Department has made great strides in developing an Enterprise Architecture (EA) that substantially meets each of the Enterprise Architecture Management Maturity Board (EAMMF) elements. Indeed, an August 2006 GAO report (GAO-06-831) found that DHS fully satisfied 24 out of 31 applicable EAMMF elements, and partially satisfied four additional elements. Since that time, DHS has taken additional steps to identify and/or address the final three elements. Products related to the EA are now required to undergo independent verification and validation (IV&V) which will ensure interoperability, compatibility, and efficiency within the larger structure. DHS has also worked to centralize IT processes and avoid unnecessary duplication, by requiring adherence to the EA for all IT investments over $2.5 million.

In developing its EA, the Department sought significant input from, and consulted with, key stakeholders. In fact, stakeholders provided more than 400 comments on the EA, and DHS considered each one. GAO officials appear to have disregarded this extensive consultation in preparing this GAO Report, as well as the GAO report from last May (07-564), entitled *DHS Enterprise Architecture Continues to Evolve*. In 07-564, GAO inaccurately alleged that the Department failed to consult with stakeholders; this is simply not the case.

In evaluating the comprehensiveness of the EA developed by the Department, it should be noted that the Office of Management and Budget (OMB) has rated the Homeland Security Enterprise Architecture (HLS EA) 2007 as a 4.3 on a 5.0 scale for completeness.

Question#:	10
Topic:	information technology
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Thomas R. Carper
Committee:	HOMELAND SECURITY (SENATE)

Question: One of the issues that has arisen at the Department of Defense in its modernization efforts involves the issue of each Department of Defense service branches controlling its own information technology funding which has lead to duplication of efforts and delivery of systems that are error prone.

Would it help you to control your information technology finances centrally? How?

Can Congress help?

Answer: DHS has a Working Capital Fund which is used to align budget dollars from component budgets in support of Enterprise consolidation and transformation efforts. In addition, the DHS CIO is working with the DHS CFO to develop a solution to reduce the high capitalization rate necessary for migrating the components' data centers to the DHS enterprise data centers. Approximately $300 million will be required to ensure the successful transition of all the components' systems and applications to the new enterprise data centers. The Department is looking at what should be funded or managed centrally and what should be included in the Component's budget.

Question#:	11
Topic:	shared service
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Thomas R. Carper
Committee:	HOMELAND SECURITY (SENATE)

Question: GAO has raised concerns about the ability of the Department's components to provide shared service operations (travel voucher processing, vendor payments, transaction processing, etc) in light of the material internal control weaknesses that prevent the Department from being able to produce reliable, useful, and timely financial information.

How do the different components at the Department provide transaction processing and financial information in a secure manner?

Answer: The Department's seven disparate financial systems create challenges in providing transaction processing and financial information in a secure manner. Our recent audit report showed the following security weaknesses, six of which are the Chief Information Officer's responsibility:

1. Entity-wide security program planning and management;
2. Access controls;
3. Application software development and change control;
4. System software;
5. Segregation of duties;
6. Service Continuity; and,
7. Application controls.

The Offices of the Chief Financial Officer (OCFO), the CIO, and the Chief Information Security Officer (OCISO) are united in our resolve to strengthen financial systems security. We have held joint corrective action status meetings with each component CFO and CIO, developed tools to integrate OMB A-123 requirements into the OCISO's Federal Information Security Management Act (FISMA) compliance process for CFO designated financial systems, and required components to assign dedicated Information Systems Security Officers to CFO designated financial systems to ensure dedicated resources are assigned to perform financial system security responsibilities appropriately.

With the implementation of the TASC initiative, consolidation from seven to two systems will help solve this challenge. Under TASC, financial systems consolidation is controlled centrally to yield the standardization of business processes and to provide the systems backbone for strong internal controls. This central control will help ensure that transaction processing and financial information will be provided in a secure manner. Additionally, a better financial system will help improve timeliness and accuracy of data, strengthen internal controls, reinforce segregation of duties, and strengthen financial management security.

