June 2007

DEPARTMENT OF HOMELAND SECURITY

Science and Technology Directorate’s Expenditure Plan
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## Abbreviations

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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>CBRNE</td>
<td>chemical, biological, radiological, nuclear, and explosive</td>
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<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
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<tr>
<td>DHS</td>
<td>Department of Homeland Security</td>
</tr>
<tr>
<td>FTE</td>
<td>full-time equivalent</td>
</tr>
<tr>
<td>PPA</td>
<td>program, project, and activity</td>
</tr>
<tr>
<td>S&amp;T</td>
<td>Science and Technology Directorate</td>
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June 22, 2007

The Honorable Robert C. Byrd
Chairman
The Honorable Thad Cochran
Ranking Minority Member
Subcommittee on Homeland Security
Committee on Appropriations
United States Senate

The Honorable David E. Price
Chairman
The Honorable Harold Rogers
Ranking Minority Member
Subcommittee on Homeland Security
Committee on Appropriations
House of Representatives

Subject: Science and Technology Directorate’s Expenditure Plan

In recent years GAO and others have reported on problems in the financial management environment at the Department of Homeland Security’s (DHS) Science and Technology Directorate (S&T). S&T was established by the Homeland Security Act of 2002 to, among other things, coordinate the federal government’s civilian efforts to identify and develop countermeasures to emerging terrorist threats to our nation.¹ As DHS’s primary research and development arm, the directorate is tasked with providing federal, state, local, and tribal officials with state-of-the-art technology and other resources, such as protocols and training procedures for use in responding to, and recovery from, chemical, biological, radiological, nuclear, and explosive attacks. S&T is led by an Under Secretary and has a Chief Financial Officer (CFO) who is responsible for all budgeting and accounting for financial resources.

S&T receives funds for research, development, acquisition, and operations. It also receives funds for management and administration that support the operations of the directorate in both headquarters and the

field, such as the expenditures for personnel compensation and benefits, travel, and rent. The Department of Homeland Security Appropriations Act, 2007 (Appropriations Act) provided about $973 million for S&T, of which about $838 million (about 86 percent) was for research, development, acquisition, and operations, and $135 million (about 14 percent) was for salaries and expenses of the Office of the Under Secretary and for management and administration of programs and activities. The Appropriations Act restricted S&T from obligating $60 million (about 44 percent) of the $135 million until the Secretary of Homeland Security prepared a fiscal year 2007 expenditure plan that was to be received and approved by the Committees on Appropriations of the Senate and House of Representatives that:

- was broken down by program, project, and activity (PPA),
- contained a detailed breakdown and justification of the management and administrative costs for each PPA, and
- described the method utilized to develop the budget for administration costs in the budget requests for fiscal years 2006 and 2007.

The Appropriations Act also required GAO to review the plan. In responding to this mandate, we assessed whether S&T’s fiscal year 2007 expenditure plan satisfied the above conditions of the Appropriations Act. In April 2007, we briefed your offices on the preliminary results of our work. On May 9, 2007, Congress released the $60 million management and administration funding that had been restricted by the act.

To accomplish our objective, we analyzed S&T’s fiscal year 2007 expenditure plan and related documentation. We also interviewed the S&T CFO and other program officials, and discussed their process for developing their budget requests and documents. While we did not independently verify the reasonableness of the projected management and

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3PPA is the most specific level of budget items identified in budget related documents. For example, S&T currently has 11 PPAs, such as laboratory facilities and border and maritime.

4For purposes of this report, future costs will be referred to as “projected expenditures.”

5In addition, the Appropriations Act required that S&T spend no more than $3,000 for official reception and representation expenses. To meet this requirement, S&T officials said that these expenses are tracked separately and are being monitored to ensure that they do not exceed this limit. (See app. I for additional information.)
administration expenditure data in the expenditure plan and supporting documentation, we discussed these projected expenditures with S&T officials to reconcile any data inconsistencies. (As discussed later in this report, our review identified misclassifications of expenditure data.) This report and accompanying briefing slides (see app. I) convey the information provided during the April 2007 briefings to your offices and, where appropriate, updated information. We conducted our work at S&T’s headquarters in Washington, D.C., from February 2007 to May 2007, in accordance with generally accepted government auditing standards.

