United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Financial Management, the Budget, and International Security, Committee on Governmental Affairs, U.S. Senate

For Release on Delivery
Expected at 10:30 a.m. EST
Thursday, July 8, 2004

DEPARTMENT OF HOMELAND SECURITY

Financial Management Challenges

Statement of McCoy Williams, Director
Financial Management and Assurance

July 8, 2004

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Highlights

Highlights of GAO-04-945T, a testimony before the Subcommittee on Financial Management, the Budget, and International Security, Committee on Governmental Affairs, U.S. Senate

DEPARTMENT OF HOMELAND SECURITY

Financial Management Challenges

Why GAO Did This Study

The Homeland Security Act of 2002 brought together 22 agencies to create a new cabinet-level department focusing on reducing U.S. vulnerability to terrorist attacks, and minimizing damages and assisting in recovery from attacks that do occur. GAO has previously reported on the Department of Homeland Security's (DHS) financial management challenges and key elements necessary for reform.

DHS continues to be faced with significant financial management challenges, including addressing existing internal control weaknesses and integrating redundant inherited financial management systems. Additionally, DHS is the largest entity in the federal government that is not subject to the Chief Financial Officers (CFO) Act of 1990 or the Federal Financial Management Improvement Act (FFMIA) of 1996.

In light of these conditions, the Subcommittee asked GAO to testify on the financial management challenges facing DHS.

www.gao.gov/cgi-bin/getrpt?GAO-04-945T.

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

What GAO Found

One of the challenges DHS faces is obtaining an unqualified financial statement audit opinion and fixing the previously identified internal control weaknesses that the department inherited from component agencies, as well as newly identified weaknesses. Component agencies took action to resolve 9 of the 30 internal control weaknesses DHS inherited, while 9 of the inherited weaknesses were combined and reported as material weaknesses in DHS's first Performance and Accountability Report and 5 were reported as reportable conditions. The remaining 7 inherited weaknesses were classified as observations and recommendations to management. In addition, improper payments, a significant and widespread challenge facing the federal government, can typically be traced to a lack of or breakdown in internal control. DHS would be remiss to not pay adequate attention to developing a strong internal control environment at the department.

According to DHS officials, the department is in the early stages of acquiring a financial enterprise solution to consolidate and integrate its financial accounting and reporting systems. Similar projects have proven challenging and costly for other federal agencies. For example, efforts at the National Aeronautics and Space Administration failed to meet the needs of users and key stakeholders. To avoid similar problems, DHS must ensure commitment and extensive involvement from top management and users in the financial system development and integration.

Currently, DHS is the only cabinet-level department in the federal government that is not subject to the CFO Act. As such, this department, with a fiscal year 2004 budget of nearly $40 billion and more than 180,000 employees, does not have a presidentially appointed CFO subject to Senate confirmation and is not required to comply with the requirements of FFMIA. DHS should not be the only cabinet-level department not covered by what is the cornerstone for pursuing and achieving the requisite financial management systems and capabilities in the federal government. S. 1567 would, among other things, amend the CFO Act to (1) add DHS as a CFO Act agency, and (2) require DHS to obtain an audit opinion on its internal controls. Enactment of this legislation will increase the likelihood that the financial management challenges at DHS will be overcome.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss financial management challenges facing the Department of Homeland Security (DHS). When DHS began operations in March 2003, it faced the daunting task of bringing together 22 diverse agencies. Not since the creation of the Department of Defense in the 1940s had the federal government undertaken a transformation of this magnitude. Because of the challenges and risks associated with the transformation and implementation of DHS, the sheer size of the undertaking, and the prospect of serious consequences for the nation should DHS fail to adequately address its management challenges and risks, GAO designated the transformation and implementation of DHS high-risk in January 2003.[1] Our high-risk program, established in 1990, has helped the executive branch and the Congress to galvanize efforts to seek lasting solutions to high-risk problems and challenges.

As we previously reported,[2] DHS faces significant financial management challenges, including (1) addressing the existing and newly identified internal control weaknesses in the inherited components, and (2) integrating a myriad of redundant financial management systems. Enactment of the Department of Homeland Security Financial Accountability Act (S. 1567) will enhance DHS's chances for overcoming these challenges.

