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CREATING ONE DHS: STANDARDIZING DEPARTMENT OF HOMELAND SECURITY FINANCIAL MANAGEMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON MANAGEMENT, INVESTIGATIONS, AND OVERSIGHT

OF THE

COMMITTEE ON HOMELAND SECURITY HOUSE OF REPRESENTATIVES

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CREATING ONE DHS: STANDARDIZING DEPARTMENT OF HOMELAND SECURITY FINANCIAL MANAGEMENT

Thursday, October 29, 2009

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON HOMELAND SECURITY,
SUBCOMMITTEE ON MANAGEMENT, INVESTIGATIONS,
AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to call, at 10:00 a.m., in Room 311, Cannon House Office Building, Hon. Christopher P. Carney [Chairman of the subcommittee] presiding.

Present: Representatives Carney, Pascrell, Green, and Bilirakis.

Mr. CARNEY [presiding]. The Subcommittee on Management, Investigation, and Oversight will come to order. The subcommittee is meeting today to receive testimony on "Creating One DHS: Standardizing Department of Homeland Security Financial Management."

Good morning, all. Please let me begin by stating that this subcommittee has rules, and everyone is expected to follow those rules. One of those rules, Rule 6, Subsection D, Item 1, states that all testimony will be received no later than 48 hours in advance of a hearing.

It appears that the Department has a hard time complying with this rule from time to time. I know we have had a discussion before the hearing started, but this will be my last verbal warning to the Department. All testimony will be received 48 hours in advance of a hearing, or it will not be accepted.

I would like to thank Mr. Taylor and Ms. Daly for getting their testimony in on time and apologize that they needed to sit here while I admonished the Department.

In any event, okay, this hearing is the first in a series of hearings the Subcommittee on Management, Investigations, and Oversight will conduct regarding the Department of Homeland Security's intention to create One DHS.

One DHS in part will be achieved by consolidating various operational functions from the legacy agencies into Department-wide systems. It has been 6 years since the Department was established. It has yet to implement a Department-wide integrated financial management system. DHS receives billions of taxpayer dollars every year and to date has been unable to account for a majority of their appropriated funding the same way that other departments and agencies can.

Today's hearing will examine the Department's myriad financial management systems, the steps the Department is taking to unify its financial operations into one integrated, standardized, auditable system, and best practices that will ensure the Department's accounting methodologies will meet the existing standards and protocols.

eMerge2, the Department's initial attempt at financial management consolidation, was unsuccessful. Unfortunately, some 3 years and millions of dollars after the effort ceased, many of the problems experienced as part of eMerge2 are being experienced with the Department's current effort, the Transformation and Systems Consolidation, or TASC program.

The problems include integrating the Department's myriad financial systems, determining how the Department can construct a system that will result in accurate and timely financial data, and ascertaining how that the limited results of eMerge2 fit within the Department's current efforts.

The Government Accountability Office has suggested steps the Department could take to ensure a successful TASC program, as well as how TASC RFPs should be crafted in a way that will ensure DHS is satisfied with the financial—excuse me—with a final financial system and accounting system.

The Department has yet to show that it is taking any of these recommendations into consideration. Today I hope to hear how the Department will ensure that TASC is a success, including a clear strategy that describes how it will be implemented and linked to existing Department business processes, policies, and legacy systems.

I want to thank the witnesses for their participation and look forward to their testimony.

We will now hear from the Ranking Member, the gentleman from Florida, Mr. Bilirakis.

Mr. BILIRAKIS. Thank you, Mr. Chairman. I appreciate it very much.

I am pleased the subcommittee is meeting to consider the Department of Homeland Security's financial management oversight and consolidation efforts. The Department of Homeland Security currently has 13 separate financial management systems, down from 19 it inherited when the Department was created in 2003. The separate financial systems result in inconsistent data across the Department and in part contribute to the Department's inability to obtain a clean audit of its financial statement.

With respect to the TASC program, I am interested in learning more about the Department's concept of operations and migration strategy. I would also like to hear about the Department's plans for contract oversight. This estimated cost of the TASC contract is $450 million. As with other large procurements at the Department, there is the possibility for cost overruns.

It has also been suggested that this estimate understates the total cost of this contract. By the time eMerge2 was canceled, the Department had spent $52 million of the more than $250 million estimated project cost. While the GAO indicated that ending the program was prudent to cut losses, the Department was left with little to show after such a large expenditure.

It is my hope that the Department will use the lessons learned from eMerge2 to ensure that the funding for TASC is spent in the most efficient and effective way possible. I will also note that while important, a consolidated financial system is not a silver bullet to fix the Department's financial management issues. The Department must have strong internal controls in place and provide oversight over its people and processes to ensure compliance with the relevant policies.

That said, I would like to welcome our witnesses here today. I look forward to your insights on all of these issues.

I want to thank the Chairman. Thank you, and I yield back the balance of my time.

Mr. CARNEY. I thank you, Mr. Bilirakis.

Seeing that the Chairman and Ranking Member aren't here, other Members of the subcommittee are reminded that under committee rules opening statements may be submitted for the record.

[The statement of Chairman Thompson follows:]

PREPARED STATEMENT OF CHAIRMAN BENNIE G. THOMPSON

OCTOBER 29, 2009

The Department of Homeland Security has one of the largest budgets in the Federal Government.

Each year approximately $40 billion in appropriated funds flows in and out of the Department.

Among other things, these funds are used to pay over 200,000 employees, provide disaster aid to States and local governments and purchase the equipment used by those protecting our borders.

We owe it to taxpayers to ensure that these funds are appropriately used, fully accounted for, and auditable.

Unfortunately, this is not the case at the Department of Homeland Security.

Six years into several attempts at integrating its financial management systems, and millions of dollars later, the Department is still using thirteen different systems that cannot talk to each other, that do not adequately reflect where funds are located and is unable to let the Department of Treasury know, at any given moment, how much money is left in the Department of Homeland Security budget.

Fortunately, the Department knows that the way out of this conundrum is to integrate its systems. Unfortunately, I am concerned that it may be heading down the same path it took when previous attempts to integrate the Department's financial management systems failed.

There is a saying that goes: "If you keep doing the same thing, you will keep getting the same result."

Yet, once again, the Department is relying on contractors to do the work that should be performed by the Government.

In this instance, the Department intends to allow a contractor to define what the Department needs, then design what it will receive, then map out the strategy for implementation.

The fact that the Department released a Request for Proposal before first defining its financial management strategy is troublesome, and sounds like putting the cart before the horse.

Past lessons have taught us that over-relying on contractors can lead to lack of proper oversight, performance problems, and skyrocketing costs.

To that end, I would urge the Department, in an effort to reduce costs, to develop its own strategy for integrating its financial management systems and to establish a more solid road map.

Moreover, I am greatly concerned with the findings that the GAO will be presenting us with today.

Although the Department has received much guidance from the GAO on the steps that must be taken to successfully integrate its financial management systems it appears as if this advice has fallen by the wayside.

I look forward to listening to our witnesses' testimony today regarding what steps are being taken to correct existing deficiencies and whether those steps are enough to prevent an unacceptable outcome.

Mr. CARNEY. I want to welcome our witnesses. Our first witness is Mr. James L. Taylor, who serves as the deputy inspector general for the Department of Homeland Security. Mr. Taylor was selected as the deputy inspector general in October 2005. He previously served as the deputy chief financial officer, CFO, and director for financial management at the Department of Commerce.

Prior to his work at Commerce, Mr. Taylor held the position of deputy chief financial officer at the Federal Emergency Management Agency, FEMA, where he was directly responsible for all financial operations, with expenditures of $4 billion to $10 billion annually.

Our second witness is Ms. Kay L. Daly. Ms. Daly currently serves as the director for financial management and assurance issues at the Government Accountability Office. She is responsible for financial management systems, improper payments, contracting, cost analysis, and health care financial management issues.

She led GAO's report on key cases of financial management system modernization failures that highlighted the need to follow discipline processes in software implementation, use effective human capital management, and employ other IT management practices.

Our third and final witness is Ms. Peggy Sherry, the acting chief financial officer for the Department of Homeland Security. Ms. Sherry joined the Department in 2007 as the director of the Office of Financial Management and is responsible for developing Department-wide financial management policy, leading the Department's financial audits and preparing Department-wide financial reports.

Prior to joining the Department, she served as the deputy chief financial officer for the United States Holocaust Memorial Museum, where she oversaw the successful conversion to the museum's new financial management system and instituted processes to obtain several unqualified audit options—excuse me—several unqualified audit opinions on the museum's financial statements.

Without objection, the witnesses' full statements will be inserted into the record. I now ask each witness to summarize for 5 minutes their statements, beginning with Mr. Taylor.

STATEMENT OF JAMES L. TAYLOR, DEPUTY INSPECTOR GENERAL, DEPARTMENT OF HOMELAND SECURITY

Mr. TAYLOR. Thank you, Mr. Chairman.

Mr. Chairman, Ranking Member Bilirakis, and Members of the committee, thank you for the opportunity to appear before you today on behalf of the Homeland Security Office of Inspector General. My testimony today will focus on the financial management challenges facing the Department and its components and the progress made so far in addressing these challenges.

Inspectors general are required by law to annually report on the top management challenges facing the departments or agencies they oversee. For DHS the Office of Inspector General has consistently placed financial management high on that list. However, fixing financial management at DHS will require more than just focusing on this one area singularly.

Rather, DHS needs continuous efforts to address its financial processes, as well as two related areas identified in our annual

management challenges report: Information technology management as well as acquisition management.

DHS must re-engineer and standardize its underlying financial processes so they conform to the requirements of the CFO Act of 1990. In addition, DHS must strengthen how it manages information technology so it is able to develop and implement integrated systems to support redesigned financial processes.

Finally, DHS must address long-standing deficiencies in acquisition management to ensure it can acquire effectively the information technology needed to meet its financial management responsibilities.

DHS has worked hard to improve financial management over the last 6 years, and the OIG is proud of our relationship with the CFO's office in trying to meet these challenges. However, significant challenges do remain.

The Department has consistently been unable to obtain an unqualified audit opinion or any audit opinion on its financial statements. Additionally, the OIG has to issue a separate opinion on internal controls. DHS is the only Federal department that is required to have a separate audit opinion on internal controls.

That opinion has also been a disclaimer for the last few years. In other words the Department is not yet at a point where any opinion can be rendered on either the Department's financial statements or its internal controls or financial reporting.

Obtaining unqualified opinions on financial statements and internal controls should not be the end goal. Rather, it should be a milestone in providing management and stakeholders with useful, timely financial data for decision-making. The annual financial statement audit provides insight into the progress the Department is making in resolving weaknesses in processes and systems, and an essential part of the Department's efforts to improve financial reporting is improving the systems which compile and maintain financial information.

Since 2003 IT general controls have been evaluated as part of DHS's financial statement audit. This review has included assessing key core financial systems at FEMA, Customs and Border Protection, TSA, Coast Guard, Federal Law Enforcement Training Center, U.S. Immigration and Customs Enforcement, and U.S. Citizenship and Immigration Services.

Generally, DHS's IT financial systems are fragmented, do not share data effectively, and over the years have developed security control weaknesses that undermine the overall reliability. Collectively, the IT control weaknesses we identified limit DHS's ability to ensure that critical financial and operational data were maintained in such a manner to ensure confidentiality, integrity, and availability.

In addition, these weaknesses negatively impacted the internal controls over DHS's financial reporting and its operation, and we consider them to collectively represent material weaknesses.

DHS has recognized that it needs to improve financial management processes, as well as the systems that support those processes. Toward that end, DHS is moving ahead with the TASC system already mentioned, an enterprise-wide initiative aimed at mod-

ernizing, transforming, and integrating the financial acquisition and asset management capabilities of DHS components.

TASC is DHS's third attempt to address comprehensively its long-standing financial management process and systems problems. The first, known as eMerge, was canceled December 2005 after DHS had spent millions on what DHS officials had determined to be a failure. The second effort ended after a successful court challenge.

These failures illustrate the critical need for close CFO-CIO cooperation properly identifying the requirements for any system and the need for sound oversight of the process by trained and experienced contracts officers and specialists.

The latest effort is a high-risk initiative that would take years to complete. It is now estimated to cost in excess of $1 billion. We are presently completing a review of DHS's efforts in planning and implementing TASC and plan to report on the results of our review in a few months.

In summary, Mr. Chairman, the DHS CFO and CIO, in conjunction with component CFOs and CIOs, are responsible for working together to standardize DHS's core financial systems. However, weaknesses in financial management processes and IT security controls over the systems continue to hinder the Department's ability to effectively produce accurate financial information.

DHS's ability to significantly improve the quality of its financial reporting hinges on the successful implementation of new systems and improved business processes in order to promote sound financial management.

Mr. Chairman, this concludes my prepared statement. Thank you for the opportunity, and I welcome any questions from you or Members of the subcommittee.

[The statement of Mr. Taylor follows:]

PREPARED STATEMENT OF JAMES L. TAYLOR

OCTOBER 29, 2009

Mr. Chairman and Members of the committee: Thank you for the opportunity to appear before you on behalf of the Department of Homeland Security Office of Inspector General. My testimony today will focus on the financial management challenges facing the Department and its components, and the progress made so far in addressing these challenges.

