

**Statement of Bruce M. Carnes  
Chief Financial Officer  
Department of Homeland Security  
Before the House Committee on Government Reform  
Subcommittee on Government Efficiency and Financial Management**

Mr. Chairman, members of the Subcommittee, I am pleased to be here to discuss our progress and challenges in building financial management and business processes at the Department of Homeland Security.

**DHS Financial Management Accomplishments and Goals**

The Department of Homeland Security was created to protect the American people by preventing terrorist attacks, reducing our vulnerability to attack, and minimizing the loss of life and speeding recovery should one occur. At the same time, the Administration saw the creation of the Department as an opportunity to build a model for management excellence by efficiently and effectively managing resources to deliver measurable results.

As the Chief Financial Officer at the Department of Homeland Security, I am committed to fulfilling this vision by building financial policies, processes, and systems that are a model for the Federal government. Just as we have consolidated border and transportation security functions, merged response activities, integrated terrorist threat intelligence, and coordinated homeland security research and development efforts, I believe we must with equal vigor transform our business practices and systems.

Since the Department was established, much has already been done to bring the financial policies, processes, and systems of 22 disparate organizations into one Department. In March 2003, we successfully transferred more than \$50 billion in assets,

\$36 billion in liabilities, and more than 180,000 employees to the Department. Within a few weeks, we created the financial structures and support systems necessary to support these transfers. This was accomplished with only handful of staff -- a remarkable achievement of which we are proud.

We have also launched a consolidated bankcard program that will reduce the number of programs within the Department from 27 to three, created an investment review board to evaluate acquisitions above \$5 million, initiated a five-year budget and planning program, established a budget process modeled after the Department of Defense's Program Objectives Memorandum process, created a Program Analysis and Evaluation organization charged with ensuring compliance with performance and accountability requirements, and launched a consolidated business and financial management systems program.

Our success in these areas has laid a solid foundation for our efforts to become a model of excellence in Federal financial management; however, much remains to be done. As we move forward, using the President's Management Agenda as our guide, we seek to:

- increase efficiency and effectiveness by producing financial data that is timely, reliable, and useful to decision makers;
- strengthen accountability by ensuring that internal controls are in place across the Department and appropriate oversight reviews are conducted; and
- significantly reduce costs by consolidating functions, systems, and processes and by instituting best business practices.

These goals are ambitious and we face significant challenges in achieving them.

## **DHS Financial Management Challenges and Solutions**

*Consolidating the Department's 22 Financial Processes.* Currently, the Department has 22 disparate financial processes. Several of these were established through memorandums of understanding with the Department's legacy agencies. Using these processes helped ensure sufficient financial support services were available when the Department was first established. However, they are labor-intensive and cumbersome to manage. Beginning October 1, 2003, we are consolidating the number of processes from 22 to 10 – primarily by terminating the memorandums of understanding with legacy agencies and by shifting the workload to in-house financial support service units.

This is only a good start. In FY 2004, we will consider options to further streamline the financial processes used by the Department with the goal of enhancing efficiency, reducing costs, and improving the quality of financial data.

*Multiple and Redundant Financial Systems.* The Department has 83 financial management systems, few of which are integrated. Some are outdated, lack functionality, and are expensive to operate and maintain. To tackle this problem, the Secretary has launched an aggressive program to transform the Department's business and financial management policies, processes, and systems.

As part of this initiative, we will develop and implement a departmental business and financial enterprise solution that results in a single suite of financial management systems for the Department. The objective of the program is to provide the business equivalent of a Global Position System that will:

- Provide decision-makers with the business information (e.g., budget, accounting, personnel, procurement, travel) they need in near real-time;
- Improve data quality and timeliness;
- Provide required information to our stakeholders, including the Office of Management and Budget, the Congress, the General Accounting Office, our Inspector General, and the public; and
- Help the Department obtain a clean opinion on our financial statements.

This program will have a major impact on the way the Department manages its business and financial operations and will result in the Department's becoming more efficient and effective by eliminating redundant systems and consolidating functions. Developing and implementing the envisioned suite of systems will require a substantial up-front investment; however, once implemented, we anticipate that this program will produce significant cost savings.

*Lack of Standard Business Practices.* Just as the Department has multiple financial systems and processes, we have multiple business practices for managing our financial operations. While some diversity is desirable to ensure that innovation thrives and best practices emerge, some standardization is also necessary.

Thus, we are launching a comprehensive review of the finance and accounting operations of all Department of Homeland Security components. The review will include an assessment of performance standards, business processes, workload requirements, systems capabilities, staffing requirements, and productivity levels. The review will also provide recommendations for establishing department-wide performance standards, improved business process, possible consolidations, and systems improvements. Action

plans will be developed to implement recommendations. We anticipate that the Department will begin to realize cost savings from implementing the recommendations as early as FY 2005.