DHS, like other federal agencies, has a stewardship obligation to prevent fraud, waste, and abuse; to use tax dollars appropriately; and to ensure financial accountability to the President, the Congress, and the American people. Management must establish effective internal controls to safeguard assets, protect revenue, and make authorized payments. Unfortunately, improper payments are a widespread and significant problem receiving increased attention in the federal government. Improper payments occur for many reasons including insufficient oversight or monitoring, inadequate benefits eligibility controls, and automated system deficiencies. However, based on our previous work, one point is clear, the basic or root causes of improper payments can typically be traced to a lack of or breakdown in internal control. While DHS was not required to report improper payments for fiscal year 2003, several of its inherited weaknesses clearly suggest risk for improper payments and loss of revenue. DHS, as it addresses inherited material weaknesses and integrates its business functions, should pay close attention to implementing strong internal controls.

For the most part, DHS's component entities are using legacy financial management systems that have a myriad of problems, such as disparate, nonintegrated, outdated, and inefficient systems and processes. DHS will need to focus on building future systems as

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[1]U.S. General Accounting Office, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

[2]For example, see U.S. General Accounting Office, *Major Management Challenges and Program Risk: Department of Homeland Security,* GAO-03-102 (Washington, D.C.: January 2003) and *Department of Homeland Security: Challenges and Steps in Establishing Sound Financial Management,* GAO-03-1134T (Washington, D.C.: Sept. 10, 2003).

part of its enterprise architecture approach to ensure an overarching framework for the agency's integrated financial management processes. Plans and standard accounting policies and procedures must be developed and implemented to integrate the various financial management environments under which inherited agencies operate so that DHS can produce useful and timely financial information.

Currently, DHS is the only cabinet-level department in the federal government that is not subject to the Chief Financial Officers (CFO) Act of 1990.[3] As such, this department, with a fiscal year 2004 budget of nearly $40 billion and more than 180,000 employees, does not have a presidentially appointed CFO subject to Senate confirmation and is not required to comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).[4] The goals of the CFO Act and related financial reform legislation, such as FFMIA, are to provide the Congress and agency management with reliable financial information for managing and making day-to-day decisions and to improve financial management systems and controls to properly safeguard the government's assets.

S. 1567, as passed by the Senate on November 21, 2003, would, among other things, amend the CFO Act to (1) add DHS as a CFO Act agency, and (2) require DHS to obtain an audit opinion on its internal controls. While DHS's CFO has testified that the department complies with the audit provisions of the CFO Act and will continue to do so, we believe DHS should not be the only cabinet-level department not covered by what is the cornerstone for pursuing and achieving the requisite financial management systems and capabilities in the federal government. While this administration has voluntarily complied with some provisions of the CFO Act, making DHS subject to the CFO Act through enactment of S. 1567 would assist the department in facing and overcoming the financial management challenges it faces and legislate future compliance with the important provisions of the CFO Act and related legislation.

The perspectives we offer in this testimony are derived from work completed by us, inspectors general, independent auditors, as well as from executive guidance and testimony related to financial management and DHS.

Addressing Internal Control Weaknesses

DHS faces the challenge of correcting the previously identified material weaknesses that the agencies brought with them to DHS, as well as addressing newly identified weaknesses from DHS's first financial statement audit and obtaining an unqualified or "clean" audit opinion. I will first highlight the results of DHS's first financial statement

[3]Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990).

[4]FFMIA, Pub. L. No. 104-208, div. A, §101(f), title VIII, 110 stat. 3009, 3009-389 (Sept. 30, 1996). FFMIA requires the major departments and agencies covered by the CFO Act to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the federal government's standard general ledger at the transaction level.

audit and then I will discuss some of DHS's internal control weaknesses. Finally, as you requested, I will include in my statement today a brief discussion of the growing governmentwide problem of improper payments.

On its first financial statement audit, for the 7-month period from March 1, 2003, to September 30, 2003, DHS received a qualified opinion from its independent auditors on its consolidated balance sheet as of September 30, 2003, due in part to the auditors' inability to determine if certain asset balances reported by the U.S. Coast Guard were fairly presented. In addition, auditors were unable to opine on the consolidated statements of net costs and changes in net position, combined statement of budgetary resources, and consolidated statement of financing. The disclaimer on these statements was due to the auditor's inability to observe certain inventory counts at Coast Guard, among other things. In addition, the auditors reported numerous internal control weaknesses, which I would now like to discuss.

