Calendar No. 535

112TH CONGRESS
2d Session

SENATE

REPORT
112–230

DHS AUDIT REQUIREMENT TARGET (DART) ACT OF 2012

R E P O R T

OF THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

TO ACCOMPANY

S. 1998

TO OBTAIN AN UNQUALIFIED AUDIT OPINION, AND IMPROVE FINANCIAL ACCOUNTABILITY AND MANAGEMENT AT THE DEPARTMENT OF HOMELAND SECURITY

NOVEMBER 2, 2012.—Ordered to be printed
Filed, under authority of the order of the Senate of September 22
(legislative day, September 21), 2012

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 2012

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CONTENTS

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DHS AUDIT REQUIREMENT TARGET (DART) ACT OF 2012

NOVEMBER 2, 2012.—Ordered to be printed

Filed, under authority of the order of the Senate September 22 (legislative day, September 21), 2012

Mr. LIEBERMAN, from the Committee on Homeland Security and Governmental Affairs, submitted the following

R E P O R T

[To accompany S. 1998]

The Committee on Homeland Security and Governmental Affairs, to which was referred the bill (S. 1998) to obtain an unqualified audit opinion, and improve financial accountability and management at the Department of Homeland Security, having considered the same, reports favorably thereon with an amendment in the nature of a substitute and recommends that the bill do pass.

I. PURPOSE AND SUMMARY

Since its inception almost ten years ago, the Department of Homeland Security (DHS or the Department) has been unable to obtain a so-called clean or unqualified audit of its financial statements—that is, a finding by an objective reviewer that the Department's finances are in conformity with generally accepted accounting standards. S. 1998 seeks to remedy that situation by directing the Department to take the steps necessary to obtain a clean audit by the end of fiscal year 2013. So that Congress can monitor and oversee DHS's efforts in this area, the bill also requires DHS to provide Congress with specific details on its plans to achieve a clean audit, through eliminating material weaknesses in its internal financial controls and by modernizing its financial management systems.

II. BACKGROUND AND NEED FOR THE LEGISLATION

As the Government Accountability Office (GAO) has observed, "the federal government has a responsibility to have timely, reli-

29–010

able and comprehensive financial information enabling it to make decisions which impact on the lives of its citizens."[1] To ensure that agencies have that information, Congress, in the Government Management Reform Act of 1994, required executive branch agencies to submit to annual audits, performed in accordance with generally accepted government auditing standards by the agency's inspector general or an independent external auditor.[2] The Department of Homeland Security is required to submit an annual audit pursuant to a 2002 amendment requiring each "covered executive agency" to submit annual audits.[3]

The Department of Homeland Security currently is one of only two major federal agencies to have failed to obtain an unqualified or clean audit on its full set of consolidated financial statements during the past decade.

DHS is making progress on improving its financial management. Last year (for its FY 2011 statements), for example, DHS for the first time achieved a qualified audit opinion on its balance sheet and statement of custodial activity (two of the five financial statements), a step above the "disclaimer" it had previously consistently received. A qualified audit opinion means that, except for the issues to which the qualification relates, the audited financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with generally accepted accounting principles.[4] A disclaimer of opinion, in contrast, states that the auditor does not express an opinion on the financial statements at all.[5]

DHS has stated that it can achieve an unqualified opinion on all of its financial statements by the end of fiscal year 2013. GAO, however, has observed that although DHS intends to obtain a clean audit by the end of 2013, "there is no clear plan for how auditability will be achieved."[6]

Much of DHS's inability to receive a clean audit is due to its problems in implementing an integrated financial management system. Twice since 2003, DHS has tried and failed to implement an agency-wide financial management system, at the cost of millions of dollars to taxpayers.

The first effort, known as the Electronically Managing Enterprise Resources for Government Effectiveness and Efficiency (eMerge2) project, began in January 2004 and was expected to integrate financial management systems across the Department and address existing financial management weaknesses. However, DHS officials ended the eMerge2 project in December 2005, acknowledging that eMerge2 failed, despite an estimated cost of $52 million. The second effort, begun by DHS in 2007, was called the Transformation and Systems Consolidation (TASC) program and was significantly delayed by bid protests and related litigation. In May 2011, DHS ended this program as well.

After reviewing the situation, GAO reported that it is not clear whether DHS' current approach to financial system modernization

[1] GAO/AFMD–12.19.4 page 1 September 19, 1991.
[2] § 31 U.S.C. 3515.
[3] § 31 U.S.C. 3515(f)(1).
[4] GAO–12–365T page 9 March 1, 2012. "Continued Progress Made Improving and Integrating Management Areas, but More Work Remains."
[5] ibid
[6] ibid

will ensure that: (1) components' financial management systems can generate reliable useful timely information for day-to-day decision making; (2) the Department has the ability to comprehensively view financial information across DHS; and (3) DHS complies with related federal requirements.[7]

DHS must do more to get its financial house in order, and this bill seeks to ensure it will do so. It directs the Department to do what is needed to obtain a clean audit by FY 2013, and, so that Congress can make sure that the Department is taking those steps, it requires the Department to provide Congress with the Department's specific plans for achieving better financial management.

