DHS IN TRANSITION: ARE FINANCIAL MANAGEMENT PROBLEMS HINDERING MISSION EFFECTIVENESS?

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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CONTENTS

	Page
Hearing held on July 27, 2005	1
Statement of:	
Hale, Janet, UnderSecretary for Management, Department of Homeland Security; Andrew Maner, Chief Financial Officer, Department of Homeland Security; Linda Combs, Comptroller, Office of Federal Financial Management, Office of Management and Budget; and Richard Skinner, Acting Inspector General, Department of Homeland Security	6
Combs, Linda	23
Hale, Janet	6
Maner, Andrew	11
Skinner, Richard	29
Letters, statements, etc., submitted for the record by:	
Combs, Linda, Comptroller, Office of Federal Financial Management, Office of Management and Budget, prepared statement of	25
Hale, Janet, UnderSecretary for Management, Department of Homeland Security, prepared statement of	8
Maner, Andrew, Chief Financial Officer, Department of Homeland Security, prepared statement of	14
Platts, Hon. Todd Russell, a Representative in Congress from the State of Pennsylvania, prepared statement of Mr. Ervin	4
Skinner, Richard, Acting Inspector General, Department of Homeland Security, prepared statement of	31

DHS IN TRANSITION: ARE FINANCIAL MANAGEMENT PROBLEMS HINDERING MISSION EFFECTIVENESS?

WEDNESDAY, JULY 27, 2005

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

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

Present: Representatives Platts, Gutknecht, Duncan, and Towns.

Staff present: Mike Hettinger, staff director; Dan Daly, counsel; Tabetha Mueller, professional staff member; Jessica Friedman, legislative assistant; Nathaniel Berry, clerk; Hailey Gilmore and Lauren Kovarik, interns; Adam Bordes, minority professional staff member; and Jean Gosa, minority assistant clerk.

Mr. PLATTS. This hearing of the Government Reform Subcommittee on Government Management, Finance, and Accountability will come to order.

We are going to begin with opening statements, with the hope of getting through both Member and witness opening statements before the first round of votes, then have probably about a 25 minute recess during the votes, and then come back to Q and A, depending on the time of Mr. Towns, Mr. Souder, and others who we believe will join with us at some point. Either they will offer their statements for the record or have opportunity to present them, as well.

Financial management of the Department of Homeland Security is regrettably somewhat in disarray. Recent reports have revealed serious accounting problems, including mismanagement of large contracts at the Transportation Security Administration, ineffective control of grants processing, and budget shortfalls at the Bureau of Immigration and Customs Enforcement.

In a statement prepared for this hearing, former DHS Inspector General Clark Kent Ervin highlighted the operational impact of this budget shortfall, and I would like to read a brief statement from that "ICE was forced to institute a hiring freeze. The agents had insufficient funding to fill their cars with gas, pay confidential informants, and even use their cell phones."

We owe it to the men and women who protect our borders and put their lives on the line day in and day out to do a better job managing their department. We owe it to the taxpayers to do a

much better job keeping track of the dollars they entrust to us to secure the homeland.

We cannot continue to have contracts mishandled because the appropriate controls are not in place. We cannot continue to spend money and not know where it went. We cannot continue to experience budget shortfalls because projections were made with unreliable and inaccurate data. This must be a top priority for Secretary Chertoff and all senior management officials at the Department.

Luckily, we have a blueprint for a sound financial management foundation: the Chief Financial Officers Act of 1990. The CFO Act was debated over a period of 5 years and passed in response to financial management crises not unlike those currently being experienced at DHS. The CFO Act established a centralized financial management structure designed to provide CFOs with the authority to make improvements and the responsibility to be held accountable for their efforts. This law applies to every major department in the U.S. Government.

Congress provided an important tool by applying the provisions of the CFO Act to the Department of Homeland Security, giving the Department a mandate to adopt the appropriate financial management foundation. Behind the scenes, this committee has been working for over a year with the Department to ensure that this law was appropriately implemented and that all requirements were met. We worked with the Department in good faith, allowing a dual reporting structure so that the CFO could interface both with the undersecretary for management, while still reporting directly to the Secretary.

The Department recently completed its second stage review; but, unfortunately, the version of the new organizational chart that the Secretary presented to the Congress and the public did not include any reference whatsoever to the Office of the CFO. I am pleased to say that a new version of this chart, which I received last evening, does, in fact, represent a structure that gives the CFO a clear delineation and direct reporting relationship to the Secretary.

We do not presume to think that implementing this structure will be a silver bullet and solve all the problems at DHS, but it is a foundation that will ensure that financial management is a top priority and that the CFO has the necessary standing to impose the needed reforms, and that this standing and prioritization is understood throughout the Department and with all partners of the Department.

One requirement of the law that has not been addressed, however, is the fact that the CFO candidate must be confirmed by the Senate—something that has not yet occurred. I am interested to hear what steps will be taken to remedy this situation and where we currently stand.

Yesterday marked exactly 58 years since President Truman signed the National Security Act, creating the Department of Defense on July 26, 1947. In the nearly six decades since its creation, DOD has yet to get a handle on its financial management. We cannot afford to have DHS go down the same road, and appropriate focus on financial management sooner rather than later at the Department of Homeland Security is a key step to avoiding a repeat

of DOD's longstanding financial problems. Complying with the CFO Act is not onerous, and it is clearly not optional.

Today we are pleased to hear from the Honorable Janet Hale, Undersecretary for Management at the Department of Homeland Security; Mr. Andy Maner, the Department's Chief Financial Officer; the Honorable Linda Combs, Comptroller of the Office of Federal Management at the Office of Management and Budget; and the Honorable Richard Skinner, the Acting Inspector General at the Department of Homeland Security.

We certainly thank each and every one of you for being here, along with your staff—your presence here today, as well as the testimony in writing you submitted in advance, and your willingness to take our questions.

Before we continue, I would like to ask unanimous consent—as the only one present, I guess that will be an easy one. We will probably reaffirm that with Mr. Towns once he arrives. We would include the statement I referenced from former Inspector General Clark Kent Ervin. That statement will be included in the record.

[The prepared statement of Mr. Ervin follows:]

STATEMENT BEFORE THE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND
ACCOUNTABILITY FOR THE HEARING RECORD - July 27, 2005

Mr. Chairman and Members of the Subcommittee, thank you for inviting me to testify at today's hearing. I regret that a previous commitment out of town prevents me from doing so in person. I appreciate this opportunity to submit a statement for the record.

During my time as the first Inspector General of the Department of Homeland Security, among the areas I focused on was its financial management. While the subject of financial management may seem arcane and dry to some, like you I know that getting financial management right is critical to the operational effectiveness of the federal agency charged with leading the effort to secure the homeland against another potential terrorist attack. Needless to say, no mission in government is more important than this one, and so anything that makes the performance of the department less than optimal has serious implications for the security of the nation.

This is no mere theoretical issue for only accountants and academics to worry about. Because the department's financial performance actually worsened in its second year of operation rather than improved, one critically important component, the Immigration and Customs Enforcement (ICE) bureau, had a budgetary shortfall by last fiscal year's end in the range of $ 200-300 million. The operational significance of this is that ICE was forced to institute a hiring freeze. Its agents had insufficient funding to fill their cars with gas, pay confidential informants, and even use their cell phones. ICE has never been given sufficient funding to house all illegal aliens who should be detained. This budgetary shortfall surely exacerbated what is already a bad situation in this regard.

As my staff and I repeatedly stressed during my time at DHS, a key reason why the financial performance of the department and its accounting practices have been so poor is that the Chief Financial Officer has not been given the authority and resources he needs to get the job done.

During the Ridge years, the CFO reported to the Secretary through the Under Secretary for Management, calling into question his ability to inform the department's chief executive officer in a timely fashion of matters serious enough to merit the Secretary's personal attention and his ability to get such support and direction from the Secretary as the CFO might from time to time need.

The Department of Homeland Security Financial Accountability Act was intended to strengthen the hand of the CFO by, among other things, enabling him to report directly to the Secretary (as well as the Under Secretary for Management). The Act also mandated that the CFO be a presidential nominee subject to confirmation, and set a deadline that has regrettably since expired for such a nominee to be named.

While giving the CFO a direct channel to the Secretary and requiring him or her to be Senate confirmed are steps in the right direction, I continue to believe that the step I have recommended for some time is also necessary and long overdue.

That step is giving the CFO the sole authority to hire, fire, evaluate, and otherwise direct the various CFOs at the component level in DHS. One of the key reasons why the financial performance and accounting of the department have been so poor is that the CFO can only exhort, cajole, and attempt to persuade his component counterparts to do what is necessary to right the department's financial ship. If he had the power to tell his nominal subordinates what to do and to hold them accountable for doing it, he could be far more effective in moving the department further down the path toward financial integrity. (I would note, parenthetically, that the Chief Information Officer and the Chief Procurement Officer have likewise been hampered in their effectiveness by lacking the power to control their counterparts at the component level.)

Secretary Chertoff is to be commended for rethinking the structure, programs, policies, and procedures of the department. A number of steps he has taken unilaterally or recommended for legislative action make sense and move the department in what I consider to be the right direction.

But, in my view, the Secretary missed an opportunity during the "second stage review" to give the CFO (and the CIO and CPO) the authority he (they) need to get the job done. Whether the department finally begins to get its financial house in order or continues to drift into further dysfunction may well depend upon making this change and doing so sooner rather than later.

I would add, finally, that the CFO should be further strengthened by giving him additional resources to hire significantly more accountants and other financial experts than he presently has. The CFO can hardly oversee the financial management of the nation's third largest Cabinet agency with a minimalist and inexpert staff.

Thank you, again, for including this statement in the record, and I look forward to future opportunities to appear before you as you continue your important work to improve the financial performance of the nation's chief homeland security focused department.

Clark Kent Ervin
Former Inspector General of the U.S. Department of Homeland Security

Mr. PLATTS. While we await Mr. Towns' arrival, and that may occur after the votes, I think what we will do is proceed to our witnesses' opening statements. As a practice of the full committee and the subcommittee, we would ask all of our witnesses to stand and be sworn in, and any staff that will be giving you guidance as a part of your testimony, if they would also stand and be sworn.

[Witnesses sworn.]

Mr. PLATTS. Thank you. The clerk will note that all witnesses affirmed the oath.

Again, we appreciate your written testimonies. If you can do your best to try to stay to about 5 minutes, that would allow us to hopefully get everyone in before the votes.

Secretary Hale, we will begin with you.

STATEMENTS OF JANET HALE, UNDERSECRETARY FOR MANAGEMENT, DEPARTMENT OF HOMELAND SECURITY; ANDREW MANER, CHIEF FINANCIAL OFFICER, DEPARTMENT OF HOMELAND SECURITY; LINDA COMBS, COMPTROLLER, OFFICE OF FEDERAL FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET; AND RICHARD SKINNER, ACTING INSPECTOR GENERAL, DEPARTMENT OF HOMELAND SECURITY

STATEMENT OF JANET HALE

Secretary HALE. Thank you, Mr. Chairman. Thank you for having all of us here today to reemphasize our personal commitments as well as the professional commitments of the Department of Homeland Security to financial integrity and accountability.

As you have heard all of us say over the last 2½ years, this was a divestiture, a merger, an acquisition of a dot com, and startup of an international conglomerate. It was brought together to strengthen the security of this homeland, but to do so with integrity and strong financial resources being dedicated to that frontline mission. That is why it is so important for us to do just the sort of things that you have referenced in your opening remarks.

There were 180,000 people, $31 billion, and 22 agencies that came into this Department. We took our stewardship of both frontline mission, but integration of those programs with, again, maximizing the resources to the front line and being able to consolidate into a much more efficient and effective manner over these last 2½ years. In my testimony you will see some of the accomplishments. I am so proud of the men and women who have been able to accomplish that.

Secretary Chertoff in his very early days reemphasized, as he did again in the last 2 weeks when he reemphasized in second stage review, the importance of financial integrity and procurement. He asked Acting I.G. Rick Skinner and the Chief Procurement Officer, Greg Rothwell, to come to his office in those very early days to sort of say how can we exactly address the sort of issues that you have talked about. He wants to be sure that we spend the taxpayers' money wisely and, in fact, has asked all of us to be vigilant of that task.

You did reference in his second stage review the organization chart, and I would like to just emphasize again to you, sir, that

this was an attempt to actually lay out the organizational structure. I was pleased to be able to submit with my testimony that clarification. There is no doubt in our mind that Andy Maner, the CFO, is a direct report to the Secretary, and I do truly appreciate your leadership in recognizing the dual report in your legislation.

Andy, the CFO, needs to have that relationship with the Secretary, the Deputy Secretary, and with the agency heads, as well as the dual report, so he has that. He has it through small, but tremendously meaningful daily meetings with the Secretary. He has it in sort of the ability to develop, formulate, and execute the budget and to lead the financial management aspects of the Department. We see him as a leader. We see that access, that direct report, but also that dual report is incredibly important.

I would like to just take a couple seconds on why that dual report is important because we all recognize that support and access that he needs to have to the Secretary. But, as you referenced, the Chief Procurement Officer, the Chief Information Officer [CIO], the Chief Human Capital Officer—that is a management team that, in fact, the synergies between them can strength and guide our financial management and our accountability throughout the Department. I think they have been a great team, and I think that dual report is one that has been important. Again, sir, I recognize and thank you for that leadership in recognizing that.

You asked about the requirement of the law to submit a nomination for the CFO. We do take that seriously in the Department. As you and I have talked and as others in the Department have talked with you, we are actively recruiting a CFO and hope to have one selected in the very near future. I can and will again reaffirm to you that we will keep this committee apprised of the progress and actually look forward to having a selection, as I said, in the near future.

We take this act seriously. We take your leadership and your stewardship and your oversight of the Department seriously. I actually think that I will leave the details of the financial act to Andy Maner as he talks about it. But, again, I want to thank Andy for his professional leadership in the CFO as he has done it before the act and during the act.

Thank you, Mr. Chairman, for the opportunity to testify in front of you today.

Mr. PLATTS. Thank you, Madam Secretary.

[The prepared statement of Secretary Hale follows:]

Statement by
Janet Hale
Under Secretary for Management
U.S. Department of Homeland Security

Before the Subcommittee on Government Management, Finance and Accountability
U.S. House of Representatives
July 27, 2005

Chairman Platts, Ranking Member Towns, and Members of the Subcommittee:

It is my pleasure to appear before you today. Thank you for inviting me to testify on the Department of Homeland Security's progress in implementing the provisions of the Department of Homeland Security Financial Accountability Act.

Our charge is to unify multiple agencies and missions for a single purpose: to secure the homeland. The larger management effort of the Department involves five lines of business, including budget and finance, procurement, human capital, information technology, and administrative services. The Chiefs of these lines of business help to guide the organizational transformation necessary for the integration and functioning of the 22 agencies that formed the Department. This is an integral part of our strategic and operational mission objectives.