Inspectors general are required by law to annually report on the top management challenges for the departments or agencies they oversee. For DHS, the Office of Inspector General has consistently placed financial management high on that list. However, fixing financial management in DHS will require more than just focusing on this one area. Rather, DHS needs to continue its efforts to address its financial management processes, as well as two related areas identified in our November 2008 report: Information technology (IT) management and acquisition management. Specifically, DHS must reengineer and standardize its underlying financial processes so they conform to the requirements of the Chief Financial Officer Act of 1990. In addition, DHS must strengthen how it manages information technology, so it is able to develop and implement integrated systems that support redesigned financial processes. Finally, DHS must address long-standing inefficiencies in acquisition management, to ensure it can acquire effectively the information technology needed to meet its financial management responsibilities.

DHS FINANCIAL MANAGEMENT

DHS has worked hard to improve financial management, but significant challenges remain. The Department consistently has been unable to obtain an unqualified audit opinion, or any audit opinion, on its financial statements. For fiscal year

2008, the independent auditors issued a disclaimer on DHS' financial statements and identified significant deficiencies which were so serious they qualified as material weaknesses. Additionally the OIG issued a disclaimer on DHS' Internal Control Over Financial Reporting (ICOFR). DHS' ability to obtain an unqualified audit opinion, and provide assurances that its system of internal control is designed and operating effectively, is highly dependent upon business process improvements across the Department.

Aside from being required by the Chief Financial Officer Act of 1990, financial statement audits provide insight into the status of financial management and progress in resolving weaknesses in processes and systems. For fiscal year 2008, the Department was able to reduce the number of conditions leading to the independent auditors' disclaimer of opinion on DHS' financial statements from six to three. As a result, the Office of Financial Management and the Office of Health Affairs no longer contribute to the disclaimer conditions and FEMA remediated all its prior year disclaimer conditions. However, during the fiscal year 2008 audit, new disclaimer conditions were identified at TSA and FEMA. TSA was unable to assert that its capital asset balances were fairly stated and FEMA was unable to assert that its capital asset balances were fairly stated, respectively.

The Departmental material weaknesses in internal control were primarily attributable to the Coast Guard, FEMA, and TSA. The Coast Guard's material weaknesses, which have existed since 1994,[1] contribute to all six of the Department's material weaknesses, while FEMA contributed to four and TSA contributed to three. The Coast Guard also contributes to TSA's financial systems security material weakness due to TSA's reliance on the Coast Guard's financial systems. Although the other components did not have material weaknesses, some had significant deficiencies that, when combined, contributed to the Departmental material weaknesses.

DHS' IT FINANCIAL SYSTEMS

Generally, DHS' IT financial systems are fragmented, do not share data effectively, and over the years have developed security control weaknesses that undermine their overall reliability. Fixing these systems and eliminating security vulnerabilities will be critical to DHS' efforts to improve financial management.

Since 2003, IT general controls have been evaluated as a part of DHS's financial statement audit. This review has included assessing key core financial systems at FEMA, Customs and Border Protection (CBP), TSA, Coast Guard, Federal Law Enforcement Training Center (FLETC), U.S. Immigration and Customs Enforcement, and U.S. Citizenship and Immigration Services. As a part of these reviews, controls over applications being processed on various platforms were evaluated, including Oracle and SAP. The objective of these audits was to evaluate the effectiveness of IT general controls over DHS' financial processing environment and related IT infrastructure as necessary to support the results of the financial statement audit.

We reported in April 2009 that DHS components have taken significant steps to improve financial system security and address prior year IT control weaknesses, which resulted in the closure of more than 40% of our prior year IT control findings.[2] Additionally, some DHS components reduced the severity of the weaknesses when compared to findings reported in the prior year. However, access controls and service continuity continue to be issues at several components including FEMA, Coast Guard, and TSA. The most significant weaknesses from a financial statement audit perspective include:

- Excessive unauthorized access to key DHS financial applications;
- Application change control processes that are inappropriate, not fully defined, followed, or effective; and,
- Service continuity issues impacting DHS' ability to ensure that DHS financial data is available when needed.

Collectively, the IT control weaknesses we identified limited DHS' ability to ensure that critical financial and operational data were maintained in such a manner to ensure confidentiality, integrity, and availability. In addition, these weaknesses negatively impacted the internal controls over DHS' financial reporting and its operation, and we consider them to collectively represent a material weakness. The information technology findings were combined into one material weakness regarding IT for the fiscal year 2008 audit of the DHS consolidated financial statements.

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[1] DOT–OIG, *Significant Internal Control Weaknesses Identified in Audits of FY 1994 and 1995,* R3–CG–6–011, August 1996.

[2] *Information Technology Management Letter for the FY 2008 DHS Financial Statement Audit* (OIG–09–50, April 2009).

We recommended that the DHS Chief Information Officer (CIO), in conjunction with the DHS Chief Financial Officer (CFO) and the component CIOs and CFOs make improvements in the areas of access controls, application software development and change controls, service continuity, entity-wide security, system software, and segregation of duties.

COMPONENT IT FINANCIAL SYSTEMS

For fiscal year 2008, we issued separate IT management letter reports for FEMA, CBP, TSA, Coast Guard, and FLETC and an overall consolidated IT management letter report that summarized the IT issues for all seven components. Each management letter addressed the IT security issues at each component and provided individual component level findings and recommendations. In each of these management letters we recommended that the component CIOs and CFOs in conjunction with the DHS CIO and CFO work to address the issues noted in our reports.

Coast Guard

We reported in March 2009 that the Coast Guard took corrective action to address nearly half of its prior year IT control weaknesses.[3] However, we continued to identify IT general control weaknesses. The most significant weaknesses from a financial statement audit perspective related to the development, implementation, and tracking of financial systems coding changes, and the design and implementation of configuration management policies and procedures.

Of the 22 findings identified during fiscal year 2008 testing, 21 were repeat findings, either partially or in whole from the prior year, and one was a new IT finding. These findings represent weakness in four of the six key control areas. The areas impacted included Application Software Development and Change Controls, Access Controls, Service Continuity, and Entity-Wide Security Program Planning and Management. The majority of the findings were inherited from the lack of properly designed, detailed, and consistent guidance over financial system controls.

Specifically, the findings stem from: (1) Unverified access controls through the lack of user access privilege re-certifications, (2) entity-wide security program issues involving civilian and contractor background investigation weaknesses, (3) inadequately designed and operating change control policies and procedures, (4) patch and configuration management weaknesses within the system, and (5) the lack of updated disaster recovery plans which reflect the current environment identified through testing. These weaknesses may increase the risk that the confidentiality, integrity, and availability of system controls and Coast Guard financial data could be exploited thereby compromising the integrity of financial data used by management and reported in the DHS financial statements.

CBP

We reported in April 2009 that CBP took corrective action to address prior year IT control weaknesses.[4] For example, CBP made improvements in how it tracks the hiring, termination, and systems access of contracted employees within the Office of Information Technology (OIT). However, during fiscal year 2008, identified IT general control weaknesses continued to exist at CBP. The most significant weaknesses, from a financial statement audit perspective, related to controls over access to programs and data.

Although improvement was noted in the audit, many of the conditions identified at CBP in fiscal year 2007 have not been corrected because CBP still faces challenges related to the merging of numerous IT functions, controls, processes, and organizational resource shortages. During fiscal year 2008, CBP took steps to address these conditions. Despite these improvements, CBP needs further stress on the monitoring and enforcement of access controls. CBP needs to further emphasize the importance of developing and implementing well-documented procedures at the system and entity-level.

FEMA

FEMA took corrective action to address prior year IT control weaknesses. We reported in March 2009 that FEMA made improvements by restricting access to offline account tables, implementing an alternate processing site for one of its financial applications, and improving the process for retaining National Flood Insurance Pro-

[3] *Information Technology Management Letter for the United States Coast Guard Component of the FY 2008 DHS Financial Statement Audit* (OIG–09–47, March 2009).

[4] *Information Technology Management Letter for the FY 2008 Customs and Border Protection Financial Statement Audit* (OIG–09–59, April 2009).

gram (NFIP) change control documentation.[5] However, during fiscal year 2008, IT general control weaknesses at FEMA still existed. The most significant weaknesses from a financial statement audit perspective related to controls over access to programs and data and controls over program changes.

Of the 26 findings identified during the fiscal year 2008 testing, 15 were repeat findings, either partially or in whole from the prior year, and 11 were new findings. These findings were representative of five of the six key control areas. Specifically, the findings stem from: (1) Inadequately designed and operating access control policies and procedures relating to the granting of access to systems and supervisor recertifications of user access privileges, (2) lack of properly monitored audit logs, (3) inadequately designed and operating change control policies and procedures, (4) patch and configuration management weaknesses within the system, and (5) the lack of tested contingency plans. These weaknesses may increase the risk that the confidentiality, integrity, and availability of system controls and FEMA financial data could be exploited, thereby compromising the integrity of financial data used by management and reported in the DHS financial statements.

FLETC

We reported in April 2009 that FLETC made minimal progress on its control weaknesses.[6] Therefore, many of the prior year Findings and Recommendations (NFR) could not be closed completely due to the reliance on the impending Momentum application upgrade, the decommissioning of Procurement Desktop and the installation of new hardware that would improve the overall IT security structure at FLETC. As a result, there was one (1) prior year NFR closed, twenty (27) reissued NFRs, and three (3) new NFRs issued to FLETC.

The IT testing at FLETC disclosed matters involving the internal controls over financial reporting and its operation that we consider to be a significant deficiency under AICPA standards. Deficiencies in the design and operation of FLETC's internal controls which could adversely affect the agency's financial statements were noted. Deficiencies also existed in entity-wide security planning, access controls, application development and change control, system software, segregation of duties, and service continuity that have contributed to the significant deficiency.

TSA

In fiscal year 2008, TSA took corrective action to address prior year IT control weaknesses. We reported in April 2009 that TSA made improvements in testing disaster recovery procedures, reviewing audit logs, and implementing emergency response training for all personnel with data center access.[7] However, IT general control weaknesses that impact TSA's financial data remain. The most significant weaknesses from a financial statement audit perspective related to controls over the termination of the contract with the software support vendor, the design and implementation of configuration management policies and procedures, and the development, implementation, and tracking of coding changes to the software maintained for TSA by the Coast Guard.

Of the 15 findings identified during our fiscal year 2008 testing, 13 are repeat findings, either partially or in whole from the prior year, and two are new IT findings. These findings represent weaknesses in four of the six key control areas. Specifically, (1) unverified access controls through the lack of comprehensive user access privilege re-certifications, (2) entity-wide security program issues involving civilian and contractor background investigation weaknesses, (3) inadequately designed and operating change control policies and procedures, and (4) the lack of updated disaster recovery plans which reflect the current environment identified through testing. These weaknesses may increase the risk that the confidentiality, integrity, and availability of system controls and TSA financial data could be exploited thereby compromising the integrity of financial data used by management and reported in TSA's financial statements.

DHS IT DISASTER RECOVERY EFFORTS

Following a service disruption or a disaster, DHS must be able to recover its IT systems quickly and effectively in order to continue essential functions, including financial management support. In May 2005, we reported on deficiencies in the De-

[5] *Information Technology Management Letter for the Federal Emergency Management Agency Component of the FY 2008 DHS Financial Statement Audit* (OIG–09–48, March 2009).

[6] *Information Technology Management Letter for the Federal Law Enforcement Training Center FY 2008 Financial Statement Audit* (OIG–09–63, April 2009).

[7] *Information Technology Management Letter for the Transportation Security Administration FY 2008 Financial Statement Audit* (OIG–09–62, April 2009).

partment of Homeland Security's disaster recovery planning for information systems.[8] We recommended that the Department allocate the funds needed to implement an enterprise-wide disaster recovery program for mission critical systems, require that disaster recovery capabilities be included in the implementation of new systems, and ensure that disaster recovery-related documentation for mission critical systems be completed and conform to current Government standards.

We conducted a follow-up audit last year and reported in April 2009 that the Department has made progress in establishing an enterprise-wide disaster recovery program.[9] Specifically, the Department has allocated funds for this program since fiscal year 2005, and by August 2008 had established two new data centers. Further, the Department now includes contingency planning as part of the system authorization process and it has issued guidance to ensure that contingency planning documentation conforms to Government standards.

While the Department has strengthened its disaster recovery planning, more work is needed. For example, the two new data centers need interconnecting circuits and redundant hardware to establish an active-active processing capability.

We noted that not all critical Departmental information systems have an alternate processing site. Further, disaster recovery guidance does not conform fully to Government standards. Finally, risk assessments of the data centers are outdated.

In our fiscal year 2008 report, we recommended that the Chief Information Officer implement the necessary circuits and redundant resources at the new data centers; ensure that critical Departmental information systems have complete contingency planning documentation; and conform Departmental contingency planning guidance to Government standards. Additionally, the Department should reassess data center risks whenever significant changes to the system configuration have been made.

The fiscal year 2008 financial statement audit noted that service continuity issues continue to impact DHS' ability to ensure that DHS financial data is available when needed, including instances where the Continuity of Operations Plan (COOP) does not include an accurate listing of critical information technology systems, did not have critical data files and an alternate processing facility documented, and was not adequately tested, and various weaknesses identified in alternate processing sites. Service continuity is one of the main IT general control areas that continue to present a risk to financial systems data integrity for DHS' financial systems.

Among recommendations for service continuity for DHS' financial systems were to update the COOP to document and prioritize an accurate listing of critical IT systems, ensure that alternate processing sites are made operational, and test backups at least quarterly.