Collectively, internal controls are an integral component of an organization's management that provides reasonable assurance that the organization achieves its objectives of (1) effective and efficient operations, (2) reliable financial reporting, and (3) compliance with laws and regulations. Internal controls are not one event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis. When DHS was formed from 22 component agencies, there were 30 identified internal control weaknesses that DHS inherited. Component agencies took action to resolve 9 of these 30 weaknesses. These actions included reinstating procedures to accurately estimate financial data, performing risk assessments of major systems, and instituting processes to ensure accounts receivable and fixed assets are properly recorded. Of the remaining 21 weaknesses,

- 9 were combined and reported as material weaknesses,[5]
- 5 were combined and reported as reportable conditions,[6] and
- 7 weaknesses were classified by the department's independent auditors as observations and recommendations.[7]

DHS's independent auditors reported 6 new internal control weaknesses as of September 30, 2003, bringing the total number of DHS reportable conditions to 14—7 of which are considered to be material weaknesses. These weaknesses included the lack of procedures at DHS to verify the accuracy and completeness of balances transferred on

[5]A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements or to the stewardship information would be prevented or detected on a timely basis.

[6]Reportable conditions are matters coming to auditor's attention that, in their judgment, should be communicated because these represent significant deficiencies in the design or operation of internal control that could adversely affect the federal government's ability to meet the internal control objectives.

[7]Observations and recommendations are weaknesses that do not meet the criteria for reportable conditions that are typically communicated from the auditor to the appropriate level of entity management in a management letter.

March 1, 2003, and significant weaknesses with the number of qualified financial management personnel employed by the department.

While DHS has taken steps to resolve some of the internal control weaknesses it inherited from component agencies, continued focus on resolving weaknesses and developing strong internal controls cannot be understated. For example, increased attention has recently been paid to the prevalence of improper payments in the federal government. Improper payments occur for many reasons including insufficient oversight or monitoring, inadequate eligibility controls, and automated system deficiencies. However, based on our previous work, the basic or root causes of improper payments can typically be traced to a lack of or breakdown in internal control.

Improper payments include inadvertent errors, such as duplicate payments and miscalculations; payments for unsupported or inadequately supported claims; payments for services not rendered; payments to ineligible beneficiaries; and payments resulting from outright fraud and abuse by program participants and/or federal employees. In 2003, the first year certain agencies were required by the Office of Management and Budget to publicly report their improper payments, 15 agencies reported estimates of improper payments exceeding $35 billion. We have included in appendix I, a summary of improper payment estimates agencies reported in fiscal year 2003.

Additionally, I would like to highlight a few specific examples of financial management challenges DHS faces.

<u>Federal Emergency Management Agency (FEMA)</u>

We recently performed a review of FEMA's property management. One of our objectives was to determine whether controls were in place to ensure that property acquired during the 5 months prior to FEMA transferring its functions to DHS was properly accounted for in the property management system.[8] We found that FEMA continued to lack the controls and key information necessary to ensure that personal property is properly accounted for. For example, its property management systems do not share common data identifiers such as serial numbers or purchase order numbers. Without these data, we were unable to perform certain tests to conclude whether or not FEMA properly accounted for property it acquired prior to transferring to DHS. Considering that FEMA reported approximately $355 million in property, of which approximately 67 percent is considered sensitive and thus more susceptible to theft or pilferage, strong internal controls over its property systems are needed. Absent integrated or adequately interfaced financial management systems with the key information necessary to track and account for property, FEMA's property is vulnerable to loss or misappropriation and there is an increased risk that property could have been purchased and not recorded in FEMA's personal property systems.

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[8]Prior to its transfer to DHS, FEMA was 1 of the 24 CFO Act agencies.

Customs

Despite the former U.S. Customs Service's progress in implementing recommendations we have made regarding the development of Customs' planned import system, the Automated Commercial Environment (ACE),[9] numerous weaknesses remain. ACE is intended to replace the current system used for collecting import-related data and ensuring, among other things, that trade-related revenue is properly collected and allocated. To ensure proper implementation of these initiatives, DHS's management must continue to provide a sustained level of commitment to its successful implementation. Until this system is fully implemented, billions of dollars annually in trade-related revenue will continue to be tracked by systems with inadequate controls, leaving it increasingly susceptible to inaccurate reporting.

