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*BEFORE THE*

**SUBCOMMITTEE ON OVERSIGHT, INVESTIGATIONS AND MANAGEMENT**

**COMMITTEE ON HOMELAND SECURITY**

**U.S. HOUSE OF REPRESENTATIVES**

*CONCERNING*

**BUILDING ONE DHS: WHY CAN'T MANAGEMENT INFORMATION BE  
INTEGRATED?**

**March 1, 2012**



Good morning Chairman McCaul, Ranking Member Keating and distinguished Members of the Subcommittee:

I am Charles K. Edwards, Acting Inspector General of the Department of Homeland Security (DHS). Thank you for inviting me to testify today about the integration of information across the Department, specifically in the areas of financial management, acquisition management, and human capital management.

As you know, the DHS Office of Inspector General (OIG) was established in January 2003 by the *Homeland Security Act of 2002* by amendment to the *Inspector General Act of 1978*. The DHS OIG seeks to promote economy, efficiency, and effectiveness in DHS programs and operations and reports directly to both the DHS Secretary and the Congress. We fulfill our mission primarily by issuing audit, inspection, and investigative reports that include recommendations for corrective action, and by referring cases to the United States Attorney General for prosecution.

I am pleased to have the opportunity to testify about two of our audit reports today. My testimony will focus on the areas of financial management and acquisition management. I will describe some of the challenges facing DHS, the steps DHS has taken and its progress in addressing those challenges, as well as provide details regarding further improvements the Department can make.

## **Financial Management**

In an effort to reduce redundancy, weaknesses, and vulnerabilities in its financial systems, DHS has made several attempts to consolidate its financial systems since the Department's creation.

The first attempt, known as the Electronically Managing Enterprise Resources for Government Effectiveness and Efficiency project, was canceled in December 2005, due to technical challenges in the integration efforts. The second attempt, a task order issued in August 2007, for a solution architect to develop and implement a new system under the Enterprise Acquisition Gateway for Leading Edge Solutions contract ended when no bids were received. The third attempt, called Transformation and Systems Consolidation (TASC) Baseline, focused on moving DHS components to one of two financial systems platforms: SAP or Oracle. On March 17, 2008, the TASC baseline approach ended when a federal court ruled against DHS in the court case of *Savantage Financial Services, Inc. vs. United States*. The court ruled that DHS' decision to use Oracle and SAP financial software systems via "Brand Name Justification" was an improper sole source procurement in violation of the *Competition in Contracting Act*.

In May 2008, the TASC initiative was revised to acquire an integrated financial, acquisition, and asset management solution for DHS. This approach was a larger effort than DHS had attempted previously because it attempted to not only consolidate component financial systems but also to implement DHS-wide asset management and

procurement systems. TASC was a Department-wide effort co-sponsored by the DHS Undersecretary for Management (USM) and the Chief Financial Officer.

In January 2009, the TASC program issued a RFP for a vendor to integrate, test, deploy, manage, operate, and maintain the transformed business processes and services of an integrated financial acquisition and asset management solution for DHS. In July 2010, we issued an audit report, *DHS Needs to Address Challenges to Its Financial Systems Consolidation Initiative*. The objective of our audit was to determine whether DHS was making progress in developing and implementing the TASC initiative. Our audit report included five recommendations; the Department concurred or partially concurred with all five. Subsequently, in May 2011, the Department announced that it was cancelling the solicitation for the TASC program and was considering alternatives to meet revised requirements. We understand that the Department is considering options, and we will continue to be in communication with the Department regarding its plans.

Although the Department has not completed the modernization and consolidation of its financial systems, it continued to improve financial management in fiscal year (FY) 2011 and achieved a significant milestone. For the first time since 2003, the Department was able to produce an auditable balance sheet and statement of custodial activity and the independent auditors rendered a qualified opinion on those financial statements. Nevertheless, the Department still has much work to do. The independent auditor was unable to perform procedures necessary to form an opinion on DHS' internal control over financial reporting of the FY 2011 balance sheet and statement of custodial activity.