TRANSFORMATION AND SYSTEMS CONSOLIDATION (TASC)

DHS has recognized that it needs to improve its financial management processes, as well as the systems that support those processes. Toward that end, DHS is moving ahead with TASC, an enterprise-wide initiative, aimed at modernizing, transforming, and integrating the financial, acquisition, and asset management capabilities of DHS components. According to DHS, TASC is not an update of legacy systems, but an implementation of integrated financial, asset, and procurement management capabilities that will subsume many systems and standardize business processes. The resulting system, once implemented, is aimed at providing a real-time (providing immediate viewing of data), web-based system (accessed from anywhere) of integrated business processes that will be used by component financial managers, service providers, program managers, and auditors to make sound business decisions to support the DHS mission.

The goals and objectives of the TASC initiative are numerous and reflect the collective input from the components. TASC also represents an effort to leverage the work done by Office of Federal Financial Management (OFFM) and will achieve full compliance with the rigid standards outlined by OFFM. TASC will implement enhanced capabilities to achieve the following goals:

- Create end-to-end standardized integrated business processes;
- Support timely financial management;
- Enable the acquisition of best value goods and services that meet the Department's quality and timeliness requirements;
- Enable consolidated asset management across all components;
- Create a standard central accounting line.

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[8] *Disaster Recovery Planning for DHS Information Systems Needs Improvement* (OIG–05–22, May 2005).

[9] *DHS' Progress in Disaster Recovery Planning for Information Systems* (OIG–09–60, April 2009).

TASC is DHS' third attempt to address comprehensively its long-standing financial management process and system problems. The first effort, known as the Electronically Managing Enterprise resources for Government Effectiveness and Efficiency (e-Merge) project, was canceled in December 2005 after DHS had spent $24 million on what DHS officials had determined to be a failure. The second effort focused on moving DHS components to one of two financial systems platforms: SAP and Oracle. However, a Federal court ruled in *Savantage Financial Services, Inc.* vs. *United States* that DHS' decision to use Oracle and SAP financial software systems via "Brand Name Justification" document is improper sole source procurement in violation of the Competition in Contracting Act. In response to this decision, RMTO revised its financial systems consolidation strategy to the current approach.

TASC is a high-risk initiative that will take years to complete, potentially costing over $1 billion. We are presently completing a review of DHS' efforts in planning and implementing TASC, and plan to report on the results of our review in a few months.

In summary, the DHS CFO and CIO in conjunction with the component CFOs and CIOs are responsible for working together to standardize DHS' core financial systems. However, weaknesses in financial management processes and IT security controls over these systems continue to hinder the Department's ability to effectively produce accurate consolidated financial information. DHS is currently in the processes of developing and implementing a new financial system solution that will modernize, transform, and integrate financial, acquisition, and asset management information for DHS components. Once DHS addresses the current issues in financial processing and IT security controls and successfully develops and implements a new financial systems solution, the Department will be able to promote overall efficiency and effectiveness in its financial management.

Mr. Chairman, this concludes my prepared statement. Thank you for this opportunity and I welcome any questions from you or Members of the subcommittee.

Mr. CARNEY. Okay. Thank you for your testimony.

I now recognize Ms. Daly to summarize her statement for 5 minutes.

STATEMENT OF KAY L. DALY, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE ISSUES, GOVERNMENT ACCOUNTABILITY OFFICE

Ms. DALY. Mr. Chairman and Ranking Member Bilirakis, thank you very much for the opportunity to discuss the Department of Homeland Security's current effort to implement a consolidated Department-wide financial management system.

Since DHS began operations in March 2003, it has faced a daunting task of trying to bring together 22 diverse agencies and developing an integrated financial system. In June 2007 we reported that the Department had made little progress in integrating its existing financial management systems and made six recommendations focused on the need for DHS to define a Department-wide strategy and embrace discipline processes to reduce risk.

In June 2007 DHS officials announced its new financial management systems strategy, called the TASC program. In January 2009 DHS issued a request for proposal for an integrated commercial off-the-shelf software system already in use at a Federal agency. DHS is currently evaluating the proposals it has received and expects to award a contract in January 2010.

Today my testimony will focus on our preliminary observations related to DHS's implementation of the six recommendations that we made in June 2007 and two issues that have surfaced during our recent review that pose challenges to the TASC program.

Regarding the six recommendations we made in June 2007, our preliminary analysis indicates that DHS has begun to take action toward implementation of four of the recommendations, but all six

remain open. We do recognize that DHS cannot fully implement all of our recommendations until a contract is awarded because of its selected acquisition approach.

DHS has taken, but not completed, actions related to the TASC strategy and plan, a concept of operations, discipline processes, and key human capital practices and plans for such a systems implementation. DHS has not taken necessary actions on two remaining recommendations to standardize business processes across the Department and to develop detailed consolidation of migration plans.

I would like to focus on DHS's strategy. The strategy being taken by DHS does not appropriately consider whether the acquired system will provide the needed functionality. For example, the strategy does not require DHS to perform a GAAP analysis before the system is selected and to assess the extent to which cost-based systems used at another agency have been customized.

Studies have shown that when an effective GAAP analysis is not performed, program officers, and contractors have later discovered that the selected system lacked essential capabilities. Adding these capabilities later during implementation required expensive custom development and resulted in cost and schedule overruns that could have been avoided.

While updating the status of the six prior recommendations, we also identified two issues that pose unnecessary risk to the success of the TASC program. The first issue is DHS's significant reliance on contractors to define and implement the program. The Department plans to have the selected contractor prepare a number of key plans needed to carry out discipline processes and define additional business processes to be standardized and propose a migration approach.

However, DHS has not developed the necessary contractor oversight mechanism to ensure that a significant reliance on contractors for TASC does not result in an unfavorable outcome. Our work on other systems acquisition and implementation efforts has shown that placing too much reliance on contractors can result in systems efforts plagued with serious performance and management problems.

The second issue we identified was that the contractor hired to perform verification and validation functions for TASC was not independent. DHS management has agreed, and they indicated they have restructured the contract to address our concerns.

In conclusion, Mr. Chairman and the other Members of the subcommittee, 6 years after the Department was established, DHS has yet to implement the Department-wide integrated financial system. The open recommendations from our prior report continue to be vital to the success of the TASC program.

Given the approach DHS has selected, it will be paramount that DHS take steps to minimize risk associated with its strategy in contractor oversight. Failure to do so could lead to acquiring a system that does not meet cost, schedule, and performance goals.

So, Mr. Chairman and the other Members of the subcommittee, this completes my prepared statement, and I would be glad to respond to any questions you may have at this time.

[The statement of Ms. Daly follows:]

PREPARED STATEMENT OF KAY L. DALY (WITH NABAJYOTI BARKAKATI)

OCTOBER 29, 2009

FINANCIAL MANAGEMENT SYSTEMS: DHS FACES CHALLENGES TO SUCCESSFULLY CONSOLIDATE ITS EXISTING DISPARATE SYSTEMS

Mr. Chairman and Members of the subcommittee: Thank you for the opportunity to discuss the Department of Homeland Security's (DHS) current effort—the Transformation and Systems Consolidation (TASC) program—to implement a consolidated Department-wide financial management system. Since DHS began operations in March 2003, it has faced the daunting task of bringing together 22 diverse agencies and developing an integrated financial management system. DHS officials have long recognized the need to integrate their financial management systems, which are used to account for over $40 billion in annual appropriated funds. The Department's prior effort, known as the Electronically Managing Enterprise Resources for Government Effectiveness and Efficiency (eMerge2) project,[1] was expected to integrate financial management systems Department-wide and address existing financial management weaknesses. However, DHS officials terminated the eMerge2 project in December 2005, acknowledging that this project had not been successful. In June 2007, we reported[2] the Department had made little progress since December 2005 in integrating its existing financial management systems, and that, from an overall perspective, the decision to halt its eMerge2 project was prudent. We made six recommendations focused on the need for DHS to define a Department-wide strategy and embrace disciplined processes to reduce risk to acceptable levels.[3]

In June 2007, DHS officials announced its new financial management systems strategy, called the TASC program. At that time, the TASC program was described as the migration of other DHS component systems to two existing financial management systems already in use at several components. After a bid protest was filed regarding the proposed approach, the TASC request for proposal was revised to acquire an integrated commercial off-the-shelf software (COTS) system to be implemented Department-wide. In January 2009 DHS issued its TASC request for proposal for the provision of an integrated financial, acquisition, and asset management commercial off-the-shelf software (COTS) system already in use at a Federal agency to be implemented Department-wide. DHS is currently evaluating the proposals received and expects to award a contract in January 2010.

Today, our testimony will focus on our preliminary observations related to our audit of: (1) DHS' implementation of the six recommendations we made in June 2007, and (2) two issues that have surfaced that pose challenges to the TASC program. We have discussed the preliminary observations included in this testimony with DHS officials. To address these objectives, we reviewed the January 2009 request for proposal and its attachments, such as the Statement of Objectives and Solution Process Overview, to understand DHS' plans for implementing the TASC program. We also reviewed other available planning documents, such as the Acquisition Plan and the draft concept of operations, and determined the status of these plans and others to see if DHS had fully implemented our recommendations. We interviewed key officials from DHS' Office of the Chief Financial Officer and its Resource Management Transformation Office (RMTO), including its Director and Deputy Director for elaboration and to provide additional perspectives to the information contained in these documents. We also reviewed the Statement of Work for an independent verification and validation (IV&V) contractor and confirmed key information about this contract with the Director of RMTO.

We recently provided our draft report, including recommendations, on the results of our audit to the Secretary of Homeland Security for review and comment. We plan to incorporate DHS' comments as appropriate and issue our final report as a follow-up to this testimony. We conducted this performance audit from March through October 2009 in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and

[1] The eMerge2 project was expected to establish the strategic direction for migration, modernization, and integration of DHS' financial, accounting, procurement, personnel, asset management, and travel systems, processes, and policies.

[2] GAO, *Homeland Security: Departmentwide Integrated Financial Management Systems Remain a Challenge,* GAO–07–536 (Washington, DC: June 21, 2007); and GAO, *Homeland Security: Transforming Department-wide Financial Management Systems Remains a Challenge,* GAO–07–1041T (Washington, DC: June 28, 2007).

[3] The use of the term "acceptable levels" acknowledges the fact that any systems acquisition has risks and can suffer the adverse consequences associated with defects.

conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

BACKGROUND

Bid protests and related litigation have resulted in changes to DHS' approach for the TASC program and have contributed to a significant delay in awarding a contract. The initial TASC approach was to migrate its component systems to two financial management systems—Oracle Federal Financials and SAP—that were already in use by several DHS components.[4] Figure 1 shows the key events that have occurred affecting the TASC program. One of these key events was the filing of a bid protest regarding DHS' initial TASC approach to migrate its components to two financial management systems already in use. DHS subsequently issued its January 2009 TASC request for proposal for the provision of an integrated financial, acquisition, and asset management COTS system already in use at a Federal agency to be implemented Department-wide. A second bid protest was filed over this January 2009 request for proposal and the U.S. Court of Federal Claims dismissed the protestor's complaint, allowing DHS to proceed with this request for proposal. However, the protestor filed an appeal of this dismissal in July 2009. DHS responded to the July 2009 appeal in September 2009 and DHS officials indicated that the protestor responded to DHS' response in October 2009.

Figure 1: Key Events Affecting the TASC Program

2007	A	8/07	DHS issued a request for proposal for managing the migration of DHS' five different financial management software solutions to a shared system baseline (Oracle or SAP systems).
	S		
	O	10/07	DHS canceled the request for proposal because no offerors had submitted proposals.
	N	11/07	DHS issued a new, revised request for proposal with the same purpose as the 8/07 proposal.
	D		
2008	J	1/08	A financial services company, who was a potential offeror to DHS' 2007 request for proposal, filed a bid protest with the U.S. Court of Federal Claims.[a]
	F		
	M	3/08	The Court enjoined DHS from proceeding with the November 2007 request for proposal until DHS conducted a "competitive procurement," in accordance with the law.[b]
	A		
	M		
	J		
	J		
	A		
	S	9/08	DHS issued a notice concerning a new request for proposal to be issued shortly.
	O	10/08	DHS issued a draft of a new request for proposal for public comment.
	N	11/08	The original protestor filed a motion with the Court to enforce the March 2008 injunction.[c]
	D		
2009	J	1/09	DHS issued a new TASC request for proposal for provision of "an integrated financial management, asset management and acquisition management systems solution and performance of TASC support services."[d]
	F	2/09	The original protestor filed a new bid protest with the Court, alleging that DHS violated the March 2008 injunction by proceeding with the January 2009 request for proposal.
	M		
	A	4/09	The Court dismissed the bid protestor's complaint, which allowed DHS to proceed with its TASC request for proposal.
	M		
	J		
	J	7/09	The original protestor filed an appeal of the Court's April 2009 judgment.
	A		
	S	9/09	DHS' response to the July 2009 appeal.
	O	10/09	The protestor's response to DHS' September 2009 response.

Source: DHS.
[a]The offeror alleged that DHS had conducted an improper sole source procurement.

[4] Oracle Federal Financials was already in use within the U.S. Coast Guard, the Transportation Security Administration, and the Domestic Nuclear Detection Office. SAP was already in use within the U.S. Customs and Border Protection.

[3]Under 28 U.S.C. § 1491(b), the U.S. Court of Federal Claims has jurisdiction to render judgments and award relief to an interested party objecting to a request for proposal issued by federal agencies. The U.S. Court of Federal Claims issued an order enjoining DHS from proceeding with this procurement until DHS conducted a competitive procurement, in accordance with the Competition in Contracting Act (41 U.S.C. § 253), which generally requires executive agencies to procure property and services through the use of competitive procedures that allow for full and open competition.