III. LEGISLATIVE HISTORY

On December 15, 2011, S. 1998 was introduced by Senators Brown (Massachusetts), Carper and Johnson (Wisconsin) and referred to the Senate Committee on Homeland Security and Governmental Affairs. The Committee considered the bill at an April 25, 2012, business meeting.

Senators Brown, Carper, and Johnson offered a substitute amendment recognizing the recent specific progress DHS made prior to the business meeting by receiving a qualified opinion on its FY 2011 financial statements. The substitute retains the requirement for the Department to meet its goals of achieving a clean audit. Due to the Department's successful effort to obtain a qualified opinion of its financial statements, the original requirement in subsection 2(b)(1) that DHS ensure that its balance sheet and statement of custodial activity be ready in a timely manner to obtain a qualified or unqualified opinion is no longer relevant, and the substitute struck that provision. The substitute also deleted subsection 2(b)(2) of the introduced version, which similarly required DHS to take the necessary steps to ensure that the full set of consolidated financial statements be prepared in a timely manner in order to obtain a qualified opinion. The substitute also changed the date by which the bill requires DHS to prepare the full set of consolidated financial statements from the end of FY 2016 to the end of FY 2013. The substitute changed the date in Section 2(c) requiring DHS's Chief Financial Officer (CFO) to submit the report to Congress, from 270 days after enactment to November 15, 2013 and every year thereafter, in order to bring it in line with the date required in Section 2(b). The substitute amended Section 2(c) by further delineating the contents of the report required to be submitted by the DHS CFO. The substitute adds a requirement to the report that DHS include a plan addressing how the DHS will eliminate material weaknesses and significant deficiencies in internal controls over financial reporting and makes other minor technical changes. Lastly, the substitute deletes subsection (d) of the introduced bill, which required a GAO report on DHS efforts to modernize their financial systems.

The Committee adopted the substitute by a voice vote. Members present for the vote were Senators Lieberman, Levin, Akaka, Carper, McCaskill, Begich, Collins, Coburn, Brown and Johnson. The Committee voted to report the bill, again by voice vote. Members

[7] GAO–12–365T page 12 March 1, 2012. "Continued Progress Made Improving and Integrating Management Areas, but More Work Remains."

present for the vote on the bill were Senators Lieberman, Levin, Akaka, Carper, McCaskill, Begich, Collins, Coburn, Brown and Johnson.

IV. SECTION-BY-SECTION ANALYSIS OF THE BILL, AS REPORTED

Section 1. Short title

Section 1 designates the name of the act as the "The DHS Audit Requirement Target Act of 2012."

Section 2. Improving financial accountability and management

Section 2(a) provides the definitions in the bill.

Section 2(b) requires that the Secretary prepare and have ready for submission all the relevant documents related to DHS' full set of financial statements by the end of fiscal year 2013. The purpose of this preparation is to increase the probability that DHS will obtain an unqualified opinion on its full set of consolidated financial statements for fiscal year 2013 and each year thereafter.

Section 2(c) orders DHS to report to Congress on the progress of meeting the audit requirements in Section 2(b). The report shall be included in the agency's annual financial report. The report shall include a plan:

(1) to obtain an unqualified opinion on the full set of financial statements, which shall discuss plans and resources needed to meet the deadlines under subsection (b);

(2) that addresses how the Department will eliminate material weaknesses and significant deficiencies in internal controls over financial reporting and provides deadlines for the elimination of such weaknesses and deficiencies; and

(3) to modernize the financial management systems of the Department, including timelines, goals, alternatives, and costs of the plan, which shall include consideration of alternative approaches, including modernizing the existing financial management systems and associated financial controls of the Department and establishing new financial management systems and associated financial controls.

V. EVALUATION OF REGULATORY IMPACT

Pursuant to the requirement of paragraph 11(b)(1) of rule XXVI of the Standing Rules of the Senate, the Committee has considered the regulatory impact of this bill and has determined that the bill will have no regulatory impact within the meaning of the Rules. The Committee agrees with CBO's statement that the bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local or tribal governments.

VI. CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, May 3, 2012.

Hon. JOSEPH I. LIEBERMAN,
Chairman, Committee on Homeland Security and Governmental Affairs, U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for S. 1998, the DHS Audit Requirement Target Act of 2012.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Mark Grabowicz.

Sincerely,

DOUGLAS W. ELMENDORF.

Enclosure.

S. 1998—DHS Audit Requirement Target Act of 2012

CBO estimates that implementing S. 1998 would have no significant cost to the federal government. Enacting the legislation would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

S. 1998 would direct the Department of Homeland Security (DHS) to improve financial management, internal controls, and documentation so that financial statements for fiscal year 2013 and subsequent years are prepared for auditing. The bill's requirements are similar to those in current law and to the department's plans to improve financial reporting, so CBO estimates that implementing S. 1998 would not significantly affect DHS spending.

S. 1998 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, or tribal governments.

The CBO staff contact for this estimate is Mark Grabowicz. The estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.

VII. CHANGES TO EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, there are no changes in existing law made by S. 1998 as reported.

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