Question#:	12
Topic:	internal controls
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Thomas R. Carper
Committee:	HOMELAND SECURITY (SENATE)

Question: Mr. Norquist, you recently shared the Internal Controls Over Financial Reporting Playbook with committee and subcommittee staff. The Playbook is the Department's roadmap for implementing corrective actions for internal control issues identified by its auditors. We found that it contained some very good information such as identifying (1) the root causes of issues, (2) key strategies for each area, and (3) a high level methodology overview. However, there were some areas that were not adequately addressed regarding the resources needed to complete corrective actions. For example, the Playbook did not identify the number of staff, contractors, amount of funds, or key stakeholders from offices outside of the Mr. Norquist's shop. GAO also expressed concerns in their report.

You recently shared your Playbook with committee and subcommittee staff, which we found very useful in understanding the challenges that the Department faces. One item not included was the resources needed to resolve the outstanding issues.

What are the resources you need?

Have these been identified elsewhere?

Do you have plans to incorporate this information in future versions of the Playbook?

Answer: Each organization is responsible for providing the resources necessary to implement these corrective actions. While certain corrective actions can be linked to specific findings, most are labor intensive and depend on government staff. Frequently, the full level of effort is not known until the corrective action is underway. I am grateful to the Congress for the resources provided to us to improve Department-wide internal controls consistent with the DHS Financial Accountability Act (DHS FAA). The resources provided in our Fiscal Year (FY) 2006 and 2007 budget submissions made the effort possible. For example, five of the FTEs were used to form the Internal Controls Program Management Office (PMO). The PMO has contributed to stabilizing the Department's control environment and providing components an appropriate level of financial management oversight through our Department-wide internal control assessments. In our FY 2008 budget submission, the President requested an increase of $2,500,000 to bolster our activities in the areas of:

Question#:	12
Topic:	internal controls
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Thomas R. Carper
Committee:	HOMELAND SECURITY (SENATE)

- Improving efforts to prevent and report on improper payments;
- Performing Assurance Team Inspections;
- Conducting Department-wide business process reengineering workshops;
- Implementation of corrective actions resulting from the DHS Office of Financial Management Human Capital and Organizational Design Study; and
- Support for conducting independent verification and validation (IV&V) of component corrective action efforts.

I would appreciate your support for the President's Budget request.

Question#:	13
Topic:	financial management systems
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Thomas R. Carper
Committee:	HOMELAND SECURITY (SENATE)

Question: We have been told that the long-term vision of the Department is to consolidate its financial management systems down to 2 from about 500. According to the Department's written testimony, they will move to Phase 2 and move the entire department to one financial management system. It is not clear what they mean by Phase 2.

How will consolidating down to two systems and then down to one address the Department's program operations needs, as well as its financial reporting needs?

Answer: Phase 1 is the Department's four-year vision to consolidate to two existing financial systems successfully implemented within the Department: Oracle Federal Financials and SAP.[1] This is the Transformation and Systems Consolidation (TASC) initiative we outlined at our June 28 hearing. Per our testimony, consolidating to two systems is in alignment with GAO's recommendations for systems consolidation and will yield measurable benefits such as:

1. Standardize business processes;
2. Consolidate business operations across the Department;
3. Improve timeliness and accuracy of data;
4. Strengthen internal controls;
5. Reduce cost of multiple interfaces to multiple systems; and,
6. Strengthen security in financial management.

As the consolidation is completed, my successor will assess the current state of technology and determine which single financial system will best support the Department. Given the rapid change in technology and the time it will take to consolidate into two systems, a decision to which single financial system will migrate will need to wait for my successor. This decision will begin Phase 2 of the TASC initiative.

[1] As part of the long-term vision for TASC, after the Phase 1 migrations are completed, FLETC will be under consideration to move to one of the baselines.

