Continued Progress Made Improving and Integrating Management Areas, but More Work Remains

Statement of David C. Maurer, Director Homeland Security and Justice Issues
Chairman King, Ranking Member Thompson, and Members of the Committee:

I am pleased to be here today to discuss the Department of Homeland Security’s (DHS) efforts to strengthen and integrate its management functions. DHS now has more than 200,000 employees and an annual budget of almost $60 billion, and its transformation is critical to achieving its homeland security and other missions. Since 2003, GAO has designated the implementation and transformation of DHS as high risk because DHS had to combine 22 agencies—several with major management challenges—into one department, and failure to effectively address DHS’s management and mission risks could have serious consequences for our national and economic security.¹ This high-risk area includes challenges in strengthening DHS’s management functions—financial management, acquisition management, human capital, and information technology (IT)—the effect of those challenges on DHS’s mission implementation, and challenges in integrating management functions within and across the department and its components.

In November 2000, we published our criteria for removing areas from the high-risk list.² Specifically, agencies must have (1) a demonstrated strong commitment and top leadership support to address the risks; (2) the capacity (that is, the people and other resources) to resolve the risks; (3) a corrective action plan that identifies the root causes, identifies effective solutions, and provides for substantially completing corrective measures in the near term, including but not limited to steps necessary to implement solutions we recommended; (4) a program instituted to monitor and independently validate the effectiveness and sustainability of corrective measures; and (5) the ability to demonstrate progress in implementing corrective measures.


On the basis of our prior work, in a September 2010 letter to DHS, we identified, and DHS agreed to achieve, 31 actions and outcomes that are critical to addressing the challenges within the department’s management areas and in integrating those functions across the department to address the high-risk designation. These key actions and outcomes include, among others, obtaining and then sustaining unqualified audit opinions for at least 2 consecutive years on the departmentwide financial statements; validating required acquisition documents in accordance with a department-approved, knowledge-based acquisition process; and demonstrating measurable progress in implementing its IT human capital plan and accomplishing defined outcomes. In January 2011, DHS issued its initial Integrated Strategy for High Risk Management, which included key management initiatives (e.g., financial management controls, IT program governance, and procurement staffing model) to address challenges and the outcomes we identified for each management area. DHS provided updates of its progress in implementing these initiatives in later versions of the strategy—June 2011, December 2011, and June 2012. Achieving and sustaining progress in these management areas would demonstrate the department’s ability and ongoing commitment to addressing our five criteria for removing issues from the high-risk list.

My testimony this morning, as requested, will discuss our observations, based on prior and ongoing work, on DHS’s progress in achieving outcomes critical to addressing its high-risk designation for the implementation and transformation of the department.

This statement is based on prior reports and testimonies we issued from June 2007 through September 2012 and letters we submitted to DHS in March and November 2011 providing feedback on the department’s January and June 2011 versions of its Integrated Strategy for High Risk Management. For the past products, among other methodologies, we interviewed DHS officials; analyzed DHS strategies and other documents related to the department’s implementation and transformation high-risk area; and reviewed our past reports, issued since DHS began its

3See appendix I for a summary of the 31 actions and outcomes.

4An unqualified opinion states that the audited financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with generally accepted accounting principles.

5See the related products list at the end of this statement.
operations in March 2003. All of this work was conducted in accordance with generally accepted government auditing standards; more-detailed information on the scope and methodology from our prior work can be found within each specific report. This statement is also based on observations from our ongoing work related to DHS IT investments. For this work, we analyzed recent cost and schedule performance for DHS’s major IT investments as reported to the Office of Management and Budget as of March 2012. We will report on the final results of this review later this month. We are conducting this work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Since we designated the implementation and transformation of DHS as high risk in 2003, DHS has made progress addressing management challenges and senior department officials have demonstrated commitment and top leadership support for addressing the department’s management challenges. However, the department has significant work ahead to achieve positive outcomes in resolving high-risk issues. For example, DHS faces challenges in modernizing its financial systems, implementing acquisition management controls, and improving employee satisfaction survey results, among other things. As DHS continues to mature as an organization, it will be important for the department to continue to strengthen its management functions, since the effectiveness of these functions affects its ability to fulfill its homeland security and other missions.

