



**STATEMENT OF JAMES TAYLOR  
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U.S. DEPARTMENT OF HOMELAND SECURITY  
BEFORE THE  
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,  
ORGANIZATION, AND PROCUREMENT  
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM  
U.S. HOUSE OF REPRESENTATIVES  
“OVERSIGHT OF THE FEDERAL GOVERNMENT’S CONSOLIDATED  
FINANCIAL STATEMENT”**

**MARCH 20, 2007**



Good afternoon Mr. Chairman, and Members of the Subcommittee.

I am James Taylor, Deputy Inspector General for the Office of Inspector General (OIG) at the Department of Homeland Security (DHS). Thank you for the opportunity to discuss the status of financial management at DHS, efforts to address the department's internal control weaknesses, and implementation of the *Department of Homeland Security Financial Accountability Act*, P.L. 108-330 (Accountability Act).

### **Office of Inspector General Partnerships**

The Office of Inspector General partners with the Secretary of Homeland Security and his executive team to ensure that the department accomplishes its mission in the most effective, efficient, and economical manner possible. Key to achieving these objectives is sound financial management. Through our audits, we provide independent, objective information and identify issues and opportunities for improvements in financial management and other areas.

We share with the Chief Financial Officer (CFO) a vision of world-class financial management that delivers reliable, timely, and useful information to support the critical mission of DHS. Financial management is a high-priority area for our office it is an area where we plan an ongoing and proactive presence. Our goal is to provide the department with real-time analysis and feedback to assist them as they are developing and executing financial improvement plans.

### **The DHS Financial Accountability Act and Internal Control**

Strong financial management and accountability are essential to the achievement of DHS' mission. The Accountability Act recognizes this and emphasizes effective financial management leadership and internal control as essential elements of a sound financial management program. To this end, the Accountability Act has very specific requirements with respect to internal control over financial reporting by requiring the Secretary to include in the DHS *Performance and Accountability Report* an assertion on internal control over financial reporting. DHS met this requirement in both 2005 and 2006 with the Secretary asserting that the department was unable to provide reasonable assurance that internal control over financial reporting was effective.

The Act further requires the Secretary to include an audit opinion on the department's internal control over financial reporting in DHS' Accountability Report, beginning in fiscal year (FY) 2006. The department met this requirement, with our office issuing a Disclaimer of Opinion on the audit of the department's internal control over financial reporting.

To promote internal control improvements, we have conducted a series of performance audits focusing on the department's corrective action plans to address internal control weakness. Our objective is to measure the department's progress in preparing well-developed corrective action plans to support internal control improvements. We provided

recommendations on a real-time basis to strengthen plans as they were being developed, and we plan to continue this effort in FY 2007.

## **Status of Financial Management at DHS**

### ***Creating a Financial Management Capacity***

Financial management has been a major challenge for DHS since its creation in 2003. DHS was created by consolidating 22 domestic agencies, many of these agencies brought to DHS different business processes and pre-existing internal control weaknesses. In addition, DHS needed to create a department-level capacity to lead, manage, and oversee financial management. We have reported in our financial audit report that this has proven to be a challenging task for the department. Specifically, in our past audits, we have identified resource and capability deficiencies in department-level financial management oversight and reporting.

### ***2006 Financial Audit Results***

For FY 2006, financial management within the department continued to falter. The department was again unable to receive an opinion on its financial statements and ten material weaknesses were reported for the third straight year. KPMG, LLP, under contract with the OIG, issued a Disclaimer of Opinion primarily due to problems at Immigration and Customs Enforcement (ICE), the Coast Guard, Office of Financial Management (OFM), within the Office of the Chief Financial Officer (OCFO), Transportation Security Administration (TSA), and the Federal Emergency Management Agency (FEMA). These problems included:

- Management at the Coast Guard and TSA were unable to represent that their balance sheets as of September 30, 2006, were fairly stated in conformity with U.S. generally accepted accounting principles;
- OFM, ICE, and FEMA were unable to support the accuracy of certain accounts:  
and
- OFM was unable to reconcile intragovernmental transactions and balances with other federal trading partners totaling approximately \$3.5 billion in 2006 and \$1.5 billion in 2005.