Results

The S&T fiscal year 2007 expenditure plan, including related documentation and other information provided by S&T program officials, did not fully satisfy the conditions set forth in the Appropriations Act. Prior to the obligation of the $60 million, the Appropriations Act required S&T to provide an expenditure plan by PPA, as well as a detailed breakdown and justification for the projected management and administrative expenditures by PPA. While the research and development data in the expenditure plan were presented by PPA, such as for laboratory facilities and explosives, the management and administration data were not. For example, S&T’s expenditure plan described the projected expenditures for research, development, acquisition, and operations for each specific PPA, whereas the projected management and administrative expenditures were not broken out by these categories. Because the management and administration data were not broken out by PPA, the condition requiring a detailed breakdown and justification of these projected expenditures by PPA was not satisfied. S&T officials indicated that the breakdown and justification of these expenditures were not provided in the expenditure plan because S&T manages these costs by business areas and functions, such as business operations, rather than by PPA. Further, according to S&T officials, the management and administration account represents funds that support S&T’s entire mission and, for the most part, are not directly attributable to any one PPA. However, in response to our data request, S&T broke out the projected management and administration expenditures by PPA using various methodologies to estimate the allocation of these costs to each PPA. Using such a methodology is consistent with generally recognized allocation methodologies. For example, S&T apportioned the total business operations expenditures, which include, among other things, rent, supplies, and employee bonuses and awards, to each PPA based on the number of full-time equivalent (FTE) staff budgeted for each of them. According to S&T officials, accounting for these costs by PPA—in order to have actual cost data to use in formulating future estimates rather than
allocating projected expenditures across PPAs—would require either significant changes to its financial accounting system or the use of an off-line system designed solely for this purpose. (See app. I for the approximate estimates on the breakout of projected management and administration expenditures by PPA.)

The expenditure plan, including related documentation and other information provided by program officials, partially satisfied the legislative condition to describe the method utilized to derive the budget for projected administration expenditures in the fiscal years 2006 and 2007 budget requests. The plan identified the categories of expenses that the budget requests were intended to cover—such as salaries, benefits, and business operations—and indicated that the fiscal year 2007 budget request was developed based on the prior year expenditures for these categories. However, the plan did not describe the method used to develop each category of expenses. S&T officials acknowledged this and added that in addition to historical expenditure data from S&T's financial systems, the budget requests were also based on projections of new expenses.

As required, S&T provided its Fiscal Year 2007 Expenditure Plan, dated January 11, 2007, to the Committees on Appropriations of the Senate and the House of Representatives. However, S&T officials recently made changes in the plan to correct misclassification of the planned management and administration funding by groups of similar expenses, such as equipment and travel. For example, projected travel expenditures were revised downward from about $4 million to $358,000, while projected equipment expenditures were revised upward from about $478,000 to about $8 million. S&T identified these misclassifications in responding to our questions and data requests as part of this review. On May 9, 2007, S&T provided Congress with information on its revised management and administration funding by groups of similar expenses.

During the course of our work, we observed instances in which S&T operations may not have been in compliance with GAO's Standards for Internal Control in the Federal Government and associated guidance in two areas. The plan submitted to Congress did not accurately reflect the classification of the management and administration funding by groups of

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similar expenses. The inaccuracies were not identified during management’s review, which suggests that S&T may not have an effective review process in place. The GAO standards require that management generally design internal controls to ensure that ongoing monitoring occurs during the normal course of operations. The internal controls could include a strategy to ensure that ongoing monitoring is effective and that separate evaluations are conducted where problems are identified. These standards also state that internal controls need to be clearly documented, and the documentation should be readily available for examination.

