



Statement by

Peggy Sherry
Acting Chief Financial Officer
Department of Homeland Security

Before the
House Committee on Homeland Security
Subcommittee on Management, Investigations and Oversight

Hearing on
Creating 'One DHS' Part I: Standardizing Department of Homeland Security Financial
Management

October 29, 2009

Thank you Chairman Carney, Ranking Member Bilirakis, and members of the Committee for the opportunity to testify before you on the Department of Homeland Security's (DHS) progress and plans to create "One DHS" by standardizing financial management.

DHS leads a unified national effort to secure America – this requires a unified Department and an integrated approach across our varying operations. The Secretary continues to prioritize unifying the Department and creating a common culture: one enterprise, a shared vision, with integrated results-based operations. In March, Secretary Napolitano launched a Department-wide efficiency review to trim costs, streamline operations, eliminate duplication, and better manage resources across the Department. This effort includes more than two dozen initiatives that will increase efficiency, leverage economies of scale, create a culture of responsibility and fiscal discipline, and save taxpayers millions of dollars.

We have many initiatives underway to continue to build one DHS culture, including our commitment to strengthening internal controls and realigning business processes for improved efficiencies and effectiveness. To this end, I would like to thank Congress for enacting the Department of Homeland Security's Financial Accountability Act. With the passage of the Act, we launched an ambitious multi-year effort to improve financial management and reporting and build assurances that internal controls are in place and working effectively. We have worked to standardize business practices as well as executed systematic plans to correct weaknesses. I look forward to continuing to work collaboratively with Congress, the Government Accountability Office, the DHS Office of the Inspector General, the Office of Management and Budget, and our independent auditor to further strengthen internal controls and improve and standardize financial management practices across the Department.

STRATEGIES FOR STANDARDIZING FINANCIAL MANAGEMENT

The financial management community is employing multiple strategies to bring together the varying perspectives of DHS components to build a consolidated best-practice approach to financial management at DHS.

As an example, DHS financial reporting working groups were established to uniformly address financial management and business process challenges. Financial managers meet regularly to identify common areas of weakness and develop strategies usable by all components. This approach allows components to share success strategies with other components struggling in the same area. We also created a "Component Requirements Guide" that contains approximately 40 standard financial reporting processes. Implementing standard processes across the components has resulted in providing ample, reliable, timely data and meeting financial statement submission deadlines.

Last fall, we published the first ever DHS Financial Management Policy Manual, which provides a standard set of financial management policies with a focus on strong

internal controls. This manual, developed with input from all DHS components, is an online repository of Department-wide guidance for program and budget formulation, budget execution, financial management, accounting and financial reporting.

To further unify DHS financial management practices, we are adopting a Department-wide standard accounting classification structure. To do this, we are defining the standard fields for the DHS accounting line using the Common Government-wide Accounting Classification (CGAC) structure issued by the Financial Systems Integration Office in cooperation with the Office of Management and Budget (OMB). A common accounting line will allow DHS to capture and report financial information in a consistent and timely manner across the Department. Staff from across DHS financial, budget, acquisition, asset management, and program management communities are working together to implement the new standard.

DHS has more than 230,000 employees, and we have more than 2,000 in the financial management community dispersed throughout the United States. In order to help bridge our geographic separation, my office hosts a training session for all new employees in the DHS financial management community. This program welcomes new employees into DHS, provides a comprehensive introduction to financial management at DHS, and trains employees on a common set of core competencies, including the responsibilities of all financial managers to support and reinforce strong internal controls and the principles of fiscal law. It also provides an opportunity for staff in different components to meet, share ideas, and form a valuable network with other financial management professionals at DHS. Over the past two years, we have hosted five of these events with over 450 employees attending, nearly thirty percent of whom were from outside the Washington D.C. area.

Strengthening Internal Controls to Standardize and Improve Financial Management

DHS has been working diligently to correct its financial weaknesses. When DHS was first stood up, there were an estimated 100 financial management systems across the 22 components. Further, we inherited 30 significant financial reporting deficiencies, with 18 classified as material weaknesses. These conditions hampered the Department's ability to produce timely, reliable financial data in support of a clean audit. Over the last several years, however, the annual financial statement audits have shown continued improvement toward consistent and accurate financial reporting.