In addition, Coast Guard maintains pension, medical, and post-employment travel benefit programs that require actuarial computations to record related liabilities for financial reporting purposes. The medical plan covers active duty personnel, reservists, retirees/survivors, and their dependents who are provided care at Department of Defense (DoD) medical facilities. The DoD invoices the Coast Guard for the cost of medical care as services are provided. In FY 2006, the Coast Guard's actuary identified an anomaly in certain medical expenditures paid to the U.S. Navy by the Coast Guard. As a result, the Coast Guard conducted a review of the FYs 2003, 2004, and 2005 medical expenses billed to the Coast Guard by the DoD. The review identified that medical costs incurred by Coast Guard *active* members and their dependents had been improperly classified as medical costs incurred by Coast Guard *retirees* and their dependents. The amounts improperly classified should not have been used in the actuarial calculation used to

determine the post-retirement medical liability. As a result, the Coast Guard also did not identify errors in DoD billings that, over a period of several years, resulted in an overstatement of \$444 million of the FY 2005 post-retirement medical liability and required DHS to restate its published FY 2005 financial statements. Further, more than 6 months after the errors were discovered, the Coast Guard had not implemented corrective actions and had not initiated a review of all invoices from other DoD military treatment facilities to validate the accuracy and completeness, or established procedures and controls to prevent similar errors from reoccurring.

The department's ten material weaknesses ranged from financial management oversight and reporting at the department-level to controls surrounding the recording of individual account balances within DHS bureaus. The material weaknesses are pervasive throughout the department and are indicative of the challenges the department faces in producing timely and reliable financial information.

Many of these weaknesses are attributable to significant internal control problems at the Coast Guard, the OCFO, and TSA. These control weaknesses, due to their materiality, are impediments to obtaining a clean opinion and positive assurance over internal control at the department level.

#### ***FY 2006 Activities***

To move forward, DHS must develop a comprehensive financial management strategy that addresses organizational resources and capabilities, inconsistent and flawed business processes, and unreliable financial systems. An initial step in this process is to prepare well-developed and comprehensive corrective action plans to address known internal control weaknesses.

During FY 2006, we anticipated progress in addressing internal control deficiencies. The department identified four areas where internal control weaknesses exist for improvement during the year. However, a coordinated department-wide effort to develop corrective action plans did not begin until the third quarter of 2006; as of the completion of our recent performance audits, the department did not yet have a department-wide plan in place.

Many of the department's material weaknesses, to varying degrees, are attributable to the Coast Guard. Achieving a clean financial statement audit opinion and providing positive assurance over internal control at the department level is highly dependent upon improvements at the Coast Guard.

ICE began its component corrective action plan process early, during the first quarter of 2006, and was able to close 37 out of 49 weaknesses identified during the 2005 financial statement audit, including the material weakness related to Fund Balance with Treasury. It is also evident that senior financial management leadership within the department are actively engaged in developing an overall financial management strategy, corrective action plans, and in developing systems to monitor overall internal control improvement

efforts. However, the Federal Protective Service (FPS) and ICE encountered problems during the financial management transition.

FPS faced myriad challenges when it transitioned from the General Services Administration (GSA) to the DHS and, specifically, to ICE. Under the Homeland Security Act of 2002, DHS became responsible for protecting the buildings, grounds, and property owned, occupied, or secured by the federal government under the GSA jurisdiction. In addition to GSA facilities, the Act also provides FPS with the authority to protect properties held by DHS components that are not under GSA jurisdiction.

As part of its overall strategy to ensure the physical safety of government employees and visitors, FPS uses contract guards to deter the commission of crime in and around federal buildings. Contract guard services represent the single largest item in the FPS operating budget, with an estimated FY 2006 budget of \$487 million. As a result of the Oklahoma City bombing in 1995, the contract guard workforce more than doubled and now numbers around 15,000. FPS has become increasingly reliant on its contract guard force, having less than 1,000 uniformed FPS officers nationwide.