Question#:	14
Topic:	JFMIP
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Thomas R. Carper
Committee:	HOMELAND SECURITY (SENATE)

Question: OMB has recently taken over the responsibilities of the former Joint Financial Management Improvement Program (JFMIP) to perform tests on financial management systems or packages used by agencies to ensure that the packages met a set of "core requirements." Once the financial management packages pass the tests, OMB certifies them as "JFMIP compliant" and ready for use by the agencies. However, GAO has reported that agencies that have implemented these "certified" packages still had significant problems.

Have these "certified" systems helped the Department?

Answer: The Financial Systems Integration Office (FSIO), formerly the JFMIP, is a division within GSA that has government-wide responsibilities for core financial system requirements development, testing, and certification.

The FSIO certified systems are helpful to the Department because they guide vendors to produce software that considers Federal government's requirements, and as a result, eliminates the need to develop a custom system. FSIO does not dictate module configuration guidelines, but rather certifies that products 'can be' configured properly. However, use of the certified systems alone does not guarantee a successful implementation.

Question#:	15
Topic:	clean opinion
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Thomas R. Carper
Committee:	HOMELAND SECURITY (SENATE)

Question: GAO and the Department auditors have reported since its inception that internal control and financial management weaknesses have prevented the Department from implementing successful financial management systems that improve Department business operations and provide accurate and reliable day-to-day financial and performance information. For fiscal years 2006 and 2005, the Department auditors were unable to provide and opinion on the Department consolidated financial statements. GAO points out in its report that achieving a "clean" opinion is not the end game. The Department needs to resolve its outstanding internal control issues.

How will obtaining a clean opinion on the Department's financial statements impact its financial management modernization?

Answer: They need to move together. The TASC initiative will provide the systems backbone to strengthen internal controls. Improving timeliness, accuracy and transparency of data will make system migrations easier.

To achieve this, the Resource Management Transformation Office (RMTO) is working lockstep with the Office of Financial Management to link systems modernization efforts with the Department's Internal Controls Over Financial Reporting (ICOFR) Playbook. Together, both initiatives will align system solutions with internal controls to support OMB A-123 and improve the financial health of the Department.

Question#:	16
Topic:	audit
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Tom A. Coburn M.D.
Committee:	HOMELAND SECURITY (SENATE)

Question: When will DHS undergo an audit? Are there any timetables or benchmarks to achieve audit readiness?

Answer: Pursuant to the DHS Financial Accountability Act (DHS FAA) and the Chief Financial Officer's Act of 1990, the Department is subject to three types of audits:

1. A financial statement audit of the Department's Consolidated Financial Statements. The Department has not yet received a department-wide audit opinion on its financial statements due to the existence of scope limitations and pervasive material weakness conditions; as a result, the scope of the audit has been limited to the balance sheet.

2. An internal control audit of the Department's internal controls over financial reporting. Consistent with the Secretary's assurance statement and independent auditors' report on internal controls, in Fiscal Year (FY) 2006 the Inspector General (IG) reported 10 material weaknesses and reported internal controls were not effective.

3. Performance audits aimed at improving the Department's corrective action and audit readiness efforts. These audits are not required by law; however, the DHS CFO and IG agree performance audits have proved invaluable in establishing an appropriate on-going level of auditor reporting that complements management's corrective action efforts to implement Office of Management and Budget (OMB) Circular No. A-123. These audits further demonstrate management's resolve and commitment to comply with the spirit of the DHS FAA.

Although the Department received a disclaimer of a financial statement opinion at the consolidated level, substantial progress was achieved in FY 2006. Two components, U.S. Customs and Border Protection (CBP) and the Federal Law Enforcement Training Center (FLETC), received favorable audit outcomes. CBP obtained an unqualified opinion on all financial statements and FLETC achieved an unqualified opinion on its first ever balance sheet audit. Significant progress has also been achieved in reducing conditions that comprise the Department's material weakness structure. For example, most significantly the U.S. Immigration and Customs Enforcement (ICE) eliminated five of its seven component-level material weakness conditions.

