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Subcommittee on Oversight and Management Efficiency

“DHS Financial Management: Investigating DHS’s Stewardship of Taxpayer Dollars”

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

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

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

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

Working together as One DHS, the financial management community launched a multi-year effort to drive the Department toward a clean audit opinion and a full accounting for how it spends taxpayer dollars. DHS put in place strong internal controls, strategically recruited staff,

developed essential skill sets through workforce training, and established Department-wide policies and business processes—the fundamental building blocks for effective financial management. To improve the auditability of its financial statements, DHS has worked to standardize business practices and to execute systematic plans to correct recognized weaknesses.

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

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

DHS continues to demonstrate measurable progress every year, developing and implementing corrective actions and decreasing material weakness and significant deficiency conditions, confirming DHS's ongoing commitment to sound financial management practices. In 2012, the Department earned a qualified audit opinion on all its FY2012 financial statements, a first in its history. This means that the Department has systems in place to responsibly account for its resources. The Department was also able to provide a qualified assurance on internal control over financial reporting, our first major milestone toward obtaining an opinion on internal control. This means that with the exception of a few areas, DHS has good business processes in place to ensure our financial statements are accurate. These achievements highlight the success of management integration efforts at DHS and represent important steps toward increasing transparency and accountability for the taxpayer resources entrusted to the Department.

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

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

Some Component DHS financial systems are outdated and in need of modernization. To address this, DHS launched the Financial Systems Modernization initiative to expand business intelligence capabilities and modernize financial systems where needed. The Department's decentralized approach conforms to guidance from Office of Management and Budget (OMB) to split modernization projects into smaller, simpler segments with clear deliverables and to focus on the most-critical business needs first. It also conforms to OMB's objective to leverage shared services where possible, rather than continuing to make costly capital investments in duplicative accounting systems. Through the Financial Systems Modernization initiative, DHS will be able to better manage its resources, provide enterprise-level information quicker to support critical decision making, reduce costs by eliminating redundant or nonconforming systems, and promote good business practices through standardization of processes and data where possible.

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

DHS and its Components collaborate to ensure financial system modernization projects are planned and executed to meet reporting requirements, minimize costs for financial operations, and make certain that financial management systems provide for the systematic measurement of performance and have management controls in place to support the DHS mission. My office performed an extensive review of lessons learned and best practices from other Federal financial system projects, and is working with DHS Centers of Excellence to

ensure best practices in program management, systems engineering, and security are incorporated into Component projects. In addition, DHS is incorporating lessons learned from previous modernization efforts, as well as recommendations from the Government Accountability Office and a recently completed independent assessment validating its approach. DHS will continue to collaborate with Treasury and OMB to execute our aligned strategy and will update relevant supporting documentation as each Component completes its Alternatives Analysis and finalizes its path forward.

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

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

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