In October 2006, we reported that FPS was not paying invoices for its contract guard services nationwide in a timely manner, resulting in a violation of the Prompt Payment Act. Of the 25,557 invoices paid from October 1, 2004, to November 21, 2005, 88% was not paid within 30 days as required by the Prompt Payment Act. As a result, FPS paid more than \$1.2 million in interest to guard companies that are contracted by FPS to protect federal buildings for late payments made during this time period.

A central cause for FPS' inability to pay private guard contractors timely was FPS' transition from the GSA Financial Management System to the ICE Federal Financial Management System on October 1, 2004, and occurred before the system was adapted to meet the unique financial and budgeting requirements associated with FPS' business processes.

The DHS Office of the Under Secretary for Management originally directed that the FPS transition from the GSA Financial Management System to the ICE Financial Management System be completed by October 1, 2003. Following the initial review of the unique financial management requirements needed to support the FPS offsetting collections program, the transition date was extended to October 1, 2004. FPS officials said that, despite attempts to explain FPS business processes and Federal Financial Management System needs to the ICE, problems with adapting the ICE Financial Management Support to FPS needs remained and suggested that the transition to the ICE system be postponed. However, DHS required FPS to transition to ICE system on October 1, 2004, despite concerns about the system's ability to meet FPS needs. ICE financial management staff had assured the staff of the Senate Appropriations Committee, in a briefing on February 17, 2005, that the FPS transition would be completed by March 31, 2005.

However, problems with contractor payments and the transition to ICE Financial Management System continued. In a May 6, 2005, memorandum to the Assistant Secretary for ICE, the Director of FPS outlined what he considered systemic problems and issues with the Financial Management System and reported that problems with contractor payments had, in fact, worsened since the transition. An independent auditor contracted by us to perform an audit of DHS financial statements<sup>1</sup> also concluded that the integration of FPS' accounting processes from GSA to ICE created numerous issues with the integrity of FPS transaction data and represented a material weakness in ICE's internal controls.

FPS Budget and Finance officials in Region 3 and FPS Headquarters officials informed us that inadequate training prior to the transition and the difficulty in using the FFMS also contributed to the invoice payment problems. These officials indicated that the system is difficult to navigate and that errors are time-consuming to correct.

### **Performance Audits of Department Corrective Action Plans**

Our two most recent performance audit reports<sup>2</sup> issued in December 2006 and February 2007, assessed the effectiveness of DHS' corrective action plans to address internal control weaknesses. Our objective in conducting these performance audits is to assess the thoroughness and completeness of both the overall corrective action plan process and individual plans developed to address specific weaknesses. The performance audits are intended to provide ongoing feedback to the department as they are developing and implementing corrective action plans.

Our analysis and related recommendations focus on four essential elements of good corrective action plans. These areas are: identification of "root cause" problems, development of critical milestones, accountability for accomplishing corrective actions, and validation that actions taken were effective. We also looked for linkage between critical milestones in the plans with overall goals, and for integration of the corrective action plans process with other related management activities; the most significant of which is implementation of the internal control assessment requirements in OMB Circular A-123, *Management's Responsibility for Internal Control*.

### **Audit Report No. 3 - Assessing Corrective Action Plans for 2006 Department Priority Areas**

Our third audit focused on assessing the department's progress in developing specific Corrective Action Plans for five internal control weaknesses it prioritized for improvement in FY 2006. These weaknesses are as follows:

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<sup>1</sup> DHS' *Performance and Accountability Report for Fiscal Year 2006*, November 15, 2006, Department of Homeland Security.

<sup>2</sup> The DHS OIG has issued 4 performance audit reports assessing DHS' CAP process for financial reporting: OIG-06-52, OIG-06-61, OIG-07-13, and OIG-07-27.

