

**DHS FINANCIAL MANAGEMENT: INVESTIGATING
DHS'S STEWARDSHIP OF TAXPAYER DOLLARS**

HEARING

BEFORE THE

**SUBCOMMITTEE ON OVERSIGHT
AND MANAGEMENT EFFICIENCY**

OF THE

**COMMITTEE ON HOMELAND SECURITY
HOUSE OF REPRESENTATIVES**

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

NOVEMBER 15, 2013

Serial No. 113-44

Printed for the use of the Committee on Homeland Security



Available via the World Wide Web: <http://www.gpo.gov/fdsys/>

U.S. GOVERNMENT PRINTING OFFICE

87-374 PDF

WASHINGTON : 2014

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
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DHS FINANCIAL MANAGEMENT: INVESTIGATING DHS'S STEWARDSHIP OF TAX-PAYER DOLLARS

Friday, November 15, 2013

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT AND MANAGEMENT
EFFICIENCY,
COMMITTEE ON HOMELAND SECURITY,
Washington, DC.

The subcommittee met, pursuant to call, at 9:32 a.m., in Room 311, Cannon House Office Building, Hon. Jeff Duncan [Chairman of the subcommittee] presiding.

Present: Representatives Duncan, Daines, Barber, Thompson, and O'Rourke.

Also present: Representative Jackson Lee.

Mr. DUNCAN. The Committee on Homeland Security, Subcommittee on Oversight and Management Efficiency will come to order.

The purpose of this hearing is to examine the financial management of the Department and identify the progress made and the challenges that remain to financial management systems and practices.

Before I recognize myself for an opening statement, I will say that I am observing "No Shave November," and I am raising awareness of men's health issues, specifically November is pancreatic and prostate cancer month. We all know folks like my good friend, Representative David Umphlett, that died in June 2011 of pancreatic cancer, and I wear this in his memory.

I now recognize myself for an opening statement.

Since its inception 10 years ago, the Department of Homeland Security has faced a multitude of challenges in combining the 22 distinct legacy agencies into one Cabinet-level department. This has been especially true with the resolving financial management deficiencies at DHS. Integrating components in their budgets is a complex process in the best of situations, but doing it while protecting the Nation from terrorist attacks, natural disasters, and other day-to-day missions has proven particularly difficult.

These challenges were further compounded at the Department by inherited financial management problems that existed at several legacy components, including the Coast Guard, FEMA, and the agencies that now make up the United States Immigration and Customs Enforcement.

Congress has conducted vigorous oversight over DHS financial management and has demanded the Department make progress in better managing its finances. In October 2004, in an effort to enhance the management and credibility of the Department, Congress has passed various pieces of legislation requiring that DHS undergo annual financial audits, keep better financial information, and make sure financial statements are ready in a timely manner in order to have them adhere to applicable accounting principles, also known in financial-speak as obtaining a clean opinion.

It is important to mention some of the progress that DHS management has committed to and accomplished toward its financial management goals in recent years. Notably, from 2005 to 2012, the Department corrected many problems with its financial statements, increased component progress through more direction and oversight, and strengthened internal controls to increase the usefulness, reliability, and timeliness of financial information.

While the Department has made progress in obtaining a clean opinion on its financial statements, the Government Accountability Office in its report released to Congress yesterday explains that this has been the result of complex manual workarounds that make up for a lack of effective controls. GAO has concluded that, absent sound internal controls over its financial reporting, "The Department's ability to efficiently manage its operations and resources on a daily basis and routinely provide useful, reliable, and timely financial information for decision making is seriously hindered."

A recent case study in this could be seen in an investigation and report released a few weeks ago by the U.S. Office of Special Counsel, which documented the blatant and sustained abuse of administratively uncontrollable overtime, or AUO, by six separate offices at DHS. Examples such as this make it clear that without the proper financial management systems and controls in place, how can DHS and its components know that money is not being wasted?

If the American people can open their checking account on-line and know to the penny how much they have, then surely the third-largest Federal department should be able to produce real-time financial data. Back in my home State of South Carolina, families and businesses have had to take a hard look at their budgets and make tough choices. DHS must do the same. The better financial information DHS has, the greater the chance it could cut costs and save taxpayer dollars without sacrificing our homeland security.

Addressing internal-control weaknesses and obtaining a clean audit opinion remain challenges for the Department. DHS's inability to obtain a clean audit opinion on its financial statements and improve the effectiveness of internal controls were key factors for GAO keeping the Department on its high-risk list.

According to GAO's most recent work, the DHS has made limited progress in obtaining a clean opinion on its internal controls over financial reporting and will continue to face challenges in obtaining and, perhaps more importantly, in sustaining a clean opinion over its books until it addresses serious internal-control and financial management system deficiencies. Using manual data calls to collect cost information from various components in order to compile the data is simply not a feasible way to manage the long-term financial needs and responsibilities of the Department.

While DHS has turned away from the previous failed attempts to modernize its financial management systems at a Department-wide level, choosing instead to focus on upgrading those components with the most critical need, GAO reports that DHS has no real vision of the end-state for the future of its financial management system. Sound and sustained financial management practices in the long term should be a low-cost, efficient way to support the Department's missions and goals.

I cannot lay out the case any clearer than the Department's own Office of Inspector General did last year. "The Federal Government has a fundamental responsibility to be an effective steward of taxpayer dollars. Sound financial practices and related management operations are critical to achieving the Department's mission and to providing reliable, timely financial information to support management decision-making throughout DHS. Congress and the public must be confident that DHS is properly managing its finances to minimize inefficient and wasteful spending, to make informed decisions to manage government programs and implement its policies."

I appreciate the panelists being here today.
[The statement of Mr. Duncan follows:]

STATEMENT OF CHAIRMAN JEFF DUNCAN

Since its inception 10 years ago, the Department of Homeland Security has faced a multitude of challenges in combining 22 distinct legacy agencies into one Cabinet-level department. This has been especially true with resolving financial management deficiencies at DHS. Integrating components and their budgets is a complex process in the best of situations, but doing it while protecting the Nation from terrorist attacks, natural disasters, and other day-to-day missions has proven particularly difficult. These challenges were further compounded at the Department by inherited financial management problems that existed at several legacy components, including the Coast Guard, FEMA, and the agencies that now make up U.S. Immigration and Customs Enforcement.

Congress has conducted vigorous oversight over DHS financial management and has demanded that the Department make progress in better managing its finances. In October 2004, in an effort to enhance the management and credibility of the Department, Congress has passed various pieces of legislation requiring that DHS undergo annual financial audits, keep better financial information, and make sure financial statements are ready in a timely manner in order to have them adhere to applicable accounting principles, also known in financial speak as obtaining a "clean opinion."

It is important to mention some of the progress DHS management has committed to and accomplished toward its financial management goals in recent years. Notably, from 2005 to 2012, the Department corrected many problems with its financial statements, increased component progress through more direction and oversight, and strengthened internal controls to increase the usefulness, reliability, and timeliness of financial information.

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A recent case study in this could be seen in an investigation and report released a few weeks ago by the U.S. Office of Special Counsel which documented the blatant and sustained abuse of Administratively Uncontrollable Overtime, or AUO, by six separate offices at DHS. Examples such as this make it clear that without the proper financial management systems and controls in place, how can DHS and its components know that money is not being wasted?

If the American people can open up their checking account on-line and know to the penny how much they have, then surely the third-largest Federal department should be able to produce real-time financial data. Back home in South Carolina, families and businesses have had to take a hard look at their budgets and make tough choices. DHS must do the same. The better the financial information DHS has, the greater the chance it could cut costs and save taxpayer dollars without sacrificing our homeland security.

Addressing internal control weaknesses and obtaining a clean audit opinion remain challenges for the Department. DHS's inability to obtain a clean audit opinion on its financial statements and improve the effectiveness of internal controls were key factors for GAO keeping the Department on its High-Risk List. According to GAO's most recent work, DHS has made limited progress in obtaining a clean opinion on its internal controls over financial reporting and will continue to face challenges in obtaining, and perhaps most importantly, in sustaining a clean opinion over its books until it addresses serious internal control and financial management systems deficiencies.

Using manual data calls to collect cost information from various components in order to compile data is simply not a feasible way to manage the long-term financial needs and responsibilities of the Department. While DHS turned away from the previous failed attempts to modernize its financial management systems at a Department-wide level, choosing instead to focus on upgrading those components with the most critical need, GAO reports that DHS has no real vision of the end-state for the future of its financial management system.

Sound and sustained financial management practices in the long-term should be a low-cost, efficient way to support the Department's missions and goals. I could not lay the case out any clearer than the Department's own Office of Inspector General did last year: "The Federal Government has a fundamental responsibility to be an effective steward of taxpayer dollars. Sound financial practices and related management operations are critical to achieving the Department's mission and to providing reliable, timely financial information to support management decision-making throughout DHS. Congress and the public must be confident that DHS is properly managing its finances to minimize inefficient and wasteful spending, make informed decisions to manage government programs, and implement its policies."

Mr. DUNCAN. I will now recognize the Ranking Member, the Member from Arizona, Mr. Barber, for any statement that he may have.

Mr. BARBER. Well, thank you, Mr. Chairman, and thank you for convening this hearing. It is a very important part of our job as an oversight subcommittee.

I want to thank the witnesses for being here this morning. I look forward to your testimony.

Since its inception a little more than 10 years ago, the Department of Homeland Security has faced multiple challenges in building "One DHS" from a network of 22 legacy agencies. When the Department was created, many of those legacy agencies came to the new department with financial systems that were, to say the least, not optimal.

In fact, four of the previous stand-alone and largest components—U.S. Customs Service, the Transportation Security Administration, Immigration and Naturalization Service, and the Federal Emergency Management Agency, or FEMA—were not in compliance with the requirements of the Federal Financial Management Improvements Act of 1996 prior to their inclusion in the Department of Homeland Security. So, clearly the Department inherited some very poor, ineffective financial management systems.

These financial management systems and those of other DHS components have continued, unfortunately, to age, and the Department has not yet successfully updated and modernized them.

As the Ranking Member, I believe it is imperative—and I think all of us would agree—to be good stewards of taxpayer money. I

also want DHS to be more transparent and accountable, both to Congress and to the American people, and we cannot do that without good information that is essential to meeting this goal.

It is just not acceptable that the largest law enforcement entity in the Federal Government, one that protects our borders and ensures the efficient movement of goods and people, have outdated and inefficient management and operation systems. Inefficient financial management means DHS cannot accurately account for its assets, assess equipment or personnel costs, or provide quality data to oversight committees or other agencies that seek to monitor how the agency does its job. These inefficiencies can lead to holes in the homeland security armor, and they must be fixed.

Just an example of a decision that was made in my State, in a town not too far from Tucson called Ajo, where the Department made a decision to build homes for Border Patrol personnel at the cost of \$600,000, on the average, for each home in a community where the average cost of homes was \$100,000. Seems to me that a good financial system might have informed management about those costs, and they might have made a different decision.

We know that twice the Department has attempted to fix financial management challenges by merging its disparate systems into one. On both occasions, we know also that those attempts have not worked. The Department's new effort, what it calls the Financial Systems Modernization, is under way at FEMA, and plans are in place to implement the system Department-wide.

A plan to modernize DHS's financial management systems is scheduled to be completed in the next several years. However, that assumes that there are no glitches. I think we know a whole lot about glitches in computer systems.

I am cautiously optimistic about the success of this latest effort because I want to see DHS be a leader in financial management and operations efficiency. However, I remain concerned regarding the day-to-day effect of the third-largest Federal agency operating with systems that on any given day may not be usable because they are outdated. These problems bear directly on the safety and security of our Nation.

An independent auditor recently determined that the U.S. Customs and Border Protection did not detect that it actually possessed assets that were incorrectly recorded, misclassified, or not recorded at all in the general ledger. Additionally, certain assets were recorded as being in possession in CBP's general ledger that no longer existed. When these types of mistakes occur, it causes an agency to purchase items it does not need or, even worse, to fail to make purchases that are needed to assist those working in the field. Given the present budgetary constraints, we can neither tolerate nor afford either scenario.

The American public does not always see the progress the Department has made over the years and the hard work of our Border Patrol agents, customs officers, and other DHS employees. However, the American people do notice, as they should, such inefficiencies. It is this type of inefficiency that gives this Government and the Department a bad name, and we can and must do better.

The Department must complete the implementation of the initiatives to stabilize its internal controls and improve its financial re-

porting. The modernization of the Department's financial management systems is necessary in order to get to a point where the Department's financial information is reliable, up-to-date, and in compliance with the Office of Management and Budget under the Federal mandates.

I appreciate that both the Government Accountability Office and the Office of the Inspector General have served as a partner with the Department in trying to improve its systems and right this ship. I hope that the Department has taken both the GAO and the OIG recommendations seriously and will implement the necessary changes to make its financial management system efficient and effective, using taxpayer dollars wisely.