Two years ago, nearly 180,000 employees and a budget of $31.2 billion were brought under DHS. Since then, the Department's budget authority has grown to over $40 billion. To ensure that these resources are being used effectively and efficiently, one of our top priorities has been to integrate specific departmental functions to enhance efficiencies and create greater accountability throughout the organization. The Management Directorate is pleased to report that over half of the management processes have been consolidated including 22 different human resources servicing offices to 7, 8 different payroll systems to 2, 19 financial management centers to 8, 13 procurement systems and offices to 8, and 27 bank card programs to 3. We have achieved significant milestones since the stand up of the Department; however, much work still remains to be done.

The Department's leadership team recognizes that each year Congress, on behalf of the taxpayers, invests significant financial resources in homeland security, and that with this investment the Department is entrusted to use these resources wisely. This investment demands sound financial management. DHS managers must be able to procure necessary goods and services efficiently, track how funds are spent, and ensure that taxpayer dollars are invested effectively and consistent with DHS' mission. DHS business is accomplished with impartiality and in a manner above reproach, avoiding any conflict of interest or even the appearance thereof. Sound financial management also means that DHS has safeguards against waste, fraud and abuse, requirements for the highest standards of conduct, and that we can present fairly and accurately its financial

statements. Our CFO, Andrew Maner, will further discuss the Department's financial management in a few minutes.

Management and its integration are extremely important to the leadership of DHS. In his announcement this month on the results of his second stage review, Secretary Chertoff cited the stewardship of financial resources, procurement, human resources and information technology as several elements of the key imperatives that will drive the near-term agenda for DHS. The Secretary understands the organizational efficiencies that can be gained by integrating these functions of the Department. The DHS Financial Accountability act, as well, wisely recognizes the potential for these efficiencies and thus provided that the CFO would serve as a dual report to the Secretary and the Undersecretary for Management.

I know that the committee has concerns about DHS' progress in implementing key sections of this act. It is important to note that in financial management matters the CFO has direct access to, and the support of, the Secretary and Deputy Secretary on key financial and budget issues. This relationship is evidenced on the Departmental organization chart (submitted with this testimony) as well as in the day-to-day operations of the Department leadership now with Secretary Chertoff and Deputy Secretary Jackson and previously with Secretary Ridge and Deputy Secretary Loy. For example, the CFO attends the Secretary's daily morning staff meetings and meets regularly with the Secretary and Deputy Secretary on financial management matters.

The organizational placement of the CFO as a dual report to the Secretary and the Undersecretary for Management provides a horizontal view of the administrative functions of the Department, making it possible to identify opportunities for integration and consolidation, which was one of the core purposes for establishing the Department. Under one directorate, all the lines of business Chiefs can facilitate the collaboration and integration of management policies and issues throughout the Department and drive change that crosses organizational boundaries. As an integrated, interactive management team, CFO, CIO, CPO, CHCO and CAO can ensure fiscal responsibility and effective operations in each line of business as well as with the Departmental components.

In August of 2004, the Department initiated the transformational process of functional integration. Functional integration is the structured cooperation and collaboration of each functional expert throughout the Department for the purpose of achieving efficiency and excellence in support of Departmental mission and objectives. These efforts are decreasing fragmentation and duplication, providing enhanced integrated services and increasing the efficiency and quality of the Department's management functions.

This functional integration effort developed systems and processes that create seamless efforts whereby the Federal Government is responsive to the needs of citizens. Support systems were also formed in order to enhance mission effectiveness and create economies of scale through the consolidation of high volume transaction centers (including shared services). With properly placed accountability on DHS' leadership to be responsible for the actual integration effort, a concept of dual accountability was enhanced where both

the operational leadership (agency heads and line directors) and the support structure leadership (Line of Business Chiefs) are responsible for implementation.

Part of the organizational transformation challenge of DHS is to continue to drive functional integration. The CFO serves as a member of the Under Secretary for Management leadership team, along with other Lines of Business Chiefs, to drive this integration and yield greater efficiencies and savings.

The Department understands fully the importance of the role that the CFO plays as the steward of the Department's finances and as the key financial management advisor not only to the Secretary, but to all senior executives throughout the Department. Furthermore, we understand the requirement to submit a nomination for the Chief Financial Officer (CFO) and we intend to carry out that requirement. We are actively recruiting for a CFO nominee and hope to have a recommendation in the near future. We will keep the Committee informed of our progress. While we move forward in that process, we are thankful that we have the outstanding service of Andrew Maner at this critical time for the Department. Mr. Maner was the Department's CFO prior to the enactment of the DHS Financial Accountability Act and continues to serve in that role.

As we work to carry out the critical mission of securing the homeland, we do so with a commitment to meeting the requirements of Congress in every respect, and we will do so.

I thank you again for the opportunity to appear before the Subcommittee this afternoon, and I look forward to answering your questions.

Mr. PLATTS. Mr. Maner.

STATEMENT OF ANDREW MANER

Mr. MANER. Thank you, Mr. Chairman. I want to also thank you for inviting me up here today. It has been about a little over a year since I have been up here. I just would ask that my full written statement be submitted for the record.

I appreciate the work that this committee has undertaken and its ongoing concern and support for financial accountability at DHS. I also appreciate the support of my fellow panel partners here that they have given to DHS as we have stood up the Department in our efforts to instill sound practices throughout the Department. The recent attacks in London remind us DHS has an incredibly important mission. Protecting this Nation and its citizens from the threat of terrorism is why this Department was created and is the No. 1 priority of this Department.

That said, as Undersecretary Hale alluded to, financial management is also extremely important. Secretary Chertoff, in his announcements this month, has reaffirmed his commitment to the stewardship of national resources as an element and one of the key imperatives that he wants to monitor as we drive his near-term agenda at DHS.

The vision for financial management at DHS is one where there exists a framework of people, processes, and systems which stakeholders such as leaders, managers, people like myself are to have accurate, timely, and useful information to make effective decisions in support of our missions. This vision means that we can support an unqualified opinion on our financial statements, we can make reasonable assurances over our internal controls, and we can relate our spending to our performance, and that we have an integrated financial management system or group of systems, and, finally, that we have a cadre of dedicated and highly talented financial managers to pull this together.

As CFO of the Department, I am keenly aware of the importance of sound financial management and am proud of the great progress the Department has and continues to make in furtherance of this vision.

In January we set forth a 3-year strategy for receiving unqualified opinion on our consolidated financial statements and eliminating all material weaknesses. This strategy involves achieving full visibility of our financial management issues and challenges, correcting our material weaknesses, and complying with the internal control provisions of the Financial Accountability Act.

We are hard at work on correcting material weaknesses identified in our 2004 audit. Many of the underlying issues behind the weaknesses are very complex, and in most cases have no quick fix, but we are taking aggressive, methodical, and appropriate steps to address them.

As for the material weaknesses involving financial management and the structure and processes in my office and around my office, significant accomplishments have been made to date. We have instituted stronger quality control processes by issuing guidance to our components much earlier in the process. We have hired and

contracted many additional skilled accounting personnel. In fact, the FTE in my office has nearly doubled since I was here last.

We have initiated a comprehensive internal control assessment of our process. We have significant open communication and regular reporting with the Secretary, his team, key leadership, and stakeholders such as OMB, the IG, GAO, and our auditors.

The Secretary has clearly communicated in writing our goals for financial improvement to our agencies. We have actively engaged our components through monthly CFO councils, weekly working groups, and, of course, our internal control meetings. All organizations with internal weaknesses have developed their corrective action plans and spell out how they will remediate these actions. We hired a Deputy CFO who is probably among the best in Government to lead a lot of these efforts.

We are also making progress in our efforts to improve our financial management systems, which is a key component of all this. Since I have testified before this committee, we have completed an exhaustive Department-wide requirements definition and design phase, hired a systems integrator; and we have identified a comprehensive, Department-wide, not just Bureau-wide, Department-wide solution. We have completed an enterprise-wide buy for software. We have begun work on e-travel and on other financial management issues such as a dashboard and other payroll improvements.

We are also developing performance metrics so that we know how we are doing and our CFOs and other agency heads know how they are doing against those goals.

As far as implementation of the Financial Accountability Act, we are making great progress here and I am very proud of our efforts.

While I believe that GAO's criteria for assessing whether an organization is ready to support such an audit would suggest that DHS might not be ready, it is, nonetheless, a requirement that we are addressing with vigor. The task of examining and documenting internal controls over financial reporting is time consuming and very challenging, as many in the private sector and the Government would attest, but we agree that it is imperative that DHS move as swiftly as possible to implement.

As Secretary Chertoff reported to you last month in a letter, DHS has initiated extraordinary steps to organize the Department to prepare for and execute an audit of our internal controls. We established an Internal Control Committee comprised of senior DHS executives to orchestrate our implementation of the act. We have developed and published an implementation guide for complying with those provisions of the act. We have initiated a comprehensive internal control assessment of the reporting processes within my office, and Coast Guard, one of our largest components, has also initiated process level documentation files. And over the summer we will be executing a detailed and technical seven-step plan to support the Secretary's assertion this year and to prepare for our audit next year.

I am obviously very pleased with our trailblazing implementation of an internal controls process. Implementation concerns aside—and there are many—the Department's initial efforts are ernest, credible, and I intend for DHS to be a leader in the Federal Gov-

ernment in establishing best practices in reporting on internal control.

In closing, let me thank you personally and the subcommittee and assure you that DHS and I are committed to all parts of the Financial Accountability Act, and we believe that effective internal control is, indeed, a key to accountability.

DHS leadership is committed to a culture of integrity, accountability, and effectiveness, and we will continue to work with Congress, OMB, GAO, and the IG to ensure inherited weaknesses do not become ingrained into our operation.

Thank you, Mr. Chairman.

Mr. PLATTS. Thank you, Mr. Maner.

[The prepared statement of Mr. Maner follows:]

Statement of Andrew Maner
Chief Financial Officer
Department of Homeland Security

Before the House Government Reform Subcommittee on Government Management, Finance and, Accountability

July 27, 2005

Statement of Andrew Maner
Chief Financial Officer
Department of Homeland Security

Before the House Government Reform Subcommittee on Government Management, Finance and, Accountability

July 27, 2005

Mr. Chairman and honorable members of the Subcommittee, I want to thank you for inviting me to testify today regarding the Department's implementation of the DHS Financial Accountability Act – P.L 108-330 and other financial management issues.

Leadership and Vision

As noted by Ms. Hale in her testimony, DHS leadership is committed to responsible financial management and places it as one of their top priorities. As the Chief Financial Officer (CFO) of the Department of Homeland Security, I am especially aware of the importance of sound financial management, and I am responsible for improving financial management by taking effective action to address our shortcomings and weaknesses. We have made great progress in the less than two-and-a-half years since DHS was formed, which I will share with you today, along with our many ongoing improvement efforts.

The vision for financial management at DHS is one where there exists a framework of people, processes and systems in which DHS stakeholders, such as our leaders and managers, have accurate, timely and useful information to make effective decisions in support of the mission. This vision means: that we can support an unqualified opinion on our financial statements; that we can make reasonable assurances over our internal controls on financial reporting; that we can relate our spending to our performance; that we have integrated financial management systems; and that we have a cadre of dedicated, highly talented financial managers who pull all of this together. At DHS, I am fortunate to have an outstanding financial management team, both throughout my Office of the Chief Financial Officer and in the component organizations of DHS. Their yeomanly efforts drive our success.

In August 2004, former Secretary Ridge initiated the Department's functional integration effort to bring all the functional experts under one integrated method of operation. As a result, a series of Management Directives (MD) were approved in October 2004. MD 0005, the Financial Management Line of Business Functional Integration Management Directive, established the DHS authorities and responsibilities of my office. The directive is the principal

document for leading, governing, integrating, and managing financial management functions throughout DHS.

Realizing financial management excellence requires every executive, manager, and employee in the Department help create an environment that rewards collaboration, promotes best practices, and shares accountability for the performance of the management support systems that enable the Department to fulfill its mission. This concept of functional integration mandates that both component heads and key functional experts are responsible for our strategic goal of organizational excellence in financial management. As Chief Financial Officer, I am accountable for designing the system to optimize the financial management function, setting the standards for functional performance, creating department-wide policies and processes, providing the automated solutions to yield greater efficiencies, and nurturing the development and success of centers of excellence. Component heads will likewise be accountable to support these progressive business functions as a key part of their commitment to mission accomplishment.

electronically Managing enterprise resources for government efficiency and effectiveness (*eMerge*^{2})

Last year when I testified before this Subcommittee I discussed the Department's plans to further streamline, consolidate and improve financial management throughout the Department by implementing a unified financial management system, eMerge^2.

The eMerge^2 Program will provide a long-term solution to many of the Department's current financial deficiencies.The eMerge^2 Program's end-state vision is to improve systems and processes in DHS; reduce material weaknesses, systems and providers; and increase efficiency and effectiveness. Since I last testified before this committee, DHS has completed an exhaustive, department-wide requirements definition and design phase, hired a systems integrator and has completed an enterprise-wide buy for the core accounting software.

This Spring, in conjunction with Secretary Chertoff's Second Stage Review, we began a reevaluation of our original planned approach to delivering improved financial systems to DHS organizations. The program review objectives are to see if there are additional opportunities to lower the cost and risks and to accelerate the implementation of a department-wide financial management system.

Concurrently with the development of the long-term solution, the eMerge^2 Program Office is developing DHS-wide financial performance metrics which will be made available to the DHS CFO community via an internal website. This dashboard will be vital to achieving DHS' vision of providing meaningful and

useful information to managers. It will also be vital to tracking our financial performance as a Department.

Financial Reporting Improvements

As we develop our new system, we continue to make improvements in our financial processes and reporting. It will do us little good to adapt to a new system without making improvements in some basic areas where we have significant weaknesses. The independent auditors were unable to express an opinion as to the reliability of the information in DHS' financial statements in the fiscal year 2004 audit. DHS faced the challenge of inheriting 18 material weaknesses from its component agencies when it was formed. Having eliminated nine of those material weaknesses and consolidating the remaining nine into seven material weaknesses and five reportable conditions, DHS appeared to be making progress by the end of fiscal year 2003. However, for fiscal year 2004, the auditors found ten material weaknesses, which was an increase of three over 2003 and which raises the question from this Subcommittee as to whether DHS is losing ground on financial management.

In fact, DHS has made meaningful progress in its financial reporting since its inception, and has not lost ground. Material weaknesses increased in fiscal year 2004 due to an increase in the scope of the audit. In fiscal year 2003, our first year of operation, the audit scope was limited to a Balance Sheet and Statement of Custodial Activity. It was not a true baseline of where DHS was in fiscal year 2003, but rather where the legacy organizations were when they came into DHS.

Creating DHS was a complex undertaking. New financial offices had to be created. Major agencies were blended and mixed together. Agencies whose weaknesses were not material in their legacy Departments took on a different level of materiality at DHS. In FY 2004, which was truly the baseline audit for DHS, we increased the audit scope to include the:

- Statement of Net Cost,
- Statement of Changes in Net Position,
- Statement of Budgetary Resources, and
- Statement of Financing.

Obviously, the harder and deeper you test a system, the truer and more complete an assessment you get, and the more weaknesses you are likely to find. That was the case for fiscal year 2004, and why fiscal year 2004 should be viewed as the honest baseline for DHS' consolidated audit. My goal is to get to bedrock - to know all of our weaknesses, so that we can attack them and correct them.

