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**STATEMENT OF DAVID M. ZAVADA**  
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**BEFORE THE**  
**COMMITTEE ON GOVERNMENT REFORM**  
**U.S. HOUSE OF REPRESENTATIVES**

**JULY 27, 2006**



Good morning Chairman Davis, Ranking Member Waxman, and Members of the Committee.

I am David M. Zavada, Assistant Inspector General for Audits of the Office of Inspector General (OIG) for the Department of Homeland Security. Thank you for the opportunity to discuss OIG work related to DHS acquisitions and common themes that have emerged from our work.

### **Office of Inspector General Partnerships**

The Office of Inspector General partners with the Secretary of Homeland Security and Congress to ensure that the Department accomplishes its mission in the most effective, efficient, and economical manner. We provide independent, objective information and analysis to identify issues and opportunities for cost-effective improvements. We share with the Chief Procurement Officer a vision of a world-class acquisition function that delivers the best value products and services to support the critical mission of DHS. Acquisition management is a high-priority area for our office – it is an area where we will have an ongoing and proactive presence.

In the area of acquisition management, one of our oversight partners is the Defense Contract Audit Agency (DCAA). DCAA's pre-award surveys and post-award incurred cost audits complement the audit and review work that we and the Government Accountability Office (GAO) perform. Just as the possibility of an IRS audit increases voluntary compliance with the tax code, the possibility of a DCAA audit serves as an integral part of the internal control structure surrounding the acquisition management function.

### **Acquisition Management is a Major Challenge for DHS**

We have identified a number of issues related to the challenge of building an effective acquisition management infrastructure for the significant level of contracting activities in the Department. DHS must have an acquisition management infrastructure in place that allows it to oversee effectively the complex and large dollar procurements critically important to achieving the Department's mission. Acquisition management is not just awarding a contract, but an entire process that begins with identifying a mission need and developing a strategy to fulfill that need through a thoughtful and balanced approach that considers cost, schedule, and performance.

## **OIG Review of Program and Procurement Management**

In 2005, Homeland Security Secretary Chertoff asked us to assess DHS's program and procurement management operations and report back to him within 30 days. In that short time, we identified significant risks and vulnerabilities that might threaten the integrity of those operations. We reported a general need for more comprehensive acquisition guidance and oversight<sup>1</sup>. The vulnerabilities we described fall into three general categories: adherence to ethical conduct, program management, and procurement management.

### *Ethical Conduct*

In the area of ethical conduct, we reported that senior program managers and procurement officials would benefit from expanded training and guidance on their procurement ethics responsibilities. DHS's many partnership arrangements with the private sector suggest that the minimal initial and annual government ethics training DHS requires may be insufficient.

### *Program Management*

Effective program management is essential to obtaining the right equipment and systems to accomplish the DHS mission. Complex and high dollar contracts require multiple program managers often with varying types of expertise. Several DHS procurements have encountered problems because contract technical and performance requirements were not well defined. We identified the need for more certified program managers; department-wide standards for program management; a strengthened investment review board process to provide greater independent analysis and review; better defined technical requirements; and, a more balanced approach to schedule, cost and performance when expediting contracts. Across the department, the number of acquisition program managers ranged from one to 62, but only 22 percent of the program managers had achieved appropriate certification, and only the Transportation Security Administration (TSA) and the U.S. Coast Guard (USCG) had more than two qualified program managers, while the Secret Service and Federal Emergency Management Agency (FEMA) had none.

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<sup>1</sup> DHS OIG, *Department of Homeland Security's Procurement and Program Management Operations*, Office of Audits, OIG-05-53, September 2005.

## *Procurement Management*

We identified a number of issues related to the management capabilities of DHS procurement offices. Integrating its many separate components into a single, effective, efficient, and economical department remains one of DHS's biggest challenges. Today's DHS procurement function reflects the legacy DHS inherited from the 22 previously independent or departmental agencies that became the Department of Homeland Security.

In their transition into DHS, seven agencies retained their procurement functions, including USCG, FEMA and TSA. The expertise and capability of the seven procurement offices mirrors the expertise and capability they had before creation of the department. This capability ranged from 21 to 346 procurement personnel.

DHS established an eighth acquisition office, the Office of Procurement Operations (OPO), under the direct supervision of the Office of the Chief Procurement Officer (OCPO), to service the other DHS components and manage department-wide procurements. Many DHS procurement offices reported that their lack of staffing prevents proper procurement planning and severely limits their ability to monitor contractor performance and conduct effective contract administration.

A second issue we identified in this area relates to OCPO oversight within the department. In addition to actually awarding contracts, the OCPO is tasked to provide procurement oversight to help DHS components ensure adherence to standards of conduct and federal acquisition regulations in their award and administration of contracts. This oversight role involves developing department-wide procurement policies and procedures and enforcing those policies and procedures through active awareness of ongoing procurement actions.

