



Highlights of [GAO-03-1134T](#), a testimony before the Subcommittee on Government Efficiency and Financial Management, House Committee on Government Reform, House of Representatives

Why GAO Did This Study

Based on its budget, the Department of Homeland Security (DHS) is the largest entity in the federal government that is not subject to the Chief Financial Officers (CFO) Act of 1990. The department, with an estimated \$39 billion in assets, an almost \$40 billion fiscal year 2004 budget request, and more than 170,000 employees, does not have a presidentially appointed CFO subject to Senate confirmation and is not required to comply with the Federal Financial Management Improvement Act (FFMIA) of 1996. In addition, we designated implementation and transformation of DHS as high risk based on three factors: (1) the implementation and transformation of DHS is an enormous undertaking that will take time to achieve in an effective and efficient manner, (2) components to be merged into DHS already face a wide array of existing challenges, and (3) failure to effectively carry out its mission would expose the nation to potentially very serious consequences.

In light of these conditions, the Subcommittee asked GAO to testify on the financial management challenges facing DHS, steps for establishing sound financial management and business processes at DHS, and GAO's comments on H.R. 2886, The Department of Homeland Security Financial Accountability Act.

www.gao.gov/cgi-bin/getrpt?GAO-03-1134T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at 202-512-6906 or williamsm1@gao.gov.

FINANCIAL MANAGEMENT

Department of Homeland Security: Challenges and Steps in Establishing Sound Financial Management

What GAO Found

The Homeland Security Act of 2002 brought together 22 agencies to create a new cabinet-level department focusing on reducing U.S. vulnerability to terrorist attacks, and minimizing damages and assisting in recovery from attacks that do occur. Meeting this mission will require a results-oriented environment with a strong financial management infrastructure.

Creating strong financial management at DHS is particularly challenging because most of the entities brought together to form the department have their own financial management systems, processes, and in some cases, deficiencies. Four of the seven major agencies that transferred to DHS reported 18 material weaknesses in internal control for fiscal year 2002 and five of the seven major agencies had financial management systems that were not in substantial compliance with FFMIA. For DHS to develop a strong financial management infrastructure, it will need to address these and many other financial management issues.

Through the study of several leading private and public sector finance organizations (*Creating Value Through World-class Financial Management*, GAO/AIMD-00-134), GAO has identified success factors, practices, and outcomes associated with world-class financial management. Four steps DHS can take to begin developing sound financial management and business processes are to: (1) make financial management an entitywide priority, (2) redefine the role of the finance organization, (3) provide meaningful information to decision makers; and (4) build a team that delivers results.

H.R. 2886 can help facilitate the creation of a first-rate financial management architecture at DHS by providing the necessary tools and setting high expectations. The bill would (1) make DHS a CFO Act agency, (2) require DHS to obtain an opinion on its internal controls, and (3) require DHS to include program performance information in its performance and accountability reports. GAO fully supports the objectives of the CFO Act to provide reliable financial information and improve financial management systems and controls and believes DHS should be included under the act and therefore also subject to FFMIA. Further, GAO strongly believes that auditor reporting on internal control can be a critical component of monitoring the effectiveness and accountability of an organization and supports DHS, as well as other CFO Act agencies, obtaining such opinions. In addition, GAO supports agencies including program performance information in their performance and accountability reports and strongly encourages DHS to report this information voluntarily. Finally, as introduced, H.R. 2886 provided a waiver allowing DHS to forego a financial statement audit for fiscal year 2003. We understand an agreement has been reached to remove this waiver from the proposed legislation. DHS has committed to a 2003 financial statement audit, which is already underway. GAO supports dropping this provision from H.R. 2886.