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DEPARTMENT OF HOMELAND SECURITY FINANCIAL MANAGEMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT ORGANIZATION, EFFICIENCY AND FINANCIAL MANAGEMENT

OF THE

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CONTENTS

	Page
Hearing held on May 13, 2011	1
Statement of:	
Sherry, Peggy, Deputy Chief Financial Officer and Acting CFO, Department of Homeland Security	4
Letters, statements, etc., submitted for the record by:	
Cummings, Hon. Elijah E., a Representative in Congress from the State of Maryland, prepared statement of	31
Sherry, Peggy, Deputy Chief Financial Officer and Acting CFO, Department of Homeland Security, prepared statement of	8

DEPARTMENT OF HOMELAND SECURITY FINANCIAL MANAGEMENT

FRIDAY, MAY 13, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT ORGANIZATION,
EFFICIENCY AND FINANCIAL MANAGEMENT,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, 11:36 a.m., in room 2247, Rayburn House Office Building, Hon. Todd Russell Platts (chairman of the subcommittee) presiding.

Present: Representatives Platts, Lankford, Amash, Towns, and Connolly.

Staff present: Ali Ahmad, deputy press security; Adam Bordes, senior policy analyst; Molly Boyl, parliamentarian; Sharon Casey, senior assistant clerk; Tabetha C. Mueller, professional staff member; Beverly Fraser Britton, minority counsel; and Cecelia Thomas, minority counsel, deputy clerk.

Mr. PLATTS. This hearing of the Subcommittee on Government Organization, Efficiency and Financial Management will come to order. Before I make a brief opening statement, I do want to thank both my colleagues for juggling schedules around the floor schedule, as well as our witness for juggling her schedule to accommodate the change in our starting time.

In 2003 and 2004, I was honored to work with then also Ranking Member Towns to sponsor the Department of Homeland Security Financial Accountability Act. That law placed the Department under the CFO Act, requiring a Senate-confirmed CFO, and imposed the first-ever statutory requirement for an audit of internal controls at a Federal agency. When DHS was created in 2002, it inherited substantial financial management challenges, particularly from the legacy Immigration and Naturalization Service, which had been a component of the U.S. Department of Justice, as well as the U.S. Coast Guard, formerly under the Department of Transportation. Financial management at the Coast Guard presented a unique challenge in that its books had never been subject to a financial audit.

Recognizing the many challenges facing the Department, Ranking Member Towns and I wanted to address the root causes of financial management problems before they became ingrained in this new Department. Therefore, the law that we passed focused on remediating internal control weaknesses by requiring a separate assertion and audit opinion of the Department's internal controls over financial reporting.

While the Department certainly has made progress, we still have a long way to go. DHS still does not have a clean audit opinion, and we are particularly concerned that the Department does not currently have a Senate-confirmed CFO.

Our witness here today, Ms. Peggy Sherry, is a career civil servant. And we certainly are grateful for your many years of service to the Department, to your fellow citizens, to your Nation. Ms. Sherry is the acting CFO. And while we applaud her efforts, we certainly look forward to the administration, along with the Secretary of the Department, working together to get a Senate-confirmed CFO in place, as intended and required by the law.

I am pleased by the progress that DHS has made to address specific weaknesses, and I agree with the Department's strategy of foregoing stand-alone audits at components in favor of directing staff resources to correcting pervasive material weaknesses.

The Department made a decision this past Thursday to cancel its most recent procurement efforts regarding a major financial management system, and I am glad that we have this chance here today to have some discussion about that action. Mr. Towns and I remember all too well the debate that surrounded eMerge2, and the efforts in 2003 and thereafter that was abandoned after a substantial amount of money had already been spent. The successor to eMerge2, TASC, was able to leverage some of that money, but there were certainly some sunk costs that were not benefited to the American people. I understand the Department is taking a new approach, and we look forward to hearing how that change will focus DHS and help it reach its goal of good financial management.

I will add that most of the material weaknesses still on the books are related to processes and not systems, and regardless of what decisions DHS makes on how it will integrate its information systems, the underlying processes must be fixed, must be corrected, for that system to function properly.

Again, we are delighted to have Ms. Sherry with us as a witness. I yield to the ranking member, the gentleman from New York, Mr. Towns, for the purpose of an opening statement.

Mr. TOWNS. Thank you very much. Let me thank the chairman of the full committee, who is also here, and of course chairman of the subcommittee, and my good friend Mr. Connolly from the great State of Virginia. The DHS Financial Accountability Act, which you and I cosponsored, as you indicated, Mr. Chairman, is one of the most important pieces of legislation that affects an issue that we are both committed to: proper financial management within the U.S. Government. This hearing will provide us with up-to-date information on how DHS is managing its finances. And I thank you for holding this hearing.

Ms. Sherry, as the acting chief financial officer at DHS, everyone in your agency reports to you how well financial accountability is proceeding. I welcome you, and I am anxious and eager to hear your testimony.

The Department of Homeland Security has an extremely important mission: to ensure a homeland that is safe, secure, and resilient against terrorism and other hazards. That mission protects each and every one of us, and we must provide the necessary support in order for it to be carried out.

The GAO and DHS Inspector General have been keeping your financial management system under constant scrutiny. It is encouraging to see that the Department has made some improvements in internal controls over the years. Material weaknesses are down from 18 to 6 across the Department. Improper payments have been decreased from nearly $929,000 down to $38,000. That is real improvement. That is truly great work.

However, there is still room for improvement. It is absolutely critical that DHS establish an integrated financial system. It is nearly impossible to achieve an unqualified audit opinion without one. DHS has been on the GAO's High Risk List since its creation. You have to work on not becoming a permanent resident of that list.

I see from the testimony that your office is working very closely with the Coast Guard to improve internal controls. I would like to hear more about those efforts and the work being done with the other DHS components.

I want to thank you for being here today. We look forward to hearing from you as to how we might be able to improve financial management, but also to say to you that we are here to also help. If there are some things that we need to do, let us know. We want to work together, because we feel this is very, very important.

On that note, Mr. Chairman, I yield back.

Mr. PLATTS. I thank the gentleman.

We will now move to our witness' opening statement. We are delighted to have Peggy Sherry here, acting CFO of the Department, and deputy chief financial officer if we get a Senate-confirmed CFO. Ms. Sherry has been with the Department from 2007, as director of financial management. She is responsible for developing Department-wide financial management policy, preparing Department-wide financial reports, and leading the Department's financial audits.

And prior to joining DHS, Ms. Sherry was deputy chief financial officer for the U.S. Holocaust Memorial Museum, and an auditor with GAO for more than 9 years, overseeing numerous financial audits. And certainly appreciate your work at GAO, as one who has great regard for the work of GAO and its important partnership with Members of Congress as we oversee the operation of the Federal Government.

Again, we are delighted to have you here, and look forward to your testimony. The practice of the committee is to swear in all of our witnesses. If I could ask you to stand and raise your right hand.

[Witness sworn.]

Mr. PLATTS. Let the record reflect that the witness has affirmed the oath.

And we will proceed to your statement. I think the clock is set at 7 minutes. If you need to go over, you are it. So if you need additional time, that is not a problem. And then we will go to questions.

Mr. CONNOLLY. Mr. Chairman.

Mr. PLATTS. Yes.

Mr. CONNOLLY. I just want to say in your introduction of our witness today, one of the most singular and important facets of her

life is that she is a constituent of the 11th District of Virginia. And we are proud to have her here.

Ms. SHERRY. I am delighted to be there.

Mr. PLATTS. To the gentleman from Virginia, I sincerely apologize. Not realizing that, I would have had you do the introduction, Mr. Connolly. And I apologize.

Mr. TOWNS. I would have objected.

Mr. PLATTS. But we are delighted to have you, especially as a constituent of the gentleman from Virginia. And we will allow you to proceed.