- Property, plant, and equipment,
- Operating materials and supplies,
- Undelivered orders, accounts and grants payable, and disbursements,
- Budgetary accounting, and
- Intragovernmental and intradepartmental balances.

These weaknesses are primarily attributable to five entities within the department: the OCFO, Coast Guard, ICE, TSA, and the Office of Grants and Training (G&T).

In our review we focused on the following corrective action plan elements:

- Identification of the underlying root cause(s),
- Development of an effective remediation plan,
- Accountability for establishing and successfully implementing the CAP, and
- Validation of the successful implementation of the CAP.

#### ***Office of the Chief Financial Officer***

Weaknesses related to financial management oversight and financial reporting relate primarily to resource and capability issues within the OCFO. We have reported a need for increased OCFO oversight and financial reporting capabilities since FY 2004. Proper resourcing at the OCFO is critical to improving financial management within the department. The OCFO has developed a corrective action plan for intragovernmental and intradepartmental balances.

Our primary recommendation is that the OCFO perform a thorough root-cause analysis to determine the underlying causes of the material weakness for each element (i.e., intragovernmental and intradepartmental), including a review of financial IT systems, processes, and human resources within the OCFO and at the department's components, and the root causes should be cross-referenced to identified weaknesses. Additionally, the OCFO needs to develop guidance for the components regarding their role in the intragovernmental reconciliation process.

#### ***Coast Guard***

The Coast Guard developed corrective action plans intended to address each of the five material weaknesses. We reported that these plans were general in nature and lacked adequate detail. Underlying root causes were limited to only those previously identified through the financial statement audit. Consequently, the corrective action plans did not include a fully developed and detailed listing of tasks to correct weaknesses, a timeframe for completion, or adequate accountability.

We made specific recommendations related to all key elements of the Coast Guard's plans. Our primary recommendations are for the Coast Guard to improve its corrective action plans by performing a thorough root-cause analysis of weaknesses that includes a review of financial systems, processes, and human resources, and develop a detailed list of tasks and milestones based upon this analysis. We also recommended the Coast Guard make a realistic assessment of the resources required to plan and execute corrective

actions. Further, in filling key financial management vacancies, the Coast Guard should ensure that the position holders have the necessary skills to execute the corrective action plans and seek sustained support for the plan from executive leadership.

### ***Immigration and Customs Enforcement***

ICE proactively began its corrective action plan process in the first quarter of FY 2006. Consequently, they are further along in developing and executing corrective action plans than the other DHS entities. ICE created a Program Management Office (PMO) to develop and implement a 3-year Financial Action Plan. The PMO reports directly to the ICE CFO and provides program management infrastructure, guidance, and support to staff developing and implementing corrective action plans. Additionally, ICE senior leadership has set a positive tone for financial management improvements and actively monitors progress.

For FY 2006, ICE prioritized implementation of its plans, with a goal of fully remediating its Fund Balance with Treasury material weakness. The 2006 financial statement audit underway will assess the effectiveness of ICE's implementation of its plan. As a result, the corrective action plans intended to address undelivered orders, accounts and grants payable, and disbursements (UDO), budgetary accounting; and intragovernmental and intradepartmental balances were not given the highest priority milestone completion dates through September 30, 2007. As a result, the CAPs were not fully and completely developed.

We made recommendations for ICE to continue to develop corrective action plan tasks associated with these three material weaknesses and include corrective action plan validation procedures to be performed by ICE personnel. Additionally, to improve further their corrective action plans, we recommended that ICE better define the criteria used to determine when a corrective action is complete and integrate the validation process with control testing planned for conducting management's OMB Circular A-123 assessment.

### ***Transportation Security Administration***

TSA has prepared a corrective action plan to address the undelivered orders (UDOs) material weakness with a timetable for corrective actions, and has assigned specific tasks with due dates to individuals. Management emphasizes the evolutionary nature of the CAP, including its intent to modify or add actions as needed to fully correct the internal control weakness by September 30, 2007. TSA did not evaluate the root cause of the UDOs material weakness within the framework of the electronic program management office (ePMO) system. However TSA believes that the root cause was a result of TSA's system migration from the Department of Transportation to the Coast Guard.

