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**U.S. Department of Homeland Security**

**Testimony**

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

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

**Audit Success**

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

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

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

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

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

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

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

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

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

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

### **Financial Management Improvements Outside the Audit**

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

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

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

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

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

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

### **Improvement in Financial Systems**

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

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

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

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

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