STATEMENT OF PEGGY SHERRY, DEPUTY CHIEF FINANCIAL OFFICER AND ACTING CFO, DEPARTMENT OF HOMELAND SECURITY

Ms. SHERRY. Thank you, sir. I appreciate it very much. And thank you, Chairman Platts, Ranking Member Towns, and members of the committee, for the opportunity to provide an update on the Department of Homeland Security's progress in implementing the Financial Accountability Act of 2004 and the financial management improvements we have achieved since 2009.

The Accountability Act gave our Department the foundation it needed to successfully structure and improve financial management and corrective action planning for DHS through internal controls over financial reporting, accountability reports, and audit opinions.

DHS began improvements to our financial management structure in fiscal year 2005. And since that time, we have continued to show significant improvements in our annual financial report and audits. DHS now has only six material weaknesses, and has isolated the issues on the balance sheet to one component.

I continue to work with Secretary Napolitano, Deputy Secretary Lute, and our component CFOs to build on our significant progress. Our approach to improving internal controls over financial reporting focuses on identifying root causes, executing corrective actions, setting achievable milestones, and providing strong oversight to strengthen Department-wide internal controls and to significantly improve key financial areas. I am pleased to report that by using this strategy in fiscal year 2010, improvements made by the U.S. Coast Guard and other components increased the Department's auditable balance sheet to approximately 90 percent.

After achieving several successful stand-alone audit opinions, the Department is focused on receiving a full-scope audit opinion. And my staff and I are working diligently toward this target. In fiscal year 2010, Secretary Napolitano committed to the goal of receiving a qualified audit opinion on the DHS consolidated balance sheet this fiscal year. Once we achieve this audit result, we are well-positioned to expand the audit scope to include the other statements, as is required by law.

In order to receive an opinion on our consolidated balance sheet in fiscal year 2011, specific improvements and corrective actions must be made at the U.S. Coast Guard. Admiral Papp, the Commandant of the Coast Guard, issued an all-hands directive memo to his staff, both civilian as well as military, this past January that

stressed the importance of corrections required to achieve success with the audit in fiscal year 2011.

My staff meets regularly with the Coast Guard to monitor their financial strategy for audit readiness, also known as their FSTAR plan. I also meet frequently with the Coast Guard leadership, staff, and our auditors to discuss progress.

Coast Guard is demonstrating controls over current year activity, they are verifying the accuracy of accounting data, and they are analyzing the financial impact of their legacy systems. By executing corrective action plans and monitoring risk throughout the year, the U.S. Coast Guard is putting the Department on a path to attaining a balance sheet opinion in fiscal year 2011.

However, because of the deficiencies in their current financial system, the Coast Guard is still unable to fully remediate all of its financial management issues. Many DHS systems are not modernized and have system functionality as well as security weaknesses. In addition to functionality issues, most legacy systems do not comply with the Federal Financial Management System Requirements, Accounting Standards, and the U.S. General Ledger at the transaction level.

DHS is analyzing alternative strategies to meet the Department's requirements based on recent Federal information technology policy changes and various advances in IT and security. DHS only requires system modernizations where there are currently severe deficiencies in systems security, and functionality. We are focusing on our most critical needs first, and will approach correcting those needs in small, manageable segments.

While the audit is A critical tool to measuring our progress as a Department from year to year, we are committed to expanding our success beyond the elements in the annual financial statement audit. The Accountability Act rightly highlights the importance of internal controls over financial reporting and implementing planning, programming, and budgeting for the Department. We strongly agree with those tenets, and have established processes and controls to comply with governmentwide initiatives like the Improper Payments Reduction Act, and open government, as well as audit recommendations from both the OIG and the GAO. I am pleased to report that DHS was found fully compliant with the Improper Payments Information Act since 2009.

We are committed to being strong stewards of the taxpayer dollars, and we worked closely with OMB to make sure DHS was prepared to implement new improper payment reporting requirements. Today, all DHS components assess each of their programs for risk, using standard guidance provided by my office. And programs potentially at high risk for improper payments are tested based on these assessments.

Since implementing these controls in fiscal year 2008, DHS has significantly lowered estimated improper error rates at FEMA, on average, from about 9 percent to 2 percent. Improper payment amounts identified by recovery auditors have also dropped, from about $929,000 in 2008 to just $38,000 in fiscal year 2010, even though the amount of data provided for recovery auditors to review has increased significantly from year to year.

The Accountability Act also focuses on the need to report internal controls over financial reporting. This set the foundation for DHS to develop a financial management strategic plan each year. My office just published the Department's Fifth Annual Internal Controls Playbook, that establishes mission action plans and focuses on our most significant internal control findings. The playbook also supports moving our focus beyond internal controls over financial reporting, and expanding improvements to internal controls over operations by using government charge cards and risk-management initiatives to reduce the risk of waste, fraud, and abuse.

Based on risk areas in the playbook, my office has established a bank card assessment team that meets weekly to implement corrective actions to strengthen the Department's internal controls in the bank card program.

The Department also continues to refine and update the Financial Management Policy Manual. This provides all DHS employees with standard processes to follow for budgetary policy, financial reporting, and bank card management. A recent update to the Financial Management Policy Manual is the addition of our Financial Assistance Awards and Oversight section, which contains 11 new policies to streamline and standardize grants management at DHS. The policy manual puts management control systems in place to efficiently achieve the DHS mission.

In compliance with the Accountability Act, our program analysis and evaluation division works with the formal planning, programming, budgeting, and execution system to guide the development of a 5-year budget and performance plan. These efforts produce the annual budget request and the Future Years Homeland Security Program report, another tenet outlined in the FAA. Clearly, the Accountability Act has provided DHS with the foundation for strong financial management and internal controls.

However, to carry out this important legislation, we must rely on our most valuable resource at DHS, our people. At DHS, there are over 2,500 financial management professionals across the Department. In order to hire and retain the most qualified work force, I sponsor various departmental and training programs within my office. I support a rotational fellows program, provide new-hire training for the Department-wide CFO employees. I host an annual CFO conference, attended by over 300 DHS financial managers. We offer resource training programs for all program analysis and evaluation staff. And we offer an appropriations law training course for all Department-wide CFO employees.

Providing training opportunities and supporting career development not only better equips our staff to perform their jobs, but also helps us to retain our staff. Using the objectives outlined in the Accountability Act, we continue to make significant progress toward improving financial management at DHS. And I am very fortunate to work with such a dedicated staff and have the support of our senior leadership as we continue these efforts.

I appreciate the support we have received from this committee and Congress, and I look forward to working with you in the future. And I am happy to take any of the questions you may have. Thank you.

Mr. PLATTS. Thank you, Ms. Sherry.

[The prepared statement of Ms. Sherry follows:]

Deputy Chief Financial Officer Peggy Sherry

U.S. Department of Homeland Security

Testimony

Before the Subcommittee on Government Organization, Efficiency and Financial Management; of the House Oversight and Government Reform Committee

Thank you Chairman Platts, Ranking Member Towns and members of the Committee for the opportunity to provide an update on the Department of Homeland Security's (DHS) progress in implementing the Financial Accountability Act of 2004 (FAA) as well as the financial management improvements we have achieved over the past two years. The FAA provided an essential framework for our Department to consolidate our financial management operations and ensure that management control systems support the Department's mission.

Audit Success

The passage of the FAA in 2004 gave our Department the foundation necessary to successfully structure and improve financial management and corrective action planning for DHS through audit opinions, internal controls over financial reporting and accountability reports. Following the tenants of the FAA, DHS started the process of improving our financial management structure in Fiscal Year (FY) 2005 and since that time we have continued to show significant improvement in our annual financial report and audits. As a Department that inherited 30 significant deficiencies, including 18 material weaknesses, DHS has shown great progress in the past five years and now only has six material weaknesses and has isolated our auditable conditions to one Component.