Financial management. DHS has made progress in addressing its financial management and internal controls weaknesses, but has been unable to obtain an unqualified audit opinion on its financial statements.

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6This review is being conducted at the request of this Committee’s Subcommittee on Oversight, Investigations, and Management; and Senator Thomas Carper, Chairman, Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security of the Senate Committee on Homeland Security and Governmental Affairs.
since the department’s creation and faces challenges in modernizing its financial management systems. DHS has, among other things,

- reduced the number of material weaknesses in internal controls from 18 in 2003 to 5 in fiscal year 2011;\(^7\)
- achieved its goal of receiving a qualified audit opinion on its fiscal year 2011 consolidated balance sheet and statement of custodial activity for the first time since the department’s creation;\(^8\)
- established a goal of obtaining an audit opinion on all of its fiscal year 2012 financial statements; and
- expanded the scope of the annual financial audit to the complete set of fiscal year 2012 financial statements, which DHS believes will help it to obtain an unqualified opinion for fiscal year 2013.\(^9\)

However, DHS continues to face challenges in financial management. For example, DHS anticipates difficulties in providing its auditors transaction-level detail to support balances reported in its fiscal year 2012 financial statements in order to obtain an opinion on its financial statements. This is due to, among other things, components not retaining original acquisition documentation or enforcing policies related to recording purchases and making payments. DHS also anticipates its auditors

\(^7\)A material weakness is a significant deficiency, or a combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

\(^8\)A qualified opinion states that, except for the effects of the matter(s) to which the qualification relates, the audited financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with generally accepted accounting principles. The matter(s) to which the qualification relates could be due to a scope limitation, or the audited financial statements containing a material departure from generally accepted accounting principles, or both.

issuing a disclaimer in their fiscal year 2012 report on internal controls over financial reporting due to material weaknesses in internal controls, such as lack of effective controls over the recording of financial transactions related to property, plant, and equipment.

In addition, in December 2011, DHS reported that the Federal Emergency Management Agency (FEMA), U.S. Coast Guard (USCG), and U.S. Immigration and Customs Enforcement (ICE) have an essential business need to replace their financial management systems, but DHS has not fully developed its plans for upgrading existing or implementing new financial systems at these agencies. According to DHS’s June 2012 version of its Integrated Strategy for High Risk Management, the department plans to extend the useful life of FEMA’s current system by about 3 years, while FEMA proceeds with a new financial management system solution, and is in the process of identifying the specific approach, necessary resources, and time frames for upgrading existing or implementing new financial systems at USCG and ICE. Without sound processes, controls, and systems, DHS faces long-term challenges in obtaining and sustaining an unqualified opinion on both its financial statements and internal controls over financial reporting, and ensuring its financial management systems generate reliable, useful, timely information for day-to-day decision making. We currently have ongoing work related to DHS’s efforts to improve its financial reporting that we expect to report on in the spring of 2013.\(^\text{10}\)

**Acquisition management.** DHS has made progress in the acquisition management area by enhancing the department’s ability to oversee major acquisition programs. For example:

- DHS has established eight Centers of Excellence for cost estimating, systems engineering, and other disciplines to bring together program managers, senior leadership staff, and subject matter experts to promote best practices, provide expert counsel, technical guidance, and acquisition management tools; and each DHS component has established a Component Acquisition Executive (CAE) to provide oversight and support to programs within the component’s portfolio.

\(^\text{10}\)We are doing this work at the request of the Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security of the Senate Committee on Homeland Security and Governmental Affairs.
According to DHS, as of June 2012, 75 percent of the core CAE support positions were filled.

- In March 2012, DHS completed the development of a Procurement Staffing Model to determine optimal numbers of personnel to properly award and administer contracts. In June 2012, DHS reported that it is taking steps to implement the staffing model throughout headquarters and the components.