But audit scope aside, the Department was designated by GAO as a high risk agency from inception. The Department continues to undergo significant

transformational challenges including the tri-bureau merger from the inception of DHS and the recent Second Stage Review. Regardless of these transformational challenges, the Department is making tremendous efforts to ensure these inherited weaknesses do not become ingrained into our operations. There is unquestionably much hard work that remains to be done, and we are making progress.

The fiscal year 2004 audit identified the DHS financial management structure as a material weakness in internal control. The auditor noted that although progress was made in fiscal year 2004, "the CFO has acknowledged that much work remains to complete a fully integrated financial management and reporting structure to accommodate all transferred agencies and programs and to fully support the DHS mission."

We have made great improvements in this area, and I fully anticipate in fiscal year 2005 that the finding's recommendations will be substantially implemented. Significant accomplishments to date include:

- We instituted strong quality control processes in the Office of the CFO and issued Performance and Accountability Report (PAR) Guidance to DHS bureaus early on in the fiscal year.

- We hired and contracted additional accounting personnel that possess complementary technical skills including proficiency with the standard general ledger, financial reporting, system maintenance, internal controls, and financial management policy. In addition, our fiscal year 2006 budget request includes five additional FTEs.

- We initiated a comprehensive internal control assessment of the consolidated financial reporting process, using the criteria defined by the U.S. Government Accountability Office (GAO) and the recent revisions to OMB Circular A-123 and the DHS Financial Accountability Act.

- We have open communication and regular reporting with the Secretary and Deputy Secretary, and other key stakeholders such as the IG and the auditors.

- We are actively engaged with DHS components through weekly Financial Management Working Groups and Internal Control Committee meetings.

- We have corrective action plans in place in all organizations with material weaknesses that spell out plans for how and when the weaknesses will be remediated.

- The Secretary has clearly communicated to the Department our goals for financial improvement.

- I hired a Deputy CFO to assist in driving internal controls and best practices into Department and component financial management operations. Our Deputy CFO led the Secretary's Second Stage Review agenda item for improving financial management.

We understand the challenges that we must address and have set forth a three-year strategy for receiving an unqualified opinion on our consolidated financial statements and eliminating all material weaknesses.

Internal Controls

Finally, I would like to address one of the unique and most challenging financial management requirements we face at DHS - the audit of internal controls over financial reporting. With respect to internal controls, Section 4 of P.L. 108-330 requires DHS to include in its Performance and Accountability Report for fiscal year 2005, an assertion of internal controls that apply to financial reporting by DHS. In addition, Section 4 requires that DHS include an audit opinion of its internal controls over its financial reporting in DHS' Performance and Accountability Reports beginning with fiscal year 2006.

While I believe that GAO's criteria (GAO-05-321T) for assessing whether an organization is ready to support such an audit would suggest that DHS is not yet ready, it is nonetheless a requirement which we are addressing with vigor. The task of examining and documenting internal controls over financial reporting is time consuming and challenging, as many in the private sector would attest, but we agree that it is imperative that DHS move as swiftly as possible to improve financial management and correct identified material weaknesses. This will be taxing on a thin financial management cadre that is still coping with the changing organizational structure of DHS and fixing the weaknesses already identified in the financial audit. But in the long run, this will build a sustainable and reliable financial management framework that will withstand audit scrutiny and assure all that DHS knows how it uses its resources, and that resources are used wisely. DHS will lead the Federal Government in this regard.

As Secretary Chertoff reported to you last month, DHS has initiated extraordinary steps to organize the Department to prepare for an audit of our internal controls over financial reporting. I am very pleased with our trailblazing implementation of an internal controls process. Significant accomplishments to date include:

- Last December 2004, I directed the DHS Chief Financial Officer Council to nominate senior executives and senior staff to establish a DHS Internal Control Committee (ICC) responsible for implementing the internal control provisions of P.L. 108-330.

- Initial ICC activities included developing a charter to set forth the applicable oversight, responsibilities, structure, and management of the group. A copy of our Charter, approved in March 2005, is provided as a handout to my testimony.

- In developing our strategy we proactively reached out to the: OMB, CFO Council Financial Management Policies and Practices Subcommittee, DHS OIG and our independent public accountant. In addition, we have been contacted by numerous CFO Act Agencies to share experiences in developing our internal control program.

- In May 2005, with the assistance of a public accounting firm, we developed an implementation guide for complying with the internal control provisions of P.L. 108-330. Our implementation guide provides the strategy and framework for implementing the DHS Financial Accountability Act. A copy of our implementation guide is respectfully submitted for the Congressional record.

- Over the summer we will be executing a detailed and technical seven step plan to support the Secretary's fiscal year 2005 assertion and prepare for the fiscal year 2006 audit of internal controls over financial reporting. These seven steps include:

  1. Identifying the maturity level of internal control over financial reporting.
  2. Assessing entity-level controls using the GAO Internal Control Management and Evaluation Tool. The GAO Tool will be the assessment methodology to support the Secretary's assertion in fiscal year 2005.
  3. Identifying financial reports to be included in the assessment.
  4. Identifying significant line items and related accounts, disclosures, and processes/cycles.
  5. Determining multiple-location coverage.
  6. Other considerations including the year end financial reporting process, laws and regulations, system considerations, etc.
  7. Summarizing the use of services organizations.

- As discussed earlier, we've initiated a comprehensive internal control assessment of the consolidated financial reporting process within the OCFO. In addition, the U.S. Coast Guard, one of our largest components, has initiated process level documentation pilots.

- Throughout the year we have also made progress in developing a corrective action planning process. For example in fiscal year 2004 our independent auditors reported we did not prepare corrective actions for all material weaknesses and reportable conditions. This year, we have

developed corrective action plans for all material weaknesses and reportable conditions and we are also developing a Management Directive and Process Guide to ensure these corrective action plans demonstrate results.

- With regard to provisions of the Financial Accountability Act related to Department-wide management controls, we have established an integrated framework to coordinate our overall internal control assessment with all other internal control-related activities. This framework includes various statutory requirements and overall management or functional areas that cut across many if not all of the DHS Components and mission areas.

I hope the Subcommittee and our partners at the GAO and OIG would agree that the Department is moving as swiftly and prudently as possible in implementing the internal control provisions of the Act. Despite the tremendous amount of work we are doing, we remain concerned about rushing to compliance at the expense of an outcome that does not make sense. In judging our progress on the Act, I ask the Subcommittee to consider the following challenges:

- The Department, still undergoing a significant transformation, is one of the largest and most complicated of the CFO Act Agencies.

- Our current maturity level of internal control over financial reporting varies across our 14 reporting entities, although most material weaknesses are concentrated within two Components.

- Although we are making progress on an assessment methodology to put us in a position to attest to the effectiveness of internal control over financial reporting, the amount of documentation and testing required for an independent audit is significant.

Implementation concerns and differences aside, the Department's initial efforts are earnest, credible, and I intend to lead the federal government in establishing best practices in reporting on internal control.

Closing

In closing, let me assure the Subcommittee, the Department of Homeland Security and I are committed to all parts of the DHS Financial Accountability Act and we believe effective internal control is key to accountability. DHS leadership is committed to developing a culture of integrity, accountability, and effectiveness. Finally, I want to emphasize that we will continue to work with the Congress, the OMB, the DHS OIG, and the GAO to ensure the inherited weaknesses do not become ingrained into our operations.

Mr. Chairman, this completes my prepared statement. I would be happy to respond to any questions you or other Members of the Subcommittee may have at this time.

Mr. PLATTS. Dr. Combs.

STATEMENT OF LINDA COMBS

Ms. COMBS. Thank you, Chairman Platts and members of the committee. I thank you for the opportunity to appear before you again today to discuss the financial management issues at the Department of Homeland Security.

The administration has made improving financial management, as you know, one of its top priorities. The President, through his management agenda, is holding executive departments and agencies accountable for achieving clean audits, building strong internal controls, and creating an atmosphere here timely and accurate financial data is used by agency leaders on a day-to-day basis to inform key decisions and strategies within their departments.

It is through these financial disciplines that the Government can ensure that the American public has good stewards at the helm for the American taxpayers; also, that Government leaders are making smart decisions, and that those dollars that the Federal agencies have can carry out their mission successfully.

Nowhere are these objectives more important than at the Department of Homeland Security. We all know the critically important mission that has just been discussed by my colleagues here that this Department is charged with, and we all know the enormous challenges that the Department has faced in bringing together numerous and complex organizations to help achieve their mission.

In my role in the Office of Management and Budget as Comptroller, I am charged with carrying out the President's management improvement initiative and financial management Government-wide; therefore, I work closely with Homeland Security on these efforts. I am pleased to be able to sit here with my colleagues today, who I believe are very strong leaders and have a very clear and strong understanding of financial challenges that they face. They are committed to doing what is necessary to meet those challenges, and they have developed an aggressive schedule for implementing critical improvements, and they have had significant and important accomplishments that are serving as a foundation for further progress.

In fiscal year 2003, the year of the DHS existence, they conducted an audit of significant parts of financial operation, and even though they were not required to do that at that particular time. But this process provided the Department with an early visibility into internal control and other financial vulnerabilities and provided a very good foundation for moving forward.

In fiscal year 2004 DHS completed a more comprehensive review of financial management activities, and did so just 2 days past the 45-day deadline that was accelerated, and the previous year I think they had reported in 136 days, as opposed to 45. That is a significant accomplishment.

DHS has also been working aggressively to ensure that its corrective actions lead to fewer material weaknesses in its 2005 audit report. They have moved quickly to comply with requirements for an audit opinion on internal controls pursuant to public law 108–330. The Department has taken many critical steps, some you have heard about already and some you will hear about further today,

including the establishment of the Internal Controls Committee. And, having done that before in previous agencies myself, I can attest to how important that is throughout the Government in having that in the individual departments.

Developing an implementation guide and strategy and adopting the GAO internal control management and evaluation tool, aligning those efforts with the Government-wide implementation guidance for circular A–123, those are heroic efforts.

In closing, the administration remains committed and remains dedicated to improving overall financial management across Government.

Given the Department of Homeland Security's unique and vital purpose of protecting our homeland, I can assure you that we are committed to closely monitoring the Department's progress; to ensure that it continues to take the necessary steps; to improve its financial reporting, financial management, and internal control processes; and offer any help that we can along the way in terms of assuring their success.

I look forward to maintaining an ongoing dialog with this subcommittee on the specific efforts and progress that Homeland Security is making to meet its financial management and reporting goals and requirements.

Thank you, Mr. Chairman, for the opportunity to be before your committee today. I am pleased to answer any questions.

Mr. PLATTS. Thank you, Dr. Combs.

[The prepared statement of Ms. Combs follows:]

Statement of The Honorable Linda M. Combs
Controller, Office of Federal Financial Management
Office of Management and Budget

Before the
Subcommittee on Government Management, Finance, and Accountability
Committee on Government Reform
United States House of Representatives
July 27, 2005

Thank you, Chairman Platts, Congressman Towns, and Members of the Committee. I am pleased to be here today to discuss financial management issues at the Department of Homeland Security (DHS).

Please be assured that we share your thoughts on the need for the highest level of financial management practices and processes at DHS. Given the department's unique and vital purpose of protecting our homeland, it is essential that DHS take the necessary steps to improve its financial reporting, financial management, and internal control processes. Since the department was established, DHS has worked diligently to ensure that it establishes a strong foundation for superior financial management practices. While much remains to be done, we look forward to continuing to work with DHS and the Congress to continue these efforts.

One of the Office of Management and Budget's (OMB) top priorities under the President's Management Agenda (PMA) is to ensure that DHS maintains an aggressive schedule for improving financial performance. For instance, in the first year of its existence, when not yet required to obtain a financial statement audit, DHS contracted for an independent audit of its financial operations for FY 2003. While limited in scope to two financial statements, the fact that DHS completed audit activities so soon after its creation demonstrates a strong commitment to establishing important financial management fundamentals. This process of preparing for, and having the auditor report on, its financial operations also provided the department with early visibility into internal control vulnerabilities. I am pleased DHS has further included improved financial performance as a priority initiative within Secretary Chertoff's Second Stage Review.

In FY 2004, the financial audit scope for DHS was expanded to include all six financial statements. Additionally, as with the other Chief Financial Officer (CFO) Act and Accountability of Tax Dollars Act agencies, DHS was required to complete its audit in 45 days. This deadline was nearly three months faster than the prior year. While this accelerated timeframe was a challenge for all agencies, I am pleased to report that DHS issued its financial statements just two days past the deadline. This fiscal year, we look forward to seeing all major agencies, including DHS, meet the November 15 reporting

deadline. For FY 2004, in its second financial audit, DHS was able to complete a more comprehensive review of financial management activities. As a result, the independent auditor was able to identify and define material weaknesses and other deficiencies. Notably, the auditor was able to report one FY 2003 material weakness as resolved.

As a part of its efforts to strengthen financial controls, DHS has developed a strategic plan, entitled *Vision for DHS Financial Reporting,* that clearly defines near and long-term results leading to full compliance with all relevant financial standards and requirements by FY 2007. Further, a detailed and aggressive corrective action plan underlies this vision and serves as the department's roadmap for success. Through the PMA, the Administration will continue to hold DHS accountable for achieving the results outlined in this vision.

We agree with the Subcommittee that DHS should move swiftly to identify and correct material weaknesses. Since issuing its FY 2004 Performance and Accountability Report (PAR), DHS has been working closely with OMB to ensure that quarterly actions support more positive findings in the FY 2005 audit report. Discussions between OMB and DHS have addressed critical actions for all weaknesses, but close attention is being paid to weaknesses that can be resolved in the near term. Based on this prioritization, OMB and DHS believe that actions taken to date could lead to DHS reporting fewer material weaknesses in its FY 2005 audit report. One such weakness likely to be resolved is the financial management structure, which I understand has been noted by this Subcommittee as the most serious weakness. We will continue to use the PMA as a tool for holding DHS accountable for demonstrating progress and achieving results.

In any Federal department or agency, a key success factor for improving financial performance rests with the Office of the CFO. Having a CFO in place at all agencies is important to ensuring that steps are taken to comply with the CFO Act and other applicable statutes and regulations. Additionally, the agency's organizational structure must properly locate the CFO position so that the right amount of attention and resources can be devoted to financial management, reporting and accountability.

In the case of DHS, as a relatively new CFO Act agency, it is of primary importance for the role of the CFO to be strong to allow the department to successfully deliver on its mission and meet its goals. For that reason, I understand your concerns about the DHS Act requirements as related to the organizational structure and nomination process for the DHS CFO. You have my commitment to work closely with DHS and other appropriate officials to support and facilitate these efforts where I can.

We also share your concerns about DHS' ability to comply with the requirements on an audit opinion on internal control pursuant to P.L. 108-330. This fiscal year, DHS must issue a statement of assurance on internal control over financial reporting. In addition, DHS must obtain a separate audit opinion on internal control over financial

reporting in subsequent fiscal years. Pursuant to these requirements, the department has taken important first steps – such as establishing an internal control committee, developing an implementation guide and strategy, and working with OMB and the CFO Council to better align its efforts with the government-wide implementation guidance to Circular A-123. However, given the department's unique complexities and issues, DHS must remain committed to fully preparing itself and taking the appropriate action necessary toward meeting these requirements.