Although TSA prepared a CAP, the issue description and root-cause analysis are not adequate descriptions of the key issues surrounding the UDOs material weakness. The CAP does not address the UDOs FY 2005 audit finding in a manner specific enough to allow for corrective action to take place if the CAP were implemented by TSA.



In order for the CAP to be an effective method of implementing corrective action, specific subtasks should be included to clarify the tasks listed in the ePMO reports. A positive action by TSA is its engagement in monthly reporting dialogues with the OCFO and updates into ePMO. Additionally, TSA provides updates to the TSA Management Control Council, and there is open communication between the process owners and the Office of Financial Management as to the progress and status of CAP milestones.

We made recommendations for TSA to implement milestones in the UDOs CAP that require review of TSA's accounting for UDOs, to determine their accuracy within TSA, and to implement milestones in the UDOs CAP that require the implementation of policies and procedures to annually validate that the methodology used to estimate its grant accrual provides a reasonable estimate of the actual amount owed. Additionally, to improve further their CAPs; we recommended that TSA integrate the validation process with control testing planned for conducting management's OMB Circular A-123 assessment.

### ***Grants and Training***

G&T developed a CAP with some key performance measures to address the UDO material weakness. However, due to lack of documentation, G&T was unable to substantiate that a comprehensive and thorough root-cause analysis was performed. While the issues cited in the CAP are, in fact, possible root causes, without adequate supporting documentation of the root-cause analysis, we were unable to determine whether management validated the control deficiency condition and if the actual root cause of the material weakness being addressed was properly identified. Additionally, critical milestones for this material weakness are not sufficient enough to provide reasonable assurance that the weakness has been corrected. Though progress can be noted, G&T has not implemented sufficient measures to test and validate key milestones.

Our primary recommendation is that the G&T perform a thorough root-cause analysis to determine the underlying causes of the material weakness, including a review of financial IT systems, processes, and human resources, and the root causes should be cross-referenced to identified weaknesses. Additionally, G&T's CAPs should be prioritized for action, to minimize duplication of effort where corrective actions overlap. Also G&T should not rely on independent auditors to determine all significant causes of control weaknesses. To improve further their corrective action plans; we also recommended that TSA integrate the validation process with control testing planned for conducting management's OMB Circular A-123 assessment.

### **Performance Audit Report No. 4 - Assessing Corrective Action Plans for 2006 Department Priority Areas**

Our fourth performance audit focused on assessing the Coast Guard's development of four CAPs:

- Entity-Level Controls,
- Financial Reporting,

- Fund Balance with Treasury, and
- Actuarial Liabilities.

In addition, we performed an assessment of how well contractor support plans aligned with the efforts necessary to resolve the Coast Guard's material weaknesses, and included a review of the Financial Management Transformation Task Force (FMTTF) to assess if milestones had been met as outlined in the Commandant's Intent Action Order #5 (the Order) dated July 3, 2006.

Our assessment of the integrity of the Coast Guard CAPs (as of September 30, 2006) focused on an evaluation of the following CAP elements:

- Identification of the underlying root cause(s),
- Development of an effective remediation plan,
- Accountability for establishing and successfully implementing the CAP, and
- Validation of the successful implementation of the CAP.

The Coast Guard developed CAPs intended to address each of the material weaknesses. For each of the CAPs with respect to root-cause identification, the process included internal workshops and management-level discussions to determine the root causes of the material weakness. However, ongoing root-cause identification continues to reveal weaknesses in the initial root-cause exercise used to develop the CAPs.

The Coast Guard was not able to provide evidence that a formal analysis to include walkthroughs of business processes and related systems was performed to identify all deficiencies or validate known or perceived deficiencies. This type of analysis would be necessary to evaluate the integrity of the completeness of the root-cause identification used to create the CAPs. As a result, it remains difficult to determine whether all conditions of the material weaknesses have been identified and whether the root causes identified are adequate to assist management with developing effective remediation plans.