- DHS included a new initiative (strategic sourcing) in its December 2011 *Integrated Strategy for High Risk Management* to increase savings and improve acquisition efficiency by consolidating contracts departmentwide for the same kinds of products and services. The Office of Management and Budget’s Office of Federal Procurement Policy has cited DHS’s efforts among best practices for implementing federal strategic sourcing initiatives. Earlier this month, we reported that the department has implemented 42 strategically sourced efforts since the department’s inception. According to DHS data, the department’s spending through strategic sourcing contract vehicles has increased steadily from $1.8 billion in fiscal year 2008 to almost $3 billion in fiscal year 2011, representing about 20 percent of DHS’s procurement spending for that year.

However, DHS continues to face significant challenges in managing its acquisitions. For example:

- Earlier this week, we reported that 68 of the 71 program offices we surveyed from January through March 2012 responded that they experienced funding instability, workforce shortfalls, and/or changes to their planned capabilities over the programs’ duration. We have previously reported that these challenges increase the likelihood acquisition programs will cost more and take longer to deliver capabilities than expected.

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Our recent review of DHS acquisition management also identified that while DHS’s acquisition policy reflects many key program management practices that could help mitigate risks and increase the chances for successful outcomes, it does not fully reflect several key portfolio management practices, such as allocating resources strategically.\(^{14}\) DHS plans to develop stronger portfolio management policies and processes, but until it does so, DHS programs are more likely to experience additional funding instability, which will increase the risk of further cost growth and schedule slips. We recommended that DHS take a number of actions to help mitigate the risk of poor acquisition outcomes and strengthen the department’s investment management activities. DHS concurred with all of our recommendations and noted actions it had taken or planned to address them.

**Human capital management.** DHS has taken a number of actions to strengthen its human capital management. For example:

- DHS issued human capital-related plans, guidance, and tools to address its human capital challenges, including a *Workforce Strategy for 2011-2016*; a revised *Workforce Planning Guide*, issued in March 2011, to help the department plan for its workforce needs; and a *Balanced Workforce Strategy* tool, which some components have begun using to help achieve the appropriate mix of federal and contractor skills.

- The department implemented two programs to address senior leadership recruitment and hiring, as we reported in February 2012.\(^{15}\) While DHS’s senior leadership vacancy rate was as high as 25 percent in fiscal year 2006, it varied between 2006 and 2011 and declined overall to 10 percent at the end of fiscal year 2011.\(^{16}\)

- DHS developed outreach plans to appeal to veterans and other underrepresented groups.

\(^{14}\)GAO-12-833.


\(^{16}\)GAO-12-264.
While these initiatives are promising, DHS continues to face challenges in human capital management. For example:

- As we reported in March 2012, based on our preliminary observations of DHS’s efforts to improve employee morale, federal surveys have consistently found that DHS employees are less satisfied with their jobs than the government-wide average.\(^{17}\) DHS has taken steps to identify where it has the most significant employee satisfaction problems and developed plans to address those problems, such as establishing a departmentwide Employee Engagement Executive Steering Committee, but has not yet improved employee satisfaction survey results. We plan to issue a final report on our findings later this month.\(^{18}\)

- As we reported in April 2012, changes in FEMA’s workforce, workload, and composition have created challenges in FEMA’s ability to meet the agency’s varied responsibilities and train its staff appropriately.\(^{19}\) For example, FEMA has not developed processes to systematically collect and analyze agencywide workforce and training data that could be used to better inform its decision making. We recommended that FEMA, among other things, identify long-term quantifiable mission-critical goals, establish lines of authority for agencywide workforce planning and training efforts, and develop systematic processes to collect and analyze workforce and training data. DHS concurred with our recommendations and reported actions underway to address them.