It is imperative that DHS continue to strive for the highest quality financial management practices and develop the most effective internal control processes. Further, we expect DHS to identify high priority areas requiring attention in support of its strategy for effective internal controls in the future. OMB will continue to monitor the department's progress and work to ensure DHS is meeting its internal control improvement goals. We look forward to continuing to work with the department, providing assistance and direction where necessary, so that DHS meets all statutory requirements.

Additionally, the CFO Council – an interagency group of CFOs and Deputy CFOs across the government – can serve to assist DHS in its efforts to improve financial performance and management. I look forward to working with DHS and the CFO Council to coordinate improvement efforts.

As you know, on December 21, 2004, OMB issued revisions to Circular A-123, *Management's Responsibility for Internal Control*, to strengthen internal control at the major departments and agencies. These revisions require agencies to provide a new separate management assurance on the effectiveness of internal control over financial reporting and to follow a strengthened assessment process. Circular A-123 also contains a non-compliance clause such that if internal control corrective action targets are not met, then OMB may require a separate audit of internal control to better focus management's corrective actions.

DHS, who assumed a crucial leadership role in this process to enhance OMB Circular A-123 and its related implementation guidance, should be commended for its assistance. The department was helpful in its role of sharing practices, progress, and lessons learned with staff at OMB and other CFO Act agencies.

To assist agencies in executing the requirements of Circular A-123, the CFO Council, in conjunction with OMB, has taken several steps over the recent months. First, the CFO Council has focused on preparing an Implementation Guide to assist the agencies in complying with the requirements of A-123. This Implementation Guide became final on July 22, 2005, and has been made available to your staff. Additionally, the CFO Council sponsored a "Circular A-123 Expo" on May 9, 2005, in conjunction with the Association of Government Accountants, to communicate implementation

direction and seek industry input based on similar Sarbanes-Oxley experiences. We have also conducted government-wide training sessions and outreach, as well as provided individual assistance to specific agencies as requested. We look forward to continuing to work with the agencies to assist them in the implementation of Circular A-123.

Improving overall financial management across the government remains an important objective of this Administration. I look forward to maintaining an ongoing dialogue with this Subcommittee on the specific efforts and progress DHS is making to meet its financial management and reporting goals and requirements.

Thank you, Mr. Chairman, for the opportunity to speak before you today. I am pleased to address any questions.

Mr. PLATTS. Mr. Skinner.

STATEMENT OF RICHARD SKINNER

Mr. SKINNER. Thank you, Chairman Platts, for the opportunity to testify today about the OIG's work regarding financial management at the Department of Homeland Security.

I would like to summarize three issues from my prepared statement that I have submitted for the record, and that is the Department's current financial reporting status, implementation of internal control requirements, and the role of the CFO.

First, concerning the state of the Department's current financial reporting, as you know, DHS received a disclaimer of opinion on its 2004 financial statements. However, this disclaimer obscured some very good news, and that is, for several DHS components with accounting operations, we noted relatively few problems that contributed to the Department's 10 material weaknesses. When one analyzes the reasons for the disclaimer in the material weakness, the critical path for improving financial reporting becomes clear; that is, fix the process at Immigration and Customs Enforcement [ICE], and at the Coast Guard and at the Department's CFO office.

I am pleased to report that the Department has taken significant steps in addressing our recommendations regarding the structure of the CFO's office. The CFO's office, as Andy Maner has already pointed out, has hired a deputy and several accountants and contracted with an accounting firm to evaluate the consolidated financial reporting process. Also, the CFO has developed automated procedures that identify abnormalities in financial reporting. The bureaus research the abnormalities and the CFO monitors the bureaus' progress in correcting them. We will be reviewing the utility of these changes in our current audit cycle.

The Coast Guard has also made some structural improvements. It has hired an experienced civilian financial manager to coordinate its financial reporting in order to lend continuity to the rotational environment of the military. The Coast Guard also has hired a contractor to evaluate its internal controls for certain financial processes as part of the Department's overall effort to implement the DHS Financial Accountability Act.

ICE presents the most difficult financial reporting challenge for DHS. Its financial management problems have reverberated throughout DHS, consuming large amounts of management time and affecting the accounts of other significant DHS components. We reported in 2004 that ICE fell seriously behind in its basic accounting functions. Many of these problems persist today. To help address these issues, ICE has recently appointed a new acting CFO and financial management director.

Second, concerning the implementation of the internal control requirements of the DHS Financial Accountability Act, this presents a tremendous challenge to DHS, a challenge that the Department is taking very seriously. The CFO is committing Department and bureau resources to the project and has taken or is taking the necessary actions to meet this requirement. But this is not going to be an easy task. The Department is starting in the hole, so to speak; that is, as a new, not-yet fully integrated organization with 10 material weaknesses, a disclaimer on its 2004 financial state-

ments, and major accounting problems with two of its critical components, ICE and Coast Guard. Nevertheless, with the right resources, a genuine commitment, and a sustained leadership, DHS can be successful implementing this requirement.

Finally, concerning the need to strengthen the role of the CFO, I had previously reported my concern about the CFO's authority within the Department in our 2004 management challenges report. My concern was that under the Department's management directive the CFO does not have direct authority over financial management personnel at the component level. Component heads retained control over the financial management resources in the respective organizations. This concept of operation tends to divide the responsibility for financial management from the authority to command the resources needed for good financial management.

Notwithstanding my concerns in this regard, however, I am encouraged by the Secretary and Deputy Secretary's commitment to financial management. In my meetings with them, it became clear to me that they have made financial management in the Department a priority, as evidenced by the CFO's direct reporting responsibilities to the Secretary on all financial management issues.

The results of our ongoing audit of the Department's financial reporting will go a long way in determining whether new authorities vested in the CFO is sufficient for good Department-wide financial management.

Mr. Chairman, that concludes my remarks. I will be happy to answer questions.

Mr. PLATTS. Thank you, Mr. Skinner.

[The prepared statement of Mr. Skinner follows:]

STATEMENT OF RICHARD L. SKINNER

ACTING INSPECTOR GENERAL

U.S. DEPARTMENT OF HOMELAND SECURITY

BEFORE THE

SUBCOMMITTEE ON

GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY

COMMITTEE ON GOVERNMENT REFORM

U.S. HOUSE OF REPRESENTATIVES

JULY 27, 2005

Good morning Mr. Chairman and Members of the Subcommittee: I am Richard L. Skinner, Acting Inspector General for the Department of Homeland Security (DHS). Thank you for the opportunity to be here today to discuss the work of the Office of Inspector General (OIG) regarding financial management at DHS.

State of DHS' Current Financial Reporting

DHS received a disclaimer of opinion on its FY 2004 financial statements[1]; however, this overall disclaimer obscured some good news: for several DHS components with accounting operations, the auditors found relatively few problems that contributed to DHS' 10 material weaknesses. When one analyzes the reasons for the disclaimer and the material weaknesses, the "critical path" for improving financial reporting becomes clear: fix the processes at Immigration and Customs Enforcement (ICE), at Coast Guard, and in the DHS Office of the Chief Financial Officer.

I am pleased to report that the DHS CFO has taken significant steps in addressing the auditor's recommendations regarding the structure of his office. The CFO has hired a deputy CFO, added several accountants to his staff, and contracted with an accounting firm to evaluate the consolidated financial reporting process located in his office. His office has developed automated procedures that identify abnormalities in DHS and component financial reporting. Financial management staff in the bureaus research these abnormalities, and the CFO's staff monitor the bureaus' progress. The financial statement auditors will be reviewing these changes for effectiveness in the current audit cycle. The CFO is to be commended for taking these positive actions.

Coast Guard also has made some structural improvements. It created an additional civilian position to oversee and coordinate its financial reporting in order to lend continuity to the rotational environment of the military. This has allowed the hiring of an experienced, specialized financial manager at Coast Guard headquarters. Coast Guard also hired a contractor to evaluate its internal controls for certain significant financial processes, and this initiative has been rolled into a pilot program as part of DHS' overall effort to implement the DHS Financial Accountability Act.

ICE presents the most critical financial reporting challenge for DHS. Its financial management problems have reverberated throughout DHS, consuming large amounts of management time and affecting the accounts of other significant DHS components. Unless these problems are addressed in a significant way, DHS will have great difficulty completing its financial statements in time for the auditors to complete their work by the accelerated deadline of November 15. I will comment in more detail shortly about the challenges at ICE and the circumstances from which these acute problems arose.

[1] This disclaimer of opinion was due to financial management weaknesses at ICE, the inability to complete audit procedures over certain costs and budgetary transactions at the Coast Guard, the lack of reconciliations for intra-governmental balances, and the accelerated reporting deadline of November 15 that prevented an extension of audit procedures.

With regard to DHS' financial statements, the DHS CFO set a three-year vision for obtaining an unqualified audit opinion by FY 2007, starting with a qualified opinion on its balance sheet this year. The FY 2005 financial statement audit is well underway. In order to meet the accelerated reporting deadline, the auditors must perform the majority of their testing on June 30 balances. This phase of the audit has just begun. The department faces major challenges, particularly at ICE and Coast Guard, and is well aware that they have very limited time to address any problems during this phase.

Financial Management Challenges at ICE

When the department was established in 2003, three new bureaus were created out of two legacy agencies: the former Immigration and Naturalization Service (INS) and the U.S. Customs Service were divided into ICE, Customs and Border Protection (CBP), and U.S. Citizenship and Immigration Services (USCIS). To implement this new structure, DHS and bureau management said that they spent a significant amount of time dividing the administrative infrastructure of the two legacy agencies; at the same time, this infrastructure had to continue providing services to the new bureaus.

ICE had the greatest difficulty with this change. Because ICE retained much of the legacy INS infrastructure, it provided significant reimbursable services to other DHS bureaus. However, the parties involved did not agree to the level and cost of those services until late in FY 2004. This delay contributed to significant budget difficulties for ICE. In addition, in FY 2004, ICE began providing accounting services for several DHS components, such as the Science and Technology Directorate, whose previous service providers often were legacy departments or agencies outside of DHS. DHS and ICE had little time to develop a thorough, well-designed plan for this transition and either could not or did not get the skilled resources to develop and execute such a plan. Further, starting in the summer of 2003, ICE lost key, experienced financial staff, some who went to another DHS bureau. It is hard to overstate the toll these changes took on the state of ICE's financial management, the results of which flowed directly into DHS' consolidated financial reporting.

The financial statement auditors reported that in FY 2004 ICE fell seriously behind in basic accounting functions, such as account reconciliations, analysis of material abnormal balances, and proper budgetary accounting. They reported that weaknesses in controls might have allowed ICE to violate the Antideficiency Act or prevented management from knowing if they were in violation; however, the auditors were unable to complete their procedures because ICE had not adequately maintained its accounting records.

ICE has recently appointed a new acting CFO and financial management director. The financial statement auditors are currently reviewing the conditions at ICE. Our observations thus far are that ICE continues to struggle with its financial reporting.

Status of Material Weaknesses

KPMG identified 10 material weaknesses in internal control at DHS in FY 2004. ICE or Coast Guard were primary contributors to six material weaknesses: financial management at ICE; Fund Balance with Treasury; property, plant and equipment (PP&E); operating materials and supplies (OM&S); accounts payable and disbursements; and budgetary accounting. ICE or Coast Guard also were significant contributors, along with other components, to two other material weaknesses: financial reporting and intra-governmental and intra-departmental balances. The material weakness related to financial management structure was directed to the DHS Office of the CFO. The tenth material weakness related to information technology security, to which all bureaus were contributors.

As discussed earlier, the CFO has taken significant steps to address the weakness directed to his office. We anticipate that the two material weaknesses related to PP&E and OM&S will continue through FY 2005 based on longer-term corrective action plans at the Coast Guard. DHS has required bureaus to prepare and submit corrective plans for all material weaknesses to which they contribute; however, the department does not have easy fixes for most of these problems.

Implementing Internal Control Requirements of DHS Financial Accountability Act

The DHS Financial Accountability Act presents a tremendous challenge to DHS because of its requirement for an audit of internal controls over financial reporting in FY 2006. In FY 2005, DHS must provide an assertion about those internal controls.

The CFO is taking these requirements seriously, is committing department and bureau resources to the project, and has taken or is taking the following significant actions:

- Established an internal control committee with representatives from DHS, components, and lines of business;
- Developed a detailed draft implementation guide for use next year in supporting its internal control assertion that must be audited, and conducted training on the guide;
- Requiring the use of the Government Accountability Office's (GAO) *Internal Control and Management Evaluation Tool* by components and lines of business to support this year's assertion, as an interim step into next year's use of the implementation guide;
- Started pilot projects using the implementation guide at Coast Guard;
- Subjected the consolidated financial reporting process in his own office to an assessment using the draft implementation guide, performed by a contracted accounting firm.

To help provide some perspective on how enormous this challenge is for DHS, I would like to discuss some of the things DHS and its components will have to do to achieve a clean audit opinion on its internal controls over financial reporting. We base this on

discussions with our contract auditor and our expectation that the audit will have to be performed using the American Institute of Certified Public Accountants' (AICPA) revised standard, AT 501, *Reporting on an Entity's Internal Control of Financial Reporting*, which is currently in draft and incorporates changes that have occurred in the auditing environment since the establishment of the Public Company Accounting Oversight Board by the Sarbanes-Oxley Act. To "pass" such an audit, DHS and its bureaus will have to support an assertion that its controls are properly designed and operating effectively by doing the following:

- Identifying relevant controls for accounts and disclosures that are significant to the financial statements;
- Evaluating whether the controls are effectively designed;
- Testing whether the controls are operating effectively;
- Identifying deficiencies that are material weaknesses;
- Documenting all of the above; and
- Implementing effective corrective actions.

To a degree, auditors do this already when performing financial statement audits according to GAO guidance. However, under the new AICPA standard, the department will also have to perform these procedures to support its assertion. Under the Office of Management and Budget's revised Circular A-123, *Management's Responsibility for Internal Control*, all federal departments will be required to meet similar requirements starting in FY 2006 to support their assertions for the Federal Managers' Financial Integrity Act. However, in DHS' case, its assertion will be audited.

This approach is an excellent way to embed internal control into an organization, but it takes significant time and resources to achieve, and DHS faces particular challenges. DHS already has 10 material weaknesses and as of FY 2004 had a disclaimer of opinion on its financial statements. The CFO must focus on corrective actions at ICE and Coast Guard to achieve an unqualified financial statement audit opinion. The CFO Act agencies had several years to prepare financial statements before they had to meet an accelerated reporting deadline. In its third year of financial reporting, DHS will now lead the way among the executive departments in audits of internal control over financial reporting.

With resources and leadership, DHS, like other organizations, can be successful accomplishing these objectives. But short of that, it could be a long road.

Strengthening the Role of the CFO

I have previously reported my concern about the CFO's authority within the Department in the 2004 Management Challenges report. My concern was that under the Department's management directive, he does not have direct authority over financial management personnel at the DHS components. Component heads retain control over the financial management resources in their organization. This concept of operations tends to divide the responsibility for financial management from the authority to command the resources needed for good financial management.