I continue to work with Secretary Napolitano, Deputy Secretary Lute and our Component financial managers to ensure we remain dedicated to improving on the significant progress that has already been made for financial management at the Department. Our approach to improving internal controls over financial reporting in FY 2010 focused on identifying root causes, executing corrective actions, and setting achievable milestones to strengthen Department-wide internal controls and significantly improve key financial areas such as Property, Plant, and Equipment and Financial Reporting control deficiencies. Improvements made by the U.S. Coast Guard and other Components increased the Department's auditable balance sheet balances to approximately ninety percent.

DHS is committed to financial excellence and to demonstrate this strong stewardship and accountability we have worked collaboratively with our Office of Inspector General and Independent Auditor to complete a first phase of performance audits which confirm DHS has made progress. After achieving several successful standalone audit opinions, the Department is focused on strengthening budgetary resource processes, payment management, and remediating issues at the U.S. Coast Guard in order to receive a full scope audit opinion. Each Component at DHS, including the U.S. Coast Guard is committed to upholding the improvements that have been made and expanding our financial management improvement efforts. In FY 2010 Secretary Napolitano committed to the goal of receiving a qualified audit opinion on the DHS consolidated balance sheet in FY 2011. Once we achieve this audit result, we are well-positioned to expand the audit scope to include the other statements in FY 2012 as required by law while also using the FAA process for A-123 to build assurances around our budgetary resources and payment management processes.

In order to receive an opinion on our consolidated balance sheet in FY 2011, specific improvements and corrections must be made at the U.S. Coast Guard, which includes adding assertions for Fund Balance with Treasury, Accounts Receivable and Accounts Payable, as well as evaluating all Information Technology findings. The Commandant of the Coast Guard, Admiral Papp, showing a strong commitment to financial management, issued a memo to the Coast Guard community this past January that stressed the importance of making the corrections required to achieve success with the audit in FY 2011. To support these efforts at the U.S. Coast Guard, the Financial Management and Internal Controls Divisions at DHS Headquarters meet

with the U.S. Coast Guard bimonthly and work collaboratively through their Financial Strategy for Audit Readiness (FSTAR) plan. I recently met with Coast Guard staff to discuss their progress on asserting to Fund Balance with Treasury, Accounts Payable, Accounts Receivable and Undelivered Orders. The progress they have made so far is impressive, demonstrating controls over current year activity, verifying the accuracy of accounting data, and analyzing the financial impact of their legacy systems. By executing corrective action plans, implementing new processes, and monitoring risk throughout the fiscal year, the U.S. Coast Guard is putting the Department on a path to attaining a balance sheet opinion in FY 2011.

Even though the U.S. Coast Guard has shown major improvements over the past few years, they are still unable to fully remediate their financial management issues because of deficiencies with their current financial system. In addition, DHS does not currently have a consolidated financial management system, and most legacy systems do not comply with Federal Financial Management System Requirements, Accounting Standards, and the U.S. General Ledger at the transaction level. As the Department works toward obtaining a financial system to serve our Components with the highest critical business need, DHS continues to collaborate with Components to determine what steps can be taken now to prepare for migration to a new system and improve the fidelity of the current financial system in the short term.

The FAA clearly outlines activities and capabilities essential to maintaining a successful Chief Financial Office both at the headquarters and Component level. My office is working with all DHS Component Chief Financial Officers (CFOs) to meet the following goals for FY 2011:

- Provide timely, accurate, useful and actionable financial information to decision makers and stakeholders;
- Provide assurance that internal controls are effective;
- Provide efficient financial management services and operations;
- Develop program plans and budgets that are well-justified and balanced to support DHS priorities;
- Strengthen DHS financial management systems;
- Recruit, develop and retain a talented workforce to achieve the CFO mission; and
- Strengthen financial assistance accountability.

A large contributing factor to the improvements made in financial management at DHS over the past few years is a direct result of the processes and structures that have been put in place to help ensure consistent operations for each of our financial accounting centers and financial management offices within DHS Components. For example, in order to track progress on our goals and share best practices across the Department, I meet monthly with the DHS CFO Council. Additionally, the Financial Management Working Group, Senior Assessment Team, and Bankcard Team hold working level meetings to ensure collaboration and consistent operations.

Additionally, my office just published the Department's 5th Annual Internal Controls Playbook which builds upon previous successes, defines current internal control initiatives, and establishes Mission Action Plans, milestones, and focus areas for the Department's most significant internal control challenges. Our current key initiatives highlight the continued expansion of internal controls at DHS and include risk management, improper payments, financial assistance, and obtaining a qualified audit opinion on the balance sheet.

Financial Management Improvements Outside the Audit

While the audit is a critical tool to measure our progress as a department from year to year, we are committed to expanding our successes and improvements beyond elements tracked in the Annual Financial Statement Audit. By developing consistent procedures and making them available to all DHS employees, we can help ensure standard processes are being followed to prevent waste, fraud, and abuse at the Department. Toward this goal, we have been found fully compliant with the Improper Payments Information Act since 2009 and worked closely with the Office of Management and Budget (OMB) to ensure DHS was prepared to implement new improper payment reporting requirements. To help ensure compliance, all DHS Components assess each of their programs for risk using standard guidance provided by my office and potentially high risk programs are tested based on these assessments. Since implementing these controls, DHS has significantly lowered estimated improper payment rates at FEMA on average from 9 percent in FY 2008 and FY 2009 to 2 percent in FY 2010. Department-wide, improper payment amounts identified by recovery auditors have also dropped from $929,000 in FY 2008

to $38,000 in FY 2010, despite the fact that the amount of data provided for recovery auditors to review has increased significantly from year to year. Leadership involvement; improved partnering between Component program and CFO staff; centralized invoice processing; making new financial and program managers aware of the importance of preventing improper payments; and training grant recipients on supporting documentation requirements have all contributed to this success. We also have staff dedicated to decreasing payment error rates, and improving business processes to stop improper payments before they are made.

My office has established a Bankcard Assessment Team with members from Financial Management, Internal Controls, Components, Heads of Contracting Activities and fleet managers. This group meets weekly to implement corrective actions to strengthen the Department's internal controls in the bank card program. My office also publishes the DHS Travel Handbook to provide Department-wide guidance on travel and conference policies and communicate requirements and regulations for all DHS employees' travel and conference attendance. This guidance is also readily available to all DHS employees on our Department's Intranet homepage. We have also taken proactive steps to improve the robustness of our bank card and purchase card programs. As part of those efforts, a Bank Card Key Controls document was created for purchase, travel and fleet card management and oversight that include control objectives and supporting documentation required when using any of the three types of bank cards. In conjunction with this Key Controls document, my office also updated the DHS Purchase Card Manual to incorporate suggested changes from the Office of the Inspector General, which is available on our Department's intranet site.

The Department also continues to refine and update the Financial Management Policy Manual (FMPM) to provide all DHS employees with standard processes to follow for budgetary policy, financial reporting, and bank card management. A recent update to the FMPM is the addition of our Financial Assistance Awards and Oversight section. This section covers eleven new policies to address external reporting requirements for financial assistance as well as the proper process to close out an award. Working closely with the U.S. Coast Guard and other Components along with these publications is greatly beneficial as we work toward a qualified opinion on the consolidated balance sheet in FY 2011.

The PA&E division in my office uses Planning, Programming, Budgeting, and Execution as the resource management system for developing, reviewing, approving, and providing its annual budget request and Future Years Homeland Security Program (FYHSP), a five-year resource and program performance plan, outlined in the FAA. The FYHSP promotes a strategic approach to long-term budgeting and includes monitoring and reporting on execution, holding the Department accountable for results, and adjusting actions based on feedback. As part of the Resource Allocation Decision process, the PA&E division leads cross-Component issue teams to assess high priority areas at DHS and find the most effective way to use our resources. Finally, PA&E oversees the management of the Department's performance measures. In FY 2010, Deputy Secretary Lute worked with my office, Components, OMB, and GAO to systematically review the entire set of performance measures for DHS and align the performance measures to the Quadrennial Homeland Security Report and the subsequent Bottom Up Review to ensure they are aligned with the Department's operational missions and priorities.