The independent auditors identified pervasive financial system functionality limitation at all of the significant DHS components. The Department's financial information technology system is aging and has limited functionality, which is hindering the Department's ability to implement efficient corrective actions and produce reliable financial statements. The auditors noted that many of the financial systems in use at DHS components have been inherited from the legacy agencies and have not been substantially updated since DHS' inception. As a result, ongoing financial system functionality limitations are contributing to the Department's challenges in addressing systemic internal control weaknesses and strengthening the overall control environment.

## **Acquisition Management**

### **Background**

Acquisitions consume a significant part of the Department of Homeland Security's annual budget and are fundamental to the Department's ability to accomplish its mission. In FY 2010, DHS awarded over \$13 billion for more than 88,000 procurement actions.

The USM is responsible for the overall DHS acquisition process. As the Department's Chief Acquisition Officer, the USM is responsible for managing, administering, and overseeing the Department's acquisition policies and procedures. The USM delegates the responsibility for effective department-wide procurement policies and procedures, including procurement integrity, to the Chief Procurement Officer (CPO). The Office of

the CPO (OCPO) is responsible for oversight of most DHS acquisition activities and services, including management, administration, and strategic sourcing. OCPO responsibilities also include developing and publishing department-wide acquisition regulations, directives, policies, and procedures.

The USM also delegates the responsibility for developing and implementing the governance processes and procedures for program management over DHS' various acquisition programs to the Acquisition Program Management Division (APMD), now called the Program Accountability and Risk Management Office. Separation of the OCPO procurement management responsibilities for acquiring goods and services and APMD's program management of the acquisition process provides a layered approach to DHS' acquisition oversight.

### **Steps Taken by DHS to Improve Its Acquisitions Management**

In 2003, the Government Accountability Office (GAO) designated implementing and transforming the Department of Homeland Security as high-risk.<sup>1</sup> GAO stated that the Department's efforts to integrate 22 independent agencies into a single department was an "enormous undertaking," partly because many of the major components faced at least one management problem, including financial management vulnerabilities. In a 2011 update, GAO noted that acquisition management weaknesses have prevented major programs from meeting capability, benefit, cost and schedule expectations.<sup>2</sup> To address management challenges, GAO recommended "validating key acquisition documents during the acquisition review process."<sup>3</sup>

In September 2005, we published a report identifying significant weaknesses that threatened the integrity of the Department's procurement and program management operations.<sup>4</sup> We made five recommendations to address the vulnerabilities in the Department's acquisition operations. DHS concurred with all five recommendations and agreed to move ahead with expanded procurement ethics training, enhancement of oversight, and establishment of a departmental program management office to address procurement staff shortages and staff authority. Since our 2005 report, DHS has implemented management directives and organizational changes, and developed acquisition training programs intended to identify inefficiencies in the acquisition process and prevent procurement ethics violations.

In November 2008—recognizing the continued increase in the quantity and complexity of DHS acquisitions—the Chief Acquisition Officer classified acquisitions into three levels to define the extent and scope of required project and program management and

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<sup>1</sup> GAO-03-119, *High Risk Series: An Update* (Jan. 2003). GAO maintains a program to identify government operations that are high risk due to greater vulnerabilities to fraud, waste, abuse, and mismanagement or the need for transformation to address economy, efficiency, or effectiveness. Since 1990, GAO has designated over 50 areas as high risk and subsequently removed over one-third of the areas due to progress made.

<sup>2</sup> GAO-11-278, *High Risk Series: An Update* (Feb. 2011), p. 93.

<sup>3</sup> *Id.*, 33-34.

<sup>4</sup> OIG-05-53, *Department of Homeland Security's Procurement and Program Management Operations* (Sept. 2005).

the specific official who serves as the Acquisition Decision Authority. For level 1 acquisitions (greater than or equal to \$1 billion), the Acquisition Decision Authority is at the Deputy Secretary level. For level 2 acquisitions, (\$300 million or more, but less than \$1 billion), it is the Chief Acquisition Officer. For level 3 acquisitions (less than \$300 million), the Acquisition Decision Authority is at the Component Head level. Acquisition Management Directive 102-01, Revision No. 1 (Directive 102-01), also identifies specific alternate Acquisition Decision Authorities for each level.