In addition, S&T does not appear to be in compliance with GAO standards and associated guidance regarding adequate staffing, particularly in managerial positions. Further, S&T has experienced significant personnel turnover in a key operations and program management function. During our review, we found that about 35 percent of S&T’s total authorized FTE positions were vacant as of March 2007, and about 53 percent of the CFO office FTE positions were vacant. Further, S&T has had two different CFOs in the 23 months since that position was established in July 2005.

S&T officials acknowledged the importance of documented internal controls. Officials stated that on the basis of departmental guidelines, they are in the process of developing written standard operating procedures that, among other things, describe the internal controls to ensure that budgetary data are properly reviewed for accuracy and reliability. In addition, S&T developed a hiring plan in December 2006 and stated that it expects to be fully staffed by the end of calendar year 2007. As a result, we are not making recommendations at this time.

In order to facilitate oversight and accountability of S&T, Congress has required information on the projected full expenditures of S&T’s PPAs, including projected expenditures for management and administration, as well as those for research, development, acquisition, and operations. While S&T does not account for or report its management and administration expenditures by PPA, S&T demonstrated that it can allocate these projected expenditures across each PPA using acceptable methodologies. It is important to recognize, however, that these projected expenditures will generally be estimates and will not be based on historical data of actual costs from S&T’s financial management system.

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7 DHS stated that since that time S&T’s CFO office has increased its staffing level.
Further, internal controls serve as the first line of defense in detecting errors, fraud, waste, abuse, and mismanagement. We identified areas of weakness in S&T’s internal controls, which S&T acknowledged. S&T plans to develop and document controls in these areas. If effectively implemented, this should help the directorate to improve its accountability and provide Congress better information.

We provided a draft of this report to DHS for review and comments. On June 15, 2007, we received written comments on the draft report, which are reproduced in full in appendix II. DHS generally agreed with the report and its findings.

With regard to our observation that S&T’s operations may not have been in compliance with GAO’s *Standards for Internal Control in the Federal Government*, DHS reported that S&T has taken a number of actions to correct previous financial management problems and deficiencies, and is working to implement other corrective measures. For example, DHS stated that S&T has initiated an independent review of its internal controls, and has developed corrective action plans to address potential weaknesses identified by the review. We support S&T’s efforts to strengthen its internal controls and encourage the department to take aggressive action to monitor their implementation and effectiveness.

DHS also provided technical comments on specific sections of the report, which we have considered and incorporated where appropriate.

We will send copies of this report to the Secretary of Homeland Security and the Under Secretary of the Science and Technology Directorate, and other interested congressional committees. We will also make copies available to others on request. In addition, the report will be available at no charge on GAO’s Web site at http://www.gao.gov. If you have any questions or need additional information, please contact me at (202) 512-8777 or by e-mail at Larencee@gao.gov. Contact points for our Offices of
Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are acknowledged in appendix II.

Eileen Larence  
Director  
Homeland Security and Justice Issues
DHS Science and Technology Directorate’s Expenditure Plan

Briefing to Congressional Committees

April 4 and 10, 2007
Briefing Overview

• Introduction
• Objectives, Scope, and Methodology
• Results in Brief
• Background
• Findings
Introduction

- The Department of Homeland Security’s (DHS) Science and Technology Directorate (S&T) was established by the Homeland Security Act of 2002 to, among other things, coordinate the federal government’s civilian efforts to identify and develop countermeasures to chemical, biological, radiological, nuclear, and other emerging terrorist threats to our nation.¹

- S&T is led by an Under Secretary and has a Chief Financial Officer (CFO) who is responsible for all budgeting and accounting for financial resources. As of May 2007, both of these persons had been in office for less than 1 year.

- GAO and others have reported on, and S&T officials have acknowledged, problems in S&T’s financial management environment.