Coast Guard

Concerns have been reported regarding the Coast Guard's Deepwater Procurement Project (Deepwater), which began in 2002 and currently has an estimated cost of $17 billion over 20 years—the largest in Coast Guard's history.[10] It is intended to replace or modernize by 2022 all assets used in missions that generally occur offshore. However, it is already difficult to determine the degree to which the Deepwater project is on track with regard to its original acquisition schedule because the Coast Guard has not maintained and updated its acquisition schedule. The absence of an up-to-date acquisition schedule is a concern because it raises some question as to whether the acquisition is being adequately managed and whether the government's interests are being properly safeguarded. Further, a recent disclosure that, just a few years into the acquisition, costs have risen by $2.2 billion indicates the need for a clear understanding of what assets are being acquired, when they are being acquired, and at what cost. The high cost and long-term needs of the Coast Guard coupled with the absence of an up-to-date acquisition schedule early in the project should make financial management of the Deepwater project a key priority of DHS in order to prevent the project from greatly exceeding cost estimates and ensure program goals are met.

Integrating Financial Systems

Another significant challenge for DHS is developing a financial management architecture with integrated systems and business processes. According to DHS officials, the department is in the early stages of acquiring a financial enterprise solution to consolidate and integrate the department's financial accounting and reporting systems, including budget, accounting and reporting, cost management, asset management, and

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[9]U.S. General Accounting Office, *Customs Service Modernization: Automated Commercial Environment Progressing, but Further Acquisition Management Improvements Needed*, GAO-03-406 (Washington D.C.: Feb. 28, 2003).

[10]U.S. General Accounting Office, *Coast Guard: Deepwater Program Acquisition Schedule Update Needed*, GAO-04-695 (Washington D.C. June 14, 2004).

acquisition and grants functions. The project, which DHS has termed *"electronically Managing enterprise resources for government effectiveness and efficiency" (eMerge*[2]) was initiated in August 2003, and DHS expects it to be completed in 2006 at a cost of approximately $146 million.

While DHS is early in the process of acquiring an integrated financial enterprise solution, similar projects have proven challenging and costly for other federal agencies, such as the testimony on the Department of Defense provided today by my colleague.[11] Additionally, we have reported on the efforts of National Aeronautics and Space Administration[12] (NASA) to acquire new information systems. NASA is on its third attempt in 12 years to modernize its financial management process and systems, and has spent about $180 million on its two prior failed efforts. One of the key impediments to the success of integration efforts at NASA was the failure to involve key stakeholders in the implementation or evaluation of system improvements. As a result, new systems failed to meet the needs of key stakeholders. To avoid similar problems, DHS must ensure commitment and extensive involvement from top management and users in the financial system development and integration.

Additionally, over the past year, DHS has reported that it has reduced the number of its financial management service providers from the 19 at the time DHS was formed to the 10 it currently uses. DHS has plans to further consolidate to 7 providers. A DHS official estimated approximately $5 million in savings through the reduction of the number of financial management service centers.

Homeland Security Financial Accountability Act—S. 1567

I would now like to talk about why we support the Homeland Security Financial Accountability Act (S. 1567).[13] S. 1567 as introduced by you on August 1, 2003 and passed by the Senate on November 21, 2003, would, among other things, amend the CFO Act to (1) add DHS as a CFO Act agency and (2) require DHS to obtain an audit opinion on its internal controls. Enactment of this legislation will increase the likelihood that the challenges discussed earlier in my testimony will be overcome.

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[11]U.S. General Accounting Office, *Department of Defense: Financial and Business Management Transformation Hindered by Long-standing Problems*, GAO-04-941T (Washington, D.C.: July 8, 2004).

[12]U.S. General Accounting Office, *Information Technology: Architecture Needed to Guide NASA's Financial Management Modernization*, GAO-04-43 (Washington, D.C.: Nov. 21, 2003) and U.S. General Accounting Office, *National Aeronautics and Space Administration: Significant Actions Needed to Address Long-standing Financial Management Problems,* GAO-04-754T (Washington, D.C.: May 19, 2004).