I look forward to hearing from our witnesses on progress that has been made, how the progress or lack thereof is affecting the Department's mission, and what is needed to further improve the Department's efforts.

Thank you, Mr. Chairman. I yield back.
[The statement of Mr. Barber follows:]

STATEMENT OF RANKING MEMBER RON BARBER

NOVEMBER 15, 2013

Since its inception, the Department of Homeland Security has faced multiple challenges in building "One DHS" from a network of 22 legacy agencies.

When the Department was created many of the legacy agencies came into the new Department with financial management systems that were not operating at optimal levels.

In fact, four of the previously stand-alone and largest, components—U.S. Customs Service, the Transportation Security Administration, Immigration and Naturalization Service, and the Federal Emergency Management Agency (FEMA)—were not in compliance with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA) prior to their inclusion in the Department of Homeland Security.

These financial management systems and those of other DHS component agencies have continued to age and, unfortunately, the Department has not successfully updated and modernized them.

As Ranking Member, I believe it is imperative that DHS be good stewards of taxpayer dollars.

It is simply unacceptable for the largest law enforcement entity within the Federal Government, one that protects our borders and ensures the efficient movement of goods and people, to have outdated and inefficient management and operations systems.

Inefficient financial management means DHS cannot accurately account for its assets, assess equipment or personnel costs, or provide quality data to oversight committees or other agencies that seek to monitor how the agency uses its funds.

These inefficiencies can lead to holes in our homeland security armor and they must be fixed.

Twice the Department has attempted to fix its financial management challenges by merging its disparate systems into one. On both occasions those attempts have not worked.

The Department's new effort—what it calls the Financial Systems Modernization—is already underway at FEMA and plans are in place to implement the system Department-wide.

The plan to modernize DHS's financial management systems is scheduled to be completed in the next several years. However, that assumes that there are no glitches.

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When these types of mistakes occur, it causes an agency to purchase items it does not need or, even worse, to fail to make purchases that are needed to assist those working in the field.

Given present budgetary constraints, we can neither tolerate nor afford either scenario.

The American public does not always see the progress the Department has made over the years and the hard work of our Border Agents, Customs Officers, and other DHS employees. However, the American public does notice, as they should, such inefficiencies. It is this type of inefficiency that gives Government and the Department a bad name and we can and must do better.

The Department must complete the implementation of initiatives to stabilize its internal controls and improve its financial reporting.

The modernization of the Department's financial management systems is necessary in order to get to a point where the Department's financial information is reliable, up-to-date, and in compliance with the Office of Management and Budget and other Federal mandates.

I am thankful that both the Government Accountability Office (GAO) and the Office of Inspector General (OIG) have served as a partner with the Department in trying to improve its systems and right this ship.

I hope that the Department has taken both GAO and OIG recommendations seriously and will implement the necessary changes to make its financial management system efficient and effective, using taxpayer dollars wisely.

I look forward to hearing from our witnesses on progress that has been made, how the progress or lack thereof is affecting the Department's mission, and what is needed to further improve the Department's efforts.

Mr. DUNCAN. I thank the Ranking Member.

The Chairman will now recognize and welcome the Ranking Member of the full committee, the gentleman from Mississippi, Mr. Thompson, for any statement he may have.

Mr. THOMPSON. Thank you very much, Chairman Duncan, for holding today's hearing.

The Department of Homeland Security has one of the largest budgets in the Federal Government. It is the third-largest agency, and approximately \$60 billion in taxpayer funds flows in and out of the Department on an annual basis. Among other things, these funds are used to provide salaries for the Department's more than 240,000 employees, provide disaster aid to State and local governments, and purchase equipment used by those protecting our borders. We owe it to the taxpayers to ensure that these funds are appropriately used, fully accounted for, and auditable.

Unfortunately, this has not been the case at the Department of Homeland Security. Last year, for the first time ever, the Department was given a qualified audit opinion. While this achievement is laudable, the Department's financial management systems continue to hamper the everyday operations of the Department, impacting management functions and ultimately our security.

Ten years into several attempts at integrating its financial management systems and millions of dollars later, the Department is still using six different systems, all of which are plagued with problems. Most of these systems are aging, and some have reached the end of their life cycle.

Oftentimes, when Congress, the Government Accountability Office, or the inspector general seeks financial information from the Department regarding procurement of various programs, employees have to retrieve this information manually because the systems are

not equipped to handle automated data calls. This wastes time, puts strain on an already challenged workforce, and reduces the reliability of the information provided.

But even more troublesome is the effect these aging systems have on homeland security. For example, inaccurate cost-benefit analysis and the inability to determine whether what is being purchased is the best value can lead to program failure. Program failure leads to gaps in the mission, and gaps in the mission undermine security.

For these reasons, I am pleased that the Department is yet again attempting to improve its system through the current Financial Systems Modernization efforts, which, as I understand, is probably the third rodeo for the Department to try to get it right. I do have concerns, however, about the total cost, currently estimated at \$225 million, and the Department's ability to accurately receive an appropriation for that amount in this current austere budget environment.

At any rate, improvements must be made, and I am pleased that plans are under way and at least one component, the Federal Emergency Management Agency, has already begun the process. We will continue to exercise diligent oversight over this process. I look forward to hearing from the witnesses regarding the status of this effort, including whether the Department is in compliance with both GAO and OIG recommendations.

I yield back, Mr. Chairman.

[The statement of Mr. Thompson follows:]

STATEMENT OF RANKING MEMBER BENNIE G. THOMPSON

NOVEMBER 15, 2013

The Department of Homeland Security (Department) has one of the largest budgets in the Federal Government. It is the third-largest agency and approximately \$60 billion in taxpayer funds flows in and out of the Department on an annual basis. Among other things, these funds are used to provide salaries for the Department's more than 240,000 employees, provide disaster aid to State and local governments, and purchase the equipment used by those protecting our borders.

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This wastes time, puts strain on an already challenged workforce and reduces the reliability of the information provided. But even more troublesome, is the effect these aging systems have on homeland security. For example, inaccurate cost/benefit analyses and an inability to determine whether what is being purchased is the best value can lead to program failure.

Program failure leads to gaps in the mission and gaps in the mission undermines security. For these reasons, I am pleased that the Department is yet again attempting to improve its systems through the current Financial Systems Modernization effort.

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We will continue to exercise diligent oversight over this process, and I look forward to hearing from the witnesses regarding the status of this effort including whether the Department is in compliance with GAO and OIG recommendations.

Mr. DUNCAN. I thank the Ranking Member.

Other Members of the subcommittee are reminded that opening statements may be submitted for the record.

Now, we are pleased to have a distinguished panel of witnesses before us today on this topic.

Let me remind the witnesses that their entire written statement will appear in the record. I will introduce each of you first and then recognize you individually for your testimony.

Our first panelist today is Mr. Chip Fulghum. He is the acting chief financial officer for the Department of Homeland Security as well as the agency’s budget director.

The Office of the Chief Financial Officer is responsible for the fiscal management, integrity, and accountability of the Department. Its mission is to provide guidance and oversight of the Department’s budget, financial management, financial operations for all Departmental management operations, the DHS Working Capital Fund, grants, and assist in awards and resource management systems to ensure that funds necessary to carry out the Department’s mission are obtained, allocated, and extended in accordance with the Department’s priorities and relevant law and policies.

Mr. Fulghum joined the DHS in October 2012 as its budget director. Prior to joining the Department, Mr. Fulghum served for 28 years in the United States Air Force, retiring with the rank of colonel. He is also a graduate of The Citadel, the military college from South Carolina.

It is an honor to have you here. Thanks for your service to our great Nation. Go, Bulldogs. But I hope my Tigers beat you next week. That is all I can say.

Mr. FULGHUM. They may have a problem next week.

Mr. DUNCAN. Thank you for being here. Yes, sir.

The second panelist is Mr. Asif Khan. He is a director at the U.S. Government Accountability Office for financial management and assurance issues. Mr. Khan has extensive experience in performing financial accounting, financial statements, audits, restatements, internal-control reviews, business process analysis. He has worked on large and complex audits and investigations relating to waste, fraud, and abuse. Prior to joining the GAO, Mr. Khan was a senior manager at Deloitte accounting firm.

The third panelist is Ms. Anne Richards. She is the assistant inspector general for the Office of Audits under Office of Inspector General at the Department of Homeland Security. The Office of Audits focuses on promoting effectiveness, efficiency, and economy in DHS’s programs and operations, in addition to detecting fraud, abuse, and waste and mismanagement. Prior to joining the Office of Inspector General, Ms. Richards was assistant inspector general at the U.S. Department of the Interior.

I appreciate all the panelists being here today.

I will now recognize Mr. Fulghum to testify.

STATEMENT OF CHARLES FULGHUM, ACTING CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF HOMELAND SECURITY

Mr. FULGHUM. Thank you, Chairman Duncan, Ranking Member Barber, and Members of the subcommittee, for the opportunity to testify before you today on the Department of Homeland Security's progress towards strengthening financial management and ensuring strong stewardship of the taxpayers' dollars.

DHS is committed to instituting sound financial management practices, which is evidenced by our recent achievements in auditability. Working together as "One DHS", the financial management community launched a multi-year effort to drive the Department toward a clean audit opinion and a full accounting for how it spends taxpayer dollars. As a part of this effort, DHS put in place strong internal controls, established Department-wide policies and business processes, strategically recruited staff, and developed essential skill sets through workforce development.

DHS senior leadership is committed to identifying areas for improvement and developing plans to address those areas. Using corrective action plans as our roadmap, the Department established policies, processes, and structures to ensure consistent operations for accounting centers and financial management offices within the components.

Because of these efforts, DHS has made substantial progress towards maturing financial management and reporting. In fiscal year 2012, approximately 90 percent of DHS's \$87.2 billion in assets and liabilities were auditable, which is an increase from 63 percent in 2009. Last year, the Department was able to provide a qualified assurance on internal control over financial reporting and earned a qualified audit opinion on all its 2012 financial statements—a first in its history.

These improvements have paved the way for the Department to reach its ultimate goal of sustainable clean audit opinions on all financial statements and on internal controls over financial reporting. DHS is committed to achieving an unqualified opinion on all its fiscal year 2013 financial statements. We are executing a multi-year plan to provide full assurance of the effectiveness of internal controls over financial reporting by 2016.

It is critical that DHS continue to build on its successes, increasing the efficiency and effectiveness of financial management. Key to sustaining progress is the ability of components to produce consistent, reliable data from their financial systems.

Several component financial systems are outdated and in need of modernization. To address this, DHS launched the Financial Systems Modernization initiative, which seeks to build increased business intelligence capabilities and modernize component systems where needed.

The Department's decentralized approach to systems modernization conforms to the guidance from OMB to split modernization projects into smaller, simpler segments with clear deliverables and to focus on the most critical business needs first. It also conforms to OMB's objective to use shared services wherever possible. By buying a service, the Department can leverage proven processes

and best practices, deliver functionality faster, and reduce the risk associated with building and maintaining a complex internal system.

Through the Financial Systems Modernization initiative, DHS will be able to reduce costs by eliminating redundant or nonconforming systems and promote good business practices through the standardization of processes and data where possible.

Under the target state for DHS Financial Systems Modernization, the Department uses enhanced systems tools to pull financial data from disparate systems and turn it into timely, actionable information to support informed decision-making. These tools increased transparency into how we spend appropriated dollars and improve the quality of the Department-wide financial reporting.

By improving overall data integrity and analytics, the DHS financial management community can better equip Departmental leadership to take those tough trade-off decisions and maintain the Department's focus on its priority missions.

Despite resource constraints, the DHS financial management community continues to identify and implement best practices to make operations as efficient and as effective as possible. This is only possible with the expertise and tireless efforts of our highly-skilled workforce. Together, we have built a sturdy foundation of sustainable financial management practices that will support Departmental operations for years to come. We will continue to work on improving financial management access across the Department, ensuring we make the most of every taxpayer dollar.

Thank you for your continued support of this Department, and I am happy to answer any questions that you may have.

[The prepared statement of Mr. Fulghum follows:]

PREPARED STATEMENT OF CHARLES FULGHUM

NOVEMBER 15, 2013

Thank you Chairman Duncan, Ranking Member Barber, and Members of the subcommittee for the opportunity to testify before you on the Department of Homeland Security's (DHS) progress in strengthening financial management and ensuring strong stewardship of the resources entrusted to it.

The DHS financial management community has a shared, related, and interdependent responsibility to deliver efficient financial management, and to ensure funds are obtained, allocated, and expended effectively and in accordance with Department priorities and applicable law and policies. DHS is committed to instituting sound financial management practices to safeguard taxpayer dollars, as is evidenced by recent achievements in auditability.

During its first 5 years, the Department's headquarters was small, and it was faced with the task of having to unify the incongruent financial management policies, processes, and infrastructure that components brought with them to DHS. When the Department was stood up in 2003, there were an estimated 100 financial management systems operating in 22 components. In addition, components were operating under legacy policies and disparate business processes. Further, DHS inherited 30 significant financial reporting deficiencies, 18 of which were considered material weaknesses. These conditions hampered the Department's ability to produce timely, reliable financial data.

