



FINANCIAL MANAGEMENT

Department of Homeland Security Faces Significant Financial Management Challenges

Highlights of [GAO-04-774](#), a report to The Honorable Joseph I. Lieberman, Ranking Minority Member, Committee on Governmental Affairs, U.S. Senate

Why GAO Did This Study

When the Department of Homeland Security (DHS) began operations in March 2003, it faced the daunting task of bringing together 22 diverse agencies. This transformation poses significant management and leadership challenges, including integrating a myriad of redundant financial management systems and addressing the existing weaknesses in the inherited components, as well as newly identified weaknesses.

This review was performed to (1) identify the financial management systems' weaknesses DHS inherited from the 22 component agencies, (2) assess DHS's progress in addressing those weaknesses, (3) identify plans DHS has to integrate its financial management systems, and (4) review whether the planned systems DHS is developing will meet the requirements of relevant financial management improvement laws.

What GAO Recommends

GAO is making eight recommendations to improve financial management at DHS, including recommendations to give continued attention to resolving all previously reported internal control weaknesses and adhere to FFMIA requirements even though not statutorily required to do so. GAO also believes Congress should enact legislation to designate DHS as a Chief Financial Officers Act (CFO Act) agency. DHS generally agreed with the overall findings and recommendations. www.gao.gov/cgi-bin/getrpt?GAO-04-774.

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

DHS inherited 30 reportable internal control weaknesses identified in prior component financial audits with 18 so severe they were considered material weaknesses. These weaknesses include insufficient internal controls, system security deficiencies, and incomplete policies and procedures necessary to complete basic financial information. Of the four inherited component agencies that had previously been subject to stand-alone audits, all four agencies' systems were found not to be in substantial compliance with the requirements of the Federal Financial Management Improvement Act (FFMIA), an indicator of whether a federal entity can produce reliable data for management and reporting purposes.

Component agencies took varied actions to resolve 9 of the 30 inherited internal control weaknesses. The remaining 21 weaknesses were combined and reported as material weaknesses or reportable conditions in DHS's first Performance and Accountability Report, or were reclassified by independent auditors as lower-level observations and recommendations. Combining or reclassifying weaknesses does not resolve the underlying internal control weakness, or mean that challenges to address them are less than they would have been prior to the establishment of DHS. The following table summarizes the current status of the weaknesses DHS inherited from component agencies.

Status of 30 Inherited Weaknesses in 2003 Audit

Closed	9
Classified as material weaknesses for 2003	9
Classified as reportable conditions for 2003	5
Classified as observation and recommendation for 2003	7
Total	30

Source: GAO based on DHS's 2003 Performance and Accountability Report.

DHS is in the early stages of acquiring a financial enterprise solution to consolidate and integrate its business functions. Initiated in August 2003, DHS expects the financial enterprise solution to be fully deployed and operational in 2006 at an estimated cost of \$146 million. Other agencies have failed in attempts to develop financial management systems with fewer diverse operations. Success will depend on a number of variables, including having an effective strategic management framework, sustained management oversight, and user acceptance of the efforts.

It is too early to tell whether DHS's planned financial enterprise solution will be able to meet the requirements of relevant financial management improvement laws. As of June 2004, DHS is not subject to the CFO Act and thus FFMIA, which is applicable only to agencies subject to the CFO Act. While DHS is currently not required to report on compliance with FFMIA, its auditors disclosed systems deficiencies that would have likely resulted in noncompliance issues.