Although in general I still have this concern, I am encouraged by the Secretary's and Deputy Secretary's commitment to financial management. In my meetings with them, they have made financial management in the department a priority. Further, the DHS Financial Accountability Act, if properly implemented, should bring strong internal control processes to the department and its bureaus. We will be auditing the department's progress in implementing this Act. The Secretary recently issued a memorandum to his executive management on the importance of meeting the Act's requirements. With strong leadership at the top, we look forward to steady progress by the department in transforming its financial management.

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Mr. Chairman, that completes my prepared statement. I would be happy to answer any questions you or the members may have.

Mr. PLATTS. I appreciate all four of your opening statements. I am going to recess now to the call of the Chair and hopefully be back in 20 or 25 minutes. I apologize for keeping you waiting.

[Recess.]

Mr. PLATTS. We will reconvene the hearing.

I am pleased to have been joined by our ranking member, Mr. Towns from New York. He is going to submit his opening statement for the record without objection.

I know Mr. Duncan will be here shortly.

We are going to go into the questions. Again, I thank each of you for your written statements and your testimony here today. I want to say up front that, while we want to have a frank and substantive dialog with you today, that I certainly appreciate the dedicated work of each of you and your colleagues in your respective offices, and appreciate the efforts you are making on behalf of all of our fellow citizens.

I think we are all after the same thing, which is an accountable Federal Government and, in specific in this case, a well-run and efficient Department of Homeland Security that can well fulfill its critically important mission. As Mr. Maner said, given the attacks in recent weeks in Great Britain, all the more important a reminder of the nature of that mission. It is why we, quite frankly, have spent as much time as we have on the financial management of the Department, because clearly the better we do on financial management the more resources are available to that front-line mission, and that we really are after achieving that ultimate goal.

I want to begin, Mr. Maner, with the internal control audit issue. I appreciate directly in our conversations and in other forums you have expressed concerns about the process for moving forward with the internal control audit and the timing of it for the 2006 fiscal year. One of the things I have read, or maybe I have taken from your comments, is the concern that your audit is not going to be maybe a good audit, in other words, a clean audit or a very positive audit, because of not being able to have everything done in advance that you would like to. Quite honestly, I would expect it to highlight some deficiencies and do not think that is a bad thing though.

The analogy would be to last week when Dr. Combs was here with us on improper payments, and I said it may sound a little unusual but I am hoping that this year's number is higher than last year's $45 billion because we know the money is out there and I would rather we identify the improper payments because then we can go after and try to prevent them in the future by uncovering them. That is really what we see with the internal control audit is to help identify problem areas.

That being said, where do you stand today as far as a comfort level of us going forward and that we are not looking for a clean audit but just to get to that better—and, in fact, your statement kind of made it for me. You were talking about 2004 being your baseline audit because you address the additional four statements as opposed to the 2003 audit, and in your words, "The harder and deeper you test a system, the truer, more complete an assessment you get and the more weaknesses you are likely to find. My goal is to get to bedrock." That is exactly what we are after in the internal audit, and, again, where you are today.

Mr. MANER. Sure. Well, first of all, I think many in the Government, we are trying to all find our way through this. This audit, probably one of this size has not been attempted before, so we are working with OMB, working with our auditor. And so where am I today? Again, GAO has spoken on this issue, which is: when is an entity ready for an audit of this size and of this scope? That is really what I have been talking about. It does not do you all the good that you want to do an audit if you are not ready for an audit.

What do I mean by that? So much of an internal controls audit, really, so much of any audit, is the planning and documentation phase. In other words, an auditor is going to come into a room on internal controls just as they would a balance sheet and say, "OK, show me your documentation." If I do not and the Department and every component that is viable does not have that documentation done, the auditor could say, "I cannot. I do not have enough information. I have to disclaim this audit." And so my statement and my thinking is I just believe that we need to be ready for the audit, and that is producing for an internal controls audit, as you know, a massive amount of documentation.

So we are going down the road. We have put our planning guidance out, as you know, and we are going to do it. But I am mindful of the statements GAO has made about when is someone ready for an audit. I am mindful of the push back and the issues we have discussed within our own Internal Controls Committee, but, to the broader point, we are going to do it, we are going to do it as best we can, and we are going to get better every year.

Mr. PLATTS. I agree that the audit readiness and preparation is key here, and really one of the reasons of when we agreed to 1 year, doing 2006 instead of 2005, was to give that opportunity. But I also look at it that if we had said 2007, somehow we would fill all the time between now and 2007. If we had said 2008, in other words, human nature is if we have a deadline we all the more work to make that deadline. That is part of that push.

You reference in your testimony, in talking about the internal control audit, one of the challenges apparently is in the staff, and, in your words, very taxing on a thin financial management cadre. It is something I believe the Inspector General has referenced, as well, as far as the ability from the human capital resources to have enough experts, enough individuals.

When I read both the IG's statement and yours, I take that perhaps you do not have enough staff, by what you are saying. If that is the case, have you made requests for additional staff in order to comply with the law, which is to be ready for that 2006 audit?

Mr. MANER. Sure. Before I address staffing, let me just make one follow-on point to your comments about your delay.

You are absolutely right. You will fill the time. I just want to continue to assure this subcommittee that, because we have 10 material weaknesses on international controls already identified by ourselves and our auditor, I just want to make sure all realize that those are serious weaknesses that give us, that have us moving in the right direction, so the ball is moving forward. I just wanted to make that point.

In terms of staffing, of course, because this is relatively new in the Government and new even to the private sector, it is not about

numbers of people. It is certainly about the quality of the people. People have undergone something this rigorous. And so I believe we do have the right number of people, but we have asked for and the appropriation has been generous to date for additional dollars so we can get some advice from the outside, and we have done that.

So at present I am pleased with our staffing in that our financial management shop and in my office total our staffing has doubled since I have been there. So numbers of people not as important, but both ourselves and our components are going to need to add this expertise, for sure, to be able to do this.

Mr. PLATTS. What did you mean then by the thin financial cadre? I mean, because in your written statement it seems like you do not have enough.

Mr. MANER. No. I believe that with the challenges DHS has in front of it with regard to our financial statements, and that includes some of the things you mentioned in your opening statement about ICE, challenges at the Coast Guard, all of our weaknesses. We could all be busy morning, noon, and night with just that audit, and on top of it the new audit just is additional requirement. So we have asked for, the administration has provided, and to date the Congress has given us additional people, as well. So I did not mean to imply we are not growing, because we are growing to meet that requirement.

Mr. PLATTS. A followup question on this and then I want to get to Mr. Towns, and we also are pleased to have been joined by Mr. Duncan from Tennessee.

On the audit, itself, I think in the 2006 budget request, the $5 million that I believe is specifically for the cost of the audit being done, in our dialogs, the committee's dialog with some entities in the field that may be a low number. Are you confident that is going to cover the cost of the internal control audit?

Mr. MANER. Well, there's actually, we intend to use the resources that we have and have asked for for really three pockets, which is, one, people on our own staff. Two would be preparation, getting ready for the audit. And then three would be the cost of the audit. Some of those will be done with appropriated dollars and some we will, when it is a shared cost, we will use our working capital fund for the various bureaus. From now as we go forward, bureaus will be expected to ask for and we will put dollars for that in their budget from this point forward. So we have ingrained that requirement into our budget cycle. It is a well-known thing now.

Mr. PLATTS. So the $5 million is additional money basically to the CFO for the audit, but you are also going to be looking for all of the entities within the Department to kick in dollars from their own budgets?

Mr. MANER. They will have to begin to do that, yes, to prepare for the audit and then also pay for the audit.

Mr. PLATTS. And carry a share of the cost of the audit?

Mr. MANER. Right.

Mr. PLATTS. And your three items, it sounds like you again said you have asked for additional staff?

Mr. MANER. I would love to get back to the committee even while we are here today, because I believe the money that I asked for in the 2006 budget was for getting ready and for five additional FTE

to help us on the internal controls, but I will make sure I clarify if that is not correct.

Mr. PLATTS. OK. Thank you, Mr. Maner.

Mr. Towns.

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

Mr. Maner, I am not sure I understand why you think that an audit at this time would be counterproductive. I am not sure I understand that, because you are talking about readiness and you are talking about planning and documentation. I mean, with a new agency, I mean, it seems to me that you should be ready, I mean, because I could see if you were the Department of Defense, but a new agency, why would not you be ready for and also be receptive to it at this point in time? It is not clear to me.

Mr. MANER. Well, let me first say that I absolutely embrace the active law and I intend to, and we have talked internally and externally that we intend to embrace the law in its totality. In previous conversations with the committee last year, I raised some issues about it, but the law is the law and we intend to comply with it.

As for being ready for it, again, as this committee knows and others know, there is internal controls work in your financial statement audit, so we are learning. We have 10 material weaknesses already, so we have, again, plenty to do.

In terms of it being duplicative, again, it is the law and we are going to get ready for it and we are going to do it, but I will say that people should not underestimate the amount of rigor and amount of documentation and planning that needs to be done to do this right. So will we be there in a year? We will not be there in a year. But we will do it, and when we do our first audit next year we will go as far as we can go. We have embraced it with the full vigor of the leadership of the Department.

Mr. TOWNS. It is not a staffing problem?

Mr. MANER. The internal controls audit certainly relates to staffing, but you need to do a tremendous amount of documentation. I cannot overemphasize the amount of documentation. Now, I must tell you I must confess I have not done one of these before, so I am learning from people in the private sector, I am learning from people within the Government who have done it.

In fact, one of our bureaus, Customs and Border Protection, has done one of these a few years ago before they came to Homeland. What I have learned, it is about documentation, documenting all processes, everything from start to finish, and it is just time consuming.

Mr. TOWNS. OK. Let me ask you a question about a letter here. I have a copy of a letter here dated July 20th from Congressman Benny Thomas to Secretary Chertoff. It questions DHS on its decision to award a single vendor a blanket purchase agreement for the new MAX HR system. Has DHS responded to Congressman Thomas' inquiry?

Secretary HALE. I know that if it has not actually been sent that we are in the throes of doing it and that we have been in discussion with the committee staff. I am just not sure whether the signature is on the letter, but we have been in discussion with the committee staff on that, I believe.

Mr. TOWNS. All right. So it will be happening very soon?

Secretary HALE. Yes.

Mr. TOWNS. Thank you.

Mr. Maner, as you well know, our committee has been active in pursuing new policies and activities for agencies to reduce the extensive amounts of improper payments identified by GAO. What efforts are underway at DHS to further identify and reduce such payments in the future? What are you doing to correct that?

Mr. MANER. Well, certainly improper payments is part of our overall audit process and we had, I believe, a few of our bureaus undergo specific audits, themselves, to determine how extensive the issues are at Homeland. Improper payments exist certainly everywhere, and it is our responsibility to limit that. We had one particular instance at FEMA, one of their accounts that scored in an area that we would be uncomfortable with above the OMB level, and we have addressed that issue.

But certainly the work of this committee, the work of Dr. Combs and others on this, we are going to be very mindful of this going forward. But it continues to be something we track on our monthly dashboard. In other words, our components submit to us and we put out to everyone for everyone to see how everyone is doing in improper payments, so it continues to be a key metric for us as we evaluate our components and ourselves.

Mr. TOWNS. Mr. Chairman, is that our red light or yours?

Mr. PLATTS. I think it is yours.

Mr. TOWNS. I yield.

Mr. PLATTS. We will be back to you. Thank you, Mr. Towns.

Mr. Duncan.

Mr. DUNCAN. Well thank you, Mr. Chairman. I do not have a lot of questions. I will say this: it gets kind of discouraging, though, when we hear over and over and over again about all these billions that are being lost or misspent or whatever you want to say about it. I mean, a couple of months ago we heard that the Defense Department had mis-spent $35 billion in Iraq and had lost $9 billion in additional money, just lost $44 billion.

Of course, nobody is supposed to criticize the Defense Department now, but still that seems to me to be a pretty horrible thing to mis-spend or lose $44 billion. Then last week we heard about several other departments and agencies that had mis-spent—other than the Defense Department—that has mis-spent I think it was $45.1 billion in our hearing. Was it last week that we had that hearing?

And nothing ever happens to anybody. Nobody gets fired. Nobody is really held accountable. It does not come out of their pocket, so far too many people do not seem to care, and then we talk about these billions so often that it just goes right over people's heads.

I mentioned one other time that Charlie Cook, the very respected political analyst, said in a speech I heard about a year ago, he said nobody can humanly comprehend a figure over $1 billion, and I guess that is really true. But it just gets really discouraging at times to keep hearing this from every department and agency in the Federal Government.

I do not know that there's any way really to stop this unless we just really drastically down-size the size and cost of the Federal

Government. I do not think we are going to do that. I tore out this article a few days ago about the TSA. It says, "TSA lost control of over $300 million spent by this contractor to hire airport screeners after 9/11." It just seems like we read stuff like that every day. I just do not know.

I will say this: I sure appreciate you continuing to hold these hearings and call attention to these things, because if we are going to have any hope to do anything about these things this is the best way to do it. But I tell you, after you hear this year after year after year you just become convinced that the Federal Government cannot do anything in an economic or efficient or especially in a frugal way.

I yield back.

Mr. PLATTS. Thank you, Mr. Duncan.

I wanted to come back to the internal audit control issue. We have had some informal discussions on the issue and the support within the Department for doing this. Mr. Maner, you referenced that you are fully behind this and understand the importance of it, embracing it.

I do want to ask, though, back to the ongoing appropriations process. On January 30th this year then Deputy Secretary Loy had sent a memo to all the undersecretaries and others. From the copy I received it does not appear that it came to you as CFO but to others in the Department to "impress upon the importance of the internal control requirements of the DHS Financial Accountability Act." Seven days later, the President's budget comes up with the request for a year delay on the terms of that legislation that was just referenced.

I guess, first, are you aware of what the genesis of that memo was, and did you receive it? And, Secretary Hale, did you also receive a copy of that memo?

Mr. MANER. Yes. Sir, I would have helped write that memo for the Deputy Secretary. Again, the previous discussions, I guess it is a bit of if I had three wishes back then, maybe one of them was to have 1 more year to get ready. But I fully recognize that the committee passed and the full House and Senate passed and the President signed, and we started to get ready for it.

I think what you referenced in the budget document was an oversight, part of a previous discussion, but I hope that the memo and the series of memos since from our leadership, including Secretary Chertoff, have made it to you and that you see that we are fully behind it, and the work that we did. We always appreciate a dialog and the way you engaged us and OMB in the drafting of the legislation, we appreciated it. We appreciated the extra year. We may have wished for two, but now we are fully behind it.

Mr. PLATTS. Secretary Hale, had you received a copy of that memo, to your memory?

Secretary HALE. As Andy, the CFO office, said, it worked with the Deputy Secretary's office, and yes, I saw it as it was in preparation and then again as it was distributed.

Mr. PLATTS. I guess I have gotten conflicting understandings of how that request even got in the budget document, whether it was OMB's initiative or the Department's. I would be interested in both

of you sharing your understanding of how it came to be in the document and who drafted it and signed off on it being in there.

Mr. MANER. Yes. The accountability lies with me, certainly, which general provisions which go into the budget, which there are sometimes hundreds, lots of fine print. They start to get prepared many months before the submission of the budget, both to OMB and then ultimately to the Congress the first Monday of February. So there are lots of general provisions and it got in there.