[13]The U.S. House of Representatives is considering a related bill with similar provisions, the Department of Homeland Security Financial Accountability Act, H.R. 4259.

Inclusion of DHS as a CFO Act Agency

We strongly supported passage of the CFO Act in 1990 and continue to strongly support its objectives of (1) giving the Congress and agency decision makers reliable financial, cost, and performance information both annually and, most important, as needed throughout the year to assist in managing programs and making difficult spending decisions; (2) dramatically improving financial management systems, controls, and operations to eliminate fraud, waste, abuse, and mismanagement and properly safeguard and manage the government's assets; and (3) establishing effective financial organizational structures to provide strong leadership. Achieving these goals is critical for establishing effective management of any enterprise. We have seen unprecedented progress in improving federal financial management that has resulted since passage of the CFO Act and we strongly support amending the CFO Act to include DHS.

The CFO Act requires the agency's CFO to develop and maintain an integrated accounting and financial management system that provides for complete, reliable, and timely financial information that facilitates the systematic measurement of performance at the agency, the development and reporting of cost information, and the integration of accounting and budget information. The CFO is also responsible for all financial management personnel and all financial management systems and operations, which in the case of DHS would include the component CFOs and their staff. The CFO is responsible for asset management as well. The act also requires that the agency's CFO be qualified, appointed by the President, approved by the Senate, and report to the head of the agency. With the size and complexity of DHS and the many significant financial management challenges it faces, it is important that DHS's CFO is qualified for the position, displays leadership characteristics, and is regarded as top management. Appointment of the CFO by the President, subject to Senate confirmation, is one way to ensure that the intent of the law is met. Currently, the CFO at DHS reports to the Under Secretary for Management while directorate CFOs report to the head of their respective directorates, not to DHS's CFO. Making DHS subject to the CFO Act would assist the department in facing and overcoming the financial management challenges inherent in its formation and others that have come to light since its formation.

Under the Accountability of Tax Dollars Act of 2002,[14] DHS, as an executive branch agency with budget authority greater than $25 million, is required to obtain annual financial statement audits; however, its auditors are not required to report on compliance with FFMIA. FFMIA requires that CFO Act agencies implement and maintain financial management systems that substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the U.S. Government Standard General Ledger at the transaction level. The ability to produce the data needed to efficiently and effectively manage the day-to-day operations of the federal government and provide accountability to taxpayers has been a long-standing challenge at most federal agencies.

[14] Pub. L. No. 107-289, 116 Stat. 2049 (Nov. 7, 2002).

Opinion on Internal Controls

31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA)) requires agencies to establish internal controls that provide reasonable assurances that:

- obligations and costs are in compliance with applicable law,
- funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation, and
- revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

FMFIA requires the head of each agency to sign a statement as to whether the agency's internal controls fully comply with the above requirements or that they do not fully comply and the reasons why they do not. In effect, this reporting is management assertion as to whether the agency's internal controls are effective.

Current OMB guidance for audits of government agencies and programs[15] requires auditor reporting on internal control, but not at the level of providing an opinion on internal control effectiveness. We have long believed and the Comptroller General has gone on record in congressional testimony[16] that auditors have an important role in providing an opinion on the effectiveness of internal control over financial reporting and compliance with laws and regulations in connection with major federal departments and agencies. For a number of years, we have provided opinions on internal control effectiveness for the federal entities that we audit because of the importance of internal control in protecting the public's interest. Specifically, we provide opinions on internal controls and compliance with laws and regulations for our audits of the U.S. government's consolidated financial statements, the financial statements of the Internal Revenue Service and Federal Deposit Insurance Corporation, the Schedules of Federal Debt managed by the Bureau of the Public Debt, and numerous small entities' operations and funds. Our reports and related efforts have engendered major improvements in internal control.

As part of the annual audit of GAO's own financial statements, we practice what we recommend to others and contract with an independent public accounting firm for both an opinion on our financial statements and an opinion on the effectiveness of our internal control over financial reporting and on compliance with laws and regulations. Our goal is to lead the way in establishing the appropriate level of auditor reporting on

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[15]Office of Management and Budget, *Audit Requirements for Federal Financial Statements*, Bulletin 01-02 (Washington, D.C.: Oct. 16, 2000).

