



**Chief Administrative Officer
Inspector General Audit of the House's Fiscal Year 2009 Financial Statements**

**Testimony
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U.S. House of Representatives**

**Before the
Subcommittee on Oversight
Committee on House Administration**

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Summary

Mr. Chairman and Members of the Subcommittee: I am pleased to appear before you to discuss the results of the Inspector General's Audit of the House's Fiscal Year 2009 Financial Statements.

Let me begin by expressing my gratitude for your continuing support of the CAO's office.

It is a pleasure to be back in this room, although it does feel different to be on this side of the dais. Also, I am honored to be appearing today with my colleague Terry Grafenstine, the Inspector General (IG). She is an accomplished leader and true partner dedicated to improving administration and management of House operations. I have a unique perspective on this particular issue -- first as a staffer on this Committee during the time the audit was conducted and now as the CAO, responsible for implementing the recommendations.

I recall last Spring, the IG raised concerns about the level of cooperation from my predecessor's office regarding requests for data to support the financial statement



Chief Administrative Officer
Inspector General Audit of the House's Fiscal Year 2009 Financial Statements

audit. The Committee was alarmed to learn that the CAO was months behind in providing this critical information. While the auditors believed their review of the House financial statement would indicate a “clean” audit, the CAO still lacked an internal controls program to ensure the financial and information technology systems had effective safeguards, in accordance with generally accepted accounting principles (GAAP). For some, this may seem like a minor or relatively technical point. But in actuality, internal controls provide the framework and foundation for the integrity of our business processes and practices. The Committee took action and my predecessor announced his resignation. A few weeks later I was selected as CAO and one of my first meetings in that capacity was in the conference room of this Committee on this very topic.

My approach to resolving the issue has several components:

First - change the tone at the top. One of our fundamental management principles is transparency. To that end, we respond quickly and comprehensively to auditors' requests for information.

Second – communicate, on an organizational level, that internal controls isn't just a program, it's a philosophy. As stewards of the taxpayers' money, we need to take every step possible to ensure that these dollars are spent in accordance with applicable laws and rules of this House. CAO senior leadership must incorporate internal controls knowledge and awareness in their management approach.

And third, we have to do more with less. An internal controls program not only satisfies the auditor and provides confidence for me and you, it can help us



Chief Administrative Officer
Inspector General Audit of the House's Fiscal Year 2009 Financial Statements

refine our processes, achieve efficiencies and reduce costs.

Audit Results

The House's Fiscal Year 2009 Financial Statement Audit reported an unqualified, or "clean," opinion on the House's financial results. However, the opinion on internal controls contained two material weaknesses and two significant deficiencies. The material weaknesses related to the lack of a management internal controls program and ineffective controls over Information Technology.

Prior Actions

The Fiscal Year 2008 Financial Statement Audit recommended that the House implement an internal controls program. To accomplish this recommendation, we hired a very experienced audit professional named Bill Leibach to serve in the position of Audit Liaison in February 2010. This position had been vacant since early 2009. The duties of this position include serving as liaison between the Inspector General and the CAO, and monitoring status of outstanding audits, audit recommendations, and remediation of outstanding weaknesses identified by the auditors and management. In addition, the position has an emphasis on the implementation and sustainment of an internal controls program. In particular, Mr. Leibach, a Certified Public Accountant and Certified Information Security Auditor, has been instrumental in communicating the new tone at the top internally with our senior managers and externally with our stakeholders.



Chief Administrative Officer
Inspector General Audit of the House's Fiscal Year 2009 Financial Statements

Audit Recommendations

The auditors recommended that the House implement a management internal controls program consistent with that outlined in Appendix A of OMB Circular A-123. The program includes the creation of a Senior Assessment Team, evaluation of internal controls at the entity and process level, testing of operational effectiveness, and concluding and reporting on the internal controls program.

In addition, the auditors recommended a series of actions to remediate ineffective controls over information technology. The recommendations include the identification, documentation and assessment of information technology controls in accordance with Appendix A of OMB Circular A-123. The recommendations also include a series of actions including the development of a risk management framework, updating system security plans with relevant security controls, assessment of security controls, implementation of change control processes, implementation of processes to track action plans, account management processes, coordination of contingency management processes, configuration management of active directory, and adequate segregation of duties within financial systems.

Status of Corrective Actions

We have taken significant actions to address the weaknesses reported in the Fiscal Year 2009 Financial Statement Audit report. Those actions began in earnest in August of 2010; and while they will not be fully evident in the Fiscal Year 2010 Financial Audit report they are critical steps toward our long term solution:



Chief Administrative Officer
Inspector General Audit of the House's Fiscal Year 2009 Financial Statements

1. Tone at the Top

The tone at the top relates to the emphasis placed by CAO leadership on the importance of incorporating internal controls principles in our management philosophy. Specifically, to communicate internally our stewardship responsibilities and our open and transparent approach with our stakeholders.

2. Establishment of a Senior Assessment Team

A Senior Assessment Team comprised of the CAO's business unit leaders was established to provide oversight of the financial reporting process and internal controls program, and to communicate the philosophy of internal controls in our management practices. The team has met monthly since August 2010, and includes a representative from the Office of Inspector General.

3. Information system security, segregation of duties and contingency management planning, testing and evaluation

To date, we have identified and documented processes that are materially relevant to the House's financial reporting. Key controls have been identified assessed, and tested for operating effectiveness for the 1st quarter of fiscal year 2011. Additional testing, remediation, and documentation of key processes are currently in progress. The intent of the current effort is to sustain the internal controls program and provide reasonable assurance for fiscal year 2011 and all years going forward.

We also have taken actions to implement corrective actions over information technology controls that impact financial reporting processes; actions designed to



Chief Administrative Officer
Inspector General Audit of the House's Fiscal Year 2009 Financial Statements

mitigate, in a relatively short timeframe, the significant weaknesses that have been identified. These actions include revising system security plans for applications and general support systems relevant to financial reporting, conducting management and independent testing of key controls over these applications and general support systems, implementing change and configuration management processes, actions to ensure segregation of duties have been implemented, and contingency management documentation has been developed.

Closing Remarks

In summary, my CAO colleagues and I will continue to serve the House by demonstrating fiduciary responsibility in safeguarding House assets and resources, promoting the highest quality stewardship of taxpayer dollars; and providing a financial management and internal control infrastructure that ensures the financial integrity of the House. I look forward to working with the subcommittee and am happy to answer any questions.

Thank you