We have institutionalized a strong strategy, updated annually in our Internal Control Playbook, across DHS to address the remaining weaknesses. For each financial management weakness, we: identify the root cause(s); design strong, actionable plans to address the weakness; and then track our progress against those plans. My office leads the efforts, and I work closely with component CFOs to oversee and monitor progress throughout the year. Our independent auditors report that the Department continues to make good progress implementing corrective actions and improving the quality and

reliability of our financial reporting. Consider the following accomplishments that offer validation that our strategy is working:

- DHS reduced the number of material weaknesses from 10 in FY 2006, to seven in FY 2007, to six in FY 2008.
- The Secretary's Financial Reporting Assurance Statement has improved from a statement of no assurance in FY 2005 to a statement that good internal controls are in place in FY 2008. For FY 2009, the Department's goal is to provide our first-ever assurance that internal controls are working, with only a few exceptions.
- The Department is on target to have five favorable opinions on audits of individual component balance sheets in FY 2009, and the goal is to have isolated the adverse conditions that prevent completion of an audit area to one component which has detailed multi-year plans to remedy these conditions.

Our remaining audit challenges are now contained to a few specific areas. We continue to partner with and provide oversight of the U.S. Coast Guard, Transportation Security Administration, and Federal Emergency Management Agency to address the remaining audit disclaimer and material weakness conditions. This joint effort has produced significant improvements; for example, I expect the number of material weaknesses at FEMA to be reduced for the second consecutive year.

Key to the Department's continued progress toward good financial management is the ability of the components to produce consistent, reliable financial data. An integrated, enterprise-wide financial acquisition and asset management system will make it easier to implement and maintain stronger internal controls and to ensure consistent, accurate and reliable financial information across DHS.

Financial Systems Consolidation

DHS is moving forward with a financial system consolidation effort. This will greatly improve the quality of and control over DHS financial data, make the financial accounting process more efficient throughout DHS, and reinforce standard business and financial management practices. Currently, DHS has 13 separate financial management systems. While we have made significant progress standardizing various aspects of financial management in DHS, the 13 systems support different business processes, numerous accounting lines, and have varying levels of system integration—with many still relying on manual processes. This often results in inconsistent and inaccurate financial data. Further, maintaining multiple systems across the Department means duplicative operations and maintenance costs, and high overhead when upgrades, support services, and system changes are necessary.

As we work to address our financial management challenges and increase transparency, consistency, and accuracy, the Transformation and System Consolidation (TASC) initiative is critical. The Department will acquire a proven, integrated system solution that meets federally defined financial business processes requirements, as issued by the Financial Systems Integration Office in cooperation with OMB. We are in the

midst of the TASC acquisition and will select a vendor by the second quarter of FY 2010. We have also developed a strong program management office to provide full-time, day-to-day oversight of the integration process to help ensure success. This important initiative will enhance mission support and improve our ability to report financial data in a timely and accurate way.

Lessons Learned from Previous Efforts

In September 2006, the Department ended the Electronically Managing Enterprise Resources for Government Effectiveness and Efficiency (eMerge²) systems initiative since it failed to build the necessary integration between the various commercial off-the-shelf software solutions. The effort was budgeted at \$252 million but was halted after \$52 million was spent on the project.

We have learned from eMerge² and have applied those lessons to the TASC initiative. Rather than building a new system from scratch, as was the eMerge² strategy, DHS is acquiring an existing, already integrated federal system that follows established standard federal financial business processes with defined key internal control requirements. Putting in place an integrated system with standard processes will allow us to produce data that is consistent and incorporates strong internal controls to ensure financial transactions are properly processed, verified, and accurately recorded. In addition, TASC will take a phased approach to implementation rather than having the entire Department go live at once.

Another key lesson learned from eMerge² is the importance of having adequate federal staffing and strong oversight of contractor performance. To this end, we have put in place a robust team of full-time federal employees with expertise in project management, systems accounting, change management, acquisition management, business intelligence, accounting services, and systems engineering. We also have an onsite Independent Verification and Validation team in place to monitor and evaluate every aspect of the program as we move forward.

Conclusion

We have demonstrated our commitment to developing and executing strong, actionable plans that improve our financial management with strong internal controls. Consolidating our financial, asset, and acquisition systems will accelerate and sustain Department-wide progress in our efforts for efficiency, effectiveness, transparency, and accountability. As DHS undertakes its transformation and system consolidation effort, the Department's financial management infrastructure will become more stable and will significantly contribute to achieving the intended goals of the DHS Financial Accountability Act.

Financial management has come a long way at DHS. I continue to be inspired by the extraordinary efforts of our dedicated staff both at headquarters and in the components, and I am committed to pursuing financial management success. I appreciate

the support that we have received from our Office of Inspector General, the GAO, this Committee, and Congress. Thank you for your leadership and your continued support of the Department of Homeland Security. I would be happy to answer any questions you may have.