Coast Guard management did not consider business risks, materiality, or cost versus benefit analysis when developing the remediation plans. The plans included high-level work breakdown structure but not resource estimates for each subtask of the milestones or a formal process for reporting progress against each CAP's milestones. Detailed work breakdown structures below the major milestone level were not available for our review. Critical milestones appear to have been identified for each CAP; however, specific implementation steps or activities have not been assigned to each milestone.

The availability of qualified government resources continues to be a factor for the Coast Guard's inability to develop detailed plans and implement CAP activities.

With respect to all four CAPs, we recommended that the Coast Guard validate the CAP root-cause analysis using contractor support to review the identification of root causes for the CAPs and the analysis prepared to support the development of the remediation plans

according to A-123; update the current work breakdown structures; and develop a risk-based plan for each of the four CAPs to prioritize tasks and assist with aligning resources to high-value tasks. Additionally, CAPs should address alternatives for addressing resource constraints and include a matrix to identify and prevent the duplication of effort and to help ensure that effort is aligned to assist the Coast Guard in addressing specific weaknesses and issues.

### ***Contractor Support Plans***

The Coast Guard requires human resources to effectively execute and provide oversight for the execution of remediation activities. However, the Coast Guard is constrained by low head count and by the lack of personnel with deep financial management and project management experience and capabilities. As a result, the Coast Guard has issued five contracts to assist with addressing material weaknesses identified in the FY 2005 independent auditors' report. The contracts covered system improvement, project management, internal control policy development and testing, and financial reporting review and Generally Accepted Accounting Practices (GAAP) compliance.

We assessed the performance work statement (PWS) and its relationship to the material weaknesses, reviewed the contract development process, and whether accountability for contract oversight was established.

While the Coast Guard has taken considerable steps to engage contractors to improve financial management and financial reporting business processes, the contracts lack specificity and direction, which increases the risks of wasting resources and failing to achieve desired results. Additionally, the root cause of the financial systems material weaknesses were not specifically addressed during contract development. These conditions support the need for the root-cause analysis and crosswalk discussed earlier, and it remains difficult to determine whether the contracts are properly aligned to address all deficiencies resulting in material weaknesses.

Additionally, the contracts were put into effect prior to delivery of the plan of action and milestones (POA&M) developed by the Financial Management Transformation Task Force (FMTT), and as a result, the contracts may need future modifications to align with the strategic direction of the POA&M.

While the use of contractors helps alleviate the resource constraints, there appears to be an inadequate number of experienced and trained government staff to oversee the work. For example, the oversight of the estimated 150 contractors in the Financial Systems Division is shared among six Coast Guard staff. In addition, the government personnel providing oversight for the contracts do not have the credentials or experience in financial management oversight of complex organizations to direct or evaluate the quality of the work provided by the contractors. Additionally, it is not evident how the Coast Guard will assess the success of these efforts.

We recommended that the Coast Guard define specific expectations for the contracts, considering the root cause of the material weaknesses and notice of finding and

recommendation (NFR), and review the existing PWS. In addition, the Coast Guard needs to coordinate and align contract support plans with the POA&M and consider modifications, if necessary, to align them with necessary remediation efforts. The Coast Guard also needs to ensure that project plans are approved by appropriate Coast Guard personnel and provide adequate government human resources for contract oversight.

***Commandant's Intent Action Order #5 (the Order): Financial Management Transformation and CFO Audit Remediation Plans***

The Commandant issued the Order, which directed the establishment of a team to plan for transformation of the Coast Guard's financial management organization into a model of excellence. Accordingly, in July 2006, the Coast Guard chartered the Financial Management Transformation Task Force with providing short-term win plans and a long(er)-term strategic POA&M to advance the goal of earning sustainable, clean audit opinions.