- The Department of Homeland Security Appropriations Act, 2007 provided about $973 million for S&T, of which $135 million was for salaries and expenses of the Office of the Under Secretary for Science and Technology and for management and administration of programs and activities.²

The Department of Homeland Security Appropriations Act, 2007 restricted S&T from obligating $60 million of the $135 million for management and administration until the Secretary of Homeland Security prepared a fiscal year 2007 expenditure plan that was received and approved by the Committees on Appropriations of the Senate and House of Representatives that:

1. Was broken down by program, project, and activity (PPA),\(^3\)
2. Contained a detailed breakdown and justification of the management and administration costs for each PPA,
3. Described the method utilized to develop the administration costs in the budget requests for fiscal years 2006 and 2007.\(^4\)

The Appropriations Act also required GAO to review the plan. In addition, the Appropriations Act required that S&T spend no more than $3,000 for official reception and representation expenses.

\(^3\)PPA is the most specific level of budget items identified in budget related documents. For example, S&T currently has 11 PPAs, such as laboratory facilities and border and maritime security. (See page 21 of the report for a list of S&T PPAs.)
\(^4\)For this briefing, future costs will be referred to as "projected expenditures."
Objectives, Scope, and Methodology

- In responding to this mandate, we assessed whether S&T’s fiscal year 2007 expenditure plan satisfied the above conditions of the Appropriations Act.

- To accomplish our objective, we analyzed the S&T fiscal year 2007 expenditure plan and related documentation. We also interviewed the S&T CFO and other program officials and discussed their process for developing their budget requests and documents. While we did not independently verify the reasonableness of the projected management and administration expenditure data in the expenditure plan and supporting documentation, we discussed these projected expenditures with S&T officials to reconcile any data inconsistencies. (As discussed later, our review identified misclassifications of expenditure data.)

- We conducted our work at S&T’s headquarters in Washington, D.C., from February 2007 to May 2007 in accordance with generally accepted government auditing standards.
Results in Brief

- The S&T fiscal year 2007 expenditure plan, including related documentation and other information provided by program officials, did not fully satisfy the conditions set forth in the Appropriations Act.
Results in Brief (cont’d)

- While the research and development portion of the expenditure plan was broken out by PPA, such as laboratory facilities and explosives, the management and administration portion was not broken out by these categories, as required.

- Because the management and administration data were not broken out by PPA, the condition requiring a detailed breakdown and justification of these projected expenditures by PPA was also not satisfied.

- S&T officials said that they manage the management and administration costs by business areas and functions, such as business operations, rather than by PPA. Further, according to S&T officials, the management and administration account represents funds that support S&T’s entire mission, and, for the most part, are not directly attributable to any one PPA.
Nevertheless, without a sense of the management and administration costs that indirectly support S&T's PPA, Congress does not have the information it requested as to their full costs in order to facilitate budgetary accountability and oversight.

Upon request, S&T staff were able to provide us a breakout of the projected management and administrative expenditures by PPA using various methodologies to estimate the allocation of these costs to each PPA. For example, S&T apportioned the total business operations costs, which include, among other things, rent, supplies, and employee bonuses and awards, to each PPA based on the number of full-time equivalent (FTE) staff budgeted for the PPA.

- Using such a methodology is consistent with generally recognized allocation methodologies.

- According to S&T officials, accounting for these costs by PPA—in order to have actual cost data to use in formulating future estimates rather than allocating projected expenditures across PPAs—would require either significant changes to its financial accounting system or the use of an off-line system designed solely for this purpose.
Results in Brief (cont’d)

• The expenditure plan, including related documentation and other information provided by program officials, partially meets the condition requiring S&T to describe the method used to derive the budget for planned administration expenditures in the fiscal years 2006 and 2007 budget requests.

• The plan identified the categories of expenses that the budget requests were intended to cover—such as salaries, benefits, and business operations—and indicated that the fiscal year 2007 budget request was developed based on the prior year expenditures for these categories. However, the plan did not describe the method used to develop each category of expenses.