Question#:	16
Topic:	audit
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Tom A. Coburn M.D.
Committee:	HOMELAND SECURITY (SENATE)

To resolve the internal control weaknesses and measure progress over the long term, the Department issued its first ever Department-wide corrective action plan in a document entitled the Internal Controls Over Financial Reporting (ICOFR) Playbook. The ICOFR Playbook outlines the additional steps the Department will take to resolve material weaknesses and build management assurances. The ICOFR Playbook includes focus areas to set priorities and sequencing of material weakness remediation efforts from FYs 2007 through 2010.

Question#:	17
Topic:	auditors report
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Tom A. Coburn M.D.
Committee:	HOMELAND SECURITY (SENATE)

Question: The Coast Guard is responsible for four of the ten material weaknesses cited in this past year's department-wide independent auditors report. Can you provide a detailed timeline and strategy for improving financial management at the Coast Guard?

Answer:

Throughout the summer of 2006, the DHS CFO sponsored a series of Corrective Action Plan workshops designed to help the United States Coast Guard (USCG) and other DHS Components identify cross-cutting root causes of internal control deficiencies focusing on the areas of people, policies, processes, and systems. These workshops led to the establishment of the Department's first ever Department-wide corrective action plan in a document entitled the Internal Controls Over Financial Reporting (ICOFR) Playbook. The ICOFR Playbook outlines the strategies and steps the Department will take to resolve material weaknesses and build management assurances. In addition, in March 2007, the USCG issued the Financial Strategy for Transformation and Audit Readiness (FSTAR). The FSTAR complements the ICOFR Playbook and provides a component-level strategy and milestones through Fiscal Year 2010 to transform its financial management organization, processes, procedures, internal controls, and systems. To help support and improve the performance of the USCG, corrective action plan efforts are formally monitored on a monthly basis by the Secretary, DHS CFO, and the Office of Inspector General. The Office of Management and Budget are also briefed monthly on the efforts. The ICOFR Playbook we provided to the committee includes the key milestones and timelines for the USCG's improvement efforts.

While this strategy will address the weaknesses identified by the auditors, building support for the Secretary's assurance statement is the ultimate goal.

Question#:	18
Topic:	ICOFR
Hearing:	Financial Management Systems Modernization at the Department of Homeland Security: Are Missed Opportunities Costing Us Money?
Primary:	The Honorable Tom A. Coburn M.D.
Committee:	HOMELAND SECURITY (SENATE)

Question: The ICOFR playbook will be the comprehensive, department wide strategy to modernize financial management at the DHS. What benchmarks do you have in place to monitor progress? Do you have a measurable endgoal in mind? Will this new strategy resolve your 10 material weaknesses as identified by the independent auditor and will it bring you into compliance with the 8 laws and regulations you currently are not complying with?

Answer: To ensure the quality of corrective actions and that audit findings are promptly resolved, corrective action progress will be monitored by the OMB, DHS CFO, and DHS OIG. In addition, select Component CFOs are required to prepare monthly briefings for the OMB, DHS CFO, and DHS OIG. These briefings substantiate claimed progress, report any delays, and provide justifications for missed milestones. In addition, the DHS OIG will periodically conduct performance audits on corrective action efforts to provide independent input and complement DHS Management corrective action efforts on a real-time basis. While audit outcomes are important, building support for the Secretary's Assurance Statement is the measurable endgoal.

DHS is Non-Compliant with 8 Laws and Regulations

1. Federal Managers' Financial Integrity Act of 1982
2. Federal Financial Management Improvement Act of 1996
3. Federal Information Security Management Act of 2002
4. Single Audit Act
5. Improper Payments Information Act of 2002
6. Chief Financial Officers Act of 1990
7. Government Performance and Results Act of 1993
8. Debt Collection Improvement Act of 1996

Source: Independent Auditors report on DHS FY 2006 Financial Statements

The Coast Guard is responsible for 4 of the 10 Material Weaknesses in Internal Control at DHS

1. Fund Balance with Treasury
2. Property, Plant, and Equipment
3. Operating Materials and Supplies
4. Actuarial Liabilities

Source: Independent Auditors report on DHS FY 2006 Financial Statements