[4]The potential offeror filed a motion with the U.S. Court of Federal Claims alleging that DHS had violated the Court's March 2008 injunction against proceeding with the original request for proposal.

[5]Unlike the first two TASC request for proposals, this request was issued to the public in anticipation of a new contract. The first two requests for proposals were issued only to awardees of existing indefinite delivery, indefinite quantity contracts with the expectation of awarding a task order under one of the existing contracts.

DHS HAS MADE LIMITED PROGRESS IN IMPLEMENTING OUR PRIOR RECOMMENDATIONS

In June 2007, we made six recommendations[5] to DHS to help the Department reduce the risks associated with acquiring and implementing a Department-wide financial management system. Our preliminary analysis indicates that DHS has begun to take actions toward the implementation of four of the recommendations, as shown in table 1. However, all six recommendations remain open. We do recognize that DHS cannot fully implement all of our recommendations until a contract is awarded because of its selected acquisition approach.

TABLE 1.—DHS' PROGRESS TOWARD ADDRESSING GAO'S RECOMMENDATIONS

Recommendation	Completed	Not Completed	
		Some Actions Taken	No Action Taken
Clearly define and document a Department-wide financial management strategy and plan to move forward with its financial management system integration efforts.		•	
Develop a comprehensive concept of operations document.		•	
Utilize and implement these specific disciplined processes to minimize project risk: (1) Requirements management, (2) testing, (3) data conversion and system interfaces, (4) risk management, (5) configuration management, (6) project management, and (7) quality assurance.		•	
Reengineer business processes and standardize them across the department, including applicable internal control.			•
Develop a detailed plan for migrating and consolidating various DHS components to an internal shared services approach if this approach is sustained.			•
Carefully consider key human capital practices as DHS moves forward with its financial management transformation efforts so that the right people with the right skills are in place at the right time.		•	

Source: GAO analysis of DHS information.

DHS Faces Significant Challenges To Implement Its Financial Management Strategy and Plan

DHS has developed certain elements for its financial management strategy and plan for moving forward with its financial system integration efforts but it faces sig-

[5]GAO–07–536.

nificant challenges in completing and implementing its strategy. DHS has defined its vision for the TASC program, which is to consolidate and integrate Department-wide mission-essential financial, acquisition, and asset management systems, by providing a seamless, real-time, web-based system to execute mission-critical end-to-end integrated business processes. DHS has also established several major program goals for TASC which include, but are not limited to:

- creating and refining end-to-end standard business processes and a standard line of accounting;
- supporting timely, complete, and accurate financial management and reporting;
- enabling DHS to acquire goods and services of the best value that ensure that the Department's mission and program goals are met; and,
- enabling consolidated asset management across all components.

DHS officials stated that this system acquisition is expected to take a COTS-based system already configured and being used at a Federal agency as a starting point for its efforts. This approach is different than other financial management system implementation efforts reviewed by GAO where an agency acquired a COTS product and then performed the actions necessary to configure the product to meet the agency's specific requirements.[6]

Our review found that the strategy being taken by DHS does not contain the elements needed to evaluate whether the acquired system will provide the needed functionality or meet users' needs. For example, it does not require DHS to: (1) Perform an analysis of the current processes to define the user requirements to be considered when evaluating the various systems, (2) perform a gap analysis[7] before the system is selected[8] and (3) assess the extent to which the COTS-based system used at another agency has been customized for the respective Federal entities. Studies have shown that when an effective gap analysis was not performed, program offices, and contractors later discovered that the selected system lacked essential capabilities. Furthermore, adding these capabilities required expensive custom development, and resulted in cost and schedule overruns that could have been avoided.[9] Without a comprehensive strategy and plan that considers these issues, DHS risks implementing a financial management system that will be unnecessarily costly to maintain.

DHS Has Recently Developed a Concept of Operations for the TASC Program

The January 2009 request for proposal states that the selected contractor will be required to provide a concept of operations for TASC. This concept of operations is expected to provide an operational view of the new system from the end users' perspective and outline the business processes as well as the functional and technical architecture for their proposed systems. On October 21, 2009, DHS provided us with a concept of operations for the TASC program that we have not had the opportunity to fully evaluate to assess whether it comprehensively describes the new system's operations and characteristics. According to DHS officials, this concept of operations document was prepared in accordance with the Institute of Electrical and Electronics Engineers (IEEE) standards.[10] However, it is unclear how the DHS-prepared concept of operations document will relate to the selected contractor's concept of operations document called for in the request for proposal.

According to the IEEE standards, a concept of operations is a user-oriented document that describes the characteristics of a proposed system from the users' viewpoint. A concept of operations document also describes the operations that must be performed, who must perform them, and where and how the operations will be carried out. The concept of operations for TASC should, among other things:

- define how DHS' day-to-day financial management operations are and will be carried out to meet mission needs;
- clarify which component and Department-wide systems are considered financial management systems;

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[6] GAO, *Business Modernization: Improvements Needed in Management of NASA's Integrated Financial Management Program,* GAO–03–507 (Washington, DC: April 30, 2003); and GAO, *DOD Business Systems Modernization: Navy ERP Adherence to Best Business Practices Critical to Avoid Past Failures,* GAO–05–858 (Washington, DC: Sept. 29, 2005).

[7] A gap analysis is an evaluation performed to identify the gaps between needs and system capabilities.

[8] Software Engineering Institute, *Rules of Thumb for the Use of COTS Products,* CMU/SEI–2002–TR–032 (Pittsburgh, PA: December 2002).

[9] U.S. Department of Defense, *Commercial Item Acquisition: Considerations and Lessons Learned* (Washington, DC: June 26, 2000).

[10] *IEEE Guide for Information Technology—System Definition—Concept of Operations (ConOps) Document,* Standard 1362–1998.

- include a transition strategy that is useful for developing an understanding of how and when changes will occur;
- develop an approach for obtaining reliable information on the costs of its financial management systems investments; and:
- link DHS' concept of operations for the TASC program to its enterprise architecture.

A completed concept of operations prior to issuance of the request for proposal would have benefited the vendors in developing their proposals so that they could identify and propose systems that more closely align with DHS' vision and specific needs.

DHS Has Not Fully Incorporated Disciplined Processes into the TASC Program

While DHS has draft risk management, project management, and configuration management plans, DHS officials told us that other key plans relating to disciplined processes generally considered to be best practices will not be completed until after the TASC contract is awarded. These other plans include the requirements management,[11] data conversion and system interfaces,[12] quality assurance, and testing plans.[13] Offerors were instructed in the latest request for proposal to describe their testing, risk management, and quality assurance approaches as well as component migration and training approaches. The approaches proposed by the selected contractor will become the basis for the preparation of these plans. While we recognize that the actual development and implementation of these plans cannot be completed until the TASC contractor and system have been selected, it will be critical for DHS to ensure that these plans are completed and effectively implemented prior to moving forward with the implementation of the new system.

Disciplined processes represent best practices in systems development and implementation efforts that have been shown to reduce the risks associated with software development and acquisition efforts to acceptable levels and are fundamental to successful system implementations. The key to having a disciplined system development effort is to have disciplined processes in multiple areas, including project planning and management, requirements management, configuration management, risk management, quality assurance, and testing. Effective processes should be implemented in each of these areas throughout the project life cycle because change is constant. Effectively implementing the disciplined processes necessary to reduce project risks to acceptable levels is hard to achieve because a project must effectively implement several best practices, and inadequate implementation of any one may significantly reduce or even eliminate the positive benefits of the others.

DHS Has Not Yet Identified All Business Processes Needing Reengineering and Standardization Across the Department

Although, DHS has identified nine end-to-end business processes[14] that will be addressed as part of the TASC program, the Department has not yet identified all of its existing business processes that will be reengineered and standardized as part of the TASC program. It is important for DHS to identify all of its business processes so that the Department can analyze the offerors' proposed systems to assess how closely each of these systems aligns with DHS' business processes. Such an analysis would position DHS to determine whether a proposed system would work well in its future environment or whether the Department should consider modifying its business processes. Without this analysis, DHS will find it challenging to assess the difficulties of implementing the selected system to meet DHS' unique needs.

For the nine processes identified, DHS has not yet begun the process of reengineering and standardizing those processes. DHS has asked offerors to describe their proposed approaches for the standardization of these nine processes to be included in the TASC system. According to an attachment to the TASC request for proposal, there will be additional unique business processes or sub-processes, be-

[11] According to the Software Engineering Institute, requirements management is a process that establishes a common understanding between the customer and the software project manager regarding the customer's business needs that will be addressed by a project. A critical part of this process is to ensure that the requirements development portion of the effort documents, at a sufficient level of detail, the problems that need to be solved and the objectives that need to be achieved.

[12] Data conversion is defined as the modification of existing data to enable it to operate with similar functional capability in a different environment.

[13] Testing is the process of executing a program with the intent of finding errors.

[14] These nine processes are Request to Procure, Procure to Pay, Acquire to Dispose, Bill to Collect, Record to Report, Budget Formulation to Execution, Grants Management, Business Intelligence Reporting, and Reimbursable Management.

yond the nine standard business processes identified, within DHS and its components that also need to be supported by the TASC system. For DHS' implementation of the TASC program, reengineering and standardizing these unique business processes and sub-processes will be critical because the Department was created from 22 agencies with disparate processes. A standardized process that addresses, for example, the procurement processes at the U.S. Coast Guard, Federal Emergency Management Agency (FEMA), and the Secret Service, as well as the other DHS components, is essential when implementing the TASC system and will be useful for training and the portability of staff.

DHS Has Not Yet Developed Plans for Migrating the New System to its DHS Components

Although DHS officials have stated that they plan to migrate the new system first to its smaller components and have recently provided a high-level potential approach it might use, DHS has not outlined a conceptual approach or plan for accomplishing this goal throughout the Department. Instead, DHS has requested that TASC offerors describe their migration approaches for each of the Department's components.

While the actual migration approach will depend on the selected system and events that occur during the TASC program implementation, critical activities include: (1) Developing specific criteria requiring component agencies to migrate to the new system rather than attempting to maintain legacy business; (2) defining and instilling new values, norms, and behaviors within component agencies that support new ways of doing work and overcoming resistance to change; (3) building consensus among customers and stakeholders on specific changes designed to better meet their needs; and (4) planning, testing, and implementing all aspects of the migration of the new system. For example, a critical part of a migration plan for the new system would describe how DHS will ensure that the data currently in legacy systems is fully prepared to be migrated to the new system.

An important element of a migration plan is the prioritizing of the conversion of the old systems to the new systems. For example, a FEMA official stated that the component has not replaced its outdated financial management system because it is waiting for the implementation of the TASC program. However, in the interim, FEMA's auditors are repeatedly reporting weaknesses in its financial systems and reporting, an important factor to be considered by DHS when preparing its migration plan. Because of the known weaknesses at DHS components, it will important for DHS to prioritize its migration of components to the new system and address known weaknesses prior to migration where possible. Absent a comprehensive migration strategy, components within DHS may seek other financial management systems to address their existing weaknesses. This could result in additional disparate financial management systems instead of the integrated financial management system that DHS needs.

DHS Has Begun Hiring, But Has Not Developed a Human Capital Plan for the TASC Program

While DHS' RMTO has begun recruiting and hiring employees and contractors to help with the TASC program, the Department has not identified the gaps in needed skills for the acquisition and implementation of the new system. DHS officials have said that the Department is unable to determine the adequate staff levels necessary for the full implementation of the TASC program because the integrated system is not yet known; however, as of May 2009, the Department had budgeted 72 full-time equivalents (FTE)[15] for fiscal year 2010. The 72 FTEs include 38 Government employees and 34 contract employees, (excluding an IV&V contractor). DHS officials told us that this level of FTEs may be sufficient for the first deployments of the new system.

According to RMTO officials, as of August 2009, RMTO had 21 full-time Federal employees with expertise in project management, financial business processes, change management, acquisition management, business intelligence, accounting services, and systems engineering. In addition, RMTO officials stated that there are seven contract workers supporting various aspects of the TASC program. RMTO also utilizes the services of the Office of the Chief Financial Officer and component staff. According to RMTO officials, some of DHS' larger components, such as Immigration and Customs Enforcement have dedicated staff to work on the TASC program.

[15] According to OMB guidance, an FTE or work year generally includes 260 compensable days or 2,080 hours. These hours include straight-time hours only and exclude overtime and holiday hours.

Many of the Department's past and current difficulties in financial management and reporting can be attributed to the original stand-up of a large, new, and complex Executive branch agency without adequate organizational expertise in financial management and accounting. Having sufficient human resources with the requisite training and experience to successfully implement a financial management system is a critical success factor for the TASC program.

PLANNED TASC IMPLEMENTATION EFFORTS POSE UNNECESSARY RISKS

While updating the status of the six prior recommendations, we identified two issues that pose unnecessary risks to the success of the TASC program. These risks are DHS' significant reliance on contractors to define and implement the new system and the lack of independence of DHS' V&V function [16] for the TASC program.

Significant Reliance Placed on Contractors to Define and Implement the TASC Program

The Department plans to have the selected contractor prepare a number of key documents including plans needed to carry out disciplined processes, define additional business processes to be standardized, and propose a migration approach. However, DHS has not developed the necessary contractor oversight mechanisms to ensure that its significant reliance on contractors for the TASC program does not result in an unfavorable outcome.