• S&T officials acknowledged this and provided us a general description of their method, and added that in addition to historical expenditure data, the budget requests were also based on projections of new expenses.
Results in Brief (cont’d)

• During the course of our work, we observed instances in which S&T operations may not have been in compliance with GAO’s *Standards for Internal Control in the Federal Government* \(^5\) and associated guidance. For example:

  • While responding to our data request, and after the appropriate management officials had reviewed the data in the expenditure plan, S&T officials realized they had misallocated some of the management and administration funding in the expenditure plan, indicating that S&T may not have an effective review process in place.

  • Further, we identified issues related to inadequate staffing at S&T and significant turnover in the CFO position, which could adversely affect S&T in carrying out its financial functions.

Background

As DHS’s primary research and development arm, S&T has the mission of protecting the homeland by providing federal, state, local, and tribal officials with state-of-the-art technology and other resources. Among other things, S&T:

- develops and deploys state-of-the-art, high-performance, affordable systems to prevent, detect, and mitigate the consequences of chemical, biological, radiological, nuclear, and explosive (CBRNE) attacks, and

- develops equipment, protocols, and training procedures for response to, and recovery from, CBRNE attacks.
Background (cont’d)

- S&T’s budget justification and subsequent appropriations consist of funding for:
  - management and administration that supports the operation of S&T in both headquarters and the field, such as personnel compensation, benefits, travel, and rent, and
  - research, development, acquisition, and operations.6

- On May 9, 2007, Congress released the $60 million management and administration funding that had been restricted by the Appropriations Act.

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6For this briefing, research, development, acquisition, and operations will be referred to as “research and development.”
The expenditure plan, including related documentation, partially satisfied the condition that the plan be prepared by PPA

• While the research and development data in the expenditure plan were presented by PPA, the management and administration data were not.

• For research and development, the plan includes a breakout of the projected expenditures for fiscal year 2007 by PPA and a detailed description of each one, as well as the significant program deliverables.
Projected research and development expenditures are broken down by PPA

- The expenditure plan provided a breakdown of projected research and development expenditures by the following PPAs:
  - Borders and Maritime
  - Chemical and Biological Countermeasures
  - Command, Control, and Interoperability
  - Explosives
  - Human Factors
  - Infrastructure and Geophysical
  - Innovation
  - Laboratory Facilities
  - Testing and Evaluation/Standards
  - Transition
  - University Programs
Projected management and administration expenditures are not broken down by PPA

- For management and administration, S&T officials indicated that the plan is not broken down by PPA because S&T manages these costs by business areas and functions, such as business operations, rather than by PPA.

- In response to our data request, S&T officials prepared a breakout of the projected management and administration expenditures by PPA. Because they do not manage these costs in this way, S&T officials used various methodologies to estimate the allocation of these costs to each PPA.
  
  - For example, S&T apportioned the total business operations costs, which include, among other things, rent, supplies, and employee bonuses and awards, to each PPA based on the number of full-time equivalent (FTE) staff budgeted for the PPA.
  
  - Using such a methodology is consistent with generally recognized allocation methodologies.

- Without including the management and administration costs that indirectly support S&T’s PPAs, Congress does not have the information it requested as to their projected full costs in order to facilitate budgetary accountability and oversight.
S&T’s breakout of projected management and administration expenditures by PPA