**Information technology management.** DHS has made progress in strengthening its IT management, but the department has much more work to do to fully address its IT management weaknesses. Among other accomplishments, DHS has:


\(^{18}\)We are doing this work at the request of this Committee’s Subcommittee on Oversight, Investigations, and Management; and Senator Susan Collins, Ranking Member of the Senate Committee on Homeland Security and Governmental Affairs.

• strengthened its enterprise architecture;\textsuperscript{20}

• defined and begun to implement a vision for a tiered governance structure intended to improve program and portfolio management, as we reported in July 2012;\textsuperscript{21} and

• established a formal IT Program Management Development Track and staffed Centers of Excellence with subject matter experts to assist major and non-major programs.

Based on preliminary observations from our review of DHS’s major at-risk IT acquisitions we are performing for the committee, these improvements may be having a positive effect. Specifically, as of March 2012, approximately two-thirds of the department’s major IT investments we reviewed (47 of 68) were meeting current cost and schedule commitments (i.e. goals).

DHS has made progress, but the department has much more work to do to fully address its IT management weaknesses. For example, the department needs to:

• finalize the policies and procedures associated with its new tiered governance structure and continue to implement this structure, as we recommended in our July 2012 report;\textsuperscript{22}

• continue to implement its IT human capital plan, which DHS believed would take 18 months to fully implement as of June 2012; and

• continue its efforts to enhance IT security by, among other things, effectively addressing material weaknesses in financial systems security, developing a plan to track and promptly respond to known vulnerabilities, and implementing key security controls and activities.

\textsuperscript{20}An enterprise architecture can be viewed as a blueprint for organizational transformation and IT modernization.


\textsuperscript{22}GAO-12-818.
Management integration. DHS has made progress in integrating its individual management functions across the department and its component agencies. For example, DHS has put into place common policies, procedures, and systems within individual management functions, such as human capital, that help to integrate its component agencies, as we reported in September 2011.23 To strengthen this effort, in May 2012, the Secretary of Homeland Security modified the delegations of authority between the Management Directorate and their counterparts at the component level. According to DHS, this action will provide increased standardization of operating guidelines, policies, structures, and oversight of programs. Additionally, DHS has taken steps to standardize key data elements for the management areas across the department to enhance its decision-making. For example, in April 2012, the Under Secretary for Management appointed an executive steering committee and tasked this committee with creating a “Data Mart” to integrate data from disparate sources and allow the dissemination of timely and reliable information by March 2013. Further, consistent with our prior recommendations, DHS has implemented mechanisms to promote accountability for management integration among department and component management chiefs by, among other things, having the department chiefs develop written objectives that explicitly reflect priorities and milestones for that management function.24

Although these actions are important, DHS needs to continue to demonstrate sustainable progress in integrating its management functions within and across the department and its components and take additional actions to further and more effectively integrate the department. For example, DHS recognizes the need to better integrate its lines of business. The Integrated Investment Life Cycle Model (IILCM), which the department is establishing to manage investments across the department’s components and management functions, is an attempt at doing that. DHS identified the IILCM as one of its most significant management integration initiatives in January 2011. However, the June 2012 update reported that this initiative is in its early planning stages, will


be phased in over multiple budget cycles, and requires additional resources to fully operationalize. In September 2012, DHS reported that it has developed draft policy and procedural guidance to support implementation of the IILCM and now plans to begin using aspects of this new approach to develop portions of the department’s fiscal years 2015 through 2019 budget.

**DHS strategy for addressing GAO's high-risk designation.** In January 2011, DHS issued an agencywide management integration strategy—the *Integrated Strategy for High Risk Management*—as we recommended in our March 2005 report on DHS’s management integration efforts.25 DHS’s most recent version of the strategy, issued in June 2012, greatly improved upon prior versions and addressed feedback we previously provided by, for example, identifying key measures and progress ratings for the 18 initiatives included in the strategy and the 31 outcomes.26 We believe the June 2012 strategy, if implemented and sustained, provides a path for DHS to address our high-risk designation.