Work with other systems acquisition and implementation efforts have shown that placing too much reliance on contractors can result in systems efforts plagued with serious performance and management problems. For example, DHS' Office of Inspector General (OIG) recently reported [17] that the U.S. Customs and Border Protection (CBP) had not established adequate controls and effective oversight of contract workers responsible for providing Secure Border Initiative (SBI) program support services. Given the Department's aggressive SBI program schedule and shortages of program managers and acquisition specialists, CBP relied on contractors to fill the staffing needs and get the program underway. However, CBP had not clearly distinguished between roles and responsibilities that were appropriate for contractors and those that must be performed by Government employees. CBP also had not provided an adequate number of contracting officer's technical representatives (COTR) to oversee support services contractors' performance. As a result, according to the OIG report, contractors were performing functions that should have been performed by Government workers. According to the OIG, this heavy reliance on contractors increased the risk of CBP relinquishing its responsibilities for SBI program decisions to support contractors, while remaining responsible and accountable for program outcomes.

Verification and Validation (V&V) Review Function for the TASC Program Was Not Independent

DHS' V&V contractor was not an independent reviewer because RMTO was responsible for overseeing the contractor's work and authorizing payment of the V&V invoices. On October 21, 2009, DHS officials indicated that they have restructured the V&V contract to address our concerns by changing the reporting relationship and the organization that is responsible for managing the V&V contract. Under the previous arrangement, the V&V contractor was reporting on work of the RMTO, the program manager for the TASC program and the RMTO Director was serving as the COTR [18] for the V&V contract. As part of the COTR's responsibilities, RMTO approved the V&V contractor's invoices for payment. The independence of the V&V contractor is a key component to a reliable verification and validation function.

Use of the V&V function is a recognized best practice for large and complex system development and acquisition projects, such as the TASC program. The purpose

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[16] Institute of Electrical and Electronics Engineers Standard 1012–2004—Standard for Software Verification and Validation (June 8, 2005) states that the verification and validation processes for projects are used to determine whether: (1) The products of a given activity conform to the requirements of that activity and (2) the software satisfies its intended use and user needs. This determination may include analyzing, evaluating, reviewing, inspecting, assessing, and testing software products and processes. The verification and validation processes should assess the software in the context of the system, including the operational environment, hardware, interfacing software, operators, and users.

[17] Department of Homeland Security, Office of Inspector General, *Better Oversight Needed of Support Services Contractors in Secure Border Initiative Programs,* OIG–09–80 (Washington, DC: June 17, 2009).

[18] COTRs are responsible for monitoring the contractor's progress in fulfilling the technical requirements specified in the contract. COTRs often approve invoices submitted by contractors for payment.

of the V&V function is to provide management with objective insight into the program's processes and associated work products. For example, the V&V contractor would review system strategy documents that provide the foundation for the system development and operations. According to industry best practices, the V&V activity should be independent of the project and report directly to senior management to provide added assurance that reported results on the project's status are unbiased.[19] An effective V&V review process should provide an objective assessment to DHS management of the overall status of the project, including a discussion of any existing or potential revisions to the project with respect to cost, schedule, and performance. The V&V reports should identify to senior management the issues or weaknesses that increase the risks associated with the project or portfolio so that they can be promptly addressed. DHS management has correctly recognized the importance of such a function and advised us that they have taken prompt steps so that the V&V function is now being overseen by officials in DHS' Office of the Chief Information Officer. It is important that V&V is technically, managerially, and financially independent of the organization in charge of the system development and/or acquisition it is assessing.

In conclusion, Mr. Chairman, 6 years after the Department was established, DHS has yet to implement a Department-wide, integrated financial management system. DHS has started, but not completed implementation of the six recommendations we made in June 2007, aimed at helping the Department to reduce risk to acceptable levels, while acquiring and implementing an integrated Department-wide financial management system. The open recommendations from our prior report continue to be vital to the success of the TASC program. In addition, as DHS moves toward acquiring and implementing a Department-wide financial management system, it has selected a path whereby it is relying heavily on contractors to define and implement the TASC program. Therefore, adequate DHS oversight of key elements of the system acquisition and implementation will be critical to reducing risk. Given the approach that DHS has selected, it will be paramount that DHS develop oversight mechanisms to minimize risks associated with contractor-developed documents such as the migration plans, and plans associated with a disciplined development effort including requirements management plans, quality assurance plans, and testing plans. DHS faces a monumental challenge in consolidating and modernizing its financial management systems. Failure to minimize the risks associated with this challenge could lead to acquiring a system that does not meet cost, schedule, and performance goals.

To that end, our draft report includes specific recommendations, including a number of actions that, if effectively implemented, should mitigate the risks associated with DHS' heavy reliance on contractors for acquiring and implementing an integrated Department-wide financial management system. In addition, we also recommended that DHS designate a COTR for the IV&V contractor that is not in RMTO, but at a higher level of Departmental management, in order to achieve the independence needed for the V&V function. As discussed earlier, DHS officials advised us that they have already taken steps to address this recommendation and we look forward to DHS expeditiously addressing our other recommendations too.

Mr. Chairman, this completes our prepared statement. We would be happy to respond to any questions you or other Members of the subcommittee may have at this time.

Mr. CARNEY. Thank you, Ms. Daly.

I now recognize Ms. Sherry for 5 minutes.

STATEMENT OF PEGGY SHERRY, ACTING CHIEF FINANCIAL OFFICER, DEPARTMENT OF HOMELAND SECURITY

Ms. SHERRY. Thank you. Again, I would like to apologize again to the committee for getting my testimony in late. Thank you for your indulgence in that.

Thank you, Chairman Carney, Ranking Member Bilirakis and Members of the committee, for the opportunity to testify before you on the Department of Homeland Security's progress and plans to create One DHS by standardizing financial management.

[19] To provide this objective evidence, V&V contractors analyze, evaluate, review, inspect, assess, and test software products and processes.

The DHS mission is to lead a unified National effort to secure America. This requires a unified Department and an integrated approach across our various operations, including financial management. As you know, one of the Secretary's top priorities is to unify the Department and to create a common culture: One DHS, one enterprise, a shared vision with integrated results-based operations.

We have many initiatives under way to continue to build a One DHS culture, including our commitment to strengthening internal controls and realigning business processes for improved efficiency and effectiveness.

To this end I would like to thank the Congress for enacting the Department of Homeland Security's Financial Accountability Act. With the passage of the act, we launched an ambitious multi-year effort to improve financial management and reporting and to build assurances that internal controls are in place and working effectively.

The foundation for One DHS strategy is to bring together the varying perspectives of DHS components to build a consolidated best practice approach to financial management. As an example, DHS financial reporting working groups were established recently to uniformly address financial management and business process challenges.

Financial managers from the components work together to identify common areas of weakness, such as accounting for property, plant, and equipment or undelivered orders. Instead of components developing individual action plans to address areas of common weaknesses across the Department, they now work together to find the best solutions that can be used by all the components.

We continue to implement initiatives aimed at increasing financial management competencies. This past fall we released a DHS Financial Management Policy Manual. This on-line manual provides Department-wide guidance on budget formulation, execution, financial management, accounting, and reporting, and introduces standardization throughout DHS with a focus on strong internal controls.

We issued the third edition of the Internal Control Playbook, which outlines our strategy and processes to eliminate internal control weaknesses and to build management assurances.

To further unify DHS financial management practices, we are adopting a Department-wide standard accounting classification structure. A common accounting line will improve our ability to capture and report financial information in a consistent and timely manner across the Department.

DHS received a disclaimer of opinion in its fiscal year 2008 financial statement. However, for the third consecutive year, audit results show we continue to make steadfast progress. Auditors noted the Department's progress in implementing corrective actions and improving the quality and reliability of our reporting.

Our multi-year corrective action plan led to reducing the number of material weaknesses from 10 to seven to six in the past 3 years. We also reduced the number of disclaimer conditions from 10 to six to three in the past 3 years. Audit challenges remain, but in more focused areas.

This year we have partnered with the United States Coast Guard, Transportation Security Administration, and the Federal Emergency Management Agency to address audit disclaimer and material weaknesses conditions. As they make improvements on our financial reporting and strengthen the skills of our workforce, we continue to move forward to consolidate our financial system, bringing forward lessons learned from our previous effort.

Currently, DHS has 13 separate financial management systems. These systems support different business processes, numerous accounting lines, and have varying levels of systems integration, with many still relying on manual processes. This often results in inconsistent and inaccurate financial data.

DHS's ability to efficiently and effectively manage and oversee our day-to-day operations and programs relies heavily on our ability to have financial management systems that produce complete, reliable, timely, and consistent financial information for use by DHS managers and leaders.

Although modernization is complex, it is a critical element of instituting strong financial management as called for by the CFO Act, SFMIA, the Financial Accountability Act, and other financial management reform legislation. As we work to address our financial management challenges in increased transparency and reporting, the Transformation and Systems Consolidation, or TASC initiative, it is critical.

The Department will acquire an integrated system solution that's already operating in the Federal space. We are in the midst of the TASC acquisition and are on track to select a vendor by second quarter fiscal year 2010. This important initiative will enhance mission support and improve our ability to report financial data in a timely and accurate way.

Financial management has come a long way at DHS, and I am inspired by the extraordinary efforts of our dedicated staff at headquarters and in the components to becoming One DHS. I am committed to pursuing financial management success in the Department. As we continue our progress to building One DHS, I look forward to working with the GAO and the IG. Our relationship will be able to help us improve our efforts to build a consolidated and integrated Department.

I appreciate the support we have received from our IG, from the GAO, this committee and Congress. Thank you for your leadership and your continued support of the Department of Homeland Security.

[The statement of Ms. Sherry follows:]

PREPARED STATEMENT OF PEGGY SHERRY

OCTOBER 29, 2009

Thank you Chairman Carney, Ranking Member Bilirakis, and Members of the committee for the opportunity to testify before you on the Department of Homeland Security's (DHS) progress and plans to create One DHS by standardizing financial management.

DHS leads a unified National effort to secure America—this requires a unified Department and an integrated approach across our varying operations. The Secretary continues to prioritize unifying the Department and creating a common culture: One enterprise, a shared vision, with integrated results-based operations. In March, Secretary Napolitano launched a Department-wide efficiency review to trim costs,

streamline operations, eliminate duplication, and better manage resources across the Department. This effort includes more than two dozen initiatives that will increase efficiency, leverage economies of scale, create a culture of responsibility and fiscal discipline, and save taxpayers millions of dollars.

We have many initiatives underway to continue to build one DHS culture, including our commitment to strengthening internal controls and realigning business processes for improved efficiencies and effectiveness. To this end, I would like to thank Congress for enacting the Department of Homeland Security's Financial Accountability Act. With the passage of the act, we launched an ambitious multi-year effort to improve financial management and reporting and build assurances that internal controls are in place and working effectively. We have worked to standardize business practices as well as executed systematic plans to correct weaknesses. I look forward to continuing to work collaboratively with Congress, the Government Accountability Office, the DHS Office of the Inspector General, the Office of Management and Budget, and our independent auditor to further strengthen internal controls and improve and standardize financial management practices across the Department.

STRATEGIES FOR STANDARDIZING FINANCIAL MANAGEMENT

The financial management community is employing multiple strategies to bring together the varying perspectives of DHS components to build a consolidated best-practice approach to financial management at DHS.

As an example, DHS financial reporting working groups were established to uniformly address financial management and business process challenges. Financial managers meet regularly to identify common areas of weakness and develop strategies usable by all components. This approach allows components to share success strategies with other components struggling in the same area. We also created a "Component Requirements Guide" that contains approximately 40 standard financial reporting processes. Implementing standard processes across the components has resulted in providing ample, reliable, timely data and meeting financial statement submission deadlines.

Last fall, we published the first-ever DHS Financial Management Policy Manual, which provides a standard set of financial management policies with a focus on strong internal controls. This manual, developed with input from all DHS components, is an on-line repository of Department-wide guidance for program and budget formulation, budget execution, financial management, accounting, and financial reporting.

To further unify DHS financial management practices, we are adopting a Department-wide standard accounting classification structure. To do this, we are defining the standard fields for the DHS accounting line using the Common Governmentwide Accounting Classification (CGAC) structure issued by the Financial Systems Integration Office in cooperation with the Office of Management and Budget (OMB). A common accounting line will allow DHS to capture and report financial information in a consistent and timely manner across the Department. Staff from across DHS financial, budget, acquisition, asset management, and program management communities are working together to implement the new standard.

DHS has more than 230,000 employees, and we have more than 2,000 in the financial management community dispersed throughout the United States. In order to help bridge our geographic separation, my office hosts a training session for all new employees in the DHS financial management community. This program welcomes new employees into DHS, provides a comprehensive introduction to financial management at DHS, and trains employees on a common set of core competencies, including the responsibilities of all financial managers to support and reinforce strong internal controls and the principles of fiscal law. It also provides an opportunity for staff in different components to meet, share ideas, and form a valuable network with other financial management professionals at DHS. Over the past 2 years, we have hosted five of these events with over 450 employees attending, nearly 30 percent of whom were from outside the Washington, DC area.

STRENGTHENING INTERNAL CONTROLS TO STANDARDIZE AND IMPROVE FINANCIAL MANAGEMENT

DHS has been working diligently to correct its financial weaknesses. When DHS was first stood up, there were an estimated 100 financial management systems across the 22 components. Further, we inherited 30 significant financial reporting deficiencies, with 18 classified as material weaknesses. These conditions hampered the Department's ability to produce timely, reliable financial data in support of a clean audit. Over the last several years, however, the annual financial statement

audits have shown continued improvement toward consistent and accurate financial reporting.