[16]U.S. General Accounting Office, *Fiscal Year 2002 U.S. Government Financial Statements: Sustained Leadership and Oversight Needed for Effective Implementation of Financial Management Reform,* GAO-03-572T (Washington, D.C.: Apr. 8, 2003).

internal control for federal agencies, programs, and entities receiving significant amounts of federal funding. Additionally, three other agencies, the Social Security Administration (SSA), General Services Administration (GSA), and the Nuclear Regulatory Commission (NRC) voluntarily obtain separate opinions on internal control effectiveness from their auditors, which is commendable.

Also, publicly traded corporations recently were subjected to a requirement to disclose management attestations on corporations' internal controls and to obtain an audit opinion on those attestations. A final rule issued by the Securities and Exchange Commission that took effect in August 2003 and provides guidance for implementation of Sections 302, 404, and 906 of the Sarbanes-Oxley Act of 2002,[17] which requires publicly traded companies to establish and maintain an adequate internal control structure and procedures for financial reporting and include in the annual report a statement of management's responsibility for and assessment of the effectiveness of those controls and procedures in accordance with standards adopted by the Securities and Exchange Commission.[18] The final rule defines this requirement and requires applicable companies to obtain a report in which a registered public accounting firm issues an attestation on management's assessment of the effectiveness of internal controls over financial reporting.

Auditor reporting on internal control is a critical component of monitoring the effectiveness of an organization's accountability. GAO strongly believes that this is especially important for large, complex, or challenged entities that use taxpayer dollars. By giving assurance about internal control, auditors can better serve their clients and other financial statement users and better protect the public interest by having a greater role in providing assurances of the effectiveness of internal control in deterring fraudulent financial reporting, protecting assets, and providing an early warning of internal control weaknesses. We believe auditor reporting on internal control is appropriate and necessary for publicly traded companies and major public entities alike. We also believe that such reporting is appropriate in other cases where management assessment and auditor examination and reporting on the effectiveness of internal control add value and mitigate risk in a cost-beneficial manner.

We fully support having DHS, as well as all CFO Act agencies, obtain an opinion on its internal control. If DHS is truly committed to becoming a model federal agency, it should begin obtaining opinions on internal control as soon as practical and set an example for other agencies to follow and in keeping with the actions already taken by SSA, GSA, NRC, and GAO.

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[17]Pub. L. No. 107-204, §§302, 404, 906 116 Stat. 745, 777, 789, 806 (July 30, 2002).

[18]The Securities and Exchange Commission approved the Public Company Accounting Oversight Board's Auditing Standard Number 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*, on June 17, 2004. This guidance provides standards and related performance guidance for independent audits as they attest to, and report on, management's assessment of the effectiveness of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002.

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In closing, the American people have increasingly demanded accountability from government and the private sector. The Congress has recognized, through legislation such as the CFO Act, that the federal government must be held to the highest standards. We already know that many of the larger agencies transferred to DHS have a history of poor financial management systems and significant internal control weaknesses. These known weaknesses provide further evidence that DHS's systems and financial controls should be subject to the CFO Act and thus FFMIA. We also strongly encourage DHS to become a model agency and, as soon as practical, obtain an opinion on its internal controls and report performance information in its accountability reports.

Mr. Chairman, this concludes my statement. I would be happy to answer any questions you or other Members of the Subcommittee may have at this time.

Contacts and Acknowledgments

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Appendix I

Table 1: Improper Payment Estimates Reported in Agency Fiscal Year 2003 Performance and Accountability Reports.