Our most valuable resource to improving financial management at DHS continues to be our people. Developing our staff in the Chief Financial Office, strengthening their skill sets and supporting their career tracks are vital steps to continuing our positive momentum at DHS. My office supports a rotational fellows program that allows cross-functional training across all CFO divisions. We provide *New Hire Orientation* for all new CFO employees across the Department each year and recently hosted our *8th Annual CFO Symposium* for over 300 DHS financial managers, offering a speakers series and individual training breakout sessions. My office offered a one-day Resource Training program for all Program Analysis and Evaluation (PA&E) staff at Components and sponsored Appropriations Law training for nearly 200 budget and financial analysts throughout the Department. Providing training opportunities and supporting career development not only better equips our staff to perform their jobs, but also helps us retain quality employees at DHS.

Improvement in Financial Systems

All of the previously mentioned efforts have greatly improved the accuracy, consistency and transparency of financial management at DHS. The commitment and dedication from senior leaders at headquarters and Components continues this momentum towards achieving our goal of a qualified opinion on the consolidated balance sheet in FY 2011. However, cumbersome and

heavily manual processes needed to compensate for a lack of automated controls highlight the fact that improvements to some critical financial systems are imperative to sustain the significant progress we have made and execute our financial management efficiently.

It is vital that DHS stay on track to assist our Components that have a critical need for financial system improvements. We must ensure that the tremendous efforts to improve financial management at DHS are continued and progress continues. As a federal agency with a $56 billion budget, DHS remains fully committed to improving our financial system so we are able to provide timely, accurate, and complete financial information to our key stakeholders including Congress, and the American taxpayer.

Mr. Chairman, Ranking Member Towns, thank you again for the opportunity to appear before you. I am happy to address any questions from the Committee.

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Mr. PLATTS. Again, we appreciate both the written testimony and your oral testimony here today, and your dedicated efforts at DHS in trying to help rein in a challenging assignment.

I want to start first with kind of the premise when we did the accountability legislation several years back and the issue of the importance of the CFO position. As I mentioned in my opening statement, we are anxious for us to get back to a Senate-confirmed appointee. Again, not in any way a reflection on or lack of faith and trust in you, but is sending that message of the importance of the CFO role.

Can you give us any idea where we stand with the Secretary, with the administration, on that process and what we can expect here in the near future?

Ms. SHERRY. Thank you, Congressman. First, I will say that I think in the position that I have been in, and having had the opportunity to serve as acting as well as the deputy CFO, I have enjoyed very strong support from DHS leadership. Both the Secretary, as well as Deputy Secretary Lute and Under Secretary Rafael Borras, have provided very good support to my office. So I will say that.

Having said that, though, your question is a very good one. And what I would have to do is direct you to the White House at this particular point, as they are really in charge of Senate-confirmed political positions.

Mr. PLATTS. So there has been no discussions with you or the Secretary from personnel at the White House about a timeframe or where things currently stand?

Ms. SHERRY. No, sir, not directly with me, as far as where things actually stand. I do know it is clearly an important initiative for the Secretary as well as for the White House.

Mr. PLATTS. We hope that the Secretary and the White House do take it seriously, because bottom line is it is the law. And we put it in law, Mr. Towns and I, with our colleagues in the House and Senate and the former President, because of the importance of emphasizing this position.

In your role as acting CFO and deputy CFO, how would you describe your access to the Secretary? Is it a direct communication? If you have an issue you can go right to the Secretary? Or do you need to go to the deputy secretary, under secretary?

Ms. SHERRY. No, I do have direct access. In fact, stressing the importance of getting the Coast Guard to get a clean opinion, I had the opportunity to talk directly with the Secretary and to emphasize to her the support—how important it was for us to be able to reach out to the Coast Guard and to, you know, kind of set that goal. And she went right out on record and said that even though it is a high-risk prospect, still, for us to be able to get a qualified opinion in 2011, just because, as you all have indicated, it is a complex agency and there was a lot of work that needed to get done and still needs to get done at the Coast Guard, she absolutely went out and provided in writing, as well as sent a memo at the beginning of this calendar year, to remind everyone that no one is letting up.

It is not just the Coast Guard, but all of the other improvements that we have done throughout the Department. All components

were responsible for working toward this qualified opinion this year.

So absolutely, the ability to be able to go and talk about basic financial management needs, in addition to many, many meetings with her on the overall budget itself. You know, it is very critically important to the Secretary.

Mr. PLATTS. I am very pleased to hear that, a testament to you and the Secretary to have and maintain that relationship and that open communication. In fact, your being here to testify as the acting CFO, we are appreciative of that commitment as well by your presence here today.

On the issue of the decision to forego moving forward with the TASC program and to kind of start again with a Department-wide financial management system, a couple questions. The last effort with eMerge2, we had spent about $9 million before a decision that it just wasn't going to work. We got some benefit I think from those costs as we moved to the new effort, with a decision to kind of start over.

Can you give us a ballpark of what have taxpayers spent that is maybe not totally lost, but not getting the result that our hope was when we started over the second time?

Ms. SHERRY. Sir, you are referring specifically to TASC and the TASC program?

Mr. PLATTS. Yes.

Ms. SHERRY. I am happy to do that. We received so far in total—what we actually had was some carryover even from the eMerge program, where the Department was not spending that, but we were allowed to keep that as carryover. So in addition to the funding that we have been fortunate to have received in fiscal year 2009 and 2010, and then a little bit in 2011, in total we had about $47 million. Of the $47 million, we have obligated about $4.8 million. When I say "obligated," what we did is we initially went to award in November 2010. We issued our first TASC order against the contract in late February 2011. That was to stand up the program management office, the contract program management office, which would complement my office, my program management office, which was really a blending of components as well as the different disciplines. But they were Federal employees. Ten days after the TASC order was issued, we——

Mr. PLATTS. Protest.

Ms. SHERRY. Exactly. So what we have obligated has really been the $3½ as it related to the TASC order, as well as $1.8 million as it related to program support within my office. And since we had to stop work, I really don't have any invoices against that. But that kind of gives you the magnitude of 10 days' worth of the contract. But what we did get for that was an integrated master schedule, a draft integrated master schedule, because we had really just gotten out of the gate on this, OK. We got an integrated master schedule as well as an earned value management, a draft plan for that, as well as a draft training plan as well.

But what it doesn't speak to is the value that we have also gotten from this time around, was really as it relates to the data cleanup efforts, the things that the Department has been doing, preparing, in order to be able to get to the contract. And that would

require working with the components that have the most critical business need, really looking at the data cleanup initiative.

Mr. PLATTS. So if I understand in numbers, $9 million that was spent on eMerge2, and then a different direction, and we spent somewhere in the $3½ million, or you obligated——

Ms. SHERRY. We have just obligated it.

Mr. PLATTS. But you haven't gotten invoices.

Ms. SHERRY. That is exactly right. That is exactly right.

Mr. PLATTS. So of the $40-plus million that was kind of set aside for this, the overwhelming bulk of that has not been spent.

Ms. SHERRY. Yes, sir, that is correct. That is correct. And any of the Federal energies that we have spent as a part of my base budget itself has been preparing for the data cleanup and the change management, many of the things that I am going to be able to use anyway.

Mr. PLATTS. OK. That was my followup. So what you have done internally, you are not going to lose that.

Ms. SHERRY. Absolutely not. All it has done is set the Department that much closer to really being able to manage this really well. So none of that has been lost.

Mr. PLATTS. OK. I have some followups on that, but I want to yield to the ranking member first, and then we will come back around. So I yield to the gentleman from New York.

Mr. TOWNS. Thank you very much.

Ms. Sherry, you mentioned that the most valuable resource DHS has is its people. And I want you to know I agree with you wholeheartedly on that. GAO reported in December 2009 that DHS hired staff in anticipation of implementing the TASC system. My question to you is, now that you have scrapped it, what happened to these staff people?