Mr. PLATTS. So it is your initiative to have it included?

Mr. MANER. It was my initiative when we initially did a call in the summer for general provisions.

Mr. PLATTS. And this was after the law was signed by the President?

Mr. MANER. Probably before when it was first drafted, but then certainly after once it got in, so accountability lies with me. It should not have been in there. It is our mistake. But hopefully the dates of other things show you that we have not just recently gotten going on the audit. We have been doing it for some time.

Mr. PLATTS. In the Senate appropriations bill for DHS there is language that addresses this request as if it is still a valid, open request from the Department that you would like a year delay. Given your acknowledgement that it was contrary to the President's wishes, since he signed the law, and you have said several times, including earlier this year when we discussed it, that it should not have been in there and you regret it was in there, did you make any effort to the appropriators to the House or Senate and say, "Page 574, I think it was, or so, that is null and void, that request. We stand by the President's signing the act into law."

Mr. MANER. Sir, I had not known that it was in the Senate bill, but we have certainly, I have certainly talked with folks and people know that we are embracing the bill. So it shouldn't be in there.

Mr. PLATTS. The Senate and House appropriators know that you do not want a year delay?

Mr. MANER. I suspect they do, but I do not know for sure.

Mr. PLATTS. Would you feel comfortable making sure they are aware that you do not want a year delay?

Mr. MANER. I do.

Mr. PLATTS. If you would do so and copy the committee with that——

Mr. MANER. We will do it.

Mr. PLATTS. That way we are all on the same page, not just the authorizers but the appropriators, they know that you stand by the 2006 and we are moving forward?

Mr. MANER. Happy to do it.

Mr. PLATTS. OK. Thank you.

Dr. Combs, in a letter from Clay Johnson earlier this year, April 6th, to—it was in response to a letter to Secretary Chertoff and Director Bolton from myself, Mr. Towns, Chairman Davis, Chairman Cox, Mr. Waxman, Mr. Thompson, that the importance of meeting the audit requirements of the DHS Financial Accountability Act. In response to our letter, Mr. Johnson wrote back, and in his letter he stated that "OMB will continue to support the need for DHS to fully prepare itself for meeting internal implementation deadlines and complying with its internal control requirements." It raised a

little concern with me that, while there's an acknowledgement of the act's requirements, that the focus is going to be on meeting internal deadlines in the Department or OMB, as opposed to, again, the letter of the law. Are you aware of any deadlines that are being used for guidance in DHS in complying with the internal control audit that are different than the law, itself?

Ms. COMBS. No, sir, I am not aware of anything except full administration support of the law, itself, and of doing everything we can to fully support our colleagues here in the administration and fully adhering to that.

Mr. PLATTS. Thank you.

Secretary Hale, Mr. Maner, we did not receive a letter, a response from the Department to that April 6th letter until just last week. It was dated May 9th, but turned up in our hands July 20th, and my understanding is the other recipients of the letter received it about the same time, last week.

I guess, one, I was wondering why the delay. What happened? It seems like the letter perhaps was written in May but never shared with us. Are you aware of the reasons for the delay in it being actually communicated to us?

Mr. MANER. No. I have the letters here. That is unacceptable. We received your letter, it looks like, on April 6th and our response, as you say, is dated May 9th, so I see no reason why that should not have been up here sooner.

Mr. PLATTS. Yes. If it was just mine with mail here I would maybe understand. Sometimes that happens with mail.

Mr. MANER. We do not tend to mail. We bring things up. That should not have——

Mr. PLATTS. Mr. Skinner, were you aware of the request for the delay in the budget document?

Mr. SKINNER. No, not until we saw it in the budget request.

Mr. PLATTS. How did you come to be aware of it? Actually, your staff had seen it in the budget request?

Mr. SKINNER. Yes.

Mr. PLATTS. Once the budget was submitted to Congress or prior to that?

Mr. SKINNER. No. Once it was submitted to Congress.

Mr. PLATTS. Did you raise any concerns or issues about that since it was the letter of the law was 2006 and 2 months after the——

Mr. SKINNER. I think our staff did, in fact, have conversations with people in the office of the CFO, and my recollection is that there was concern that the Department was not ready, because they had rolled up their sleeves and were going full speed ahead with regards to trying to address or develop corrective action plans for the material weaknesses, as well as attempting to integrate their financial management systems and producing financial statements that we could opine on, an opinion that would be qualified as opposed to a disclaimer. I think all the attention was over on the preparation of the financial statements. People believed this was a diversion and a distraction and——

Mr. PLATTS. I want to stop you there. So it was conveyed to you by others in the Department that doing—complying with the internal control audit would be a distraction from their responsibilities?

Mr. SKINNER. During this year, yes. Everyone believed, since we did the 2004 statements that was our base year, 2005 was a very critical year for the Department to break away from the disclaimer into a qualified opinion.

Mr. PLATTS. I appreciate your frankness and would suggest to the Department that there clearly is a difference of opinion, then, between this committee and the Department that doing an internal control audit is a distraction from the work, the financial management work of the Department.

I will not go into great detail but I am going to get into the TSA audit that was referenced by Mr. Duncan. There's other TSA audits, the ICE debacle at the end of year 2002, the $300 million short. Those are all internal control problems, and the sooner we get after them the more responsible we are for the taxpayer funds and the sooner we can better fulfill the mission of the Department.

Mr. Skinner, your opinion is doing an internal control audit would be beneficial to the Department and its fiduciary duties to the taxpayers?

Mr. SKINNER. Most certainly. If we can attest to the internal controls with regard to financial reporting, I think that adds another level of assurances that the financial statements that you see and the public sees are accurate and reliable. I think an audit of those assertions will also aid management to identify any gaps—any problems they have with their processes that can be fixed and hopefully in the future eliminate all internal control or material management weaknesses.

Mr. PLATTS. I share that opinion, and all the more why we will continue to push the issue here.

I want maybe just one final question in this area before yielding back to the ranking member. Ms. Hale, on July 15th of this year, 2 days after we had submitted our request for the Department to come up and testify regarding compliance with the DHS Financial Accountability Act, as well as the 2004 audit, Secretary Chertoff sent a memo to agency personnel regarding compliance with the Financial Accountability Act, and on the copy that was provided to us a handwritten note from the Secretary saying "This is very important."

My understanding is that is the first of his referencing the act in specific in documents, and the fact that it happened 2 years after our request, I guess I am glad we made the request because it maybe help put it on his radar. I was interested if you could share with us your knowledge about that memo and kind of what generated it at that time versus earlier in the process, given he had been in office for several months and this law has been on the books at this point for 10 months.

Secretary HALE. I think Andy is just reminding me that during the 2SR process I think the 2SR team reviewed—this is one of the areas that he had set up and during that process sort of reviewing the financial management in the Department. So while it may have been coincidence in timing, I believe—and Andy would have much more detail—that it had been in preparation before, again, because his concern about financial management and why he set that up as one of the 2SR reviews, why we had Deputy CFO Eugene Schied as one of the key leaders in that second stage review.

Mr. MANER. One of the key findings, sir, of that team that we briefed was that, as fast as possible, much like a lot of the other 2SR areas, which encompassed most everything the Department does, one of the key findings was to make sure that after Secretary Chertoff had a couple months to be in the office, that he communicate his goal and his commitment, too, so that was one of the things we took on and why we put that out.

Mr. PLATTS. And I appreciated, as one who spends a lot of time on financial accountability, that the second stage review included referencing financial accountability. I guess I was somewhat surprised, then, in the Secretary's letter to Chairman Davis of this committee on July 13th, 2 days earlier, referencing the second stage review and a lot of the ongoing work and the reallocation of functions and things, that nowhere in the, I think it is about a seven or eight-page letter, is financial accountability mentioned once. Did I miss something that was separate from this letter?

Secretary HALE. Not having a copy of that letter in front of me, I believe that is probably our 872 letter that talks about the movement of organizations, and because your statute had passed, he was a direct report, we do not need to do a reorganization notice, so that was literally the notification to the Congress of those organizational elements that were moving.

Mr. PLATTS. And so, because my legislation had already passed, it is not something new.

Secretary HALE. Right.

Mr. PLATTS. And that is not in this letter?

Secretary HALE. That is correct, sir.

Mr. PLATTS. That leads into the next issue with the reorganization and the identification of the CFO within the management structure. But before I get into that I am way over my time, and that is now my red light, Mr. Towns. I will yield to the ranking member, Mr. Towns.

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

Dr. Combs, good to see you again.

Ms. COMBS. Thank you, Mr. Towns.

Mr. TOWNS. How engaged were you and other OMB staffers in developing Secretary Chertoff's proposal, reorganization proposal?

Ms. COMBS. I am sorry? Could you repeat the question?

Mr. TOWNS. Yes. I was just saying how engaged were you and others at OMB in the review and development of Secretary Chertoff's reorganization proposal? Were financial management concerns a significant component of this?

Ms. COMBS. I can assure you Secretary Chertoff and his staff developed their proposal and I was not, of course, confirmed until 3 weeks ago, so I personally have not been involved in that.

Mr. TOWNS. OK. Does the mission of DHS, along with its decentralized structure, pose a significant barrier to effective financial management practices?

Ms. COMBS. I am not quite sure how decentralized the thought is. I think what, frankly, the centralization housed within the CFO is probably more pervasive than one might guess by looking at the organizational chart or perhaps even looking at some of the material that has been subsequently presented to you. I think the appropriate question here might be for Mr. Maner to explain some of

the things that he and I have talked about, about how very, very strong his CFO shop actually is in reaching into the component areas, and I think you would be good to actually hear some of the things that he has actually done over the last year to strengthen the CFO shop within DHS.

Mr. TOWNS. Let's yield to him.

Ms. COMBS. Let's.

Mr. MANER. Thank you, Doctor. This has been something that has been very important to me in how we execute the relationship between our office and our bureaus. In fact, at last year's hearing when I was here we had a nice dialog about it. What we have focused on very much since I have been there is this centralization of processes and systems between our bureaus.

In other words, we do not want to have 10 different ways to close our books. We do not want to have 10 different ways to process a travel voucher, 10 different ways to do PCS moves. We have focused on integrating so that we have standard operating procedures [SOPs], in the Department where when you come in as a new employee and you are at the Secret Service or you are at Customs you open a book and say, "How do I do X?" "In the Department we do it this way."

So we have put a fair amount of capital and a fair amount of human work into having people help us develop those SOPs, so that is on the process side and I believe—this has been my belief—that is one of the most important things we can do out of the box is to standardize the Department.

The second is to continue working to streamline our financial management systems. When we first started the Department we had 19 financial providers in the Department, people getting accounting service from 19 providers. We have taken that to 10, and then in the last year we have reduced that to 8. I want to continue to work and streamline and reduce those, and certainly when an agency is in need of a new system we want to provide a Department-wide financial system. We are also working to provide a dashboard for management so we know what everyone's financial performance is.

So the themes here out of the gate are processes and systems. More about people, which is, I think, an important aspect, how I interact with the other CFOs at the components, it has been an important part of my term as CFO. We have lots of interaction. Certainly I have a monthly CFO council. We have weekly meetings, as well.

But I think how do you get that closeness to those people and how do you get that integration? To me it does revolve around performance management and how these people are rated and compensated, how they are hired, and if need be, fired. And I have full authority given to me in management directives signed by Secretary Ridge to do all of those things.

So even in the last few months we have literally responded to questions for help from our agencies who are looking for CFOs, found them qualified people, and put them in.

So as it relates to people, process, and systems, I do not think it would be correct to say we are not centralized. I think we are

centralized in a meaningful way without severing the important dual relationship between a bureau CFO and their agency head.

Mr. TOWNS. All right. Thank you very much.

Mr. Chairman, my time has expired.

Mr. PLATTS. Thank you, Mr. Towns.

Mr. Gutknecht from Minnesota.

Mr. GUTKNECHT. Thank you, Mr. Chairman.

I do not really so much have a question but a comment and a compliment. To sort of pursue what has been said already, particularly by my colleague from Tennessee, we spend an awful lot of money on these kinds of programs.

In fact, one of my disappointments was that when we created the Department of Homeland Security it was supposed to be the consolidation of an awful lot of programs that were in diverse, various different departments, that by consolidating those ultimately the cost would be less, certainly not any more than we were spending before. Of course, that was then, this is now, and we have seen the cost of this Department be substantially more than we were promised at the beginning.

In my opinion, that is bad enough, but when you add in that there is an awful lot of money that cannot be accounted for, that makes it even more difficult to defend.

Finally, and I think this is for the benefit of everybody here, in a little over a month we will celebrate the 4-year anniversary of that terrible attack on the United States. I think we need to be reminded once in a while when we say, well, maybe next year we can do something about this, or maybe we are working on that.

When the United States of America wants to do something we have proven that we can do it and we can do it rapidly. I remind you that we won World War II in less than 3½ years, and if you think about what all went on to make certain that happened, it just boggles my mind that we cannot come up with sound accounting systems in almost 3½ years.

So, Mr. Chairman, I appreciate this hearing. I hope you will continue to hold these hearings, because I think our constituents and the people who pay the bills expect no less.

I yield back.

Mr. PLATTS. Thank you, Mr. Gutknecht. For good or bad for everyone involved, we do plan to continue our oversight responsibilities and the importance of getting this right the sooner the better for all involved.

I want to come back to where we left off with my last round of questions on the reorganization issue. I want to start with the organizational chart. In any department that puts these out, in my office we have a similar organizational chart. One of the purposes for doing it is to convey to all parties in the entity in question and outside of the entity the line of authority and where everyone falls and so there is no misunderstanding.

That being said, as was referenced in the last question's answer, the letter did not reference the CFO position change in the July 13th letter to Chairman Davis because it was done as of last October, I was a little surprised when the organizational chart came out as part of the second stage review and had no CFO. To me that sends a terribly wrong message, that the message that has been

conveyed to me by the Secretary, by the Deputy Secretary here today, by officials is that this is a priority, this is a position we see as was intended by Congress in the passage of the CFO Act of 1990 that the CFO is a strategic manager, one of the key people in each and every major department or agency. Yet we have an organizational chart that did not even identify him anywhere. This seemed problematic and seemed inappropriate, not to mention non-compliant with the law.

I guess I would start with Secretary Hale. How did that come to be? Were you involved in the development of the original organizational chart, and specifically the lack of the CFO being identified in that chart?

Secretary HALE. Sir, I was involved and let me again emphasize to you the importance of the CFO and that direct reporting relationship.

Hindsight and your, I think, quick pointing that out to us is why we made a very important and I think clarifying part of this. What we were trying to do, and every once in a while hindsight is a good part for us, we were, again, like that 872 level trying to talk about the moving parts.

But clearly understand that it is important, as you have said, to both internal and external. I think internal inside DHS they understand the role, the leadership that the CFO plays in general, and this one in specific. Andy Maner is involved in absolutely every single major financial issue in this department and sits at the right hand of the Secretary and the Deputy Secretary, so I think it is important that we did clarify it, sir, and want to have absolutely no misunderstanding that we take that direct responsibility, direct reporting because of the importance of financial management to the Secretary.

Mr. PLATTS. Your statement was that the chart was a focus on the moving parts, and the CFO was not moving, but it was not in the organizational chart prior, right, delineating direct report?