We have institutionalized a strong strategy, updated annually in our Internal Control Playbook, across DHS to address the remaining weaknesses. For each financial management weakness, we: Identify the root cause(s); design strong, actionable plans to address the weakness; and then track our progress against those plans. My office leads the efforts, and I work closely with component CFOs to oversee and monitor progress throughout the year. Our independent auditors report that the Department continues to make good progress implementing corrective actions and improving the quality and reliability of our financial reporting. Consider the following accomplishments that offer validation that our strategy is working:

- DHS reduced the number of material weaknesses from 10 in fiscal year 2006, to seven in fiscal year 2007, to six in fiscal year 2008.
- The Secretary's Financial Reporting Assurance Statement has improved from a statement of no assurance in fiscal year 2005 to a statement that good internal controls are in place in fiscal year 2008. For fiscal year 2009, the Department's goal is to provide our first-ever assurance that internal controls are working, with only a few exceptions.
- The Department is on target to have five favorable opinions on audits of individual component balance sheets in fiscal year 2009, and the goal is to have isolated the adverse conditions that prevent completion of an audit area to one component which has detailed multi-year plans to remedy these conditions.

Our remaining audit challenges are now contained to a few specific areas. We continue to partner with and provide oversight of the U.S. Coast Guard, Transportation Security Administration, and Federal Emergency Management Agency to address the remaining audit disclaimer and material weakness conditions. This joint effort has produced significant improvements; for example, I expect the number of material weaknesses at FEMA to be reduced for the second consecutive year.

Key to the Department's continued progress toward good financial management is the ability of the components to produce consistent, reliable financial data. An integrated, enterprise-wide financial acquisition and asset management system will make it easier to implement and maintain stronger internal controls and to ensure consistent, accurate, and reliable financial information across DHS.

FINANCIAL SYSTEMS CONSOLIDATION

DHS is moving forward with a financial system consolidation effort. This will greatly improve the quality of and control over DHS financial data, make the financial accounting process more efficient throughout DHS, and reinforce standard business and financial management practices. Currently, DHS has 13 separate financial management systems. While we have made significant progress standardizing various aspects of financial management in DHS, the 13 systems support different business processes, numerous accounting lines, and have varying levels of system integration—with many still relying on manual processes. This often results in inconsistent and inaccurate financial data. Further, maintaining multiple systems across the Department means duplicative operations and maintenance costs, and high overhead when upgrades, support services, and system changes are necessary.

As we work to address our financial management challenges and increase transparency, consistency, and accuracy, the Transformation and System Consolidation (TASC) initiative is critical. The Department will acquire a proven, integrated system solution that meets Federally defined financial business processes requirements, as issued by the Financial Systems Integration Office in cooperation with OMB. We are in the midst of the TASC acquisition and will select a vendor by the second quarter of fiscal year 2010. We have also developed a strong program management office to provide full-time, day-to-day oversight of the integration process to help ensure success. This important initiative will enhance mission support and improve our ability to report financial data in a timely and accurate way.

LESSONS LEARNED FROM PREVIOUS EFFORTS

In September 2006, the Department ended the Electronically Managing Enterprise Resources for Government Effectiveness and Efficiency (eMerge2) systems initiative since it failed to build the necessary integration between the various commercial off-the-shelf software solutions. The effort was budgeted at $252 million but was halted after $52 million was spent on the project.

We have learned from eMerge2 and have applied those lessons to the TASC initiative. Rather than building a new system from scratch, as was the eMerge2 strategy, DHS is acquiring an existing, already integrated Federal system that follows established standard Federal financial business processes with defined key internal con-

trol requirements. Putting in place an integrated system with standard processes will allow us to produce data that is consistent and incorporates strong internal controls to ensure financial transactions are properly processed, verified, and accurately recorded. In addition, TASC will take a phased approach to implementation rather than having the entire Department go live at once.

Another key lesson learned from eMerge2 is the importance of having adequate Federal staffing and strong oversight of contractor performance. To this end, we have put in place a robust team of full-time Federal employees with expertise in project management, systems accounting, change management, acquisition management, business intelligence, accounting services, and systems engineering. We also have an on-site Independent Verification and Validation team in place to monitor and evaluate every aspect of the program as we move forward.

CONCLUSION

We have demonstrated our commitment to developing and executing strong, actionable plans that improve our financial management with strong internal controls. Consolidating our financial, asset, and acquisition systems will accelerate and sustain Department-wide progress in our efforts for efficiency, effectiveness, transparency, and accountability. As DHS undertakes its transformation and system consolidation effort, the Department's financial management infrastructure will become more stable and will significantly contribute to achieving the intended goals of the DHS Financial Accountability Act.

Financial management has come a long way at DHS. I continue to be inspired by the extraordinary efforts of our dedicated staff both at headquarters and in the components, and I am committed to pursuing financial management success. I appreciate the support that we have received from our Office of Inspector General, the GAO, this committee, and Congress. Thank you for your leadership and your continued support of the Department of Homeland Security. I would be happy to answer any questions you may have.

Mr. CARNEY. Thanks, Ms. Sherry.

I want to thank each of the witnesses for their testimony.

I remind each Member that he or she will have 5 minutes to question the panel. I now recognize myself for 5 minutes.

Ms. Daly, let us begin with you. The news we heard is not good. It seems like it might be improving, but we are 6 years down the line now, over 6 years, and we are at a place where accountability, you know, is trying to be the watchword of the day, especially accountability for taxpayers' dollars, and we are having a tough time with that at DHS.

From your opinion, you know, is the news improving? What needs to be done that hasn't been done yet? What sort of time frame are we looking at for improvement, I mean for doing things in a standardized way that we have transparency and accountability of taxpayers' dollars?

Ms. DALY. Mr. Chairman, I think DHS faces a monumental task in pulling together the information needed. I am not familiar with the time frames that they have in place, but I can assure you from our review of the TASC program that we have certain concerns with the strategy they are taking related to TASC and not doing a detailed, structured GAAP analysis of the proposed system to what they want their future business processes to be. Without taking that particular step, I think they are increasing their risk related to that program.

Mr. CARNEY. Mr. Taylor, how do you respond to that?

Mr. TAYLOR. Well, sir, we haven't completed our report on TASC itself. However, in viewing the prior attempts of the Department to try to have an integrated financial system, it included a lack of identified requirements, clear requirements. It included a lack of adequate oversight capabilities, the trained contractor specialists

we talked about, and it included, as is mentioned by the committee, the over-reliance on contractors.

If those three things still exist, then the Department is truly in a high-risk environment for being able to implement anything successfully.

Mr. CARNEY. Are we on track to fix that, Ms. Sherry?

Ms. SHERRY. Thank you, sir, and yes. I appreciate the comments from both the GAO as well as the IG and do know that the Department is absolutely committed to working with you and to making sure that the recommendations are fully implemented.

I do believe that we are on track, sir, to be able to address some of these recommendations. I look forward to working with them as they further develop their report.

We did learn quite a bit from the initial eMerge effort. The initial eMerge initiative basically failed on the idea that we were developing the system. What we were doing was gathering thousands and thousands of requirements, and ultimately the submission failed on its inability to be able to integrate everything.

That is not the strategy the Department is implementing currently. Instead, what we are doing is we are acquiring a solution that is——

Mr. CARNEY. No, I think it was unplugged. She is doing something down front here.

Thank you.

Mr. Taylor, the Department decided that it was going to use a commercial off-the-shelf, or COTS, system to do this. Is that a good idea?

Mr. TAYLOR. That is usually required by OMB. I have been involved with this in the past, and when you do your own development, you add a level of risk that most agencies are going to find unacceptable.

Mr. CARNEY. So that was not a good idea, then.

Mr. TAYLOR. To use COTS is a good idea.

Mr. CARNEY. Yes, it is.

Mr. TAYLOR. It is. I am sorry, sir. Yes, it is. To do your own development, to do a custom software development is a bad idea, because then you are introducing a higher level of risk. The COTS has been tested in the Federal environment, and there are a number of vendors out there who can provide it and that there was success, and there is usually an implementation you can look at and learn from in terms of best practice.

Mr. CARNEY. Okay. Well, kind of along those lines, what agencies use integrated systems that can serve as a model for the Department's efforts? I mean, you know, we got a big Government out there. There are probably some cases we could have that we could point to which are the best.

Mr. TAYLOR. Sure, absolutely. Yes, sir. Most agencies have been through the kind of agony, I guess, that the Department of Homeland Security is going through now.

In my experience at the Department of Commerce, we went through this between 1997 and 2003, implementing from a decentralized approach to a centralized system. The Department of Transportation has been through the same thing. I believe Agriculture has been through it. There are a number of agencies that

have gone through this that had, and there are a number of best practices.

There also are vendors out there in the Federal sphere or other departments and agencies who provide these services, so instead of having to do your own implementation, you can purchase the support from those organizations instead of having to do this for yourself.

Mr. CARNEY. Okay. I think we have a problem with the timers here. I imagine my time is about up. I will recognize the Ranking Member from Florida, Mr. Bilirakis, for 5 minutes, and I guess I will be the official timekeeper here with my 12-year-old Swiss Army watch.

Mr. BILIRAKIS. I won't take the 5 minutes.

Mr. CARNEY. There you go.

Mr. BILIRAKIS. Ms. Sherry, much was said about the importance of leadership from the top to the success of the financial consolidation efforts. Have the Secretary and deputy secretary been briefed on TASC, the TASC initiative? Are they supportive of the current plan?

Ms. SHERRY. Yes, sir, thank you very much. Yes, we have had the opportunity. I have had the opportunity to brief the Secretary and the deputy secretary on not just the TASC initiative, but also on the state of financial management at DHS. They understand the criticality of having of having a system solution in order to be able to move the Department forward.

Mr. BILIRAKIS. So they are supportive.

Ms. SHERRY. It is in line and in keeping with the One DHS initiative that is so important to the Secretary.

Mr. BILIRAKIS. Okay. What impact has the lack of a permanent under secretary for management and a permanent CFO had on the Department's ability to implement TASC?

Ms. SHERRY. Other than just making me really busy, it really has not had much of an impact, sir. The under secretary for management has been very engaged, and I think, as you may or may not be aware, we actually have a deputy under secretary for management as well, so they have been very engaged as well as very supportive with us.

When I go back to my full-time job, or my regular job—I am the deputy CFO also—and this is clearly a very important initiative, and one that I will be primarily responsible for sure, sir.

Mr. BILIRAKIS. Okay. How, if at all, has the Department's financial management oversight and consolidation efforts changed under the new administration?

Ms. SHERRY. I don't really think that we have had a chance, sir. I think that management—you know, having strong management with the Secretary having been a former Governor, I think that she is a very strong executive leader, and I think that she really understands and completely supports either the objectives and goals of my offices, you know, to continue to standardize processes throughout the Department and to really make financial management, good financial management, just basic, you know, part of every day, you know, what it is that we do, rather than something that we have to continually come up and, you know, explain the reason why we are not doing very well. She is very supportive of it.

Mr. BILIRAKIS. Can you explain why TASC will cost so much more than eMerge2?

Ms. SHERRY. I am sorry, sir. Can—why TASC would cost——

Mr. BILIRAKIS. Why it would cost so much more than eMerge2?

Ms. SHERRY. I can't really speak to the total cost of what eMerge2 was, sir. I know that the Department had spent about $52 million before they actually stopped the initiative, so I can take that for the record and possibly get back to you on that.

Mr. BILIRAKIS. What controls do you have in place to make sure the contract doesn't—there are no overruns?

Ms. SHERRY. There are several things that we have got in place currently, and I completely agree with both the GAO as well as the IG to be able to say strong contractor oversight is paramount. It will be paramount to the success of this initiative, and I do believe that that may have been one of the failings also of eMerge was the inability of the Department to necessarily be able to, you know, make sure I have that oversight over the contractors.

My office in particular has been staffing up very heavily to have a very strong project management office. We have worked with the other large acquisition efforts within the Department to be able to really have lessons learned from them, to find out how we should structure our PMO office.

We talked a little bit about some of the other departments that have initiatives under way. We have done heavy outreach with them to find out exactly what they—not only what the lessons learned from the standpoint of what they have done well, but also in particular what they haven't done well, so that we can try to avoid those mistakes as well.

The other thing that we have within the Department which is different, I think, than when the eMerge2 initiative was begun, is a stronger oversight throughout DHS for large acquisition projects.

We have the Management Directive 102, which really governs the acquisition review process, where you have discipline processes, including a—a con ops, as Ms. Daly referred to.

You have required documents that, you know, that the project must be able to have completed, get reviewed, and to have been accepted through the different keys throughout the Department, as well as through the deputy secretary and in the acquisition community within DHS, as well as having a systems engineering lifecycle documentation and process that was really intended to review the acquisition at every step of the process.

So in other words, and before you are able to go to a next particular gate, you have to go before the deputy secretary and all the people that I just mentioned and to be able to demonstrate why you are ready to do that.

Mr. BILIRAKIS. Okay. Thank you very much.

I hope I was under 5 minutes, Mr. Chairman.

Mr. CARNEY. Exactly 5 minutes, according to my watch.

The Chairman now recognizes my good friend from New Jersey, Mr. Pascrell, for 5 minutes.

Mr. PASCRELL. Mr. Chairman, let me start by saying this, that if we do not address the bureaucratic questions at Homeland Security by the next go-round, I want to commit to you, Mr. Chairman, that I will not vote for one dime for the Department. I want to

make it very clear right now, and I want to agree with your opening remarks about we have heard a lot of this before. It is kind of redundant. We need a re-do here.