Since 2003, the Department has worked with Congress, the Government Accountability Office, the Office of Management and Budget, the DHS Office of Inspector General, and our independent auditor to strengthen financial management to support the DHS mission. The passage of the *DHS Financial Accountability Act* in 2004 reinforced our efforts to mature Department operations, providing an essential framework to successfully structure and improve financial management and corrective action planning for DHS through audit opinions, internal controls over financial reporting, and accountability reports.

Working together as One DHS, the financial management community launched a multi-year effort to drive the Department toward a clean audit opinion and a full accounting for how it spends taxpayer dollars. DHS put in place strong internal controls, strategically recruited staff, developed essential skill sets through workforce training, and established Department-wide policies and business processes—the fundamental building blocks for effective financial management. To improve the auditability of its financial statements, DHS has worked to standardize business practices and to execute systematic plans to correct recognized weaknesses.

DHS senior management has a continued commitment toward identifying areas for improvement, developing and monitoring corrective actions, and establishing and maintaining effective financial management internal controls. Each year, my office works closely with DHS components to perform targeted risk assessments to identify weaknesses in accounting and financial reporting where problems could occur due to changing operations and programs, and to develop and implement mission action plans for those high-risk areas. Component heads certify that the annual plans address critical deficiencies identified by management and/or the auditor, and commit to devoting adequate resources to remediate the deficiencies and to strengthen and improve the overall internal control environment. Using mission action plans as a roadmap, the Department has established policies, processes, and structures to help ensure consistent operations for accounting centers and financial management offices within the components. For example, DHS developed the *Financial Management Policy Manual*, which provides the Department with current and comprehensive financial management policies and procedures to ensure that DHS maintains efficient and transparent operations and that our resources are not vulnerable to waste, fraud, and mismanagement.

These efforts have built a foundation of strong financial management policies and practices, the impact of which is visible in our substantial progress maturing DHS financial management and reporting. In fiscal year 2012, approximately 90 percent of DHS's \$87.2 billion in assets and liabilities were auditable, an increase from 63 percent in fiscal year 2009. The Department has continued to improve internal control deficiencies through corrective actions and best practices. DHS has reduced its material weaknesses from 18 to 5, and has further reduced the scope of several remaining weaknesses due to significant progress achieved in remediating concerns in those areas.

DHS continues to demonstrate measurable progress every year, developing and implementing corrective actions and decreasing material weakness and significant deficiency conditions, confirming DHS's on-going commitment to sound financial management practices. In 2012, the Department earned a qualified audit opinion on all its fiscal year 2012 financial statements, a first in its history. This means that the Department has systems in place to responsibly account for its resources. The Department was also able to provide a qualified assurance on internal control over financial reporting, our first major milestone toward obtaining an opinion on internal control. This means that with the exception of a few areas, DHS has good business processes in place to ensure our financial statements are accurate. These achievements highlight the success of management integration efforts at DHS and represent important steps toward increasing transparency and accountability for the taxpayer resources entrusted to the Department.

DHS remains committed to further strengthening its financial management practices to better safeguard taxpayer dollars. The Department will continue to apply its audit readiness strategy of targeted risk assessment and strong oversight of corrective actions, working closely with components to mitigate the risk of any new material weaknesses or audit qualifications as a means to sustain continuing success. This will lead the Department to its ultimate goal of sustainable clean audit opinions on all financial statements and on internal controls over financial reporting. DHS is committed to achieving an unqualified opinion on all its fiscal year 2013 financial statements and is executing its multi-year plan to provide full assurance of the effectiveness of its internal control over financial reporting by fiscal year 2016.

It is critical that DHS continue to build on its successes, increasing the efficiency and effectiveness of financial management. Key to sustaining progress implementing sound financial management practices and internal controls is the ability of components to produce consistent, reliable financial data. By improving overall data integrity and analytics, DHS can produce accurate and auditable financial statements and can support leadership in making trade-off decisions and maintaining the Department's focus on its priority missions.

Some component DHS financial systems are outdated and in need of modernization. To address this, DHS launched the Financial Systems Modernization initiative to expand business intelligence capabilities and modernize financial systems where needed. The Department's decentralized approach conforms to guidance from Office

of Management and Budget (OMB) to split modernization projects into smaller, simpler segments with clear deliverables and to focus on the most-critical business needs first. It also conforms to OMB's objective to leverage shared services where possible, rather than continuing to make costly capital investments in duplicative accounting systems. Through the Financial Systems Modernization initiative, DHS will be able to better manage its resources, provide enterprise-level information quicker to support critical decision making, reduce costs by eliminating redundant or nonconforming systems, and promote good business practices through standardization of processes and data where possible.

Each DHS component, supported by the strong governance and oversight of the Financial Systems Modernization Executive Steering Committee, is analyzing solutions with varying degrees of integration, including integration with acquisition and asset management systems. The Department is approaching each modernization using procurement best practices to obtain the best possible value. DHS provides oversight and guidance to ensure component modernization projects align with Department objectives and best practices. Components are required to conform to Department-wide standards to ensure consistent enterprise-level information and reporting to internal and external stakeholders. Each component is also required to develop and maintain an updated Integrated Master Schedule. After each component determines its path forward, each will develop and implement a specific individual transition plan for moving from its current financial management environment to the future financial management environment on the basis of its finalized path forward.

DHS and its components collaborate to ensure financial system modernization projects are planned and executed to meet reporting requirements, minimize costs for financial operations, and make certain that financial management systems provide for the systematic measurement of performance and have management controls in place to support the DHS mission. My office performed an extensive review of lessons learned and best practices from other Federal financial system projects, and is working with DHS Centers of Excellence to ensure best practices in program management, systems engineering, and security are incorporated into component projects. In addition, DHS is incorporating lessons learned from previous modernization efforts, as well as recommendations from the Government Accountability Office and a recently completed independent assessment validating its approach. DHS will continue to collaborate with Treasury and OMB to execute our aligned strategy and will update relevant supporting documentation as each component completes its Alternatives Analysis and finalizes its path forward.

Under the target state for DHS financial systems modernization, the Department will use enhanced business intelligence tools to pull financial data from disparate systems and turn it into timely, actionable information to support informed decision making by Department leadership. DHS is standardizing data elements and business processes to support internal controls and improve and sustain audit success, and is providing governance and oversight of current and future financial management system enhancements. The business intelligence tools increase transparency into how we spend appropriated dollars and improve the quality of Department-wide financial reporting through automated data controls. These tools have improved Departmental compliance with the CFO Act and DHS Financial Accountability Act, regulations and OMB guidance, and Government accounting standards. These tools have also increased efficiencies by reducing the Department's reliance on manual data calls, which are labor-intensive and have a greater risk of inaccurate, outdated, or incomplete contents.

The DHS financial management community continues to identify and implement best practices to make operations as efficient and effective as possible. This is only possible with the expertise and tireless efforts of our highly-skilled employees. Together, we have built a sturdy foundation of sustainable financial management practices that will support Department operations for years to come. We will continue the work of improving financial management across the Department, ensuring we make the most of every taxpayer dollar.

Thank you for your continued support of the Department of Homeland Security. I am happy to answer any questions you may have.

Mr. DUNCAN. Thank you, Colonel.

The Chairman will now recognize Mr. Khan.

STATEMENT OF ASIF A. KHAN, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. KHAN. Good morning, Chairman Duncan, Ranking Member Barber, and Members of the subcommittee. I am here to discuss our recent work on the Department of Homeland Security's efforts to improve its financial management and reporting. I would like to thank the subcommittee for holding this hearing and focusing attention on actions needed to meet difficult challenges.

Effective financial management and reporting is important for DHS decision makers and their stewardship of Federal funds. It is also integral to DHS business operations, such as acquisition, payroll, asset management, that provides crucial support to DHS's mission.

Today, I will discuss the results of our recent work on DHS's efforts to improve its financial management and reporting. I will focus on progress towards obtaining a clean opinion on both its financial statements and internal controls over reporting as well as modernizing its financial management systems.

Since DHS was established in 2003, its internal controls and financial management system weaknesses have impeded its ability to provide reliable, timely, and useful financial data to support daily operations and decision making. These deficiencies contributed to our designation of DHS management functions, including financial management, as high-risk.

Sound financial management at DHS is a top priority for Congress, which enacted legislation in 2004 requiring DHS to undergo annual financial statement audits. DHS is also required to obtain an audit opinion on its internal controls over financial reporting, making it the only CFO Act agency explicitly required to do so.

A key factor in improving accountability and achieving an entity's mission is to implement an effective internal-control system. In 2012, additional legislation was passed required DHS to take the necessary steps to ensure that its fiscal year 2013 financial statements are ready to obtain a clean opinion.

In recent years, DHS has made considerable progress towards obtaining a clean opinion on its financial statements. However, DHS has made limited progress towards obtaining a clean opinion on its internal controls and modernizing its financial management systems. DHS's top leaders have shown commitment to making the needed improvements, and its components are taking the actions necessary to identify weaknesses, yet much remains to be done.

For the first time, DHS was able to receive a qualified opinion on all its fiscal year 2012 financial statements, in part based on management's commitment to improving its financial management processes. DHS is working to resolve the deficiencies that resulted in the qualified opinion and has a goal of achieving a clean opinion on its financial statements for fiscal year 2013. However, the auditors' report indicated that DHS continues to rely on compensating controls and complex manual workarounds to support its financial reporting.

Over the years, DHS's auditors have reported a reduction in the number of material weaknesses in internal controls. For the most recent completed audit, DHS's auditors reported five material

weaknesses at eight components, including the Coast Guard. According to DHS's auditors, these material weaknesses limit DHS's ability to process, store, and report financial data in a manner that ensures accuracy, confidentiality, integrity, and availability of data without substantial manual intervention.

DHS has plans to resolve these remaining weaknesses, with a goal of achieving a clean opinion on its internal controls for fiscal year 2016. DHS components are in the early stages of planning for their financial management systems, and DHS expects these efforts to be completed by 2018.

This decentralized approach is consistent with OMB guidance. However, DHS has not fully incorporated certain information technology best practices, including developing a detailed target state that describes how the component systems will operate in the future. DHS also lacks a transition plan that describes how components will move to a new Department-wide financial management environment. Without a target state and transition plan, DHS risks using resources ineffectively by investing and implementing systems that do not provide the needed capabilities.

In closing, we are encouraged by the sustained commitment of DHS leadership. They have developed plans and begun the implementation of specific action items in all financial management areas. Their follow-through to effectively remediate the auditors' finding and implement IT best practices will be needed to sustain progress over the long term. To support this subcommittee's oversight, GAO will continue monitoring and reporting on the Department's financial management improvements.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions you or the other Members of the subcommittee may have. Thank you.

[The prepared statement of Mr. Khan follows:]

PREPARED STATEMENT OF ASIF A. KHAN

NOVEMBER 15, 2013

DHS FINANCIAL MANAGEMENT.—CONTINUED EFFORT NEEDED TO ADDRESS INTERNAL CONTROL AND SYSTEM CHALLENGES

GAO-14-106T

Chairman Duncan, Ranking Member Barber, and Members of the subcommittee: I am pleased to be here today to discuss our recent work on the Department of Homeland Security's (DHS) efforts to improve its financial management and reporting. Since DHS's inception in March 2003,¹ internal control and financial management system weaknesses have impeded its ability to provide reliable, timely, and useful financial data to support daily operational decision making.² Those internal

¹In March 2003, DHS was created by merging 22 disparate agencies and organizations, many of which had known financial management weaknesses and vulnerabilities. Only 5 of the agencies that transferred to DHS had been subject to financial statement audits—U.S. Customs Service, Transportation Security Administration, Immigration and Naturalization Service, Federal Emergency Management Agency, and Federal Law Enforcement Training Center. DHS currently comprises 16 component entities.

²Internal control is a major part of managing an organization and comprises the plans, methods, and procedures used to meet missions, goals, and objectives and, in doing so, supports performance-based management. GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, DC: November 1999) provides an overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste and abuse, and mismanagement.

control and financial management system deficiencies contributed to our decision to designate DHS's management functions—including financial management—as high-risk in 2003.³ As noted in our 2013 high-risk report, continued improvement is needed to mitigate the risks identified and to help ensure that management weaknesses do not hinder the Department's ability to efficiently and effectively use its resources and accomplish its mission.⁴

The DHS Audit Requirement Target Act of 2012 requires DHS to take the necessary steps to ensure that its fiscal year 2013 financial statements are ready in a timely manner in order to obtain a clean opinion.⁵ A clean opinion means that the financial statements are presented fairly, in all material respects, in accordance with the applicable accounting principles. DHS's financial statements consist of the consolidated balance sheets; statements of net cost, changes in net position, budgetary resources, and custodial activity; and related notes. Further, DHS is required by the DHS Financial Accountability Act of 2004⁶ to obtain an audit opinion on its internal control over financial reporting.⁷ A clean opinion states that, in the auditors' opinion, the entity maintained effective internal control over financial reporting.