While the Department has taken these and other significant steps to improve its acquisition oversight processes and controls, our report *OIG-11-71, DHS Oversight of Component Acquisition Programs* (April 2011) identified additional areas for improvement, including improved guidance to components regarding their use of the next Generation Periodic Reporting System (nPRS), an integrated system that provides visibility to the Department to track components' level 1, 2, and 3 acquisition investments.

### **Additional Guidance Needed for Use of nPRS**

In *DHS Oversight of Component Acquisition Programs*, we recognized that the Department has made improvements to its acquisition oversight processes and controls through implementation of a revised acquisition management directive. However, the Department needs to provide additional detailed guidance and improve controls in some areas. One of the areas we identified for improvement is the use of nPRS, an integrated system that provides visibility to the Department to track components' level 1, 2, and 3 acquisition investments. It can also store working and approved key acquisition documents, earned value management information, and risk identification. Component personnel are responsible for entering and updating information regarding their acquisition programs in nPRS. This information includes, but is not limited to, cost, budget, performance, and schedule data.

Since nPRS became operational in 2008, the Department has issued conflicting guidance and enforcement for reporting level 1, 2, and 3 acquisition programs. According to APMD personnel, level 1 and 2 acquisition programs are the only programs that require nPRS reporting, while reporting level 3 acquisition programs is optional. Despite APMD personnel's explanation of the nPRS reporting requirements, in November 2008 they required level 1, 2, and 3 acquisitions to follow the DHS periodic reporting process identified in the nPRS manual. Then in May 2009, the USM issued a memorandum requiring major acquisition programs, level 1 and 2, to transition to nPRS by the end of the month. In July 2009, the Office of the Chief Information Officer issued guidance that required components to report all programs to nPRS. In September 2009, the Director of APMD issued a memorandum designating nPRS as the Department's system of record for acquisition management data and official reporting system for all level 1, 2, and 3 acquisition programs. In January 2010, the APMD issued the final Directive 102-01, which required all level 1, 2, and 3 acquisition programs to comply with the DHS periodic reporting process. This conflicting verbal and written guidance confused component personnel, who were not sure whether to report all acquisition programs or only level 1 and 2 programs.

In May 2010, the USM issued a list of major acquisition programs that identified 86 level 1 and 2 acquisition programs and elevated some level 3 acquisition programs for departmental oversight. According to APMD personnel, the Department and components jointly create the major acquisition program and project list. The APMD obtains information from nPRS and requests updated information from the components regarding their current number of acquisition programs. Once APMD personnel receive the information, they create the final list and the USM signs and issues the new list.

As of July 2010, we identified six acquisition programs listed on the USM letter, but components did not report them in nPRS. We also identified five level 1 and 2 acquisition programs reported in nPRS but not on the USM letter. When we questioned Department personnel about the differences between the USM letter and nPRS, they stated that the differences were due to timing issues. However, we were not able to reconcile the differences to verify that they were timing related. Table 1 compares the list of acquisition programs in the May 2010 USM memo with the nPRS database as of July 2010.

**Table 1. Acquisition Program Reporting System Inconsistencies**

<b>USM Memo - May 2010</b>	<b>nPRS Database - July 2010</b>
Consolidated Mail System Program	No Entry
Electronic Records Management System	No Entry
St. Elizabeth's	No Entry
National Security System Program	No Entry
Online Tracking Information System	No Entry
Federal Protective Services	No Entry
	Critical Infrastructure
No Entry	Technology and Analysis
No Entry	CBP - Infrastructure
No Entry	FEMA - Infrastructure
No Entry	ICE - Infrastructure
No Entry	USSS - Infrastructure

To identify the number of acquisition programs in the Department, we requested a list of all programs from nPRS, but the Department could provide only level 1 and 2 acquisition programs. In March 2010, we requested that the components provide us with a list of all level 1, 2, and 3 acquisition programs so we could gain a complete inventory of acquisition programs throughout the Department. Table 2 shows some inconsistencies between the Department's totals and the components' totals.