I don't think we need so much financial consolidation as consolidation with a capital C. This is a bureaucracy that has become cumbersome.

I am sorry, Mr. Taylor, we cannot make comparison to other departments, because this Department that we are talking about today has the responsibility, as you better than I know, to secure the homeland. This is a different—you are comparing apples and oranges, and I really want us to focus in on the very nature and uniqueness of this Department.

The demands that we place on Homeland Security are unproductive. I can remember Secretary Chertoff sitting out there, telling us, enumerating how many committees his folks have to answer questions for. It is ridiculous. We haven't changed anything about that. We are wasting your time most of the time, when we fail to see our main objective in securing the homeland.

How many committees do you have to answer to, Mr. Taylor? You are still counting, I am sure.

Mr. TAYLOR. Yes, sir, we are counting on our fingers and toes right now. Ninety-one.

Mr. PASCRELL. Ninety-one committees. Now, 91 committees. Your request for the budget was $55 billion—correct me if I am wrong—$55-plus billion.

Mr. TAYLOR. I will defer to Ms. Sherry on that.

Mr. PASCRELL. Is that correct?

Ms. SHERRY. Yes, sir. The net number is $42.8 billion.

Mr. PASCRELL. Yes, we have a very serious problem here. This is not going to go away with one committee hearing, but I want to commend you for zeroing in on it and not accepting. We don't even know the percentage of procurements in the last administration—how many were bid. We don't even know that.

So, Mr. Chairman, I want to thank you for calling the hearing. I really hope that people understand the importance of this topic. Clearly, if we get a hearing on terror threats or vulnerabilities to attack, we would probably get more attention from the media in public and the public.

But I want to be clear when I say this. One of the greatest threats to the Nation's security is the bureaucracy itself. We are fighting an enemy that is not State-based. They don't have a large bureaucratic infrastructure of multi-layered control. Their greatest asset is the ability to operate in relative silence and to change direction quickly in order to attack our vulnerabilities. A bloated Homeland Security bureaucracy is one, I believe, of our biggest vulnerabilities.

After the attacks of September 11, 2001, Members of the Congress from both sides of the aisle pushed the Bush administration to create this Department. I certainly think that was the right decision, but if all we have done is to throw over 100 Federal entities together and call it a day, well, then I believe we have made our Nation less safe and not more safe.

The whole point of creating a Department of Homeland Security was not only to increase coordination, which I think we may be get-

ting better at, but also to streamline the process by which a threat reported in the field can quickly and effectively get to higher command to take action. This is what they should be all about.

I am not convinced that we have cut down on these layers from top to bottom. I am not convinced at all. Few things make this point more clear than the fact that 6½ years after its creation, the Department of Homeland Security has yet to implement a Department-wide integrated financial management system—6½ years later.

If we can't even keep track of all the billions of dollars in taxpayers' funds, then how can we find the excess, how can we find the ways, how can we possibly get rid of the bloat in the democracy? How can we defend the republic?

I have a couple of more questions. I will come back after—my time is up?

Mr. CARNEY. Very good. I don't want this to turn into a colloquy, but I think Mr. Pascrell is exactly right. If this was about a specific threat to the homeland, CNN would be here, and we would have a lot more coverage. But this is actually what Government does. This is the nuts and bolts stuff that no one pays attention to, but is absolutely as important to protecting the homeland as anything else that we do, so we can't underestimate the importance of getting this right.

So, you know, we have often heard that when in the private sector you would take organizations of the size that comprise now DHS and put them together, it would be a 5- to 7-year transition to get them into one sort of unit. We are at the 6½-year mark now, and we sure see the seams and the fissures that exist.

We got to do better, and we got to it thoughtfully, but holy cow, folks, you know, this is getting to a point where we need to start asking the tough questions about are we secure, more secure, than we have been? I think we probably are, but we have got to solidify. We have got to have the foundations in place.

So to that end, you know, hearings like this occur and questions like these are asked. You know, folks like Mr. Bilirakis and Mr. Pascrell and I come and, you know, we want to make it better for everyone.

Ms. Sherry, according to the GAO's most recent audit, the Department has taken very limited action toward implementation of four of its recommendations and since, you know, they made those recommendations in June 2007, about a year-and-a-half ago, it has taken no action on the remaining two. Can you tell me why?

Ms. SHERRY. Yes, sir. Part of the reason is because we have not selected a solution. What the Department has done is we have taken to heart all of the recommendations and have implemented those that we can, sir, and we will continue to work with the GAO as well as the IG to make sure that we fully implement all of the recommendations at the time that we have selected the actual solution.

So, for instance, one of the recommendations was to develop a con ops, a concept of operations, and we have done that. It is in accordance with the IEEE standard within, you know, the recognized standards, and what we will do is it is based on all the information that we know currently without actually knowing the ac-

tual solution. What we will do is we will work to update all of them once we have actually awarded the contract.

Mr. CARNEY. Once again, can I ask a time frame question?

Ms. SHERRY. Absolutely, sir. We are on target currently to be able to award the contract in second quarter of 2010.

Mr. CARNEY. Second quarter of 2010.

Ms. SHERRY. Yes, sir.

Mr. CARNEY. Okay. So we will certainly see you back here roughly in that time frame and——

Ms. SHERRY. I look forward to it.

Mr. CARNEY [continuing]. Get more accountability there.

Mr. Bilirakis, any questions?

Mr. BILIRAKIS. Thank you, Mr. Chairman.

Ms. Daly, your written testimony expresses concern about the Department's reliance—I know you touched on this—on contractors for the implementation of TASC and notes that the Department has not developed necessary contract oversight mechanisms. I would have hoped that the Department would have learned from its problems with SBI.

My question is what actions would you recommend that the Department take to enhance contract oversight?

Ms. DALY. I think the Department could take a number of steps that are based in what the Software Engineering Institute has recommended for these types of software implementations. There are a number of tasks that they have planned to do in the future, but that have not been formalized yet. A lot of these are very important. I think what we have seen at other agencies is that if these steps are not taken, what can happen is the cost and schedule overruns that none of us want to occur.

One of the key examples I can give you are things such as having a good testing plan in place. What you often see on a system that gets rolled out is that the people that are for the Government are relying on the contractors to develop a good testing plan, and the Government officials need to understand what are the right testing steps to take so that a good comprehensive test is done that identifies all the defects so those defects can be addressed before they are ruled out. Those are the types of mechanisms we think would be important for the Department to have in place.

Mr. BILIRAKIS. Can you comment on that, Ms. Sherry?

Ms. SHERRY. Yes, sir. Thank you. We are in complete agreement with that. I think that we have learned quite a bit since the eMerge initiative, and we are in complete agreement that we really do need to have strong contractor oversight.

You know, referring to some of the systems engineering lifecycle steps, we are absolutely going to make sure that we incorporate all of them. We will be working with the contractor on the testing plans. We are not going to hand over simply to the contractor to be able to do the work for us.

It is somewhat different than the SBInet initiative. Again, absolutely we have learned from the things that we did not do right in that initiative. But this is not a development effort, you know, that what the Department is doing is we are acquiring an already integrated, proven system that is working currently in the Federal

space, you know. So we will know a lot about the system, and we will not actually be developing the system.

But we are absolutely committed to being able to use all of those discipline processes, such as making sure that you have a strong testing plan, working with our science and technology group that has lots of expertise in this particular area, and also as we come before our acquisition review board, having to prove to them before we are able to go on to next step that we in fact do have solid test plans.

Mr. BILIRAKIS. Thank you.

Mr. Taylor, the inspector general has done considerable work in the area of Department financial management. In your opinion does the Department have sufficient personnel in both the financial offices and the procurement offices to provide sufficient oversight over the systems migration in the contract without any over reliance on contractors? That is my question.

Mr. TAYLOR. Without speaking directly to TASC, because we are working on that right now, based on the work we have done previously, we have a lot of concern about that, concerns because the component organizations have skills deficiencies in both procurement as well as financial management. So to layer a very comprehensive integration effort on top of that would be posing even more risk. So we are very concerned about that, sir.

Mr. BILIRAKIS. Thank you very much. Appreciate it.

I yield back, Mr. Chairman.

Mr. CARNEY. Thank you.

The Chair now recognizes Mr. Green for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman. I thank you for—and you, the Ranking Member, as well—for hosting this important meeting.

I am honored to have an opportunity to speak to the witnesses, and I thank you for being here today.

My concerns probably have been addressed, and I apologize, because we have a Financial Services hearing that is taking place, and we have Mr. Geithner, and we have a host of others, and we are obviously having to deal with some of the great issues of our time. But this does not in any way excuse me from the issues that we have to contend with at Homeland Security. They, too, are among the great issues of our time.

I am concerned about the means by which we can do some of the small things. For example, we had the TWIC card issued, but we did not have a card reader. It seems to me that that was something that did not necessitate a real study to know that if you are going to have the card and the reader, it would probably be prudent—judicious, if you will—to have both the card and the reader presented, make a debut, be put to use at the same time.

Last time I checked, we still didn't have a reader that would work with the cards and we are still exploring the possibility of acquiring a reader for cards that we have issued.

I remember when we had the former Secretary here, whom I do not in any way intend to demean, but I do remember commitments being made about the cards and the readers, and we never actually got that done. So little things like that leave an indelible memory such that it becomes difficult to get a grip on how we can do some of these very complicated things if we don't do these little things.

So let me ask, for fear that I may have missed something, have we deployed the reader for the TWIC cards?

Ms. SHERRY. I can find out for you, sir. I apologize. I don't know that right off the top of my head. I will find out and get back to you.

Mr. GREEN. Does the representative from GAO know?

Ms. DALY. Congressman Green, I am sorry. I am not aware of the status of that.

Mr. GREEN. Okay. All right. That is one example.

Let us move to another one: P28. I had the good fortune to be here while we had much said about P28. Most of what was said by way of witnesses was good in the sense that P28 was supposed to provide us with a model, a prototype that was to at some point be replicated such that we would have this system that allowed us to have a merging of various security devices as well as something as simple as a fence such that we would be able to monitor our border effectively.

The P28 didn't quite work out at build after we were billed a lot of money. We spent a lot on P28, and it is a little bit disappointing for us not to get the product that we paid for. Taxpayers are demanding people, and when we spend their money, they would like to see the results that are promised.

I am not going to ask you to give me an update on P28. I am merely mentioning these things such that I can provide you examples of how we clearly can do better with better management, better oversight.

It is my hope—excuse me—it is my hope, my sincere desire that we find a means by which we can have GAO, which plays an important role in this process—GAO provide us with some of the acid tests that we ultimately will have to confront at the genesis of these operations, as opposed to what appears, from my perch, to be an understanding that manifests itself after we get into revelations.

Revelation is a bad time to know what is expected of you. You ought to know what is expected of you somewhere at genesis or shortly thereafter, so that you can perform and maybe you will get some sort of heavenly blessing as a result of good performance.

Unfortunately, we don't get, it seems to me, the marriage between what GAO is going to monitor and what the contractors are going to do by way of performance. We don't get that early enough in the process. So my hope is that we will get that done.

Mr. Chairman, I am 17 seconds over. I thank you, and I yield back the balance of my time.

Mr. CARNEY. Thank you, Mr. Green.

Mr. Pascrell, for 5 minutes.

Mr. PASCRELL. Thank you, Mr. Chairman.

Most of the bipartisan 9/11 Commission recommendations have been addressed sooner or later in the past couple of years except for one glaring oversight. That is what we are talking about today: The bureaucracy in Homeland Security has not been addressed.

I would suggest, Mr. Chairman, that the leadership of both parties must be confronted on this particular issue. I just gave one example before about how many committees they have to come before and how many divisions and the total lack of coordination, which

does not help our intelligence apparatus one iota. So I think they need to be confronted.

Ms. Sherry, I know in your testimony you talked about Secretary Napolitano's efforts towards efficiency and effective financial management. Can you talk specifically towards my point and address how the new initiatives towards financial management will lend themselves to streamlining operations in the Department of Homeland Security?

Ms. SHERRY. Yes, sir. Thanks for the question. I am happy to address that. This initiative really does speak to the One DHS issues that I think that you are addressing as far as the bureaucracy. I think that we recognize that that is something of an issue that can potentially hold us back from operating efficiently and effectively. That is something, clearly, that Secretary Napolitano is aware of.

Several of the things that we are going to be able to do in this IT initiative that are outside of the actual financial management initiatives that we have going on that I have mentioned, such as the Financial Management Policy Manual, you know, us having working groups where we are trying to come up with collective solutions to common problems, some of the things that this IT solution will do in addition to that will be to standardize business processes throughout DHS.

There are requirements. There are FSIO standards, what are called FSIO standards, which is done by OMB and the GSA with input from the various agencies that basically talk about best practices on how you do standard business processes throughout the Government.

One of the objectives of the FMLoB initiative of the OMB is to be able to make more standardization in some of those processes that you can standardize that the Government, such as paying a bill. The idea that you are going to be paying a bill—you really shouldn't be doing it in a bunch of different ways.

What we currently have at DHS are, you know, the different components who pay bills differently, and the reason they have to do that is because they maybe have different types of systems. Some of them have legacy issues that come along with them.

They have different integration so that in one instance you have full integration, so once you put in a procurement or you put in an award contract, it neatly populates your financial system. In other components we don't have that. Well, you know, what you do is you actually put something into the procurement system and then you rely on a manual transfer over into your financial system.