We have long held that accountability is part of the organizational culture that goes well beyond receiving a clean audit opinion on the financial statements; the underlying premise is that agencies must become more results-oriented, cost-conscious, and focused on internal control. A disciplined and structured approach to assessing internal control is critical to successfully implement and maintain adequate financial management oversight in the Federal Government.

My remarks today are primarily based on our September 2013 report on DHS financial management issues.⁸ Accordingly, this testimony addresses DHS's progress toward: (1) Obtaining a clean opinion on its financial statements; (2) obtaining a clean opinion on its internal control over financial reporting; and (3) modernizing its financial systems, including the extent to which DHS's approach for modernizing its current financial systems was consistent with Office of Management and Budget (OMB) requirements. We also discuss whether DHS followed certain information technology (IT) best practices while implementing its approach. For our report, we reviewed relevant DHS guidance and documents, determined whether DHS followed OMB requirements and certain industry best practices, and interviewed key DHS officials. We updated this statement for new information obtained from DHS since the issuance of our report related to DHS's schedule for completing its financial system modernization efforts. This work was performed in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Our report provides further details on our scope and methodology.

In summary, we found DHS:

- has made considerable progress toward generating reliable financial data to obtain a clean opinion on its financial statements;
- has made limited progress in establishing effective controls to obtain a clean opinion on its internal control over financial reporting; and
- is in the early planning stages of implementing its decentralized approach with each component determining the specific solution for its financial systems modernization.

OPINION ON FINANCIAL STATEMENTS

DHS's progress on obtaining a clean opinion on its financial statements includes reducing the number of audit qualifications from 11 in 2005 to 1 in 2010;⁹ receiving

³ GAO, *High-Risk Series: An Update*, GAO-03-119 (Washington, DC: January 2003).

⁴ GAO, *High-Risk Series: An Update*, GAO-13-283 (Washington, DC: February 2013).

⁵ Pub. L. No. 112-217, § 2(b), 126 Stat. 1591 (Dec. 20, 2012).

⁶ Pub. L. No. 108-330, § 4(a), 118 Stat. 1277 (Oct. 16, 2004).

⁷ The objectives of internal control over financial reporting are to provide reasonable assurance that: (1) Transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements.

⁸ GAO, *DHS Financial Management: Additional Efforts Needed to Resolve Deficiencies in Internal Controls and Financial Management Systems*, GAO-13-561 (Washington, DC: Sept. 30, 2013).

⁹ An audit qualification is a matter identified by auditors that contributes to their inability to render a clean opinion on the financial statements.

a qualified audit opinion on two of its five fiscal year 2011 financial statements—the consolidated balance sheet and statement of custodial activity;¹⁰ expanding the financial audit in fiscal year 2012 to all financial statements; and obtaining a qualified opinion on the fiscal year 2012 financial statements.¹¹ DHS was able to achieve this progress based in part on management’s commitment to improving its financial management process.

DHS is working to resolve the deficiencies in the U.S. Coast Guard’s (USCG)—one of DHS’s major component entities—ability to complete certain reconciliations and provide evidence supporting certain components of general property, plant, and equipment (PP&E), as well as heritage and stewardship assets that caused its auditors to issue a qualified opinion on its fiscal year 2012 financial statements. DHS has a goal of achieving a clean opinion for fiscal year 2013. However, the auditors’ report indicates that DHS continues to rely on compensating controls and complex manual work-arounds to support its financial reporting, rather than sound internal control over financial reporting and effective financial management systems.

OPINION ON INTERNAL CONTROL

In regard to DHS’s progress on obtaining a clean opinion on internal control over financial reporting, from fiscal years 2005 through 2011, DHS’s auditors reported a reduction in the number of material weaknesses in internal control over financial reporting from 10 to 5 and a decrease in the number of control deficiencies contributing to the material weaknesses from 30 to 15.¹² Although the number of auditor-reported material weaknesses in DHS’s internal control over financial reporting has decreased since fiscal year 2005, the largest reduction—for fiscal year 2007—was due to a consolidation of weaknesses into fewer, broader categories for reporting purposes.¹³ For fiscal year 2012, the most recently completed audit, DHS’s auditors reported material weaknesses in five areas related to deficiencies at eight components, including USCG.

The material weaknesses reported in fiscal year 2012 include: (1) Financial reporting, (2) IT controls and financial system functionality, (3) property, plant, and equipment, (4) environmental and other liabilities, and (5) budgetary accounting.¹⁴ According to DHS’s auditors, the existence of these material weaknesses limits DHS’s ability to process, store, and report financial data in a manner that ensures accuracy, confidentiality, integrity, and availability of data without substantial manual intervention. DHS has plans to resolve the remaining five material internal control weaknesses, with a goal of achieving a clean opinion on internal control over financial reporting for fiscal year 2016. DHS will continue to face challenges in obtaining and sustaining a clean opinion on its financial statements and attaining a clean opinion on its internal control over financial reporting until serious internal control and financial management systems deficiencies are resolved.

¹⁰ Auditors reported that: (1) The other three financial statements, including the statements of net cost, changes in net position, and budgetary resources, were not auditable, and (2) DHS must be able to represent that its balance sheet is fairly stated, and obtain at least a qualified opinion before it is practical to extend the audit to other financial statements.

¹¹ A qualified opinion, in relation to the financial statements, states that certain reported balances are unauditable, or the financial statements contain a material departure from generally accepted accounting principles, or both.

¹² A material weakness is a significant deficiency, or a combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a control deficiency, or combination of deficiencies, in internal control important enough to merit attention by those charged with governance. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

¹³ For fiscal year 2007, auditors consolidated certain material weaknesses by combining: (1) Intragovernmental balances into the financial reporting material weakness; (2) PP&E with the operating materials and supplies material weakness and reporting the combination as capital assets and supplies; and (3) actuarial liabilities with the legal and other liabilities and reported the combination as actuarial and other liabilities. The auditors noted that DHS had made progress during fiscal year 2007 in remediating the deficiency related to intragovernmental balances. USCG was the only DHS component that contributed to the fiscal year 2006 material weaknesses in operating materials and supplies and actuarial liabilities, but the auditors did not report that USCG had made progress during fiscal year 2007 in remediating the deficiencies within operating materials and supplies and actuarial liabilities.

¹⁴ For detailed information on the five material weaknesses, see GAO–13–561, appendix IV.

FINANCIAL MANAGEMENT SYSTEMS

For nearly a decade, DHS tried to modernize its financial management systems by attempting to implement a Department-wide integrated financial management system. DHS's efforts included two projects—one that ended in December 2005 when DHS acknowledged that its pilot project had not been successful, and another in June 2011 when requirements had changed and DHS canceled the program. Now, under its decentralized approach, DHS plans to modernize the financial systems of components with the most critical need first and integrate the financial systems with asset management and acquisition systems, resulting in component-level integrated financial management systems. DHS determined that components with a critical business need to modernize their financial management systems include Immigration and Customs Enforcement and USCG, and their customer components, as well as the Federal Emergency Management Agency. Components are in the early planning stages of implementing the approach, and as of September 2013, DHS estimated that its financial system modernization efforts will not be completed until fiscal year 2018.

In our September 2013 report, we found that DHS's decentralized approach for modernizing its components' financial systems is consistent with relevant OMB requirements, such as implementing projects in smaller, simpler segments, but not all relevant IT best practices have been fully implemented. DHS has implemented certain IT recommended best practices that reflect key areas of effective program management, such as conducting an analysis of alternatives, establishing a governance structure, developing financial management systems baseline business process requirements, and developing a description of its current financial management environment. However, DHS had not fully incorporated other IT best practices, including developing a description of how its components' financial management systems will operate in the future—called a detailed target state—or a description of how components will transition to a new financial management environment—called a Department-level transition plan.¹⁵

To help DHS deploy component-level integrated financial management systems, we made two recommendations to DHS regarding the need to follow best practices related to its target state and transition plan. After reviewing the draft report, DHS generally agreed with our recommendations and described actions already taken to address them. However, we believe that further action is needed to address these recommendations. Specifically, DHS has not developed other important details for its target state, such as Department-level operational needs and characteristics, including the systems' availability, data flow, expandability, and interoperability. In addition, its transition strategy is missing needed elements of a transition plan such as milestones and time frames for implementing new systems as well as the optimal sequencing of activities. Without a detailed target state and Department-level transition plan, DHS has an increased risk of, among other things, investing in and implementing systems that do not provide the desired capabilities and inefficiently using resources during its financial management system modernization efforts.

With regard to the status of DHS's efforts to complete actions necessary to achieve removal from our high-risk list, in a September 2010 letter to DHS, we identified, and DHS subsequently agreed to achieve, 31 actions and outcomes, including 9 related to financial management, that are critical to addressing the high-risk issues and challenges within the Department's management areas.¹⁶ Based on our recent review, we determined that DHS has made progress improving its financial management and fully addressing 2 of the 9 high-risk financial management actions and outcomes—obtaining top management commitment and developing corrective action plans.¹⁷ However, a significant amount of work remains to be completed on the remaining 7 financial management actions and outcomes, which include obtaining and sustaining a clean opinion on its financial statements, addressing weaknesses in in-

¹⁵We also had two other findings and recommendations in our report related to IT best practices and the need for DHS, at the time of our review, to update its standard operating procedures and include specific procedures for revising milestone dates and providing written confirmation of completed activities reflected in its integrated master schedule and for performing key elements of a lessons learned process. After DHS received our draft report for comment, DHS finalized its procedures to resolve these issues, and we agreed that DHS had completed actions to address these two recommendations.

¹⁶For a list and discussion of the 31 actions and outcomes, see GAO, *Department of Homeland Security: Continued Progress Made Improving and Integrating Management Areas, but More Work Remains*, GAO-12-1041T (Washington, DC: Sept. 20, 2012); and *High-Risk Series: Government-wide 2013 Update and Progress Made by the Department of Homeland Security*, GAO-13-444T (Washington, DC: Mar. 21, 2013).

¹⁷For detailed information on the 9 financial management actions and outcomes, see GAO-13-561, appendix II.

ternal controls and systems to obtain an opinion on the effectiveness of internal control over financial reporting, ensuring that its financial systems substantially comply with the Federal Financial Management Improvement Act of 1996,¹⁸ and deploying modern financial systems at certain components. Achieving these outcomes will greatly enhance DHS's ability to produce reliable, timely, and useful financial information to support operational decision making, and thus assist it in efficiently and effectively using its resources to accomplish its mission.

Chairman Duncan, Ranking Member Barber, and Members of the subcommittee, this concludes my prepared remarks. I would be happy to answer any questions that you may have.

Mr. DUNCAN. Thank you, Mr. Khan.

Ms. Richards, welcome back. You are recognized.

STATEMENT OF ANNE L. RICHARDS, ASSISTANT INSPECTOR GENERAL FOR AUDITS, OFFICE OF INSPECTOR GENERAL, U.S. DEPARTMENT OF HOMELAND SECURITY

Ms. RICHARDS. Good morning, Chairman Duncan, Ranking Member Barber, and Members of the subcommittee. Thank you for inviting me to testify about financial management at the Department of Homeland Security.

Today, I will focus my remarks on information provided in two reports: The fiscal year 2012 Independent Auditors' Report on Financial Statements and Internal Control Over Financial Reporting, which was prepared by the independent auditing firm KPMG, and the financial management section of our Major Management Challenges report. Both of these reports were issued in November 2012. We expect to issue the fiscal year 2013 reports in mid-December of this year.

Overall, the Department continued to improve its financial management in fiscal year 2012, and it achieved a significant milestone: The completion of a full-scope audit on all financial statements. The independent auditors issued a qualified opinion on DHS's financial statements but were unable to opine on the internal controls over financial reporting because of the material weaknesses identified during the audit of those controls.

In the fiscal year 2012 financial statement audit, KPMG identified the same five material weaknesses as in the fiscal year 2011 audit. Those were in financial reporting; IT controls and financial system functionality; property, plant, and equipment; environmental and other liabilities; and budgetary accountings. The auditors also identified other significant deficiencies in general Department-level controls, grants management, revenue collected on behalf of the U.S. Treasury, and drawbacks.

After the fiscal year 2011 report, the Department and its components worked diligently to take steps to address the identified deficiencies. In the fiscal year 2012 report, the auditors made additional recommendations for corrective actions.

Of the material weaknesses, IT controls and financial system functionality is of particular concern. General IT controls and IT application controls are essential to effective and reliable financial and performance data. DHS is making progress in the area of IT controls. In fiscal year 2012, DHS remediated or corrected 46 percent of the prior-year IT control weaknesses, with CBP, FEMA, and TSA making the most progress.

¹⁸Pub. L. No. 104-208, div. A, title VIII, 110 Stat. 3009, 3009-389 (Sept. 30, 1996).