**Table 2. Acquisition Program Inconsistencies**

	Level 1	Level 2	Level 3	Total
<b>DEPARTMENT</b>				
USM Letter - Apr 23, 2009	42	25	0	67
nPRS datapull March 2010	43	20	0	63
USM Letter - May 26, 2010	46	40	0	86
nPRS datapull June 2010	49	33	0	82
nPRS datapull July 2010	50	32	70	152
<b>COMPONENTS</b>	48	22	152	222

We obtained the Department's totals at five different times. Though we understand that there may be differences in timing due to the intervals, the Department needs to make sure that components are consistently reporting all acquisition programs into the standard system. In July 2010, we obtained our last data from nPRS that showed progress regarding the number of level 3 acquisition programs components entered in the system. However, at the time of the publication of our report, nPRS still did not reflect half of the total number of level 3 programs components reported outside nPRS.

**Use of nPRS by Components**

Because the Department has not ensured or mandated that components use nPRS, some components have developed systems comparable to nPRS. According to APMD personnel, nPRS allows components to create a copy of nPRS software and integrate it to meet their needs. The copy, which is called the nPRS Sandbox, allows the components to duplicate the nPRS software and to use the already developed nPRS as their oversight tool for draft documents and approval of documentation and earned value management, as well as cost and schedule status. The component's Sandbox copy of nPRS is not visible by DHS headquarters or other components because nPRS restricts access to authorized users. As of July 2010, Transportation Security Administration (TSA), the Federal Emergency Management Agency (FEMA), and the DHS Chief Financial Office had requested use of the nPRS Sandbox feature.

Component personnel have developed, or are in the process of developing, their own data-tracking systems because the Department has not consistently mandated use of nPRS or its tools. For example:

- TSA hired and spent approximately \$100,000 for a contractor in 2005 to develop the TSA Acquisition Program Status Report, which served as its data-tracking system. As of June 2010, TSA had merged its acquisition program portfolio, levels 1, 2, and 3, into nPRS and will no longer use the TSA Acquisition Program Status Report. As of August 2010, nPRS is TSA's official tracking system for acquisition programs.

- FEMA, Customs and Border Protection (CBP), Immigration and Customs Enforcement, and U.S. Secret Service use internally developed systems based on software programs such as Microsoft SharePoint.
- CBP personnel were in the process of developing an additional database to track acquisitions throughout the Acquisition Lifecycle Framework. We were not able to determine the cost of this tracking database. According to CBP personnel, the database development was a verbal agreement between CBP personnel and the contractor. The statement of work under which the contractor was performing other work for CBP did not contain any mention of the verbal agreement.

In summary, the Department does not always know what is in its acquisition portfolio because of the conflicting written and verbal guidance provided to the components. The USM has not ensured that components report all level 1, 2, and 3 acquisition programs in nPRS, which hinders its ability to have complete visibility into component acquisition programs. By mandating use of nPRS for all acquisition programs, the USM would have visibility into components' acquisition programs and could provide better oversight for its acquisition portfolio.

We recommended that the Department direct components to report all acquisition programs (levels 1, 2, and 3) to nPRS. The Chief Procurement Officer agreed with our recommendation and stated that by April 30, 2011 it would issue guidance to components to require inclusion of all level 1, 2, and 3 acquisition programs within the nPRS tracking tool. We are continuing to monitor this recommendation and it remains resolved and open. On February 16, 2012, we received the Department's latest's update. In that update the Department stated that it was encouraging its components to ensure that all acquisitions program information is reported accurately monthly. While we are encouraged by the Department's actions, this effort does not meet the full intent of our recommendation.

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Chairman McCaul, this concludes my prepared remarks. I would be happy to answer any questions that you or the Members may have. Thank you.