<table>
<thead>
<tr>
<th>Program, project, and activity (PPA)</th>
<th>Total budgeted FTEs</th>
<th>Fiscal year 2007 budget</th>
<th>Total salaries and benefitsa</th>
<th>Headquarters administration salaries and benefitsb</th>
<th>Business operationsc</th>
</tr>
</thead>
<tbody>
<tr>
<td>Testing and Evaluation/Standards</td>
<td>5</td>
<td>25,432</td>
<td>463</td>
<td>346</td>
<td>573</td>
</tr>
<tr>
<td>University Programs</td>
<td>9</td>
<td>48,575</td>
<td>2,030</td>
<td>968</td>
<td>1,031</td>
</tr>
<tr>
<td>Laboratory Facilities</td>
<td>157</td>
<td>105,649</td>
<td>14,874</td>
<td>8,371</td>
<td>17,982</td>
</tr>
<tr>
<td>Innovation</td>
<td>9</td>
<td>38,000</td>
<td>1,499</td>
<td>553</td>
<td>1,031</td>
</tr>
<tr>
<td>Transition</td>
<td>12</td>
<td>24,040</td>
<td>872</td>
<td>346</td>
<td>1,374</td>
</tr>
<tr>
<td>Explosives</td>
<td>15</td>
<td>105,231</td>
<td>1,074</td>
<td>553</td>
<td>1,716</td>
</tr>
<tr>
<td>Chemical/Biological Countermeasures</td>
<td>24</td>
<td>313,553</td>
<td>3,759</td>
<td>1,799</td>
<td>2,749</td>
</tr>
<tr>
<td>Command, Control, and Interoperability</td>
<td>23</td>
<td>62,612</td>
<td>1,527</td>
<td>761</td>
<td>2,634</td>
</tr>
<tr>
<td>Borders and Maritime</td>
<td>12</td>
<td>33,436</td>
<td>786</td>
<td>415</td>
<td>1,374</td>
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<tr>
<td>Human Factors</td>
<td>16</td>
<td>6,800</td>
<td>711</td>
<td>277</td>
<td>1,833</td>
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<tr>
<td>Infrastructure and Geophysical</td>
<td>12</td>
<td>74,781</td>
<td>690</td>
<td>346</td>
<td>1,374</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td><strong>294</strong></td>
<td><strong>838,109</strong></td>
<td><strong>28,286</strong></td>
<td><strong>14,735</strong></td>
<td><strong>33,673</strong></td>
</tr>
<tr>
<td>Variance due to timing of new hires</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>955</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>29,242</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: S&T.

Note: Totals may not add due to rounding.

aSalaries and benefits were based on actual full-time equivalent (FTE) positions per PPA.
bSalaries and benefits for the Office of the Under Secretary and other headquarters offices were allocated based on FTEs per PPA.
cBusiness operation expenses were allocated based on FTEs per PPA.
S&T’s breakout of projected management and administration expenditures by PPA (continued)

Dollars in thousands

<table>
<thead>
<tr>
<th>Working capital fund</th>
<th>SETA</th>
<th>Travel</th>
<th>OGC compliance</th>
<th>SBIR administration</th>
<th>Total</th>
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<tr>
<td>1,164</td>
<td>664</td>
<td>33</td>
<td>62</td>
<td>46</td>
<td>3,351</td>
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<tr>
<td>2,137</td>
<td>837</td>
<td>33</td>
<td>118</td>
<td>89</td>
<td>7,242</td>
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<tr>
<td>6,747</td>
<td>1,648</td>
<td>33</td>
<td>257</td>
<td>193</td>
<td>50,104</td>
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<tr>
<td>1,671</td>
<td>1,243</td>
<td>33</td>
<td>93</td>
<td>69</td>
<td>6,192</td>
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<td>2,243</td>
<td>510</td>
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<td>59</td>
<td>44</td>
<td>5,481</td>
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<tr>
<td>3,893</td>
<td>1,674</td>
<td>33</td>
<td>256</td>
<td>192</td>
<td>9,394</td>
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<td>8,437</td>
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<td>33</td>
<td>764</td>
<td>572</td>
<td>22,832</td>
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<td>4,546</td>
<td>1,092</td>
<td>33</td>
<td>152</td>
<td>114</td>
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<td>2,353</td>
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<td>2,969</td>
<td>1,275</td>
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<td>182</td>
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<td>38,776</td>
<td>14,646</td>
<td>358</td>
<td>2,041</td>
<td>1,530</td>
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<td>955</td>
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<td></td>
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<td></td>
<td></td>
<td>135,000</td>
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</table>

*Working capital fund elements were allocated by FTE and PPA dollars depending on independent cost elements.
*Systems Engineering and Technical Assistance (SETA) costs were allocated based on direct support and indirect costs by PPA budget percentage.
*Travel was allocated evenly among each PPA.
*Office of General Counsel (OGC) compliance and Small Business Innovation Research (SBIR) program administration were allocated based on PPA budget percentage.
Because S&T did not provide projected management and administration expenditures by PPA, the expenditure plan did not include a detailed breakdown and justification of these projected expenditures by PPA, as required.