Financial system functionality, which is literally how the financial systems take the data input, such as journal entries, and compile the financial statements, as well as how DHS's myriad of systems align or can be coordinated to exchange information, remains troubling. In expanding our audit to include all the financial statements rather than just the balance sheet and statement of custodial activity, we have discovered additional weaknesses for deficiencies in financial system functionality.

The ability to provide fairly presented financial statements and obtain an unqualified audit opinion is an important step in DHS's journey to sound financial management, and the Department continues to work diligently towards this goal. However, a clean financial statement audit does not ensure that there is sound financial information about all Department operations.

As we noted in our fiscal year 2012 report on DHS's major management challenges, the Department's financial management systems cannot yet provide timely accumulated cost information by major program or areas of responsibility aligned with each entity's major goals and outputs. As of fiscal year 2012, the Department was still using manual data calls to collect cost information from the various components and to compile consolidated data. According to DHS, it is working to improve its access to such information as well as the quality of the information Department-wide.

The Department has clearly demonstrated its commitment to improving its financial practices and operations. We believe that a clean audit opinion is a reachable goal, and we remain committed to conducting financial statement and other performance audits and making recommendations that will help ensure DHS ensures the proper stewardship of taxpayer dollars.

Mr. Chairman, this concludes my prepared statement. I welcome any questions you or the other Members of the subcommittee may have.

[The prepared statement of Ms. Richards follows:]

PREPARED STATEMENT OF ANNE L. RICHARDS

NOVEMBER 15, 2013

Good morning Chairman Duncan, Ranking Member Barber, and Members of the subcommittee: Thank you for inviting me here today to testify about financial management at the Department of Homeland Security (DHS). Today, I will address financial management within the Department by focusing on the *Independent Auditors' Report on DHS' FY 2012 Financial Statements and Internal Control over Financial Reporting* and on our fiscal year 2012 Major Management Challenges report, both of which were issued in November 2012. KPMG, LLP prepared the independent auditors' report. Both fiscal year 2013 reports will be issued in mid-December of this year.

The Federal Government has a fundamental responsibility to be an effective steward of taxpayer dollars. Sound financial practices and related management operations are critical for DHS to achieve its mission and to provide reliable, timely financial information to support management decision making throughout DHS. Congress and the public must be confident that the Department is properly managing its finances to minimize inefficient and wasteful spending, and to make informed decisions to manage its programs and implement its policies.

Although DHS produced an auditable balance sheet and statement of custodial activity in fiscal year 2011 and obtained a qualified opinion on those statements, challenges remained for the Department's financial management. Achieving a qualified opinion in fiscal year 2011 resulted from considerable effort by DHS employees, rather than through complete implementation of a reliable system of control over financial reporting. As a result of DHS obtaining a qualified opinion on its balance

sheet and statement of custodial activity in fiscal year 2011, the scope of the fiscal year 2012 audit was increased to include statements of net cost, changes in net position, and combined statement of budgetary resources.

The Department continued to improve financial management in fiscal year 2012 and achieved a significant milestone. Fiscal year 2012 was the first year the Department completed a full scope audit on all financial statements. The independent auditors issued a qualified opinion on the financial statements. Nevertheless, the Department still had work to do in fiscal year 2013. In fiscal year 2012, KPMG was unable to perform the necessary procedures to form an opinion on DHS' internal control over financial reporting of that fiscal year's financial statements. In addition, the Department had material weaknesses in internal control over financial reporting. To sustain or improve upon the fiscal year 2012 qualified opinion, DHS needed to continue remediating the remaining control deficiencies.

MANAGERIAL COST ACCOUNTING

As we noted in our fiscal year 2012 report on DHS' major management challenges, the Department does not have the ability to provide timely cost information by major program, and by strategic and performance goals. Its financial management systems do not allow for the accumulation of costs at the consolidated level by major program, nor do they allow for the accumulation of costs by responsibility segments that directly align with the major goals and outputs described in each entity's strategic and performance plan. The Department also needs to develop a plan to implement managerial cost accounting, including necessary information systems functionality. As of fiscal year 2012, the Department was using manual data calls to collect cost information from the various components and compile consolidated data. During audits that we issued in fiscal year 2013, we identified a number of components that did not have the ability to provide various cost data when requested. For example:

- During the audit of the Transportation Security Administration's (TSA) Aviation Channeling Service Provider project (*Transportation Security Administration's Aviation Channeling Services Provider Project*, OIG-13-42, February 2013), we learned that TSA did not track and report all project costs. According to TSA officials, it was impossible to provide exact costs because the expenditures were not tracked in detail.
- During the audit examining U.S. Customs and Border Protection's (CBP) acquisition and conversion of H-60 helicopters (*DHS' H-60 Helicopter Programs*, OIG 13-89 Revised, May 2013), CBP officials received high-level cost information from the U.S. Army, but it did not include the detail necessary for adequate oversight of the component's H-60 programs. For example, the Army conducted approximately 15,000 tests on CBP H-60 components, but CBP could not identify which tests were completed or the specific costs. In addition, for each CBP H-60 helicopter, financial data from three sources listed a different total cost.
- During the audit of CBP's use of radiation portal monitors at seaports (*United States Customs and Border Protection's Radiation Portal Monitors at Seaports*, OIG-13-26, January 2013), we identified instances in which the acquisition values for the monitors were incorrect and could not be supported.

ANTI-DEFICIENCY ACT VIOLATIONS

As of September 30, 2012, the Department and its components reported five potential Anti-Deficiency Act (ADA) violations in various stages of review, including one potential ADA violation identified in fiscal year 2012, which the Department was investigating. The four other ADA violations involved: (1) Expenses incurred before funds were committed or obligated, (2) pooled appropriations to fund shared services, (3) a contract awarded before funds had been re-apportioned, and (4) improper execution of the obligation and disbursement of funds to lease passenger vehicles. No new ADA violations were identified in fiscal year 2013.

FISCAL YEAR 2012 FINANCIAL STATEMENT AUDIT

The *Independent Auditors' Report on DHS' FY 2012 Financial Statements and Internal Control over Financial Reporting* contained five items that showed the status of DHS' efforts to address internal control weaknesses in financial reporting. These were identified as material weaknesses in the fiscal year 2011 independent audit of DHS' consolidated balance sheet and statement of custodial activity. All five material weaknesses remained in fiscal year 2012. Table 1, which appeared in independent auditors' report, summarizes the auditors' fiscal year 2012 findings. The auditors identified significant deficiencies considered to be material weaknesses in financial reporting; information technology (IT) controls and financial system

functionality; property, plant, and equipment (PP&E); environmental and other liabilities; and budgetary accounting. DHS made progress in remediating two material weaknesses. Specifically, the United States Coast Guard (USCG) properly stated environmental liability balances, which resulted in the auditors retroactively removing the fiscal year 2011 qualification in this area. The USCG was also able to remediate a number of internal control weaknesses related to IT scripting, and it continued to make progress in PP&E, with the goal of being able to assert to the entire PP&E balance by January 2013. They did not, however, meet that goal. Other significant deficiencies were identified in entity-level controls, grants management, and custodial revenue and drawback.

TABLE 1 – SUMMARIZED DHS FY 2012 INTERNAL CONTROL FINDINGS
(Full-Scope Financial Statement Audit)

Comments / Financial Statement Area		DHS Consol.	USCG	CBP	USCIS	FEMA	FLETC	ICE	MGMT	NPPD	TSA
Material Weaknesses:			Exhibit I								
A	Financial Reporting	MW									
B	IT Controls and System Functionality	MW									
C	Property, Plant, and Equipment	MW									
D	Environmental and Other Liabilities	MW									
E	Budgetary Accounting	MW									
Significant Deficiencies:			Exhibit II								
F	Entity-Level Controls	SD									
H	Grants Management	SD									
I	Custodial Revenue and Drawback	SD									

	Control deficiency findings are <i>more significant</i> to the evaluation of effectiveness of controls at the Department-Level
	Control deficiency findings are <i>less significant</i> to the evaluation of effectiveness of controls at the Department-Level
MW	Material weakness at the Department level exists when all findings are aggregated
SD	Significant deficiency at the Department level exists when all findings are aggregated

In fiscal year 2012, the Department provided qualified assurance that internal control over financial reporting was operating effectively at September 30, 2012, and it acknowledged that material weaknesses continued to exist in key financial processes. Consequently, the independent auditors were unable to render an opinion on DHS' internal controls over financial reporting in fiscal year 2012.

FINANCIAL REPORTING

Financial reporting presents financial data on an agency's financial position, its operating performance, and its flow of funds for an accounting period. In fiscal year 2011, the USCG, U.S. Citizenship and Immigration Services (USCIS), and TSA contributed to the material weakness in this area. Although some findings reported in fiscal year 2011 were corrected, other findings at the USCG and TSA remained in fiscal year 2012. Also, in fiscal year 2012, new financial reporting findings were identified at U.S. Immigration and Customs Enforcement (ICE).

As in the previous year, the auditors reported in fiscal year 2012 that the USCG did not have properly designed, implemented, and effective policies, procedures, processes, and controls related to its financial reporting process. The USCG used three general ledgers, developed more than a decade ago. This legacy system had severe functional limitations that affected its ability to address systemic internal control weaknesses in financial reporting, strengthen the control environment, and comply with relevant Federal financial system requirements and guidelines.

The auditors also identified deficiencies that remained in some financial reporting processes at TSA. For example, there were weak or ineffective controls in some key financial reporting processes, in management's quarterly review of the financial statements, and in supervisory reviews over journal vouchers. In addition, TSA was not fully compliant with the United States Government Standard General Ledger requirements at the transaction level. In recent years, TSA implemented several new procedures and internal controls to correct known deficiencies, but some procedures still required modest improvements to fully consider all circumstances or potential errors. The control deficiencies contributed to substantive and classification errors reported in the financial statements and discovered during the audit.

During fiscal year 2012, the auditors noted financial reporting control weaknesses at ICE, primarily resulting from expanded audit procedures for the full-scope finan-

cial statement audit. ICE had not fully developed sufficient policies, procedures, and internal controls for financial reporting. It also needed adequate resources to respond to audit inquiries promptly and accurately, and to be able to identify potential technical accounting issues. ICE faced challenges in developing and maintaining adequate lines of communication within its Office of Financial Management and among its program offices. Communication between financial managers and personnel responsible for contributing to financial reports was not sufficient to consistently generate clear and usable information. In addition, ICE did not have sufficient coordination with IT personnel, including contractors who were generating certain financial reports.

The independent auditors made several recommendations to the USCG, TSA, and ICE to address these challenges.

INFORMATION TECHNOLOGY CONTROLS AND FINANCIAL SYSTEMS FUNCTIONALITY

IT general and application controls are essential to effective and reliable reports of financial and performance data.

During the fiscal year 2011 financial statement audit, the independent auditors noted that the Department remediated 31 percent of the prior year IT findings. The most significant fiscal year 2011 weaknesses included: (1) Excessive unauthorized access to key DHS financial applications, resources, and facilities; (2) configuration management controls that were not fully defined, followed, or effective; (3) security management deficiencies in the certification and accreditation process and an ineffective program to enforce role-based security training and compliance; (4) contingency planning that lacked current, tested contingency plans developed to protect DHS resources and financial applications; and (5) improperly segregated duties for roles and responsibilities in financial systems. These deficiencies negatively affected internal control over DHS' financial reporting and its operation and contributed to the fiscal year 2011 financial management and reporting material weakness.

In fiscal year 2012, DHS made some progress in correcting the IT general and application control weaknesses identified in fiscal year 2011. DHS and its components remediated 46 percent of the prior year IT control weaknesses, with CBP, the Federal Emergency Management Agency (FEMA), and TSA making the most progress in remediation. Although CBP and FEMA made progress in correcting their prior year issues, in fiscal year 2012, the most new issues were noted at these two components. New findings resulted primarily from new IT systems and business processes that were within the scope of the broadened fiscal year 2012 financial statement audit and were noted at all DHS components.

The auditors noted many cases in which financial system functionality limitations inhibited DHS' ability to implement and maintain internal controls, notably IT application controls supporting financial data processing and reporting. As a result, on-going financial system functionality limitations contributed to the Department's challenge to address systemic internal control weaknesses and strengthen the overall control environment. In fiscal year 2012, 5 IT control weaknesses remained and presented risks to the confidentiality, integrity, and availability of DHS' financial data: (1) Access controls; (2) configuration management; (3) security management; (4) contingency planning; and (5) segregation of duties. Several findings were related to the USCG's financial system functionality, including limitations that were preventing the USCG from establishing automated processes and application controls that would improve accuracy, reliability, as well as facilitate efficient processing of certain financial data. Financial system functionality limitations also contributed to other reported control deficiencies.

The independent auditors recommended that the DHS Office of the Chief Information Officer, in coordination with the Office of the Chief Financial Officer, continue the *Financial Systems Modernization* initiative, and make necessary improvements to the Department's financial management systems and supporting IT security controls.