We evaluated the actions taken in response to the Order and determined that the Financial Management Transformation Task Force was substantially staffed and functioning by July 15, 2006. However, the duration of their assignments was limited and the group was standing down during our performance audit. Although the Coast Guard engaged contractor support, it occurred 1 month later than planned. The short-term win plan was completed by the due date, but initial due dates for items identified in the plan were not realistic and needed to be changed. The status quo analysis and project approach were submitted in a reasonably timely fashion.

Although the POA&M was to be submitted by October 1, 2006, the completion date was revised due to the level of effort needed to complete the task by November 9, 2006. After delivery of the POA&M, the FMTTF will stand down. The POA&M proposes that, in its place, the Financial Management Transformation organization (CG-8T) be charged and tasked with completing the planning, implementing the actions identified in the POA&M, and identifying the actions necessary to achieve and sustain clean audit opinions. Additionally, the Coast Guard Leadership Team/FMTTF briefings were held regularly, and the FMTTF activities and progress were communicated Coast Guard-wide via e-mail.

We recommend that the Coast Guard secure adequate human resources to complete the planning and implement actions identified in the POA&M, as well as identify actions necessary to achieve and sustain clean audit opinions. The Coast Guard should document in writing any changes to directives and include written approval by the appropriate authority, and ensure that the POA&M is integrated with the CAPs.

***2007 Activities***

The Coast Guard has developed the Financial Strategy for Transformation and Audit Readiness (FSTAR), which identifies root causes and planned actions to fix those root causes in each of the 15 initiatives. FSTAR is a 4-year plan with a remediation on specific initiatives each year. Although the FSTAR initiatives contain detailed

milestones to remediate deficiencies, currently the majority of the milestones occur during the fourth quarter of each year. As a result, our office may not be able to complete our independent verification and validation testing to determine whether the deficiency has been corrected due to time constraints associated with completing the financial statement audit in order for the department to meet its accelerated reporting requirement. Although the Coast Guard has identified the milestones that have been already been completed for the FY 2007 initiatives, the FSTAR plan was not issued until March 2007 and has not been subjected to a performance audit.

During FY 2006, the OCFO began the development of the Internal Controls Over Financial Reporting (ICOFR) Playbook. This Playbook outlines the OCFO's short- and long-term strategy and process to resolve material weaknesses and build management assurances. The Playbook has two tracks. The first track focuses on corrective action strategies for material weakness conditions. The second track focuses on building support for the Secretary's ICOFR assurance statement through management-performed testing on areas that were not identified as a material weakness condition by the auditor. The DHS Secretary is expected to approve and sign this Playbook during March 2007.

### **Corrective Action Plan Performance Audits**

We are currently working on the Statement of Work to have a contractor conduct four performance audits to assist the department with evaluating and improving bureau and departmental corrective action plans, and assessing the design of ICOFR to develop better corrective action plans. The four planned performance audits follow:

- Assess the status and effectiveness of the department's overall plan,
- Assess the status and effectiveness of the Coast Guard's overall plan,
- Assess the status and effectiveness of ICE's overall plan,
- Report and evaluate the status and effectiveness of the department's overall plan to consolidate its financial systems according to OMB's Financial Management Line of Business Migration Planning Guidance and DHS and NIST System Development guidelines and standards.

We look forward to briefing this Committee on these reviews in the future.

However, these steps alone probably will not be sufficient to turn the corner and reduce the number of material weaknesses for FY 2007. Weaknesses within the OCFO rooted in resources and capabilities continue to exist along with the work of remediation of most other weaknesses. Given these weaknesses and the lack of progress in addressing them, producing a PAR, including consolidated financial statements, on an accelerated schedule remains a considerable challenge. Existing internal control weaknesses at the Coast Guard, OCFO, and TSA remain the primary reasons.

**Conclusion**

We intend to continue taking a proactive and engaged approach to overseeing DHS' financial management improvement efforts through our financial statement audits and performance audits covering DHS' financial systems, corrective action plans, and the implementation of OMB Circular A-123. We look forward to conducting these audits and providing the results to the Secretary and the Congress.

Mr. Chairman, this concludes my prepared remarks. I would be happy to answer any questions that you or the Members might have.