So the idea that we can have the integration, which will really bring about more of that One DHS and the standardization of the processes, and what comes along with that are internal controls, the idea that you should have strong key internal controls as outlined in FSIO and as has been validated through our A123 process, which is the Federal Government's equivalent to, like, Sarbanes-Oxley, where we go out there, where management goes out there and we identify how are we doing business currently, such as paying a bill and identifying within each component what should we be doing differently, such as having segregation of duties and, you know, so that the person who puts in the contract and approves the

contract is not the same person who actually ends up paying the bill, so that we can minimize the risk of fraud.

So things of that nature, sir, and IT solution in addition to these other initiatives that we have on-going will help bring about standardization at the Department.

Mr. PASCRELL. Thank you.

Mr. Taylor, the GAO has had the management study of Homeland Security, made recommendations. A couple of them have not been done. We know, and I think you would agree with me, that we are not talking about bureaucracy in the Transportation Department. We are talking about bureaucracy in defending the country, which is a heck of a lot more serious, it would seem to me.

Let me ask you this. Is this Department manageable?

Mr. TAYLOR. Sir, I believe it is.

Mr. PASCRELL. You believe it is.

Mr. TAYLOR. That is my personal opinion. I don't have a report to show you from the IG's office that that concludes this is a manageable office. We have done work on the organization of the Department, particularly before the second stage review that was conducted 3 years ago. We concluded there were inefficiencies, some of which were addressed in the second stage review. We think the Congress addressed some of the concerns when they mandated a reorganization of FEMA and the grants program within the Department.

Is the Department perfectly constructed in terms of inefficiencies? Absolutely not. But there has been progress since 6½ years ago towards making it more manageable.

Mr. PASCRELL. So at this point you would say, and what you have seen and what you have done and what your GAO has concluded, that the Department itself could be organized differently, perhaps, which is a problem with results that we have gotten. Or would you say that?

Like, you know, George Kennan used to talk about democracy in that sense. It was like a huge dinosaur that needed its tail whacked once in a while. I think of dinosaurs when I think of the Homeland Security Department, having been in this effort since 9/12.

This is in my bone marrow. This is important to protecting our neighborhoods. I am not sure that we have created the right Erector set. I am not so sure. So I am listening and reading what you have to put out every time you do it.

Thank you, Mr. Chairman.

Mr. CARNEY. Thank you, Mr. Pascrell.

Let us for a moment talk about kind of specific numbers, as long as we have the opportunity here.

Ms. Sherry, how much do you think it is going to cost to actually implement TASC?

Ms. SHERRY. Sir, the independent Government cost estimate is at $450 million.

Mr. CARNEY. Okay.

Ms. Daly, would you care to comment on that?

Ms. DALY. Our work has not examined the dollars that are associated with this effort yet, but we plan to look into that more in our future work for the committee.

Mr. CARNEY. Mr. Taylor.

Mr. TAYLOR. In my testimony, sir, I mentioned $1 billion. That was the figure that was provided in testimony 3 weeks ago by the under secretary for management. I think that includes—being from the CFO side originally, it depends on how you measure things. You know, is it the core financial system we are talking about? Is it everything, including all the components efforts?

Depending on how you measure this, the under secretary for management saying it is a billion-dollar effort, so we are assuming it is a billion-dollar effort.

Mr. CARNEY. So more than twice what Ms. Sherry thinks the price is.

Mr. TAYLOR. Depending on how you measure it, yes, sir.

Mr. CARNEY. So are you telling me we can't even come up with a consistent definition or consistent measures of what we are trying to accomplish here?

Mr. TAYLOR. I contend that the IG's office has not been provided with an estimate and the definition of what that estimate includes.

Mr. CARNEY. Can the IG's office tell me who is in charge of defining what it is we are trying to do here?

Mr. TAYLOR. Our understanding is it is CFO.

Mr. CARNEY. Ms. Sherry, so we are somewhere between $450 million and $1 billion to implement that. You know, from my chair and from practically everybody in this room, how do you get a delta that large?

Ms. SHERRY. Right, sir. What I can do is I can go back see what the $1 billion is referring to, but I think Mr. Taylor is exactly right as far as the question that I answered, and possibly I didn't answer the question correctly, was the independent Government cost estimate as it relates to migration and operation and maintenance, which is really within the purview of this particular contract.

Things such as the hardware and the software are not included in that number. In addition, we have developed a life cycle cost estimate. Again, we are standing up the data center. It will be done in our data center down in Stennis so that the costs that are associated with that data center is not included in this number as well.

We do have a life cycle cost estimate that we are working on and we are going to be sharing with Ms. Daly as well as Mr. Taylor, which I believe—and again, without knowing what was in the billion, and I promise I will go back and look at that, I would imagine would include some of the things that Mr. Taylor talked about, which are not in the $450 million that I referred to, sir.

Mr. CARNEY. Okay. So the $450 million does not include the hardware, the software, the data center or the lifecycle costs.

Ms. SHERRY. It includes the implementation, and it includes operation and maintenance for the implemented solution.

Mr. PASCRELL. [Inaudible.]

Mr. CARNEY. Boy.

Mr. Taylor, is $450 million a reasonable price for what we are getting?

Mr. TAYLOR. Well, sir, I am not sure. I am still not sure what that includes, and so we would have to look at what exactly is included in that cost estimate, which, of course, we haven't had a chance to review.

I will say that what you are experiencing is the problem with these kinds of initiatives.

Mr. CARNEY. Yes.

Mr. TAYLOR. What happens is that the core financial system itself is just a small part of the activity and a part of the cost.

When Mr. Bilirakis asked me about the financial management and the components, do they have the kind of resources necessary to carry this out, we are concerned because in my personal experience the vast majority of the effort isn't in hooking up a new box with new software.

The vast majority of the effort is involved in changing the business processes at the feeder level, at the component level, so that the information coming in makes sense, not so that you are just having a really fancy way of computing bad data.

That is where the costs are. So any estimate of cost needs to include all those kinds of activities and the plan has to account for the weaknesses that we have identified in our financial statement audits in the component organizations where this is going to fall on.

Mr. CARNEY. So just kind of a back of the envelope figuring here, it may be more than $1 billion in this transition. But once again, we don't know, because we can't define what it is we are trying to do.

Ms. SHERRY. But I mean we can define what it is that we are trying to do, and I would absolutely agree with Mr. Taylor that the change of management piece of it is critical and having that governance structure in place is critical.

So these are things that are outside of that $450 million that I am talking about, because this is stuff that the Federal workforce will be responsible for ensuring that we do stay on track so that when we are doing the migrations, when we are doing the analysis to be able to determine what are our requirements, and we do know what our requirements are relative to what the solution is, that we make sure that we have got strong oversight of that.

We have stood up a program management office in my office. It has all the different disciplines in it that are required, such as change management. You know, we have CPAs, we have project managers, we have systems engineers, we have data warehouse specialists, business intelligence specialists. So we have got those. You know, we have staffed up to be able to have those people within my office.

We are working with the larger components to set up their own project management offices. To the idea, to the competencies, it will be critical for them to be able to have, you know, their ability to be able to understand what it is that the contractor is bringing in and to be able to have that oversight and to be able to guide the actual implementation.

Mr. CARNEY. Ms. Sherry, you have signed up for an exceptionally difficult job, and I applaud your courage for doing that. We need people of goodwill and brains to take on this kind of thing, and I really applaud you for that.

That said, this subcommittee is going to watch very closely where we are in the cost for TASC. That is our task to watch the cost of TASC, to put it indelicately here. We will come back to this.

Mr. Bilirakis.

Mr. BILIRAKIS. Thank you, Mr. Chairman.

Ms. Sherry, the TASC award, which you have plans to be awarded in early 2010, is for an indefinite delivery indefinite quantity contract. Did you consider using a firm fixed-price contract, which would limit the risk to the Department in the event of cost overruns? If so, why would you ultimately decide on the IDIQ?

Ms. SHERRY. Yes, sir. Thank you very much for the question. I appreciate the opportunity to add one other point, which I think I have not talked about, and I believe that your question here kind of leads into the idea that the Department is absolutely undertaking a phased approach here.

So what we are not doing, what they had done initially with the eMerge, where they tried to bring up the entire Department all at once with all these, you know, 8,000-plus requirements that they had gathered, we are doing this in a very phased approach. So with this IDIQ contract, we will allow us to be able to do that, sir, is to be able to issue specific task orders so that we can do this within phased approach.

We have done an awful lot of outreach to other agencies to, like I said, to learn the things that they have done well, but also things that they wish that they could have changed.

One of the things that we heard is that if you go right out of the box with a firm fixed-priced contract, there is a high likelihood, sir, that as they get in there and they start really understanding it and doing that analysis between what is it that you want versus what is it that the solution has and the things that you need to change, that basically you end up with a lot of the items that are simply out of scope.

So what you thought that you were getting with your firm fixed price, ultimately you end up just getting an awful lot of out of scope issues.

The way that this contract is structured allows us to be able to work with the contractor in phased approach starting with maybe one of the smaller entities, and we learn. Not only does the contractor learn, but the agency learns.

My PMO will be with them every step of the way, and what we would do is we will learn. As we build on our knowledge and our learning curve and our competencies, it will move us, sir, into the ability to be able to do a firm fixed-price contract. So that is within the realm of our ability to be able to issue a firm fixed-price task order as well, sir.

Mr. BILIRAKIS. Customs and Border Protection has been doing well on its current platform. Are you concerned that moving them onto the new TASC system will impact their performance?

Mr. TAYLOR. I think the CBP has clean audit opinions and has probably one of the better installations in DHS in terms of financial systems. However, they aren't without their own issues. Moving even a large organization like them in a phased approach to a centralized system would probably still in the long run be in the best interest of that organization.

That said, depending on how you plan this, how you carry it out, there are a lot of risks involved in it, absolutely.

Mr. BILIRAKIS. Also, in your written testimony you note a number of IT control weaknesses at the component level. How many of these weaknesses will be resolved by the migration to TASC?

Mr. TAYLOR. I think it is premature to answer the question, sir, to be honest. I mean because some of the findings are redundant, by definition if you have three organizations with the same three material weaknesses, then you only have the consolidated three, so you drop it from that standpoint.

But what we do is we take the component material weaknesses and roll them up into a consolidated, so assuming that the system had the proper internal controls and that the internal processing, the way that they are identified and the way planned, then they would reduce a lot of the material weakness findings we had.

Mr. BILIRAKIS. Anyone else want to comment on that?

Okay. Thank you very much.

I yield back, Mr. Chairman.

Mr. CARNEY. Thank you, Mr. Bilirakis.

We have time for a few more questions.

Mr. Pascrell, 5 minutes.

Mr. PASCRELL. Mr. Chairman, I hope you will follow up on the two points that we need an immediate reduction of how many committees these folks have to report to—I just think it doesn't make any sense—that point, with leadership. We need to do what we have been talking about, you know, around the edge about it.

The other thing is that bureaucracy within the Department itself. We need to do something about it. To establish, maybe even take another look at how our committee system sets up within the Homeland Security Committee's subcommittees, whether we are feeding the bureaucracy.

We started out by wanting to look into the various financial management systems throughout Homeland Security. You need people in the Department that are hired within the Department, have a lot to do about implementing the mission, and your background before you come to the Department.

This is unlike HHS and Transportation and Labor and all of those different departments, because we are talking about a paramilitary. We are talking about the security of the Nation. The people we attract to the Department are going to implement these financial mechanisms and systems, but it would seem to me that we should spent a lot more time attracting people who have background in security, be it in the police, be it in the military, because this is the kind of operation that we need to defend the country.

We are going to debate numbers. We are going to debate words, which are most of the time meaningless unless we have results. How can we best defend the homeland? It would mean to me that the people we hire in the Department should have some background, some knowledge of how military or civilian police operate.

I hope you would take that message back to the Secretary, because I have not had any indication so far in the last 6 months that that is at the centerpiece of the people we are attracting into the Department.

When I hear all of this stuff, Mr. Chairman, about quotas and make sure everybody is represented in the Department—and I put my record up against anybody—but if they don't know anything

about security, how in God's name can they be part of this Department?

I would like to know who they are hiring, which is just as significant to me as the different financial mechanisms in all of these subdivisions of this Department. I don't want to minimize, but I want to prioritize. To me the priority is who is operating.

So I want to thank these three folks for your service to your country. You did a great job of answering the questions, all of you.

I think dearly of GAO. I really do. You have made a big difference in the Congress and how we look at things.

I hope Ms. Daly and Ms. Sherry take back to the Secretary, who I have a great respect for, but we are not playing tiddlywinks here. We are not playing in the sandbox. This is serious stuff. I know it is serious for you. It is serious for us. Thank you.

Thank you, Mr. Chairman.

Mr. CARNEY. Thank you, Mr. Pascrell.

We will adjourn momentarily here. We have votes, and I think we are at the end of the string as far as the questions go.

We have seen the theme here. We started to talk about TASC and financial management of the Department and moving and migrating to a different system, but it doesn't take too many scrapes of the trowel to really expose a lot of underlying problems here.

We are trying to get to an organization that is efficient and agile. We have one that is very inefficient and very cumbersome. You know, we take a lot on ourselves here in Congress to try to get that. Certainly, in this subcommittee we try to do that. I think you have been able to determine the passion that many of us have for this task at hand.

But, you know, we need good people focused on the right questions, and please, I admonish every one of you, please let common sense prevail. Please.

I want to thank the witnesses for their testimony. I imagine we will see you back again before too long. With that, we are adjourned.

[Whereupon, at 11:20 a.m., the subcommittee was adjourned.]

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