Ms. SHERRY. They are still part of my base annual budget. So I still have them. And what we have been working on, even before we went to award, what we have been working on is working with the components that have that critical business need, that still need to get their accounting systems replaced, all right, or modernized, working with them to be able to get their data cleaned up. Because what you can't do is have data that is not really ready to move to the new system if it is not cleaned up. Or if your balances aren't good, then there is no sense moving garbage into the new system. So we have worked with the components to be able to clean up their data.

We worked on developing change management plans, because so much of one of these financial systems modernizations really centers around change management, changing people, the way people do their business; also focused around the business process, standardization of business process. So what we have been doing, sir, is really setting the foundation, getting the Federal Government ready for the contract is what we have been doing with my Federal staff.

Mr. TOWNS. Right. I think this points out in terms of the statement that the chairman raised early on is the confirmation part. Because when you have to scrap a program, and then you move, and then you scrap another one, I think that the consistency is just so important in terms of—and that is the reason why I think that

we really need to push for this confirmation. Because I think that needs to be done.

But anyway, let me just move along to another question. In your opinion, what is the worst-case scenario for DHS if they fail to integrate disciplined processes that GAO recommends before a new financial management system contract is awarded?

Ms. SHERRY. What an integrated financial system really brings, the value that it really brings to the Department is really sustainability. It introduces effectiveness and efficiency. And what we have at this particular point in the Department—not throughout the Department, because some of our components do have modernized systems, and they are in good shape—but some of the components, about 75 percent of my overall resources, they are on systems, these components are on systems that are either they are legacy, they are proprietary, they are not necessarily supported anymore. And in many instances they are not integrated with an acquisition system or with the asset system. And as a result, what that means is I can't have strong internal controls. It is not just up to the system to have good internal controls, but the sustainability is really critical in order to be able to have these integrated systems.

In addition, it allows you to be much more efficient in the work that you do. I think that from a standpoint of where do you actually have your people working, if they are doing manual processes, where they are having to do manual reconciliations in order to be able to make sure the contracts that are recorded in your procurement system actually marry up with what you are actually reporting in your core financial system, having to do those manual reconciliation processes not only is not overly efficient or effective, I could be using them maybe to do heavy analytics, you know, especially as we need in these current fiscal times.

But what it also does is introduce internal control risk, the ability to be able to have something obligated in your contract system; if for whatever reason it doesn't make its way into your general ledger system, there is the potential to have some severe funds control, internal control weaknesses.

Mr. TOWNS. Right. Thank you very much.

Let me just say to Mr. Chairman before I yield back, that maybe what we need to do is to send a letter indicating the fact that this is the law, and that we hope that they will move forward with confirmation, and just sort of send it from the committee. I think maybe to let them know that—I really view this as being very serious. And I think that we should try to state it. I yield back on that note.

Mr. PLATTS. I thank the gentleman, and certainly share that perspective, and am glad to partner with you in urging the White House to move as quickly. And maybe that will be the first step, and then we will urge our Senate colleagues to move quickly, too. That sometimes is one of the problems with confirmation.

So I yield to the gentleman from Virginia, Mr. Connolly.

Mr. CONNOLLY. Thank you very much, Mr. Chairman. I thank you for holding this hearing, and again welcome Ms. Sherry.

USCIS, FLETC, ICE, have only one remaining material weakness each, while the Coast Guard still has six. What are some of

the factors, in your view, that explain the differences in internal controls among the different components that we have such variance?

Ms. SHERRY. The remaining material weaknesses at the Department level, which is really the six, which is really comprised of the various conditions throughout the various components, really can only be corrected by having strong—the tenets basically that come from the Accountability Act. What you need to be able to do is to identify what is the root cause of the material weakness or the significant deficiency. You need to be able to—so rather than just responding to potentially an auditor's finding, where they identify an issue, if you just respond to that issue without really identifying what was the root cause, what was the reason for actually having that material weakness, what is going to end up happening is you will continue to do work, but what you won't do is actually correct the internal control findings.

And so by using the Internal Controls Playbook, which is really our annual strategic plan for how to correct our internal control weaknesses, we were able to work with components—in particular, my Department—through the A–123 process, to work with them to be able to look at how their internal controls were designed and whether or not they were designed effectively, and to look at, through the performance audits that we did also as a result of the Accountability Act, to find out how well we were doing as far as developing corrective action plans. So the idea that you could develop a plan that may not be responsive to the problem is not going to ultimately end up reducing your material weaknesses.

What we have done with the Coast Guard and with the other components we were able to do before that, is to kind of crack that code, all right, working with us. They were able to identify—and I think the magnitude of some of their issues were clearly a lot smaller than the Coast Guard as well.

But what we have done with the Coast Guard, working with them over the last couple years, and it is detailed in what they call their FSTAR, that is their audit remediation plan—or their audit readiness plan—what we have been able to do is work with them to have them understand how to do that root cause analysis. So rather than just responding to an audit finding, they are now able to actually dig into what is the system issue, what is the process issue, what is the people issue? You know, how does it actually relate to the remediation on the financial statements as well as the internal controls?

Mr. CONNOLLY. Are there incentives within DHS to make sure that various components of DHS take material weaknesses seriously and understand we have to have an unqualified audit?

Ms. SHERRY. Yes, sir, there are. In fact, what we do is the Department Office of CFO, what we do is we meet with each of the component CFOs at, least annually, on an offsite retreat, where what we do is we jointly establish what our goals and objectives are for the year, as well as for the foreseeable future. And then what I am able to do is I take those goals that we all agree on, and getting the clean opinion and correcting the material weaknesses as well as things that are at the less significant level of a material weakness, we then place them in the CFO's plans, per-

formance plans, annual performance plans, as an objective that they must meet. And then what we do is we meet with them periodically, and then again at the year to just basically assess where they are at. I then report that up to the Secretary and to the deputy secretary.

So what you have is really, again, what the GPRA Act really wants us to be able do is put that performance—decide what the outcome that you are trying to achieve is, and then put those goals into the various plans. And then that is what we do, sir, to be able to get them to understand the importance.

Mr. CONNOLLY. Given the progress that has been made, obviously people do take it seriously. And I think it is a testament to your effectiveness as well, Ms. Sherry.

Ms. SHERRY. Thank you, sir.

Mr. CONNOLLY. Going back to the TASC order—and I am going to be running out of time real fast here—which breaks up the contract into smaller component parts, is there an opportunity here, though, for DHS, for especially acquisition personnel, to gain better contract management skills and technical expertise as we do that, so more people have a chance to participate and develop the requisite skills? Because Chairman Platts and I are both very concerned, and I know Mr. Towns is as well, about the whole issue of acquisition training in the Federal Government. So in the loss here of the reversal of the contract, is there also, however, perhaps an opportunity?

Ms. SHERRY. There is great opportunity. Yes, there is great opportunity to do that. In fact, the under secretary for management and the deputy secretary, as well as the Secretary, are very interested in making sure that we start to get this right. And I think that we have made some really good improvements, as demonstrated by the integrated plan that we have for addressing the GAO high-risk issue as it relates to transforming management, not just financial management, but as it relates to transforming management within the Department.

The other thing that we have done really well as it relates to this particular acquisition is to start to have some of that not only horizontal integration, but also the vertical integration. One of the things that we are trying do in the Department is to really invigorate the overall governance process. So what we should be doing is we should be looking at these major acquisitions on a more real-time basis. But we should also be bringing all the right stakeholders and decisionmakers to the table to really review these.

And what we had with TASC was what is called the executive steering committee, which was made up—it is chaired by the under secretary for management, has all the lines of business chiefs on it, you know, within the Department. And then we also have as members on there, members from the various components. So you would have your CIO, you would have your CPO, you would have your CFO, various components that actually participate on this steering committee. So that, sir, also I think is a really good way for us to be able to get our hands around that acquisition management throughout the Department.