Secretary HALE. Yes. Interesting, on the day of the announcement—and I can only tell you that of all the things we do in the Department, charts may not be our strength. But one of the moving parts was the Office of Security from the Deputy Secretary reporting back to me, and so I had the opportunity to go see the Office of Security Personnel, who were quite concerned about an organization chart that had an old one on the Undersecretary for Management. I can tell you from the development of our charts and with the day-in and day-out operation, we do understand and we do support the direct report to the Secretary.

Mr. PLATTS. The reason I am focusing on this is not because I think a chart makes a difference, but it does send a message because you do not get to speak to every person in the Department or every partner who is acting with the Department outside, and so people do give a lot of weight to these and say, "Does he really have the authority that they say he does?" So that is part of the importance of reflecting, notwithstanding the fact that also the law says——

Secretary HALE. Absolutely.

Mr. PLATTS [continuing]. He's got direct reporting authority. Even in your new chart I will make one more suggestion.

Secretary HALE. We always listen.

Mr. PLATTS. I take the work of previous Congresses and Presidents as they are intended to be, as the letter of the law of the land, the law of the land, the intent of the CFO Act when it was passed, of how important a position this is. Even in the revised chart I appreciate the dual reporting showing that Mr. Maner has that direct report to the Secretary and Deputy Secretary, as well as to you as Undersecretary.

The chart to your right, my left, is how I would suggest it to say to the world at large, the public at large, that yes, our CFO position is equal to our assistant secretary for public affairs, our assistant secretary for congressional and inter-governmental affairs. In fact, our CFO is by law a direct report to the Secretary. Those other positions I believe are not. And to say, this is not a sub-level. This is equal if not more important because it is the people's money.

I would make that suggestion and would be interested in the realignment that is identified in the reorganization chart, and that being made clear to all Department employees as it goes to, Mr. Maner, one of your statements about your authority. I think I understood you right that, per a directive of then Secretary Ridge, you do have the authority to fire entity CFOs within the Department?

Mr. MANER. Yes. I enjoy some authorities already in the CFO Act, but certainly management directives are what guide a Department, and in consultation with agency heads we can affect variable compensation, performance ratings, that sort of things, so yes.

Mr. PLATTS. Including the right to fire?

Mr. MANER. Yes. We have that, too.

Mr. PLATTS. Of all CFOs in all the 22 agencies?

Mr. MANER. We really do not have 22 agencies, per se, but in our major operating entities in which there is a key financial person——

Mr. PLATTS. Right.

Mr. MANER [continuing]. The answer would be yes.

Mr. PLATTS. And are you also consulted in the hiring of those positions?

Mr. MANER. Yes, absolutely. And in most cases I might lead that effort or help the agency identify candidates.

Mr. PLATTS. I am very pleased to hear that. I think that is key. The Inspector General has referenced that in his written testimony and I think here today, as well. Long-term, that is, to me, critical. We have been working with NASA, and they have seen some improvements from a disjointed structure where the CFO, in essence, took what arrived on her desk but at least initially did not have the ability to go out into the various NASA centers and say to the CFOs, now you need to answer to me, as well, because I have to put my name on what you are giving me. They have sought to improve that and it sounds like you are making good headway in doing the same at the Department of Homeland Security.

The issue of a permanent CFO—and, Secretary Hale, you have raised or spoke about an ongoing effort. As we have expressed in conversations, as well as in writing between you and others in the Department and myself and the committee, the requirement said 6 months to have a Senate-confirmed CFO in place. Ten months

have passed since the requirement was enacted. We are 4 months overdue. I appreciate in your comments here today and my conversation with Secretary Jackson last week that there is a serious effort to move forward and comply with the law to have a Senate-confirmed CFO in place.

First I would be interested in whether you have begun interviews?

Secretary HALE. Yes, sir.

Mr. PLATTS. When was the first interview conducted, roughly?

Secretary HALE. Last November.

Mr. PLATTS. I take it, the fact that there was not a submission between November and now, as we speak, that initial candidate or candidates was, for whatever reason, not acceptable?

Secretary HALE. Let me talk a little bit about it if I may, sir?

Mr. PLATTS. Yes, please.

Secretary HALE. As you and I have discussed, there is, in my humble estimation, no more important position to fill right now in Department of Homeland Security. The Secretary may look at some of his other boxes, but it is critical for us. One of the things that is terribly important is to get the right person in the right job, and we want to be sure that they have the knowledge, the drive. This is a leadership position. It is a leadership, as you have well indicated here, and, so, we want to be sure.

I hesitate to say this, but I know that it has been a challenge in the rest of the Government to get appropriate CFOs, qualified and nominated. We take this terribly serious. We also want to be sure that, probably to use the wrong expression, I do not want to just fill the box. I want to be sure that we have the right person in the job. This Department, this mission, and, as you all in this hearing today demonstrate, we have large challenges in front of us. We have a very good CFO that is at the helm right now, and we will continue to drive, as we have said, to fill that position in the very near future with a recommendation and keep you informed.

Mr. PLATTS. I have reason to believe that we will see a name submitted some time in August to the President for consideration of submission to the Senate? Is that accurate?

Secretary HALE. It is our absolute goal to do that.

Mr. PLATTS. Well, my hope is that will occur. I agree you want the right person, but we also need to comply with the law.

Secretary HALE. Sure.

Mr. PLATTS. How many individuals have been interviewed since the law was passed to this date?

Secretary HALE. There have been a series of interviews done by me and by others, but I have probably talked to seven or eight in the last 2 months and sort of have done extensive outreach to be sure that we have a wide range of candidates as we have looked across the Government.

Mr. PLATTS. Prior to the last 2 months, and specifically in the 6-months that would have allowed compliance with the law, how many people were interviewed and in what depth were those interviews? How senior were they? Were the Secretary, the Deputy Secretary at those interviews?

Secretary HALE. Actually, the process inside the Department for all of the chiefs have been one that I would do a significant

amount, so as we have sort of filled, whether it was the CIO or a couple of the other ones that may be vacant, that I would try and reach out again because of my expertise—I have served as a CFO in several different departments—to try and sort of do that.

The Deputy Secretary, the Secretary have all been sort of engaged in looking at the types of candidates and have asked me to do the early screenings, and so it is, again, with sort of knowledge of who the candidates are, the types of people we are looking at.

Mr. PLATTS. So how many people in that first 6 months were interviewed in depth?

Secretary HALE. Sir, I would hate to give you a number, but it is somewhere between 7 and 10.

Mr. PLATTS. Not in the last 2 months, but in the 6-months——

Secretary HALE. In that period about sort of finding candidates, reaching out, in-depth interviews sitting in my office, 5, 7, 10. I am not sure. I can get you that number.

Mr. PLATTS. If you could, I would be interested in actually who they were that were interviewed and the timeframe.

Secretary HALE. I would actually be happy to share that with you, sir. I think some of these, as you reach out to people as they are obviously either interested or not interested, there are some privacy issues, but I would be very happy to talk to you about that.

Mr. PLATTS. And not just those where there was just an informal conversation, I am looking for someone who actually came in and interviewed to be considered. I appreciate the privacy concerns there.

The reason for the question is again, Congress passed the law, the President said it is a good idea, and it needed to be a priority. I think we have someone who is very dedicated in the position to now, has been working diligently, and I am sure if his wife and children were here they would say too diligently, I imagine, in the hours you are putting in, and I respect that. But I do not think it took 10 months for us to find Andy.

Secretary HALE. It took me a little time to talk him into it. And, again, we did the same kind of exhaustive search. Our first CFO was fabulous. It was Bruce Carnes who was here at the Department and then went back to the Department of Energy. And I am not sure how long between Andy sort of being able to identify, because you start with sort of a set of let's go get the best financial person, let's go find somebody that has Homeland Security knowledge. Let's go be sure that we have somebody that has the leadership skills.

So I am not sure how long it was, but it was probably 4 or 5 months between knowing that Bruce was leaving and before we actually had Andy locked, loaded, and in the chair. And, sir, again, that was without the Senate confirmation. The period sometimes for Senate confirmation is, as you well know, sometimes longer.

Mr. PLATTS. But the concern is that we appreciate the challenges, but we continue to fill positions, CFO or deputy CFO positions, throughout the Department, and when we have an instance where it is a statutory requirement, it seems to be taking longer than when it is not a statutory requirement. I think that we need to be compliant as quickly as possible.

I am sure that in your various positions you have given deadlines to subordinates to meet, and if they fail to meet them there were consequences, and when my citizens back home fail to comply with the law there are consequences, and we have clear failure to comply with the law. Whether we like it or not, that is what the law is. It seems like there are not any consequences here at the Federal Government level. And so I hope we will see compliance as quickly as possible.

I have some additional questions. Mr. Towns, did you have others?

Mr. TOWNS. Yes, I do. Thank you, sir.

Mr. Skinner, some airports have turned again to private contractors instead of TSA for screening duties. What can you report to us about the performance of these contractors, and what controls are in place to monitor their performance? Will the new structure of DHS management functions aid the oversight of TSA contractors?

Mr. SKINNER. I believe you are referring to the pilot program. TSA has piloted five airports across the country——

Mr. TOWNS. Right.

Mr. SKINNER [continuing]. In using private contractors to provide screening services.

Mr. TOWNS. Right.

Mr. SKINNER. At this point in time we have not done any assessments of their utility, that is, how well or how effective and efficient they are, in fact, operating. That is something that is on our radar screen, however, for the very near future.

Mr. TOWNS. What bothers me, I am sort of wondering, until we sort of tie some of these things down and sort of know where we are going or what we are doing, should we do anything else until we sort of get some of this under control? I am thinking in terms of the statements made by both of my colleagues on the other aisle in reference to the fact that we just have too many things that are just loops. To experiment with something at this point in time, I mean, really, is it a good thing to do, I mean, just from your own background and experience?

Mr. SKINNER. I think that the pilot project is part of the legislation that was created that set up the Federalization of the screening process at the airports. The reason for that is, after a 2, 3, 4-year assessment period, we can make a determination whether some airports can opt out of the Federalization program and go back to using private screeners so long as there is sufficient oversight by the Federal Government, or, in this case, the Department of Homeland Security.

In my experiences with regard to contracting these type of activities out, I do not see that would create a problem so long as there is a strong procurement oversight function in the Department, one that monitors and holds contractors accountable. Without that oversight and monitoring role, that is, holding people accountable, yes, you can get yourself in trouble.

As far as I know from our general contact with these airports—we have visited them as part of our penetration tests, as you may know—we have found no anomalies or anything to suggest that

they are out of control. They are not performing any better or any worse than our Federalized airports.

Mr. TOWNS. On that note then, Ms. Hale, has Congress provided adequate resources for DHS to comply with its administrative responsibilities and internal control functions? Are financial resources preventing DHS from improving upon its internal control functions? Are there personnel barriers? I mean, we want to help. Just trying to get a handle on everything.

Secretary HALE. Thank you, sir, for both yours and the chairman's support in this area. I think, as Andy Maner indicated, this is partially a learning curve for us. We have the resources in the budget. I anticipate that we will get those, although there were some rather large reductions taken, but I guess not in the CFO area, so I think we are probably OK as we go into conference here.

I think we will be fine. It is, again, both with the leadership, the documentation, and the planning that Andy Maner discussed before, we are committed to doing this task and we think we have the resources necessary. And I think in this regard if we do not I do not think we will be shy about it because, again, we are very committed to this and we are developing right now the 2007 budget request, so we will sort of look and have some time under our belt to see what it takes and be sure that we ask for the resources in 2007, as well. Get it in 2006, started the planning in 2005, and be sure that we are a watchful eye as we go into the 2007.

Mr. TOWNS. You have our attention, so now is the time to do it.

Secretary HALE. Yes, sir. I think most importantly for us is to get the—as I know you all share this, as well—is to get the appropriations bill, be sure that we have the appropriate staff, the background, the folks that Andy has brought on board, and be able to lead that effort.

Mr. TOWNS. Right. Thank you very much. I yield back, Mr. Chairman.

Mr. PLATTS. Thank you, Mr. Towns.

I will turn to some of the audit findings, the 2004 audit findings. Mr. Maner, one of the issues that jumps out is the ICE—Immigration Customs Enforcement—issue and the significant budget difficulties at the end of the year. According to the audit, "ICE experienced significant budget difficulties due at least in part to the late preparation by the Office of the CFO of agreements to reimburse if a cost incurred on other's behalf. ICE fell seriously behind in basic accounting functions. This condition is very serious for ICE and for the Department." I think that also then gets into Clark Kent Ervin's written statement about agents being unable to put gas in their cars, pay informants, use their cell phones. Can you address your understanding of the audit findings regarding failures within your office?

Mr. MANER. Well, first of all, I think it is important to understand the situation at ICE in 2004 and the latter part of 2003. To understand that you have to understand that ICE was not only going through a very difficult but important merger, but something else was happening at the same time that is often forgotten about, and that is that the INS, an organization that existed for decades, was being dismantled.

Both of these decisions were absolutely the right decisions, and creating an enforcement bureau like ICE was the right decision. This all was taking place last year. The 2003 appropriations did not take into account the new structure, and the 2004 budget was the first time where the budget actually was able to reflect the new structures. The 2004 budget was just a basic estimation of what the new Customs and Border Protection and ICE would look like.

So we spent—my office spent thousands and thousands of hours, and I personally spent nearly 20 to 40 hours a week on this issue for the better part of last summer.

At the end of it, some very good Government things have happened. First of all, ICE was going through this merger. They were also the Department's accounting service provider. So we were very much attached at the hip as this was going on but it was not all bad, and I did read Mr. Ervin's statement and I have read a lot of media reports about ICE, and I have heard a lot of the lore about how they cannot wash their cars, cannot get their gas, that sort of thing.

And some of that may be true. A 15,000-plus person agency. I can tell you their enforcement numbers for that time period were higher than they had been before in terms of a lot of their drug interdiction, alien removals, fugitive operations, that sort of thing. So the agency was performing, but they were doing so under some budget difficulties, which is why we were in a room trying to dismantle the regional structure and district structure of the INS, make sure the money was in the right bureau. There's no handbook for it. It has probably never been done for the past 50 years. We did it, put thousands of hours. It was the right thing.

And with the help of the Congress, I might say, and OMB—last year we were able to infuse some cash into ICE to make it through the year.

So everyone played a key part in making sure ICE was solvent and was able to continue.

In terms of the specific piece you mentioned, which is reimbursable agreements, let me just say one of the good Government pieces that Undersecretary Hale, myself, and the leadership wanted to make sure we did with these new bureaus is that they not be allowed to reproduce and create new organizational structures. That there be some shared services. That we not just say, oh, because I am a new bureau I get my own HR shop, I get my own procurement shop. So we put into place, under Ms. Hale's leadership, a group of people to make sure that was happening. This has come to be known as tri-bureau shared services. It began with all through the year, and at the end of the year we had to put reimbursable agreements in place to reflect that. It took a long time. It was the right decision. But, as you suggest in your statement, it did take a little more time.

