



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

## 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](http://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](mailto:williamsm1@gao.gov).

# DEPARTMENT OF HOMELAND SECURITY

## Financial Management Challenges

### 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.