PROPERTY, PLANT, AND EQUIPMENT

DHS capital assets and supplies consist of items such as PP&E operating materials, as well as supplies, including boats and vessels at the USCG, passenger and baggage screening equipment at TSA, and stockpiles of inventory to be used for disaster relief at FEMA. The USCG maintains approximately 50 percent of all DHS PP&E.

During fiscal year 2011, TSA, the USCG, CBP, and the Management Directorate (MGMT) contributed to a Departmental material weakness in PP&E. During fiscal year 2012, TSA and MGMT substantially completed corrective actions in PP&E accounting processes.

In fiscal year 2012, the USCG continued to remediate PP&E process and control deficiencies, specifically those associated with land, buildings and other structures, vessels, small boats, aircraft, and construction in process. However, remediation efforts were not fully completed in fiscal year 2012. The USCG had difficulty establishing its opening PP&E balances and accounting for leases, primarily because of poorly-designed policies, procedures, and processes implemented more than a decade ago, combined with ineffective internal controls and IT system functionality difficulties.

As in prior years, CBP had either not fully implemented policies and procedures, or it did not have sufficient oversight of its adherence to policies and procedures, to ensure that all PP&E transactions were recorded promptly and accurately, or to ensure that all assets were recorded and properly valued in the general ledger.

In fiscal year 2012, ICE did not have adequate processes and controls in place to identify internal-use software projects that should be considered for capitalization. It also did not have adequate policies and procedures to ensure that assets acquired were recorded in the general ledger in a timely manner.

The independent auditors made several recommendations to the USCG, CBP, and ICE to address these challenges.

ENVIRONMENTAL AND OTHER LIABILITIES

Liabilities are the probable and measurable future outflow or other sacrifice of resources resulting from past transactions or events. Internal control weaknesses reported in this area relate to various liabilities, including environmental, accounts payable, legal, and accrued payroll and benefits.

In fiscal year 2012, the USCG's environmental liabilities represented approximately \$500 million or 75 percent of total DHS environmental liabilities. Later in fiscal year 2012, the USCG completed the final phases of a multi-year remediation plan to address process and control deficiencies related to environmental liabilities. However, the USCG did not implement effective controls to ensure the completeness and accuracy of all underlying data components used to calculate environmental liability balances. The USCG also did not have documented policies and procedures to update, maintain, and review schedules to track environmental liabilities (e.g., Formerly Used Defense Sites) for which it was not primarily responsible at the Headquarters level. Additionally, the USCG did not effectively implement existing policies and procedures to validate the prior year accounts payable estimate.

The independent auditors made recommendations related to environmental and other liabilities to the USCG.

BUDGETARY ACCOUNTING

Budgetary accounts are general ledger accounts for recording transactions related to the receipt, obligation, and disbursement of appropriations and other authorities to obligate and spend agency resources. DHS has numerous sources and types of budget authority, including annual, multi-year, no-year, and permanent and indefinite appropriations, as well as several revolving, special, and trust funds. Timely and accurate accounting for budgetary transactions is essential to managing Department funds and preventing overspending.

In fiscal year 2012, the USCG implemented corrective actions plans over various budgetary accounting processes; however, some control deficiencies reported in fiscal year 2011 remained, and new deficiencies were identified. The USCG had not fully implemented existing policies, procedures, and internal controls to ensure that obligations were reviewed and that approved and undelivered order balances were monitored to ensure their timely deobligation when appropriate. It also did not have fully implemented policies, procedures, and internal controls over the monitoring of reimbursable agreements, and related budgetary unfilled customer orders, to ensure activity, including closeout and deobligation, as appropriate, was recorded timely and accurately. The component did not have sufficient policies and procedures for recording the appropriate budgetary entries upon receipt of goods, and prior to payment.

Although FEMA also continued to improve its processes and internal controls over the obligation and monitoring process, some control deficiencies remained. The component did not effectively certify the status of its obligations to ensure validity prior to fiscal year end. It could not readily provide all supporting documentation for obligations and deobligations made during the year and for undelivered orders audited at June 30, 2012 and September 30, 2012. FEMA also did not properly review budgetary funding transactions recorded in the general ledger. It did not timely and effectively complete management reviews over the monthly reconciliations of the SF-

132, *Apportionment and Reapportionment Schedule*, to the SF-133, *Report on Budget Execution and Budgetary Resources*.

As the financial service provider, ICE is responsible for recording budgetary transactions, and it administers budgetary processes across different types of funds at the National Protection and Programs Directorate, the Science and Technology Directorate, MGMT, and the Office of Health Affairs. In fiscal year 2011, ICE identified and began remediating deficiencies in the financial management system that impacted accounting transactions, such as posting logic related to adjustments of prior year unpaid, undelivered orders. In fiscal year 2012, ICE continued to address these issues with certain types of obligations.

MGMT is responsible for the operations and financial oversight of several programs including the DHS Working Capital Fund, which provides shared services to DHS agencies. In fiscal year 2012, MGMT recorded several corrective adjustments that were indicative of deficiencies in internal controls over financial reporting at the process level. MGMT lacked effective controls to monitor undelivered order balances to deobligate or adjust undelivered order balances on a timely basis. Internal controls were not properly designed to adequately monitor unfilled customer order balances, related to both the Working Capital Fund and non-Working Capital Fund activity.

The Federal Law Enforcement Training Center budgetary reporting process was within the scope of the fiscal year 2012 audit, and, as a result, new control deficiencies were identified. Management did not have controls in place to perform a thorough review of the fiscal year 2012 unfilled customer order beginning balances related to reimbursable construction, to ensure that beginning balances were properly recorded.

The auditors made recommendations to address deficiencies at the three DHS components, as well as at MGMT and the training center.

CONCLUSION

In fiscal year 2012, DHS received a qualified opinion on its financial statements. Improvements were seen at various components. For example, USCIS corrected control deficiencies in financial reporting that contributed to the overall material weakness. Likewise, TSA made significant progress in addressing PP&E, removing its contribution to the Department's material weakness. The USCG also continued to make financial reporting improvements in fiscal year 2012, by completing its planned corrective actions over selected internal control deficiencies. These remediation efforts allowed management to make new assertions in fiscal year 2012 related to the auditability of its financial statement balances. In addition, management was able to provide a qualified assurance of internal control over financial reporting in fiscal year 2012.

According to DHS' Office of Financial Management, in fiscal year 2012, there was improved access to and better quality of financial management information. The Department implemented business intelligence tools to help organize, store, and analyze data more efficiently. According to the Office of Financial Management, the Department was able to take information from individual budgets and display it for the enterprise, allowing views of DHS' budget allocation by mission area. Additionally, the Department reported it was developing the Decision Support Tool to help compile Department-wide program cost information and to provide a central dashboard with key indicators, such as cost, funding, and schedule, to assess and track the health of acquisitions.

Sound financial practices and related management operations are critical to achieving the Department's mission and to providing reliable, timely financial information to support management decision making throughout DHS. The Department has demonstrated its commitment to improving its practices and operations. It continued to make progress in fiscal year 2012, but needed to address some concerns to avoid losing momentum and to achieve the reachable goal of a clean opinion in fiscal year 2013. OIG, in turn, will continue to conduct financial statement audits and make recommendations to help DHS meet its challenges and ensure proper stewardship of taxpayer dollars.

Mr. Chairman, this concludes my prepared statement. I welcome any questions you or other Members of the subcommittee may have.

Mr. DUNCAN. Thank you so much.

Members are reminded that first votes are expected on the floor about 10:30, so we are going to try to get through as many questions. I am going to adhere to the 5-minute rule as strictly as possible.

Mr. BARBER. Mr. Chairman, before you begin the questions, could I just ask unanimous consent that our colleague, Representative Jackson Lee, be allowed to sit in on the panel? She is a Member of the full committee, and she is here, or was here a moment ago, and she will be back.

Mr. DUNCAN. Without objection, so ordered.

So I now recognize myself for 5 minutes.

First off, I ran a business for 16 years, and I can say that financial management and bookkeeping and accounting was not my favorite thing, but I had to do it. I had to do it to comply with the bank's requirements for audited financial statements. I had to comply with the IRS rules and tax filings. There were a lot of great tools out there for small businesses.

So this is an interesting topic to me, but I also understand the frustration of bringing these 22 legacy agencies together and trying to mirror up and match up the accounting principles and assets that might be on the books, depreciation, replacement, all while trying to secure our Nation.

So let me just delve right into the questioning. In its report on DHS financial management released yesterday, the GAO cited that DHS still lacks sound internal controls over financial reporting. This could inhibit DHS's ability to efficiently manage its operations and provide timely financial information for senior decision-makers.

Mr. Fulghum, can you detail for the subcommittee what efforts you have undertaken to correct the internal controls that DHS has addressed in the GAO report and what further efforts the Department intends to make?

Mr. FULGHUM. Thanks, sir. Absolutely. The 5 material weaknesses that Mr. Khan referenced are in the report. I would remind everyone that back in 2005 we had 18 material weaknesses. We have brought that down to 5.

What we are doing about it is, first of all, we have sound—we have developed sound practices and policies in place. So the first thing you have to do is have sound policies and practices. Then you need aggressive engagement, so we have established process review teams across components to address these issues, as well as senior engagement. We have an internal progress review chaired by the under secretary for management that meets quarterly, reviews these issues, reviews the action plans that we have in place.

Because that is the key. You do root-cause analysis of these issues, you develop action plans, you hold people accountable, and you measure progress. That is exactly what we are doing.

We expect when the audit is complete in 2013 to have less than 5 material weaknesses. We believe our multi-year effort is on track to eliminate those material weaknesses by 2016.

Mr. DUNCAN. Okay.

Ms. Richards, do you believe the Department is doing enough to address the previous IG GAO recommendations?

Ms. RICHARDS. In my opinion, the Department is working very hard to address those issues and certainly is putting forth every effort. It is too early to say what this year's audit results will be.

Mr. DUNCAN. Okay.

Mr. Khan.

Mr. KHAN. I mean, we certainly recognize the progress that DHS has made.

I want to refer to something that Ms. Richards mentioned in her testimony, was the qualified assurance that was made by DHS management. Before they made a qualified assurance in 2012, there was a lack of assurance over internal controls. As a result, new areas are going to be uncovered by future audits, and there may be additional internal-control weaknesses which would need to be addressed. That is one issue.

The other issue that Ms. Richards mentioned was the issue of business systems modernization. That is also essential to addressing the internal-control problems at DHS.

Mr. DUNCAN. Mr. Fulghum, do you think the IT issues that DHS has experienced have played a part in integrating some of the accounting practices and financial management practices?

Mr. FULGHUM. Absolutely. We have some basic IT challenges because we have outdated systems, so you have access issues, you have configuration management issues, day-to-day things, what I call basic blocking and tackling, when it comes to IT. As Mr. Khan said, the key to that is modernizing our systems. I believe—firmly believe we have a sound plan in place to do that.

Mr. DUNCAN. The reason I ask that is, as I understand from briefing before this hearing about some of the data calls that managers are having to make just to get—it seems very time-intensive and labor-intensive to do this stuff manually, when I believe the systems are out there for real-time data management with regard to that.

So do you care to further elaborate on what you are doing to address that?

Mr. FULGHUM. Yes, sir. We have eliminated a lot of manual data calls. We have made a lot of progress with our business intelligence tool that reaches in and grabs information, and we are able to do that. We are able to produce a monthly execution report now in an automated fashion.

We are not as happy as we would like to be about the timeliness of that report, and we are working to drive the timeliness of that down, as you noted. But we are making good progress, and we are doing it through the use of business intelligence and our CFO horizon tool.

Mr. DUNCAN. Okay.

Mr. FULGHUM. But I share your concern. As the Budget Director, I don't like manual calls, data calls, any more than anyone else.

Mr. DUNCAN. Right. Well, going forward, I would just ask that you keep us up-to-date on the progress being made there. I think that is very, very important.

My time has expired. I will recognize the gentlemen from Arizona, Mr. Barber, the Ranking Member.

Mr. BARBER. Thank you, Mr. Chairman.

My first question is for Mr. Fulghum.

First of all, I want to, I think, congratulate or maybe commiserate with you for taking this daunting task on. It is important that we get it done and get it done properly.

As was stated earlier, we know that at least two major attempts to fix the financial systems failed, and a lot of money was wasted,

quite frankly, on those efforts. So I want to focus on this effort and to see what is different about it.

You formulated within the Department a time line for each component to get the financial system in order. So my questions are—I will throw them all out to you at once and see if you can help me with the answers.

First of all: How and who developed these time lines? How were the components prioritized for first, second, and third, and so on, in terms of the priority for getting the job done?

Is the current schedule on time—modernization effort on time?

Really importantly, because this goes to the issue of what happened twice before, who is overseeing the modernization process? Who will be held accountable within those components if it is not done timely? We cannot have another failure, and I think you would agree.

So could you respond to those questions?

Mr. FULGHUM. Yes, sir. If I don't get them all, you will help me.