Not to presuppose a following question, but I do want to report that in fixing ICE, which I know is important to the committee and certainly all of us at the table, we do not want to just fix it in the short term—in other words, make them solvent 1 year. We are interested in making sure they are an ongoing concern. So what we have done is put into place a pretty aggressive people, process, and system assistance package, if you will, to ICE, meaning they need-

ed new financial management leadership, we needed to be more involved in their processes because of course they were also our financial accounting provider. And then we probably need to look at their systems, as well.

So the fix for them long term incorporates all three of those aspects, and I just want you to know—Mr. Skinner mentioned in his opening statement new people we have put in, very hopeful for that. Also, in the supplemental the Congress the administration did for 2005, there was new budgetary and finance people included in that. So people side, we are getting there. My office, sir, as you and I dialogd last year, I think we are going to have times where, of our sort of 10 big operating bureaus, some are going to be on the left side of the bell curve, some are going to be OK, and some are just going to be cruising along. Right now ICE is in that in need part of their existence and we are trying to help them as best we can.

Mr. PLATTS. I commend you for the approach of a long-term solution. We have had lots of hearings with lots of departments and agencies and sound like a broken record that we are not looking for heroic efforts at the end of the year that makes things look good for a day and then we move on, but to truly get to the core problem so we fix it permanently and have a long-term solution, so I agree with that approach.

My understanding from the Inspector General's statement is there's an acting CFO at ICE. Where do we stand with that position from, again, a permanent position, appointee? Is that in the works?

Mr. MANER. Yes. They have three key financial positions. We have put a budget director in there and a director of finance. Some of these are SESers, some of them are not. Right now the budget director is the acting CFO, and then they have to put a permanent person there. So I suspect that will be done. As you know, sir, they are also undergoing a leadership change at the moment and it is certainly my belief that one of the first things we will talk about with the new leadership is our recommendations and our suggestions of ways to help fill those permanently, but I can assure you that they are in pretty good stead in terms of people right now.

Mr. PLATTS. Inspector General Skinner, you reference the efforts there and ongoing efforts, but you also state that your current findings lead you to believe there are still some significant accounting challenges or problems at ICE. Could you expand on that?

Mr. SKINNER. Yes. There most certainly is. As I speak right now, we are currently working in ICE evaluating their accounting problems. I do not want to draw conclusions at this point in time. We have not drawn any conclusions yet. But I can say our early observations suggest that they still have serious problems and it will take time to work them through.

One of the most notable problems would probably be their financial reporting difficulties. We continue to find abnormal balances in certain accounts that cannot be explained. Until they can get to the bottom of why each month they are having substantial abnormal balances, the problem is going to persist. That is what they currently are working on.

Mr. PLATTS. What dollar amounts are we talking about the balances that they cannot account for?

Mr. SKINNER. We are talking millions of dollars, substantial amounts. If it was immaterial, we would not be raising a red flag. These are significant amounts of money that cannot be easily explained.

Now, they have made improvements since last year. Those amounts have been reduced. But still we have not really got to the bottom of what is causing the balances to be out of sync. That is what we are working on and that is what ICE is working on, as well.

The new leadership they have in place has really added value and has accelerated their ability to improve their accounting and their financial reporting, but it is something that I think is going to require close attention by the CFO, close attention by ICE management, and close attention by Department management all the way up through the Secretary. If we want to get to the point where we can have qualified opinions this year, at best, unqualified opinions in the out years, then we have to fix the problems that exist in ICE.

Mr. PLATTS. Secretary Hale, what is your familiarity with the ongoing problems that we are still having, apparently millions of dollars unable to be properly accounted for? Because I certainly accept Mr. Maner's statements that no one is suggesting this has not been a tremendous transformation, and 22 agencies, 170,000 employees, 18 material weaknesses inherited.

But we are 2½ years along, and the fact that this late into the 2005 fiscal year we are still having end of month fund balance difficulties to the tune of millions of dollars causes me to believe apparently we are not throwing enough effort, manpower to get to the bottom of it if we are near now the end of the third quarter of the current fiscal year, the problem that we knew was a problem in last year's fiscal year. So your understanding of that issue?

Secretary HALE. I think I share both the IG and the CFO's concerns about this and continue to sort of, mostly through the CFO, again with the leadership there, talk about sort of the importance of the financial management, being sure we have the resources that are there and they take the appropriate steps.

We do two things in the Department. One, we have a CFO Council that Mr. Maner shares, and then I chair a Management Council where we have talked about some of the issues and the importance of this. We have actually talked about sort of taking these kinds of issues back again this month to them, both to the internal controls but also sort of where we are along the compendium so that we can get ready. So I share your concerns. I share, I think, Andy's, as well as——

Mr. PLATTS. Are you aware of any specific reasons that have been identified yet for the lack of accountability for millions of dollars?

Secretary HALE. I think it is, again, their sort of their statements and they are continuing to try and align their accounts.

Mr. PLATTS. So your answer is no, you are not aware of specific reasons for the inaccurate end-of-month accounts?

Secretary HALE. Other than the systemic ones that we are continuing with their corrective action plan to try and work through to be able to close the monthly accounts and be able to prepare the statements. I think that is why we have had the corrective action plans. We continue to work with them on those. So I think it is——

Mr. PLATTS. Mr. Maner, you apparently would like to expand on that?

Mr. MANER. Always happy to, because I spent a lot of my life doing it there. Again, there are still systemic problems at ICE and it is not enough to say we inherited them from DOJ because some of them are new. But what we have to do is—I just would not want the committee to think otherwise. It is a people, a process, and a system fix.

The things that are happening at month's end and early close are issues. I want to also salute a lot of the hard-working people at ICE. They had a tremendous attrition problem right at the beginning—this is before I arrived—right at the beginning of the merger where more than half of their senior financial management left ICE, so to build the people back up who know how to do this, who know how to do it like a drum beat, the things that happen every night, the people who put processes in place, and gets the internal controls because it is not just financial management people, it is the special agent in charge that is in the field and how they work within the financial system and financial confines. So it is totally and utterly systemic that will only be fixed if we attack all three of those areas equally. And I just want to assure you that they are not looking at just one.

Mr. PLATTS. The example here with ICE, the conversation previously on the permanent CFO nominee, personnel challenges, Inspector General was referencing whether there's enough personnel within the CFO office to meet the demands we are placing on it—given how important the mission of this Department is, no greater important agency out there other than DOD, itself, and DHS and DOD kind of go one in the same, because for the national government the most important responsibility we have is protecting our citizens.

Education is certainly a priority, environmental protection, transportation. Protecting the lives of our citizens is the most important responsibility we have. If there are management personnel challenges at the Department, I would expect that we would hear the Secretary of the Department at the top of his lungs saying, I need help over here, Mr. President, to get the best and the brightest from whatever other department to this Department.

That is not happening. Because until we fix ICE's financial problems, until we fix TSA's financial problems, we are going to continue to spend a lot of money. And yes, the report numbers for ICE look good, but what we do not know is how many people slipped through, perhaps simply wanted to work here, perhaps wanted to create harm here. How many did we not catch?

And so the fact that I hear that we are doing our best and—I accept that at least half of your senior management at ICE, in the midst of a dramatic transformation, that is a high hurdle to get over. But, given the role of that agency and the importance of it, it should be a Government priority. If it means we take somebody

and say, "We are moving you from HHS, from Ed, from EPA, from wherever, to DOD or to DHS," that is what we need to do. And that is not anything I have heard from the Secretary, from the President, from OMB, from anyone in a senior position of this administration. I hear that we are working on it.

Given that this is about protecting the lives of Americans and making sure we are protecting their dollars so that we can then spend those dollars on protecting their lives, working on it is not good enough. Doing it is what is going to be good enough.

I do not mean that in an antagonistic way, because I truly mean when I say we are on the same team. But I think the two of you and Inspector General Skinner at the Department, Dr. Combs, this is an alarm all of you should raise at the CFO Council meetings, with Director Bolton, with Chief of Staff Card, with the President, himself. You should all be raising that alarm that we do not have the personnel that we need to do what we are being charged to do, and then get their help in making it happen.

I do want to raise quickly a couple of specific examples, because as we talked about ICE I think it is fair to say when we get to an audit of internal controls that is going to help us get to the cause of the problem such as we are seeing at ICE. Is that a fair statement? I would be interested actually in all of your opinions.

Mr. SKINNER. Yes.

Mr. PLATTS. That is going to help us get to the bottom of it.

Mr. MANER. Yes, it would.

Mr. PLATTS. To that foundation problem. And I think it epitomizes, no matter what the internal control audit cost, given that we are unable to account for millions every month in their end-of-month balances, and then we get into some of the actual lost funds at TSA and elsewhere, whatever it costs we are going to recoup it very quickly.

I do want to raise specifically the audit on TSA, and if you do not have the answers today you can followup with the committee. That would be great. I guess this would be to both Inspector General Skinner as well as Mr. Maner and Secretary Hale.

Some of the audit findings, according to the news reports, my understanding is the audit, itself, has not been shared publicly yet, that is an ongoing review for a FOIA request?

Secretary HALE. I think you are talking about the DCAA audit of the TSA.

Mr. PLATTS. Of TSA. Right.

Secretary HALE. This is the contract with Pearson——

Mr. PLATTS. Right.

Secretary HALE [continuing]. Where there has been much newspaper publicity about it. If I could just have a couple seconds on that, sir, and then I think you asked about sort of that audit, itself. It is correct to say that the contract grew. It has also not been reported that we disallowed almost $140 million worth of those invoices that were submitted. The DCAA—the TSA asked to come in to be sure that they looked at that contract.

It is important, I think, to understand because there is, like you, no one in this Department that wants to waste American taxpayer dollars and, far more importantly, wants to put the money appropriated to the front-line mission. But, I was not part of the Depart-

ment of Homeland Security. It occurred during its standup when it was part of the Department of Transportation. But, I have spent a little time looking at that contract or not specifically at the contract but the circumstances around it. I do think it is important to note that when they started that time and materials contract, meeting congressional deadlines, but also being sure that, as the scope changed, they did not know how many screeners they were going to hire, so very clear management oversight and involvement in that contract, when they met with the contractor, sort of went through this process and then themselves decided to pull in DCAA.

So we have gone through that. DCAA is finished their audit. That was the basis on which then TSA had to make their own independent decisions about how much of the Pearson money to ultimately pay. I know the Inspector General has been very involved in that, as well. But we have not shared that publicly. There have been some FOIA requests and they are going through the redacted version of that. We would be happy to share, sir, with the committee under the appropriate circumstances.

Mr. PLATTS. Well, I would urge the public sharing of that information. The earlier the better, certainly with the understanding of, if there are things that are sensitive relating to Homeland Security, to be redacted.

In the Secretary's statements regarding the second stage review, he said—under stewardship he said, "A commission to measure performance—" which is what this audit was. It is measuring the performance of TSA and its handling of the contract. That is how I view performance, how do we operate this contract.

The Secretary said, "A commitment to measure performance and share results." So we have done an audit. What is reported in the press is that the audit said we did not do a very good job in overseeing this contract and we should share that and say mistakes were made and we are going to correct them.

Just a couple. I do not want to keep you here past this round of votes. That is why, unfortunately, I am raising them here so you do not have to wait.

One of the things highlighted, I do not know the substance of this but according to the statements in media, a $5.4 million claim for 9 months salary for the chief executive of an event and logistics firm that received a contract before it was incorporated and went out of business after the contract ended, a contract for the hotels that were acquired instead of using the testing centers where the contract gave them 10 percent on whatever the charge for the room was, so there's incentive to get higher room costs and they make more money.

I think that is one of the things that was identified in the audit that perhaps the Inspector General is aware of, point after point of terrible oversight of taxpayer dollars. If there are a viable and logical answer to some of these statements, the sooner that is public the more trust that the public is going to have in what the Department is doing.

I realize TSA was not then under DHS, but it is today. So I am not going to get into all the various points, but the news article is pretty alarming if half of what is in here is true, and so I do urge the public sharing of that information, and we as a committee look

forward to having a chance to review that, as well, because the reason that article caught my attention and I set it aside—as you can tell, I use blue markers, and I have lots of blue marks—is because it to me is all about internal controls and the breakdown of internal controls regarding what was originally a bill of $800-some million, I believe, that we negotiated down to $700-some, I believe.

Secretary HALE. I think it would be interesting, sir, and we would be happy to set this up, to have the committee and even yourself, sir, hear about that contract.

Mr. PLATTS. I think that would be very helpful to us.

Secretary HALE. I think having listened to sort of the steps that they took at the time as they were obviously right after September 11th in setting this up after that terrible tragedy, but also the steps they have taken subsequent to that in their sort of acquisition process. I think both of those would be a very important sort of set of information for this committee to have.

Mr. PLATTS. A final question regarding, again, if half of what is in here is accurate, I am concerned, regarding the TSA contract or the ICE. I think I know the answer to the question, but is anyone aware of anyone who was demoted or fired for any of the financial misdoings related to those two issues?

Mr. SKINNER. Congressman Platts, I can address the TSA issue in the Pierson contract. We will be issuing a report probably within the next 30 days addressing the TSA's oversight and management of that particular contract. I am not at liberty right now to discuss the details of that report.

Mr. PLATTS. I appreciate that.

Mr. SKINNER. It is not public yet, but we will be making it public hopefully in the next 30 days, and, of course, we will be delivering it to this committee.

The report is going to be highly critical, obviously, but one of the things we have to keep in mind, at that time, when that contract was awarded, there were only 12 people working at TSA. There was only one contracting officer at TSA to manage a multi-million, almost a billion-dollar contract.

Mr. PLATTS. Terrible management breakdown.

Mr. SKINNER. It was doomed for problems.

Mr. PLATTS. Yes. And that goes to——

Mr. SKINNER. No question about it. But TSA has come a long way and the Department has come a long way since then. They are still building and improving, and we need to recognize that. Of course, we are going to try to show that in our report—the steps that have been taken since. The problems back to 2002 and 2003. We are in 2005 now. That is the issue that we should be addressing: where are we at in 2005?

Mr. PLATTS. And that we learn from the mistakes of 2002 and 2003.

Mr. SKINNER. Yes, sir.

Mr. PLATTS. And that is why I even raise it, is that we can do a lot better in 2005 and 2006 if we make sure the internal control breakdowns of 2002 and 2003 are not repeated.

Mr. SKINNER. Most certainly. This is a poster child for what not to do to manage a contract.

Mr. PLATTS. I apologize that I do need to run to get to a floor vote. Secretary Hale, did you have one last thing that you wanted to add?

Secretary HALE. No, sir. Thank you, again.

Mr. PLATTS. And the thanks is from us to you. In each of you, sometimes I may be critical and try to ask some tough questions, but it is because of that commitment that we all at the end of the day get to a shared goal of doing right by taxpayers and, in this case, right by protecting the lives of our citizens. I know each of you are putting in incredible hours.

As a fellow dad with young children, Mr. Maner, I sympathize with your wife. My wife sympathizes especially with your wife. But we are grateful for your service and we will raise concerns when we have them. But hopefully it is understood that it is seeking to get to our shared goal.

Thank you each for your testimony here today.

We will keep the record open for 2 weeks for any additional information that we have requested. Again, we wish you well in your efforts.

Thank you.

We stand adjourned.

[Whereupon, at 4:10 p.m., the subcommittee was adjourned.]