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

Mr. PLATTS. I thank the gentleman, and would just make a note that I know the gentleman from Virginia is working on some legislation to try to better train our acquisition personnel across the Federal Government. And I look forward to working with him as we seek to advance that objective.

Mr. CONNOLLY. I thank my friend.

Mr. PLATTS. We are going to do another round of questions to give you a chance to kind of catch your breath and settle in. I am going to followup on the TASC recent announcement. It is my understanding that DHS is no longer requiring that it be housed in an enterprise data center, and that it not necessarily is going to be a single contract vehicle for the financial management system.

Does this mean that we are going to have permanently, some legacy systems that are kind of on their own; or is it just in the immediate term, but eventually the goal still is to have all systems kind of be united in one Department-wide system?

Ms. SHERRY. I think we will have to look at that as we go forward, you know, as we analyze the various strategies. But where our real requirement is at this particular point is to modernize those systems that are in critical need to be able to do that. And that speaks to over 70 percent of the budgetary resources, components that need those modernized systems, or well over half the Department as it is anyway.

So what we really want to do, based on the changes in IT policy, governance, just the way that we look at financial, these systems modernizations, in addition to the grave fiscal environment that we are currently in as well, it really makes sense for us to focus in on our critical business needs and those systems that need to be modernized.

So I think as we lay out our overall strategy, we will consider how we will include those components that already have modernized systems. But really it is focusing on those critical business needs now and being able to implement this in small, manageable segments.

Mr. PLATTS. And because of where the Coast Guard is, that is going to heavily focus on the Coast Guard.

Ms. SHERRY. Yes, sir. The Coast Guard clearly needs to have changes to their system. It needs to modernize their system. That probably is the main component that really I will struggle with in order to be able to get a full-scope audit done. So I am going to be able to get my qualified opinion on the balance sheet without the system, without us modernizing their current system. I would not be able to do that for the full-scope audit with the Coast Guard.

In addition, you have FEMA that also has functionality as well as system security issues that must be addressed. This is also a critical business need.

And then ICE, which is the accounting service provider for five other DHS components, also is identified as having system security and functionality issues. So we will focus in on those critical business needs first.

Mr. PLATTS. And maybe that addresses my question that I was going to ask specifics, because in your testimony you talk about the Department's Fifth Annual Internal Controls Playbook, and identifying some plans and milestones, areas of focus. And you reference

in there the Department's most significant internal control challenges. Is that coming back to really what you just walked through with FEMA, with Coast Guard?

Ms. SHERRY. Absolutely. The being not compliant with the FFMIA and with A–127, basically the good tenets to be able to say how you should be able to have good data quality. You should be able to have complete data. You should be able to have timely data to be able to provide to all your stakeholders, as well as to the key decisionmakers of the Department. A $57 billion agency, you know, we have some serious internal control issues. And especially modernizing our systems would really be able to move us forward in that area.

Mr. PLATTS. That is what this committee, Mr. Towns and I working together in the past and again now, is really getting the systems in place, where it is day-in and day-out access to that information, as opposed to that manual—you know, edits that are being done to rectify problems. But that it is a, you know, tomorrow if you need information, you know, you can go to the system, pull it up, and then make informed decisions.

Ms. SHERRY. Absolutely.

Mr. PLATTS. That commitment that you have made to that effort is one that we strongly support. You have talked about the component CFOs, and you are working with them, and your quarterly meetings, and how you try to kind of keep everyone on the same page. How is, I will say, the chain of command or the line of authority from you to the component CFOs? Do they answer directly to you or to their agency head and then to you?

Ms. SHERRY. They answer directly to their agency head. But there is the dotted line to the Department CFO. So as I said, I have the ability to be able to reach into their performance plans. In order to be able to hire into those positions, the Department will weigh in. We also weigh in on very critical other hires such as your budget director or potentially a PA&E director.

Mr. PLATTS. That was my specific followup, that hiring aspect. So you don't have final say, but you can express an opinion on who is in these positions?

Ms. SHERRY. We absolutely can. And I will tell you, I don't know that we have ever gone to the limit, to be able to say if I had the final say or not. We have always been able to—they have always been able to work very cooperatively. And they do look to us to be able to provide that input as well.

Mr. PLATTS. I asked that—another agency that we work with in detail is NASA. And one of the challenges we found there was you are the one that is responsible for the Department-wide audit and your financial statement; yet in NASA, the center CFOs were not very responsive to the agency CFO. It doesn't sound like that is an issue here.

Ms. SHERRY. We are very fortunate. What we also do is I meet with them more regularly than just quarterly. I also meet with them monthly. We have CFO council meetings, where it is the entire world that we work with, you know, budget as well as program analysis, as well as internal controls. And what we also do is we meet with them much more regularly as it relates to the critical internal control issues.

So for instance, I will meet with them as well as their senior staff on a monthly basis during the time—once we come out with our ICOFR Playbook, once they have signed on to coming up with the corrective action plan and what the ultimate outcome that they are trying to achieve is, they actually have to come in and work with me on a monthly basis and report to me on the progress.

That has gone very well. And we have very little difficulty getting the component CFOs and the senior management staff really wanting to be able to improve financial management in DHS.

Mr. PLATTS. It sounds like a pretty across-the-board team effort, everyone on the same page.

Ms. SHERRY. Yes, sir.

Mr. PLATTS. That is great. I am going to squeeze in one other before yielding to my colleagues, who may have other questions.

In talking about the internal controls audit, performance audit, is it a fair statement to say that based on your experience at DHS, this approach that was legislated in the Accountability Act is one that we should at least be considering for other departments and agencies, helping them to get to that bedrock of good financial management?

Ms. SHERRY. It has worked very well in the Department. It really has. And I think many of the other agencies are probably more fortunate than I am as far as the number of material weaknesses that they have. So hopefully they are able to do this through FMFIA, hopefully that they have gotten that in there.

I do think that for the Department, though, it has not only been helping us with the internal controls over financial reporting, but it has really become the way we do life at DHS. The improvements that we have made in complying with the Improper Payments Act, it is about internal controls is really all it is. It is about identifying what your risk areas are, to really identifying the root causes for making improper payments, establishing strong corrective action plans, monitoring them, and then ultimately doing the right thing such as recovering the money that you may have improperly paid. If you didn't actually improperly pay something, but it was something else, such as lack of supporting documentation, or people didn't sign off that made it an improper payment, you correct that. You correct that issue. And so for DHS the entire framework of the Accountability Act has really worked very well for us.

Mr. PLATTS. You touched on a specific issue I want to followup on, the improper payments. But let me see if, Mr. Lankford, did you have any questions?

Mr. LANKFORD. You can go to Mr. Towns.

Mr. PLATTS. We will go to Mr. Towns and then come back. OK. Yield to the gentleman from New York.

Mr. TOWNS. Thank you very much, Mr. Chairman. We talked about the material weaknesses at the Coast Guard. What are the weaknesses?

Ms. SHERRY. They contribute to six of the Department's overall material weaknesses. The first talks about financial management and reporting. They have a material weakness in internal controls and system functionality. They have one, actually the only one contributing to our fund balance with Treasury material weakness. They have weaknesses in property, plant and equipment; actuarial

and other liabilities; and then in budgetary accounting. Those are the six remaining material weaknesses at the Department. And because of the pervasive nature of the Coast Guard, they contribute to each of those.

Mr. TOWNS. Right. You know, does any of this have anything to do with turnover of staff, in terms of not staying?

Ms. SHERRY. At the Coast Guard specifically?

Mr. TOWNS. Yeah, Coast Guard and then in general.

Ms. SHERRY. I think you touch on a fantastic point that we have really been trying to fix at the Department in the last couple of years, and that is really developing core competencies. I do know that the Commandant is very interested in doing that, developing—making sure that you have those right core competencies, and that the rotation, the amount of time that you have with people rotating in the Coast Guard is the right amount of time so that you can actually develop those core competencies.