Mr. BARBER. Yeah.

Mr. FULGHUM. So, how did we go about doing it? How did we prioritize? We did mission needs. We looked at the capabilities of each of our financial management systems; we looked at the gaps. Based on some criteria that was established, we said, this is the worst, this is the next-worst, so on and so forth. So that is how we established a priority as to who went first, who goes second, who goes third, et cetera.

As far as the schedule goes, the schedule is tight. I will be the first to admit that the schedule is aggressive. We believe it is achievable.

The biggest concern I have about the schedule is the resourcing of it. I say that because in the 2014 budget we have asked for nearly \$30 million. Both the House and the Senate have supported that, but yet it is unclear whether we will get an appropriations bill or not. So, given that, we have to develop some alternative means should that not materialize. So what concerns me most about the schedule is the resourcing of it.

What else?

Mr. BARBER. The question about accountability. Obviously, in your position, you are overseeing the whole project. Where does accountability rest in each of the component parts to make sure we don't have another failure?

Mr. FULGHUM. So, what I would start with is to tell you that this project has the support of the leadership in DHS as well as the components. We have an excellent partnership with both OMB and the Treasury Department.

We have an engaged oversight process. The Office of the Under Secretary for Management established an executive steering committee that I am the chairman of, where we have representation from both the CIO community as well as the procurement community, because we need those partners, as well as every CFO within DHS.

It is just one of the most engaged executive steering committees I have ever been a part of. I would say, No. 1, we are holding each other accountable, but, obviously, as the chairman of that group, I am the one that is ultimately accountable in the financial manage-

ment community. I am extremely confident that we are on the right path and that we are going to get there with this initiative.

Mr. BARBER. Thank you for that response.

I would like to ask Mr. Khan to comment on an issue that you raised that I think is pretty crucial to success not only in this area but across the Department. I think we all know that about 40 percent of the senior management positions in DHS are currently vacant, held by an acting or interim director or assistant secretary.

Mr. Khan, as you look at that from the outside, from GAO's perspective, what impact does that level of management vacancy have on the ability to get this job done?

My concern is this: We have already had two failures, and now we have a whole bunch of folks who may not be there 6 months to a year from now. We are still waiting for a Secretary. How does that impact on the ability to get a job done in this circumstance and to hold people accountable?

Mr. KHAN. I can respond to that question in general. What we have seen at other agencies, there is always a concern when there is turnover at senior management, so it is crucial to have these practices institutionalized. So there is a concern that, given this turnover in vacancies, that they will be followed through in terms of many of the action steps which are necessary for financial management.

As far as systems modernization is concerned, we have reflected in our report that they follow best practices. There were a couple of areas where we feel they need to be strengthened. One was a transition plan, and the other one was the target state. These two steps were defined and make it much more transparent as to what the goal is for the agency and the specific steps how to get there. Once those have been clearly laid out, then there will be more accountability and follow-through.

Mr. BARBER. Thank you, Mr. Khan.

My time is up. I yield back.

Mr. DUNCAN. The Chairman will now recognize the Ranking Member, the gentleman from Mississippi, Mr. Thompson, for 5 minutes.

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

Mr. Khan, on at least four different occasions, the Department had been in violation of the Antideficiency Act, that I am aware of. Can you provide any direction as to how you think the Department can come into compliance with this?

Mr. KHAN. In our work, we did not review the Antideficiency Act violations for the Department, but, in general, this is part of funds control and accountability. Having stronger internal controls that we have talked about earlier on will go a long way to making sure that management has reliable and timely information.

Antideficiency violation occurs when there is time, purpose, and amount violations of the appropriations. Having strong funds control and internal controls will go a long way to prevent these violations from occurring.

Mr. THOMPSON. Mr. Fulghum, were you aware of these violations?

Mr. FULGHUM. Yes, sir.

Mr. THOMPSON. Can you just kind of tell us what are you trying to do to come into compliance?

Mr. FULGHUM. Well, in addition to what Mr. Khan said—internal controls are extremely important and vital—the best prevention is education and training.

So what have we done about it? We are about to roll out an on-line training course and make that available to all resource managers. We have partnered with the procurement community because they are an integral part of this, as far as our training efforts. We have brought our general counsel to symposiums and conferences where we have had this topic discussed. We have even had folks who were a part of the Antideficiency Act violation come in and talk about the lessons that they learned, what they did wrong, what could have helped them to avoid this.

So, to me, one of the keys is an aggressive education and training program, and we are doing that at DHS.

Mr. THOMPSON. Well, and that is good. Are these training offerings required for employment in the respective positions?

Mr. FULGHUM. Basic fiscal law and things of that nature are a requirement in terms of refresher-type training, yes, sir.

Mr. THOMPSON. You indicated to us that you are preparing courses to be on-line—

Mr. FULGHUM. Yes, sir.

Mr. THOMPSON [continuing]. For people. Are those on-line courses required training for employees?

Mr. FULGHUM. They should be, but let me check and confirm that. But they should be a part of their certification process, yes, sir. Basic fiscal law, those things should be a part of—

Mr. THOMPSON. Can you provide the committee with whatever the certification requirements are for those employees—

Mr. FULGHUM. Yes, sir.

Mr. THOMPSON [continuing]. You are talking about?

Mr. FULGHUM. Yes, sir.

Mr. THOMPSON. What period of time they are required to complete that certification?

Mr. FULGHUM. Yes, sir.

Mr. THOMPSON. As well as how many have completed it and how many are still left to complete it.

Mr. FULGHUM. We will get that information for you.

Mr. THOMPSON. Thank you.

Ms. Richards, one of the things we are concerned about and we hear about, the failing financial management systems. What impact do you see that those failing systems could have on the security of our Nation?

Ms. RICHARDS. Well, I think that it has already been described very well that when the financial systems are not providing good information it is difficult to make decisions on how to spend the money and where to put your resources.

We recently did an audit on radio equipment. Some of the components had equipment that other components needed, but because the financial—because the systems weren't compatible and recording information the same way, that information couldn't be exchanged. So—

Mr. THOMPSON. In other words, they didn't know.

Ms. RICHARDS. That is right. The left hand didn't know what the right hand had even though they needed it. So officers might have had to go without a radio or they might be borrowing radios between shifts.

So when the systems, including the financial systems, don't speak to one another, don't exchange information, don't provide accurate data that can be translated into information by managers, decisions are being made with less than optimal information, which can lead to wrong decisions, wrong investments, and increased risk.

Mr. THOMPSON. So, Mr. Fulghum, is your testimony that this new systems modernization will resolve the issue we just shared with from Ms. Richards?

Mr. FULGHUM. What the system will do is—one of the requirements of the system is to have a common account structure, which is what she is talking about. Today, if you look at how the Department gathers and reports information, we do it basically by appropriation, project and activity and object class. What she is referring to is the next couple levels of detail down. So one of the requirements that we have within our Financial Systems Modernization initiative is a common account structure, where we are building more granularity into the financial data so that we can do exactly what she is talking about.

Mr. THOMPSON. Thank you.

I yield back, Mr. Chairman.

Mr. DUNCAN. I thank the Ranking Member.

I will now go to the gentleman from big sky country, Montana, Mr. Daines, for 5 minutes.

Mr. DAINES. Thank you, Mr. Chairman.

Like the Chairman mentioned when he had his opening remarks, I spent 28 years in the private sector, 13 years with a Fortune 20 company, 12 years launching a start-up, took it public and so forth, and have had a deep appreciation for the good financial metrics and general accounting practices.

But I also recognize the fact that—and maybe to use the football analogy that was going back and forth between the Tigers and the Bulldogs here, is that having a great scoreboard and having a great staff department, while necessary, is not sufficient to make sure you have a winning program. Ultimately, it comes down to execution with the coaches and the teams. It is not just about tracking the numbers. It is also about delivering wins versus losses, and particularly to think about the title of this hearing, which is “Stewardship of Taxpayer Dollars.”

So I am going to pivot over, perhaps, to a little different area, and that is getting into performance. Maybe for Mr. Fulghum—again, thank you for being Acting CFO there at DHS. But do you have a performance review annually at DHS?

Mr. FULGHUM. We do quarterly mission performance reviews with the Deputy Secretary.

Mr. DAINES. But you, personally, do you have a quarterly performance review then?

Mr. FULGHUM. So, as a part of that process, as we go up the line, yeah. I think, if I understand your question right.

Mr. DAINES. Sure. What are the top two or three metrics that you are evaluated on for your own performance?

Mr. FULGHUM. So, as far as execution of dollars, obligation rates from a chief financial officer, and where I was before, a budget director, obligation rates, things of that nature are things which you are referring to?

Mr. DAINES. Sure. Just, I mean, if you think about what your boss will be evaluating your performance on, what would be the top three metrics in terms of you being successful or not in your job?

Mr. FULGHUM. Our spend rates, things of that nature, measuring our spend rates against our projections in terms of what we, as a department, expected to spend and deviations.

Mr. DAINES. Are you incentivized to spend under your budget?

Mr. FULGHUM. We are incentivized to make the most of every taxpayer dollar.

Mr. DAINES. But let me ask a question. Is there incentive for you to spend less than your budget?

Mr. FULGHUM. What I would say again is there is an incentive for me to make the most out of every taxpayer dollar.

Mr. DAINES. But the question is, if you had a budget of X and you came in several million dollars below that for your results, are you incentivized to come in well below your budget or are you incentivized to spend your budget?

Mr. FULGHUM. Well, I guess what I would say is, in the appropriations provisions, there is the ability in some accounts to not spend all the dollars in the first year. So there is that ability.

Mr. DAINES. So what incentives exist for you, as you wake up every morning here, as I look at this, to be a steward of the taxpayer dollars, to try to spend less than what has been budgeted?

Mr. FULGHUM. Well, as a public servant, I have dedicated myself to looking to find and get the most out of every taxpayer dollar and to drive efficiencies across the Department, which the Department has done.

Mr. DAINES. Right. But, again, are there any—and I appreciate the laudable goal, but I am getting back to, as we think about the culture in the organization, when it is a \$60 billion organization, 240,000 employees, and maybe pivoting over to the line managers who are accountable for budgets, are there incentives for them to think about how they can spend under their budget?

I am asking, are there incentives so that those who do spend less than their budgets are promoted and progress faster than others?

Mr. FULGHUM. I am not aware of incentives. There may be incentives out there that you are describing, but I am not aware of them.

Mr. DAINES. Maybe specifically, do you see any kind of additional spending that occurs in the agency the last week or 2 of the fiscal year?

Mr. FULGHUM. What I see is folks who are working and are dedicated to spending dollars that they have for needed requirements. When they get dollars late in the fiscal year, they have to spend those dollars to keep programs on track. A lot of times that occurs later in the fiscal year.

Mr. DAINES. Let me ask you another question. Is there a culture of you need to spend your budget or potentially lose it if you don't?

Because as somebody who has watched the Federal Government operate in the private sector and selling to it, anybody out there

who does that knows the best week to sell to the Federal Government is the last week of the fiscal year, because we know they are incentivized to spend their budgets or to lose them.

Is that part of the culture in DHS?

Mr. FULGHUM. No, sir.

Mr. DAINES. So you don't see any accelerated spending in the last week or 2 because of that?

Mr. FULGHUM. I see additional spending, but, again, it is for a variety of factors, to include the fact that there is typically a pretty uncertain budget environment going year to year, and so when you finally do get the resources, you have to expedite the spending of those resources to keep things on track.

Mr. DAINES. Okay.

Last—I know we are running out of time here, though—are those managers and public servants in the organization that find ways to spend less money, are they rewarded?

Mr. FULGHUM. Absolutely. They are rewarded and recognized.

Mr. DAINES. Are those the folks who are progressing, who are spending less than their budgets?

Mr. FULGHUM. I can't give you specific examples of that, but I know that that is a part of the culture of the Department, looking to find the most and make the most out of every resource.

Mr. DAINES. Okay. Thank you.

Mr. DUNCAN. The gentleman is recognized, from Texas, Mr. O'Rourke, for 5 minutes.

Mr. O'ROURKE. Thank you, Mr. Chairman.

I am hoping the panel can address a concern I have about I guess what I would describe as inertia in spending practices and in projects that, by a measure of common sense and certainly a measure of return on investment, just don't seem to make sense. I will give you a specific example to El Paso, the community I represent, and then a much larger example.

The specific example is CBP is about to proceed with building a half-mile extension of the border wall in our community in a place where we don't want that built. It is the most historic crossing along the U.S.-Mexico border. The first European road was built there. The first Thanksgiving was celebrated on the shores of the Rio Grande there. Our community is the safest city in the United States today, and we enjoy an operational control rating of 93 percent, when the goal is 90 percent. But when I talk to the folks at CBP, this has been in the works for 3 or 4 years. The ball has been rolling for too long; it is too hard to stop now.

That is a small example compared to my other one, which is SBInet. You know, initiated in 2006; I think the plug was pulled in 2010. Hundreds of millions of dollars committed and ultimately wasted on a failed program to militarize and secure the border using unproven technologies, with too much discretion given to the contractor.