- As discussed previously, S&T manages the management and administration costs by business areas and functions. Further, according to S&T officials, the management and administration account represents funds that support S&T's entire mission, and, for the most part, are not directly attributable to any one PPA.

- S&T officials told us that to account for these costs by PPA—in order to have actual cost data to use in formulating future estimates rather than allocating projected expenditures across PPAs—would require either significant changes to its financial accounting system or an off-line system designed solely for this purpose.
S&T’s expenditure plan partially described the method utilized to develop projected administration expenditures, as required

- The expenditure plan, including related documentation and other information provided by program officials, partially satisfied the condition to describe the method used to develop the projected administration expenditures in the fiscal years 2006 and 2007 budget requests.

- The expenditure plan identified the categories of expenses that these budget requests were intended to cover, such as salaries, benefits, and business operations. It also indicated that the fiscal year 2007 budget request was developed based on the prior year costs. However, it did not describe the method used to develop each category of expenses.
S&T officials were able to generally describe the method utilized to develop projected administration expenditures upon request

- S&T officials acknowledged that the expenditure plan did not describe the method used to develop each category of expenses and provided us a general description of their method, and added that in addition to historical cost data from S&T’s financial systems, the budget requests were also based on projections of new expenses.

- The budget is built by business areas and functions, including business operations,7 Systems Engineering and Technical Assistance staff supporting corporate functions, travel for senior management, salaries and expenses, and the working capital fund.8

- After deriving the costs for each business area and function, they developed tables for groups of similar expenses, such as equipment and supplies and materials, in order to comply with the legislative requirement for displaying the projected expenditure data in the President’s budget.

- S&T reported the projected management and administration expenditures in its fiscal year 2007 expenditure plan by these groups of similar expenses.

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7Business operations includes, among other things, rent, supplies, and employee bonuses and awards.
8The working capital fund is a type of intragovernmental revolving fund that agencies use to support services that are shared across the agency.
Other legislative requirements are satisfied

- S&T provided its Fiscal Year 2007 Expenditure Plan, dated January 11, 2007, to the Committees on Appropriations of the Senate and the House of Representatives.

- However, S&T recently made changes to correct misclassification of the planned management and administration funding in the plan. S&T identified these misclassifications in response to our questions and data requests. On May 9, 2007, S&T resubmitted this information to Congress.

- As required by the mandate, GAO has reviewed the expenditure plan, including related documentation and other information provided by program officials.
Other legislative requirements are satisfied (cont’d)

- The expenditure plan, including related documentation and other information provided by program officials, satisfied the condition to include no more than $3,000 for official reception and representation expenses.

- While the expenditure plan does not specifically address funding for official reception and representation expenses, S&T officials said that these expenses are tracked separately, senior management must approve these expenses, and they are monitored to ensure that they do not exceed $3,000.
S&T may be lacking key internal controls to guide financial management decisions

- The Federal Managers’ Financial Integrity Act requires that agencies establish internal controls according to standards specified in the GAO standards.

- GAO standards require that management generally design internal controls to ensure that ongoing monitoring occurs during the normal course of operations. It could include a strategy to ensure that ongoing monitoring is effective and will trigger separate evaluations where problems are identified.

  - During their analysis of financial documents to respond to our request, and after the appropriate management officials had reviewed the data, S&T officials realized that the expenditure plan did not accurately reflect the classification of the management and administration funding by groups of similar expenses such as equipment and supplies and materials. As previously discussed, S&T subsequently revised this information and resubmitted it to Congress.