DHS can further strengthen or clarify its *Integrated Strategy for High Risk Management* to better enable DHS, Congress, and GAO to assess the department’s progress in implementing its management initiatives by, among other things: determining the resource needs for all of the corrective actions in the strategy; communicating to senior leadership critical resource gaps across all initiatives; and identifying program and project risks in a supporting risk mitigation plan for all initiatives.

Going forward, DHS needs to continue implementing its *Integrated Strategy for High Risk Management* and show measurable, sustainable progress in implementing its key management initiatives and corrective actions and achieving outcomes. We will continue to monitor, assess, and provide feedback on DHS’s implementation and transformation efforts through our ongoing and planned work, including the 2013 high-risk update that we expect to issue in January 2013.

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26GAO-10-131.
Chairman King, Ranking Member Thompson, and Members of the Committee, this concludes my prepared statement. I would be pleased to respond to any questions that you may have.

For questions about this statement, please contact David C. Maurer at (202) 512-9627 or maurerd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this statement include Maria Strudwick, Assistant Director; Victoria Miller, Analyst-in-Charge; and Chloe Brown. Other contributors include: David Alexander, Michael LaForge, Tom Lombardi, Anjalique Lawrence, Gary Mountjoy, Sabine Paul, and Katherine Trimble. Key contributors for the previous work that this testimony is based on are listed within each individual product.
Appendix I: Summary of Actions and Outcomes for Addressing the Implementing and Transforming the Department of Homeland Security High-Risk Area

On the basis of our prior work, in a September 2010 letter to the Department of Homeland Security (DHS), we identified 31 actions and outcomes that are critical to addressing the challenges within the department’s management areas and in integrating those functions across the department, thus addressing the high-risk designation. This appendix provides a summary of the 31 actions and outcomes.

Financial management

1. Maintain top management commitment to correcting weaknesses
2. Address internal control, business process, and systems weaknesses
3. Commit sufficient resources to implement financial system modernization and complete a full-scope audit of the department’s basic financial statements
4. Expand scope of financial statement audit to include an opinion on all of the department’s basic financial statements
5. Sustain clean opinions for at least 2 consecutive years
7. Embrace best practices for financial system modernization
8. Establish contractor oversight mechanisms for financial system modernization
9. Successfully implement new or upgrade existing financial systems as needed throughout the department, including the U.S. Coast Guard (USCG), Federal Emergency Management Agency (FEMA), and U.S. Immigration and Customs Enforcement (ICE)

Acquisition management

1. Validate required acquisition documents in a timely manner at major milestones, including life-cycle cost estimates, in accordance with a department-approved, knowledge-based acquisition process
2. Improve component acquisition capability
3. Establish a Joint Requirements Council or a similar body
4. Ensure a sufficient number of trained acquisition personnel are in place at the department and component levels
5. Establish and demonstrate measurable progress in achieving goals that improve programs’ compliance with the department’s established processes and policies. For major acquisitions, demonstrate that actual cost and schedule performance are within baseline thresholds.

**Human capital management**

1. Implement a human capital strategic plan
2. Link workforce planning to other department planning efforts
3. Enhance recruiting to meet current and long-term needs
4. Base human capital decisions on competencies and performance
5. Seek employees’ input to strengthen human capital approaches and activities
7. Assess and improve training, education, and development programs

**Information technology management**

1. Demonstrate achievement of stage 4 of GAO’s Enterprise Architecture Management Maturity Framework (that is, completing and using an enterprise architecture for targeted results)
2. Establish and implement information technology (IT) investment management best practices
3. Establish and implement IT system acquisition management processes
4. Show progress in implementing the IT strategic human capital plan
5. Demonstrate for at least two consecutive investment increments that cost and schedule performance is within the established threshold baseline for major investments
6. Enhance the security of internal IT systems and networks
Management integration

1. Implement actions and outcomes in each management area
2. Revise management integration strategy to address characteristics we previously recommended, such as set implementation goals and a timeline to monitor progress
3. Establish performance measures to assess progress made in achieving departmentwide management integration
4. Promote accountability for management integration among department and management chiefs through the performance management system
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