Agency	Program	Reported amount of improper payments
1. Department of Agriculture	1. Food Stamps	$1,507,000,000
	2. Commodity Loan Programs	153,000,000
	3. National School Lunch and Breakfast	0
	4. Women, Infants, and Children	0
2. Department of Defense	5. Military Retirement Fund	33,087,000
	6. Military Health Benefits	53,484,000
3. Department of Education	7. Student Financial Assistance—Pell Grants Student Financial Assistance—non-program specific	377,500,000 105,000,000
	8. Title I	0
4. Department of Health and Human Services	9. Medicaid	0
	10. Medicare	11,600,000,000
	11. Head Start	0
	12. Temporary Assistance for Needy Families	0
	13. Foster Care—Title IV-E	0
	14. State Children's Insurance Program	0
	15. Child Care and Development Fund	0
5. Department of Housing and Urban Development	16. Low Income Public Housing	650,000,000
	17. Section 8 Tenant Based	1,215,000,000
	18. Section 8 Project Based	662,000,000
	19. Community Development Block Grant (Entitlement Grants, States/Small Cities)	0
6. Department of Labor	20. Unemployment Insurance	4,225,000,000
	21. Federal Employees' Compensation Act	9,055,000
	22. Workforce Investment Act	3,066,075
7. Department of Treasury	23. Earned Income Tax Credit	10,500,000,000
8. Department of Transportation	24. Airport Improvement Program	14,000,000
	25. Highway Planning and Construction	1,400,000
	26. Federal Transit—Capital Investment Grants	32,000,000
	27. Federal Transit—Formula Grants	64,000,000

Agency	Program	Reported amount of improper payments
9. Department of Veterans Affairs	28. Compensation	129,063,000
	29. Dependency and Indemnity Compensation	0
	30. Pension	250,535,000
	31. Insurance Programs	261,000
10. Environmental Protection Agency	32. Clean Water State Revolving Funds	.13% Reported as a rate, no amount
	33. Drinking Water State Revolving Funds	.04% Reported as a rate, no amount
11. National Science Foundation	34. Research and Education Grants and Cooperative Agreements	0
12. Office of Personnel Management	35. Retirement Program (Civil Service Retirement System and Federal Employees Retirement System)	177,300,000
	36. Federal Employees Health Benefits Program	28,200,000
	37. Federal Employees Group Life Insurance	448,000
13. Railroad Retirement Board	38. Retirement and Survivors Benefits	168,327,370
	39. Railroad Unemployment Insurance Benefits	2,778,000
14. Small Business Administration	40. 7(a) Business Loan Program	13,000,000
	41. 504 Certified Development Companies	None
	42. Disaster Assistance	0[a]
	43. Small Business Investment Companies	0[b]
15. Social Security Administration	44. Old Age and Survivors' Insurance	600,000,000
	45. Disability Insurance	340,000,000
	46. Supplemental Security Income Program	2,740,000,000
Total	**31 of 46 agency programs reported estimated amounts**	**$35,654,504,445**

Source: Agency fiscal year 2003 Performance and Accountability Reports (data); GAO (analysis).

Note: An "0" indicates that the agency did not report amounts for the program.

[a]SBA reported improper payment rates and amounts for certain disaster loans; it did not provide a programwide estimate of improper payments.

[b]SBA reported potential improper payment rates and amounts for certain small business investment company transactions; it did not provide a programwide estimate of improper payments.

Selected GAO Products Related DHS's Financial Management Challenges

U.S. General Accounting Office, *Department of Homeland Security: Challenges and Steps in Establishing Sound Financial Management,* GAO-03-1134T (Washington, D.C.: Sept. 10, 2003).

U.S. General Accounting Office, *Fiscal Year 2002 U.S. Government Financial Statements: Sustained Leadership and Oversight Needed for Effective Implementation of Financial Management Reform,* GAO-03-572T (Washington, D.C.: Apr. 8, 2003).

U.S. General Accounting Office, *Customs Service Modernization: Automated Commercial Environment Progressing, but Further Acquisition Management Improvements Needed,* GAO-03-406 (Washington, D.C.: Feb. 28, 2003).

U.S. General Accounting Office, *Transportation Security Administration: Actions and Plans to Build a Results-Oriented Culture,* GAO-03-190 (Washington, D.C.: Jan. 17, 2003).

U.S. General Accounting Office, *High-Risk Series: An Update,* GAO-03-119 (Washington, D.C.: January 2003).

U.S. General Accounting Office, *Major Management Challenges and Program Risks: Federal Emergency Management Agency*, GAO-03-113 (Washington, D.C.: January 2003).

U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of the Treasury*, GAO-03-109 (Washington, D.C.: January 2003).

U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Justice,* GAO-03-105 (Washington, D.C.: January 2003).

U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Homeland Security*, GAO-03-102 (Washington, D.C.: January 2003).

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