So I think it is less overall a problem at the overall Department. And frankly, at the Coast Guard it is no longer really a problem because what they are doing is they are building those core competencies. And what they are doing is they are identifying where their skill gaps are, and then what you are doing is you are bringing in the right people at the right time and putting them in the right job. So we saw that both at the Coast Guard just recently, you know, and then we also saw that at the TSA just this past year. What they did is they really looked at overall skill gaps, and then they brought in the right people to be able to address the magnitude of the issues that we had.

Mr. TOWNS. I was thinking in terms of whether the Department has recorded all of its property and plants and equipment. How are you doing with that? Because that has been a problem.

Ms. SHERRY. And clearly, it is one of our largest assets. And the remaining material weaknesses that we have outside of the Coast Guard on property, plant and equipment, is at the TSA. And the TSA in 2009 actually had what is called a disclaimer condition. And really all the disclaimer condition means is when the auditors come in and take a look at the account balances, they just simply don't have enough evidence there. So what they end up saying basically is, I can't tell if this balance is any good. The work that the TSA did during 2008, 2009, allowed them to actually remove that disclaimer condition in 2010, which basically meant that the auditors were able to satisfy them at the amount that we have recorded on the books for TSA property, they were OK with it. They said that it was what is called materially correct.

Having said that, TSA still had some remaining internal control weaknesses, and we do expect to remediate that material weakness this year at the TSA. And it really starts to become very segmented, because through that strong root cause analysis that they have done, it starts to become segmented to just a couple issues that they are able—such as they may do their inventories and they do their reconciliations, and they make sure things are recorded correctly.

But in TSA's case, there were things such as accounting issues, such as recording what we call other direct costs. And it just becomes a real narrow slice of what they actually needed to fix.

So from a Department-wide perspective, we are fixing what we can. Even the Coast Guard has done an awful lot of work at property, plant and equipment. And they have done inventories throughout the entire Coast Guard of their small boats and ships and the different pieces of personal property. And what they are doing is building what they call assertion packages over property, plant and equipment. The reason why we don't have that on our fix-this-year list is because there is still real property, which is part of that overall line item, that they are still working on.

So Coast Guard is developing the internal processes in order to be able to build those assurances so I will be able to get that. Ultimately, I will be able to take that off as disclaimer condition as well.

Mr. TOWNS. I don't want to put you on the spot, but are there any impediments we should deal with from a congressional standpoint?

Ms. SHERRY. Can I get back to you on that? At this point I can't think of any.

Mr. TOWNS. OK. All right. Thank you. I yield back.

Ms. SHERRY. Thank you, sir.

Mr. PLATTS. Thank the gentleman. I yield to the gentleman from Oklahoma, Mr. Lankford.

Mr. LANKFORD. Thank you, Mr. Chairman. Thank you for being here.

Let me just bounce a couple things off. You had on your list earlier a statement about system security and functionality issues, and listed specifically Coast Guard, FEMA, and ICE on that one. Can we talk a little bit about—we talked a little bit about Coast Guard. Can we talk a little bit about the ICE side of that? What does that mean, to say that we are dealing with functionality issues and system security?

Ms. SHERRY. System security means that they have typically access controls—the three controls that we talk about when it comes to system would be access controls, change management controls, and then just in general security controls. So what we do is, as the auditors do an audit, they will look through whether or not they have strong internal controls around those particular areas. When it comes to functionality, it is really how well is the system working. So you go beyond just is it a secure system.

And the main reason the auditors will do that is it allows them to be able to rely on the transactions that are recorded in an accounting system without having to do so much detail work, without having to pull really large samples and to test them and to do all that. So it is an efficiency thing. But it is also clearly internal controls. IT security is clearly a very critical thing. You need to be able to make sure that you don't have people that have improper access and stuff into your system.

Mr. LANKFORD. Just clarifying that, so is there a hardware issue based on old equipment, software issue based on just not up to speed on it, or management, personnel, and process, where it is a people issue not handling that?

Ms. SHERRY. I think it is going to be all of it. It typically is a combination of those.

Mr. LANKFORD. OK.

Ms. SHERRY. And what the Department has is overall guidance that each of the components need to follow as it relates to systems security. And what they need to do is we set—I don't do it, the CIO's office and the chief security officer does that. They set those standards, and then the components need to meet those. All right. And what it does is, it tells you kind of what the best practices are around access controls, you know, systems security, and change management.

In some instances, it is because of legacy systems, and they are just old, and it is hard to be able to do it. So as a for instance, you know, the length of a password. You know, in order to be able to have a good password it should be X number of digits in length, and you should be able to have special characters, etc. Some of the legacy systems—and so what the Department will do is we will come out and we will say that is the standard. You need to meet the standard. In some instances, if it is a legacy system you are not going to potentially—maybe you don't have enough digits in order to be able do that. So there will be instances like that.

Other times it is a people thing. For instance, in the security manual or internal controls best practices, you should have background investigations, for instance, of the people that have access to a particular level of data, or have the ability to be able to change code, they ought to have a certain level of background investigation. So it is the ability of the component that they have the ability to be able to do that.

But typically, there are some impediments there. So what we do as part of the audit is we actually work with them on the IT piece in particular, where it is a joint meeting with my office, it is the IG, and our independent auditor are there. The CIO and the chief security officer is there of not just the headquarters, but also the components. And what we do is we walk through each one of those and make sure that we have strong corrective action plans to be able to address them.

The functionality piece of it is just really outside of just the security, even though typically impacted by security, would be things such as does the system allow duplicate payments? Do you know what I mean? So clearly, it is a functional issue. You should be able to build in controls into your system such that you can prevent a duplicate payment unless you have some sort of a person override, which you know you can detect and correct. But if the system is in such—has a functionality weakness, it may make a double payment and you don't know about it until after the fact. That is the distinction between the two.

Mr. LANKFORD. Right. So ultimately, at this point we have hardware, software, and management issues. We may or may not have money that is flowing out of the door that is consistent with what we would hope it would be accomplished. And we are not able to get a good audit yet. That is coming. Am I picking up a trend here?

Ms. SHERRY. No, we have what are called compensating controls. All right? And that is the part where it becomes inefficient. You know, what the Accountability Act allows you to be able do is to identify your root cause. In addition to that, the Department has strong risk assessments. So we try to be more forward leaning, not waiting until a problem happens. But if you identify a particular

weakness that you can't necessarily build into your system because maybe it is—and I will use the Coast Guard as a for instance—because maybe the way that their system was modified due to change management weaknesses, you are not actually able to, in certain instances, actually to get down to an actual transaction level. And clearly you can't audit unless can you get to a transaction. But we have identified that as the root cause, but instead what we put in place are compensating controls, which basically we have to do something other than the most effective and efficient thing we should do in order to be able to correct for that. So we have compensating controls.

In the case of the duplicate payments, we caught that. Do you know what I mean? Because we have—ideally, you want to prevent this type of a problem versus detecting the type of a problem. And oftentimes that will be what your compensating controls end up being.

So no, I think—we just don't do business as efficiently as we could because of integration. You know, we have reliance on manual processes and reliance on compensating controls. Just the other thing—I am sorry, I get on a roll here—is basically the internal controls. The more of those that you have that are actually part of the system, the much more efficient the overall agency is going to be.

Mr. LANKFORD. Right. So it makes it seamless.

Ms. SHERRY. Yes, sir, that is exactly right.

Mr. LANKFORD. Thank you. I yield back.

Mr. PLATTS. I thank the gentleman. Just a final issue I want to touch on on improper payments. And it is recent coverage of FEMA and the payment of relief to flood victims and other natural disasters. And then the letter in the mail saying, Hey, 3 years ago we paid you $20,000, you know, our mistake, and you have 30 days to pay it back.

I guess if you can give me an update. Because I mean this is clearly a failure of good internal controls is that money was being paid out inappropriately, and according to some of the statements in the news coverage of this, where FEMA personnel were kind of encouraging the individuals to apply, saying, Hey, this is something you are entitled to. You need to go after. They get it. They spend it on home repairs, whatever it may be, and now 3 years later or more.