*Challenges Relating to Coordination and Communication.* In any organization as large as the Department of Homeland Security, communication and coordination can be a challenge. To tackle this problem, early in my tenure I established a departmental Chief Financial Officer's Council, which I chair, and whose members include the budget and finance directors from the Department's components. The Council has been instrumental in sharing information and priorities and for discussing the problems confronting the components.

While the Council has been effective in providing direction to the budget and finance officers, the fact remains that they are part of a different command structure. While this has not been detrimental to accomplishing the initiatives that we have pursued thus far, as we begin to make the sweeping changes needed to become a model for financial management excellence, working within the current structure could become a greater challenge.

*Preparing Consolidated Financial Statements.* Another challenge we face is preparing consolidated financial statements for the first time on the accelerated schedule established by the Office of Management and Budget (November 15, 2003). Although this is a formidable challenge, we decided early on that the Department needed to move aggressively to meet the requirements of OMB Bulletin-01-09, as amended, which requires agencies to prepare financial statements on an accelerated schedule. We have

prepared our interim statements on time and plan to meet the November 15 accelerated due date for the final statement.

Part of the challenge that we face in preparing our statements is mitigating the impact of 18 inherited material weaknesses that were identified in prior-year audits at the Department's legacy agencies. To tackle this problem, I directed the Department's components to establish corrective action plans for each material weakness. I also established a system to monitor implementation in which the components report to me on a quarterly basis on their progress in correcting their material weaknesses. In addition, I am creating a unit within my organization to conduct internal audits, some of which will be focused on any material weaknesses that are not being corrected on schedule. Through these processes, I believe that we will make significant progress in reducing the number of material weaknesses and ultimately eliminate them.

**H.R. 2886 "Department of Homeland Security Financial Accountability Act"**

As the CFO of the Department of Homeland Security, I applaud the spirit with which H.R. 2886, "Department of Homeland Security Financial Accountability Act", was introduced. I agree with the bill's sponsor, Congressman Platts, that increased accountability is important and necessary as demonstrated by the continuing rash of corporate accounting scandals.

While I agree with the overarching goal that H.R. 2886 seeks to accomplish, I do not believe that legislation is necessary. Section 2 of the bill proposes to subject the Department to the same financial management and accountability requirements as all other cabinet-level departments. It also proposes to change the status of the Chief

Financial Officer from a presidential appointee reporting to an under secretary to a presidential appointee subject to Senate confirmation reporting to the Secretary.

As the Department's CFO, I have the same duties and responsibilities as CFOs in other agencies and am held accountable for ensuring the Department's financial integrity in the same manner. The proposed legislation will not change the way I perform my job nor will it give me any authority that I do not already have. Similarly, the legislation will not change the requirements the Department must comply with in accounting for its finances. The Department complies with the provisions of the Chief Financial Officers Act of 1990 and will continue to do so.

Section 3 of H.R. 2886 provides the Secretary of Homeland Security with the option to prepare or submit an audited financial statement before Fiscal Year 2004. Early in my tenure, I determined that the Department should move aggressively to subject itself to the same financial management and accountability requirements as other cabinet-level agencies. Therefore, we will prepare auditable financial statements for Fiscal Year 2003. This decision was supported by our Inspector General. The audit is well underway and we plan to submit our consolidated financial statements to the Office of Management and Budget in November, two and one-half months before they are due. We will publish the Department's Performance and Accountability Report as soon as the Office of the Inspector General completes its audit of our financial statements, in January 2004 at the latest.

Section 3 also includes a provision that would require that the Department's performance and accountability report to include an audit opinion of the Department's internal controls over its financial reporting. Although an audit of internal controls is

useful in some circumstances, we do not support the notion that an audit of the Department's system of internal controls is generally warranted. Such an audit would be redundant with standard testing of controls associated with financial statement audits and with the management reviews conducted under the Federal Managers' Financial Integrity Act (FMFIA). An audit of internal controls would be costly and place excess demands on limited staff. We believe that audits of internal controls should be reserved for special and unique situations where waste, fraud and abuse or misstatements are identified in the course of other audits or internal reviews, inspections or evaluations.

Again, I support the intent of the proposed legislation. Should H.R. 2886 be deemed as necessary, the Department would look forward to working closely with the Congress on this important issue.

### **Closing**

In closing, I want to assure this committee that the Department of Homeland Security is advancing as rapidly and judiciously as possible toward our goal of becoming a model for financial management excellence. We have set ambitious goals for ourselves and high standards of achievement. In the coming months, we will move aggressively to implement the plans that I have described for consolidation, streamlining, and increasing accountability. We will also announce further plans to help us reach these goals.

We look forward to working with the Congress as we progress with our plans and will seek your continued support as we move forward.