I want to know from the panel—and I would like to start with Ms. Richards and then go to Mr. Khan and then Mr. Fulghum—what controls are in place now to prevent that kind of inertia in spending, to provide the backstop and the check in a more immediate fashion so that we don't spend or proceed or build things that we don't need, don't want, and are a waste of taxpayer dollars?

Ms. RICHARDS. Thank you, sir. That is a very good question. I have to say that it is entirely reliant on management controls and management discretion. The information to calculate a return on investment in real time is dependent on the different programs. Some programs have better information than others. We do still see that problem in programs that we are auditing, and it is a very big concern for us.

Mr. KHAN. Part of this problem is a policy issue. I really cannot address that. But, again, from an accounting, financial management, internal controls, a strong internal control process, governance process is going to go a long way, at least to give visibility to these issues.

With that respect, the new guidance that OMB has, and that really pertains to financial system modernization, that may be an example which could be considered, which says to implement systems in smaller increments and not move forward till they are proved. In such an environment, it is critical to have strong project management as well as management oversight. Strong management oversight may prevent some of the symptoms that you have just described.

Mr. O'ROURKE. I guess for Mr. Fulghum, are there checks now that would prevent something like SBInet from happening, in terms of the contracting, in terms of some kind of periodic check on progress and value versus dollars spent, quarterly, annually, bi-annually, so that it is not 4 years down the line, hundreds of millions of dollars wasted?

Mr. FULGHUM. Absolutely. What you are describing is our acquisition review process, our acquisition review board that the Under Secretary for Management chairs. It brings programs in periodically as milestones are coming and reviews progress and provides the management oversight that Mr. Khan is talking about.

Mr. O'ROURKE. Thank you.

I yield back.

Mr. DUNCAN. All right.

Members are advised votes have just been called, but 13:14 is left on the clock, so we have time.

The Chairman will recognize the gentlelady from Texas, Ms. Jackson Lee, 5 minutes.

Ms. JACKSON LEE. Mr. Chairman, thank for your courtesies. To the Ranking Member, thank you very much for your courtesies. This is a very important hearing and certainly one that I hope we will continue to address.

Let me just make one statement, Mr. Chairman and Ranking Member, because I know that we have been doing this, and I think it is important. I am not sure whether any of these individuals can—I won't put it in the context of a question, but I will put it in the context of getting a report back.

There was a news report this morning that the fallen TSA officer had to wait 33 minutes for emergency services. I believe we, the American people, are due a report, whether that was a local issue or what issue it might have been, whether it is factual, but it certainly is outrageous and appalling.

I would appreciate just on the record to maybe seek from the Department of Homeland Security a report of TSA on the accuracy of

that and the determination as to why that occurred and that that would never, ever happen again. We hope we don't see a fallen officer of any kind, but I am just stunned and shocked and trying to determine whether that is accurate. I just wanted to—

Mr. DUNCAN. The Chairman will ask the report to be sent to the committee. We will disseminate it to the Members.

Ms. JACKSON LEE. I thank the Chairman very much.

Let me move to Mr. Khan. The financial management within the Department is divided between the Department's chief financial officer and the component chief financial officers. Does this structure inherently create blurred lines of responsibility and accountability between the Department and its component agency financial offices?

I have a follow-up question.

Mr. KHAN. It can. It can create a blur like you are mentioning, Madam. But from what I understand at DHS, they have a pretty clear line of responsibilities. The Departmental or the component CFOs report to the Department CFOs. So there is a clear line of reporting and accountability.

Ms. JACKSON LEE. Well, does that mean that—and do you contract—well, let me—Mr. Fulghum, does DHS contract out its auditing and accounting responsibilities? Do you have contractors that are handling it? So if it is TSA, is that chief financial officer getting a contractor to do the work?

Mr. FULGHUM. I am not familiar with the specifics of TSA. I know for the IG, they have a contract audit firm that audits us.

Ms. JACKSON LEE. I am sorry, pardon me?

Mr. FULGHUM. Right?

Ms. RICHARDS. Yes, ma'am, the actual financial statement audit is conducted by the accounting firm KPMG, and we contract with them to do that work.

Ms. JACKSON LEE. Well, so that is what I—let me do this. Can I ask for you to give this committee a list of all of the auditing and/or accounting contracts that DHS has at this time? Does anybody have a list now or know?

Mr. FULGHUM. I don't have a list, but we will get one for you.

Ms. JACKSON LEE. Because you don't know whether or not Customs has one or ICE has a different one?

Ms. RICHARDS. Ma'am, all of the components, to my knowledge, have their own in-house accounting personnel. Most also have contracts with some of the leading accounting firms for support, particularly in the area of internal controls.

Ms. JACKSON LEE. I think it would be very important, because different accounting firms have different practices. What I am hearing, just in general, is the need for order, consistency, systems that work together, which is what I perceive from GAO's report.

Let me ask again about something that we have expressed an interest, on minority/woman-owned businesses. Is that a separate entity in terms of seeking to make sure that there is that kind of balance? Do you audit how many MWBs you have? Do you, in the course of auditing or accounting services, such as the entity that you have, KPMG, do you assure that there is diversity there? Do you have a smaller firm working with you? Are smaller firms

maybe more effective when they are doing finite work or minute work?

Ms. Richards.

Ms. RICHARDS. Ma'am, our office has done a number of audits, a small number, but some audits on the Department's achieving and trying to achieve their small-business and minority-business goals.

The contract that we have with KPMG is competitively-awarded. We do not look specifically at their minority representation when we evaluate the people that are getting put on the contract. We are looking at their qualifications first.

We can get you some additional information on the audits that have been conducted on those goals and how the Department is addressing them.

Ms. JACKSON LEE. Mr. Chairman, the only thing is if we have 1 second for the gentleman, Mr. Fulghum, to answer.

Do you have an answer, sir? I will be finished.

I thank the Chairman for his indulgence, and I thank the committee for their indulgence.

Mr. FULGHUM. As it relates to small business, we have an office within DHS that tracks those goals and can provide you with additional information.

Ms. JACKSON LEE. All right. Well, I thank you, and I hope that this committee will continue its very fine work. I think we have some real questions about the utilization—not the utilization, but the recording or the assessing of the expenditures. I hope that we can continue to work with DHS to help you use these resources and to be better in the accounting for such. I know there are fine public servants there, but I think this is great work that the committee is doing.

I yield back to the gentleman.

Mr. DUNCAN. I thank the gentlelady from Texas and thank the witnesses. This is a valuable hearing for us. We need to keep in mind, this isn't DHS's money, it is not the United States Government's money, it is the taxpayers' money before it is taken in taxes and allocated out based on the acts of Congress. So, if we keep that in the forefront of our minds, that we are expending the money of hardworking American families, I think we will be better off.

But I thank you for your valuable testimony, the Members for their great questions today.

The Members of the subcommittee may have additional questions for the witnesses, and we ask that you respond to those in writing.

Due to votes, without objection, the subcommittee stands adjourned.

[Whereupon, at 10:39 a.m., the subcommittee was adjourned.]

APPENDIX

QUESTIONS FROM CHAIRMAN JEFF DUNCAN FOR CHARLES FULGHUM

Question 1. OMB memo 13–08 states that “agencies must consider, as part of their alternatives analysis, the use of a Federal Shared Services Provider (FSSP) with respect to all new agency proposals for core accounting and mixed system upgrades. Analysis should not be limited only to an evaluation of commercial SSPs. Instead, the preferred approach is for an agency to evaluate solutions offered by both FSSPs and commercial SSPs as part of a robust market research process. In order to determine the best value source, each agency is expected to develop an appropriately detailed alternatives analysis of SSP solutions based on their needs, risk performance and cost.”

Mr. Fulghum, can you describe the process used to obtain approval from OMB for DHS or the components to use a Commercial Shared Services Provider and if the Department interpreted this memo as a requirement to use a Federal Shared Services Provider?

Answer. In accordance with OMB memo 13–08, all DHS components pursuing financial systems modernization initiatives are developing an alternatives analysis that includes both Federal and commercial Shared Service Providers (SSPs). After Departmental review, DHS will provide analysis to the Department of the Treasury’s Office of Financial Innovation and Transformation (FIT) for their and OMB’s concurrence on the approach. Per the FIT Agency Modernization Evaluation (FAME) process, the components will next enter into a discovery phase with a Federal Shared Service Provider. DHS will continue to follow the FAME process if a Federal SSP is not deemed to be the best option and perform additional exploration of commercial SSPs.

For the U.S. Coast Guard (USCG), Transportation Security Administration (TSA), and Domestic Nuclear Detection Office (DNDO), and the Federal Law Enforcement Training Centers (FLETC) DHS provided their alternatives analysis to FIT and additional information as requested by Treasury. FIT then provided a recommendation to OMB pertaining to USCG, TSA, and DNDO to proceed with a discovery phase. FIT provided a recommendation to OMB for FLETC to proceed with a technical refresh of its financial system.

Before the issuance of OMB memo 13–08, for the Office of Health Affairs (OHA) and the Federal Emergency Management Agency (FEMA), DHS provided their alternatives analysis and additional information as requested by OMB and Treasury. FEMA obtained concurrence from OMB and Treasury on a technical refresh of their financial system. OHA obtained concurrence to proceed with their migration to a DHS internal shared service provider, Customs and Border Protection (CBP).

Question 2. Is it true that DHS is planning to move to the Department of Interior FSSP? If so, what makes the Interior FSSP a good alternative for DHS?

Answer. At this time, none of DHS’s components have made the final decision to move to the Department of Interior (DOI) Federal shared service provider (FSSP). In accordance with the Department of the Treasury’s guidance, DHS will first complete a discovery phase with a FSSP before signing a final agreement.

DHS has executed an Interagency Agreement with DOI to complete a discovery phase for the U.S. Coast Guard, Transportation Security Administration, and Domestic Nuclear Detection Office. The discovery phase began in September 2013 and will conclude in April 2014. DHS will use the results of the discovery phase to determine whether DOI is suitable to provide financial management services to those three DHS components.

Question 3. What “appropriately detailed alternatives analysis” are DHS and the components using as part of this decision-making process?

Answer. Each DHS component pursuing financial systems modernization is developing an alternatives analysis that uses a systematic analytic and decision-making process to identify and document the optimal alternative to satisfy an identified mis-

sion capability gap. Each alternatives analysis involves extensive market research of both Federal and commercial shared service providers, including cost, risk, feasibility, effectiveness, suitability, and life-cycle cost for each viable alternative.

DHS components are developing alternative analyses for financial systems modernization that adhere to the policies, standards, guidelines, and directives prescribed by the DHS Management Directive 102 and support compliance with the Federal Acquisition Regulations (FAR).

Question 4. What is DHS doing to leverage proven Shared Service Provider (SSP) Financial Management solutions currently in place at other Federal agencies? How will DHS assess systems used by other Federal agencies (such as through pilot programs or other means)?

Answer. DHS has been assessing Shared Service Providers (SSPs) and financial management systems through extensive market research from surveys and system demonstrations over the past 3 years. Market research was performed on Federal SSPs, commercial SSPs, and other Government agency financial management solutions.

DHS compiled and assessed data from the OMB-designated Federal SSPs, commercial SSPs, and over 15 Government agencies including Department of Justice, Department of Energy, General Services Administration, Nuclear Regulatory Commission, Bureau of Engraving and Printing, Department of the Treasury, Social Security Administration, Department of Housing and Urban Development, Department of Health and Human Services, National Aeronautics and Space Administration, Department of Agriculture, Department of Transportation, Department of the Interior (DOI), Department of Labor, Bureau of Public Debt, among others. This data has helped to inform and guide DHS leadership while planning the way forward for financial system modernization.

DHS also worked closely with Treasury's Office of Financial Innovation and Transformation (FIT) to identify any additional SSPs. DHS will utilize the discovery phase with a Federal SSP to assess the viability of a Federal SSP's solution for DHS components.

Question 5. To what extent do FSSPs have the capability and capacity to handle the financial management requirements of the unique DHS component agencies?

Answer. OMB Memo 13-08 states, "OMB and Treasury will help ensure each agency's future financial system needs are met by supporting the expansion of FSSP offerings and capabilities. We recognize that, to be able to meet agency needs, the FSSPs will need to enhance service offerings, expand technology and transaction processing capabilities, and have a strong governance structure. Furthermore, in order to fully realize the benefits of using a FSSP, it will be necessary for agencies to adjust and adopt standardized processes."

As DHS completes a discovery phase with a Federal Shared Services Provider (FSSP), per the Department of the Treasury's guidance, they will assess the capability and capacity of the FSSP to meet components' requirements. For example, DHS has recently entered into a discovery phase with the Department of the Interior (DOI) to determine whether DOI is suitable to provide financial management services to the U.S. Coast Guard, Transportation Security Administration, and Domestic Nuclear Detection Office.