Can you give us an update? Because I know in the article it does reference FEMA, you know, in December the Inspector General being critical of FEMA for not going after hundreds of millions of dollars of improper payments related to Katrina and several other disasters, and that FEMA believes it has moved from about 14 percent of error rate down to about a 3 percent error rate. That is good news.

I guess my two main points, if you can try to address this: One, is that accurate? Have we put in place better controls that we are getting down to a smaller and smaller error rate? And if so, what were the main changes that resulted in that significant change from 14 to 3 percent error rate? And then how are we dealing with the real-life impact on these individuals who went through pretty trying circumstances, through no wrongfulness on their part got

compensated, have spent that money, and now are being asked to—you know, what are we doing to go out of our way to work with these individuals, if we are, to recoup anything from them?

Ms. SHERRY. I probably can't address the second part of your question, sir, but we could get back to you with a response if you would like on it, just because that is not necessarily within my actual area.

Mr. PLATTS. Please. Yeah.

[The information referred to follows:]

[NOTE.—The information referred to was not provided to the committee.]

Ms. SHERRY. But the first part of your question is directly in my area. And you are exactly right. We worked very closely with FEMA in particular as it relates to—that is improper payments right there; that is what we are talking about.

Mr. PLATTS. A perfect example.

Ms. SHERRY. What we have done in particular as it relates to the individual household payments is worked with them really on the front-end process. I mean the idea here is to prevent—you should be preventing your improper payments. Even though we are in compliance with the Improper Payment Act, that is really not—I mean, that is exactly what we need to do.

But what we really want to do is to prevent the improper payments in the first place. So what we have done is we have worked—we work with all the components, but in particular FEMA worked on what we call the front-end processing errors that they would have. So what they did is instead of—what they did is, they tightened up their controls around, you know, doing—you know, checking for duplicate people who were applying, you know, for two benefits or whatever, making sure that you had valid Social Security numbers. You know, things of that nature. And for them to have been able to have gone from that 7 percent down to the roughly 3 percent error rate, they did that really by focusing on some of the those front-end internal controls.

They are still testing. What they do as part of their annual improper payments testing, they test individual household payments. In fact, we actually do it quarterly now with them. We make sure that we actually do the testing more realtime, so that we can make sure that we stay really responsive. And what they are finding is just even better results. All right?

So this type of preventive-type controls, you know, rather than having to go after people to get money back, you know, really trying to prevent that up front. So that is what we are doing, working with them, as well as working with them and their other high-risk programs working through those same kind of things.

Mr. PLATTS. I kind of equate it to Mr. Connolly's about acquisition personnel and the training up front. They are doing it right, rather than trying to correct it after the fact. Same here.

And you may not be able to address this. This really goes to the HR side of the training of the personnel. I guess I assume that if there is a flood in Mississippi or wherever, Iowa, that there is a cadre of FEMA personnel who are well trained, and this isn't the first time they are doing it. They go out and they know. Is it just in that training was not up to snuff that they were having such a

higher error rate? Or was it because of just the timing of a lot of disasters? And so it wasn't a breakdown in training, but a lot of new personnel? You may not be able to address that today.

Ms. SHERRY. I can't address that directly. And I can get back to you on that. I was not in the Department at that particular time.

Mr. PLATTS. Right.

Ms. SHERRY. But I did have the opportunity, when I did join the Department, to work closely with FEMA to examine what those internal control failures were. And what we did is we worked with them for several years. In fact, when we had the hurricanes for Ike and Gustav, what we did is we actually tested those internal controls. And I think it was the IG who tested behind them and came back with saying yeah, what you are doing as far as tightening these preventive-type controls here are working. But I suspect it was probably a combination of many of the things, sir, that you talked about. But if you would like, we could get back to you on that.

Mr. PLATTS. Yeah. If you could followup with the committee.

[The information referred to follows:]

[NOTE.—The information referred to was not provided to the committee.]

Ms. SHERRY. Happy to do that.

Mr. PLATTS. You know, what is the main thing they did to get from perhaps double-digit to now low single-digit error rate?

And then also the other issue, I understand outside of your domain, is how they are working where an innocent citizen got a payment and—because I understand that there is, you know, the citizen can petition for it to be forgiven, or a payment plan. I guess what I would like to know is how customer-oriented are we? Because if it is a citizen who has done nothing wrong, to get a letter saying—even the initial letter saying, Hey, you owe this money and we would like it in 30 days. If it was our fault, I hope that letter is also laying out we would like 30 days, we understand this might create a financial hardship, so please contact us and we will work with you for repayment. I hope we are doing that up front, versus kind of a, you know, a letter saying, Hey, pay up, and then after the fact we come back.

Ms. SHERRY. We will look at that, sir. Absolutely.

Mr. PLATTS. If you could followup with the committee, that would be great.

[The information referred to follows:]

[NOTE.—The information referred to was not provided to the committee.]

Mr. PLATTS. If no other questions, I just want to thank you for your testimony here today, but most importantly for your work, day in and day out. And, really, you get your arms around a very important assignment. Because the more efficient and well managed the Department is, the more effective it is going to be in serving our Nation in a lot of critically important missions.

Also thank your staff there with you as well, who work day in and day out with you at the Department. We certainly want to be a partner for you.

And it kind of goes to Mr. Towns, I think his last question, if you do have something to put on our list that we can do to better as-

sist, because that is what we want to do, we want to partner with you, assist in any way we can, if there is something legislatively that you need, we stand ready to work with you and your colleagues to try to make that happen, to allow you to be as effective as possible.

Ms. SHERRY. Thank you, sir. I appreciate the opportunity to be here today. Thank you.

Mr. PLATTS. You are welcome. And we will keep the record open for 2 weeks for any additional information. Otherwise, this hearing stands adjourned.

[Whereupon, at 12:43 p.m., the subcommittee was adjourned.]

[The prepared statement of Hon. Elijah E. Cummings follows:]

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Opening Statement
Rep. Elijah E. Cummings, Ranking Member

Subcommittee on Government Organization, Efficiency, and Financial Management
Hearing on "Department of Homeland Security Financial Management"

May 13, 2011

I thank Chairman Platts for calling this hearing today.

The topic of this hearing "assessing the financial management of the Department of Homeland Security" is of vital importance to U.S. national and economic security and it's the responsibility of this Committee to find solutions to the many internal control challenges that this Department currently faces.

I thank our witness, DHS' Acting Chief Financial Officer Peggy Sherry for appearing before us today.

DHS has more than 200,000 employees and an annual budget of over $40 billion making it the third largest federal Department.

In 2003, GAO designated DHS as "high risk" because of the management and mission challenges posed by transforming 22 agencies into one Department.

In August 2007, GAO issued a report making recommendations in the form of performance expectations, designed to improve DHS' financial management.

In February 2011, GAO noted that the Department had made improvements. But GAO again included DHS in its "high risk" series and identified the need to strengthen the Department's financial management functions as a key area of concern.

In the eight years the Department has been in existence, DHS has yet to implement a department-wide, integrated financial management system. While this Committee recognizes the strides that DHS has made, we also would like to see much more accomplished in the near future which is why I welcome this hearing.

Further, all that I have just enumerated is concerning enough, however, the new financial management systems strategy known as the Transformation and Systems Consolidation or TASC program that the Department has been developing since June 2007 has recently been canceled, leaving DHS at square one.

Finally, as the former Chairman of the Subcommittee on Coast Guard and Maritime Transportation, I have been deeply troubled by the United States Coast Guard's longstanding financial management challenges. The service continues to have the most substantial internal control weaknesses of all the DHS components. Given how stretched and underfunded this service is and how urgently it needs to modernize its air and surface assets, it is critical that the service be able to give a full accounting of the use to which every dollar appropriated to it has been put.

I look forward to learning more about the steps being taken by DHS to correct these problems from Ms. Sherry.

Contact: Ashley Etienne, Communications Director, (202) 225-5051.

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