  - For example, projected travel expenditures were revised downward more than 10-fold (from about $4 million to $358,000), while projected equipment expenditures were revised upward from about $478,000 to about $8 million after the numbers were reviewed.

  - These inaccuracies not identified during management's review suggest that S&T may not have an effective review process in place.

S&T may be lacking key internal controls to guide financial management decisions (cont’d)

- In addition, S&T does not appear to be in compliance with GAO standards and associated guidance regarding adequate staffing, particularly in managerial positions. Further, S&T has experienced significant personnel turnover in a key operations and program management function.

- As of March 9, 2007, S&T had not filled about 35 percent of its total authorized FTE positions for headquarters and field operations (135 of 383) and about 53 percent of the FTE positions that had been allocated to the CFO’s office (19 of 36).10

- S&T developed a hiring plan in December 2006. S&T expects to be at full strength by the end of calendar year 2007.

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10DHS stated that since that time S&T’s CFO office has increased its staffing level.
S&T may be lacking key internal controls to guide financial management decisions (cont’d)

- S&T first established a CFO position in July 2005, and has had two different CFOs in the 23 months since that position was established.

- The understaffing at S&T headquarters and field operations, including the CFO office, and the significant turnover in the CFO position may lead to ineffective internal controls and adversely affect S&T in carrying out its financial functions.
June 15, 2007

Ms Eileen Larence
Director
Homeland Security and Justice Issues
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms Larence:

Thank you for the opportunity to review and comment on the U.S. Government Accountability Office’s (GAO’s) draft report GAO-07-868 entitled DEPARTMENT OF HOMELAND SECURITY: Science and Technology Directorate’s Expenditure Plan.

The Department appreciates GAO’s expeditious review of the Science and Technology Directorate’s (S&T’s) FY 2007 expenditure plan and its approval of the release of $60 million of the Directorate’s FY 2007 funds. The Science and Technology Directorate generally agrees with GAO’s report but provides comments on specific sections of the report.

With respect to GAO’s statement that S&T had not yet provided a revised plan to Congress, please note that this was accomplished on May 9, 2007 with a plan that provided revised object class data.

GAO also indicated that as of March 2007, about 53 percent of S&T’s Chief Financial Officer’s office (CFO) full time equivalent (FTE) positions were vacant. However, since the GAO’s review, S&T’s CFO has aggressively increased its staffing level from 53 percent to 63 percent and expects to be nearly fully staffed by the end of the year, with an additional 30 percent of the FTE positions currently advertised or in process.

Finally, with respect to GAO’s observations as to S&T’s compliance with internal control standards, we wish to point out that the CFO has already corrected many of its previous financial management problems by establishing “one set of books” and ensuring timely commitment of FY 2007 appropriated funds (as of June, the S&T Directorate committed over 83 percent of its appropriation, a huge improvement over FY 2006). The Directorate has also set the foundation to correct all financial management deficiencies by establishing strict financial oversight and compliance, and implementing periodic reviews to ensure all programs meet target performance measures. The goal is not only to have new financial management processes and procedures to correct previous financial
deficiencies, but also to have them acknowledged as the standard for other agencies and components to follow. S&T also requested an independent internal controls review last summer. The first phase of this review is complete and S&T has put in place corrective action plans to address potential weaknesses. Phase two continues this year.

Thank you again for the opportunity to comment on this draft report and we look forward to working with you on future homeland security issues.

Sincerely,

Steven J. Pecinovsky
Director
Departmental GAO/OIG Liaison Office
Appendix III: GAO Contact and Staff
Acknowledgments

<table>
<thead>
<tr>
<th>GAO Contact</th>
<th>Eileen R. Larence, (202) 512-8777</th>
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<tr>
<td>Acknowledgments</td>
<td>In addition to the contact named above, Steve Morris, Assistant Director; Virginia Chanley; Willie Commons III; Thomas Hackney; Kyle Lamborn; Linda Miller; and Katrina Moss made key contributions to this report.</td>
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