Both our office and GAO have reported that the OCPO needs more staff and authority to effectively carry out its general oversight responsibilities.<sup>2</sup> GAO reported in 2005 that OCPO had only two people to oversee the eight procurement offices, which handled nearly \$10 billion in procurement activity during fiscal year 2004.<sup>3</sup> GAO recommended that DHS provide OCPO with sufficient resources and enforcement authority to enable effective department-

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<sup>2</sup> DHS OIG, *Major Management Challenges Facing the Department of Homeland Security (Excerpts from the FY 2005 DHS Performance and Accountability Report)*, Office of Audits, OIG-06-14, December 2005

<sup>3</sup> GAO, *Homeland Security Successes and Challenges in DHS's Efforts to Create an Effective Acquisition Organization*, GAO-05-179, March 2005, at page 15.

wide oversight of acquisition policies and procedures. We made a similar recommendation.

### **Expedited Schedules and Poorly Defined Requirements**

We have conducted audits and reviews of a number of individual DHS contracts, such as TSA's screener recruiting, TSA's information technology services, and CBP's Integrated Surveillance Intelligence System. Common themes and risks emerged from these audits, primarily the dominant influence of expediency, poorly defined requirements and inadequate oversight.

Little disagreement exists about the need for our nation to protect itself immediately against the range of threats, both natural and manmade, that we face. At the same time, the urgency and complexity of the Department's mission create an environment in which many programs have acquisitions with a high risk of cost overruns, mismanagement or failure.

The Department's lack of institutional capacity for managing such risks is a common theme in the audits we have conducted. The Department lacks a cadre of skilled program and acquisition management personnel, as well as robust business processes, and information systems, to meet quickly and effectively DHS's urgent schedule demands and complex program objectives.

Programs developed at top speed sometimes overlook key issues during program planning and development of mission requirements. Also, an over-emphasis on expedient contract awards may hinder competition, which frequently results in increased costs. Finally, expediting program schedules and contract awards necessarily limits time available for adequate procurement planning and development of technical requirements, acceptance criteria, and performance measures. This can lead to higher costs, schedule delays, and systems that do not meet mission objectives.

#### *TSA Hiring of Airport Security Screeners*

TSA faced particular performance specification, scheduling, and cost growth challenges in administering the NCS Pearson contract for hiring airport security screeners.<sup>4</sup> TSA had not finalized screener staffing requirements prior to the contract solicitation. Within a month of awarding the contract, TSA significantly changed the scope of the contract. Rather than use NCS Pearson's existing

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<sup>4</sup> DHS-OIG, *Review of the Transportation Security Administration's Management Controls Over the Screener Recruitment Program*, OIG-06-18, December 2005.

assessment centers, TSA directed the contractor to establish about 150 temporary assessment centers.

The establishment of temporary assessment centers; delays and revisions in issuance of the airport federalization schedule and staffing requirements, including the requirement for a ready pool of approved applicants beyond those initially hired; and, higher than expected applicant rejection rates significantly increased NCS Pearson's costs to establish and operate the assessment centers. By the contract's end, NCS Pearson had assessed more than nine times the number of screeners originally estimated in less than half the time originally allotted. Consequently, the increased candidate volume increased the size of assessment centers needed and the length of time those centers had to be available. These factors contributed to increasing contract costs from the original estimate of \$104 million to a final settlement amount of \$741 million.

#### *TSA Acquisition of Information Technology*

Another example of where an expedited schedule led to DHS acquisition deficiencies is TSA's information technology managed services contract with Unisys.<sup>5</sup> In 2002, TSA started the rollout of security operations at airports under congressionally mandated short timeframes with significant budget constraints. To quickly establish an information technology and telecommunication infrastructure needed to support its employees at headquarters and airport locations across the United States, TSA awarded a \$1 billion contract to Unisys using a broad statement of objectives to describe the requirements. At the time, the TSA Office of Information Technology (OIT) and Contracting Office had small staffs overseeing numerous high value acquisitions, including the Unisys contract.

By the beginning of fiscal year 2006, TSA had spent most of the contract ceiling, 83 percent, without receiving many of the contract deliverables critical to airport security and communications. OIT issued numerous requests for specific tasks and deliverables, but did not always ensure that technical proposals included all of the required contracting elements such as statements of work with delivery due dates and acceptance criteria. TSA did not have adequate performance measures on the Unisys contract two years into the contract. Performance measures have evolved and improved over the life of the contract through TSA's efforts to improve them, but performance measures were limited to a small portion of

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<sup>5</sup> DHS-OIG, *Transportation Security Administration's Information Technology Managed Services Contract*, OIG-06-23, February 2006.

contract work and were added too late in the contract cycle to be effective in assessing the contractor's performance.

### *FEMA's Award of Post-Katrina Contracts*

We also reviewed contracts awarded in the aftermath of Hurricane Katrina. FEMA's core mission is to respond to emergencies and procure emergency supplies and equipment. Therefore, planning for these types of procurements would be sound business practice. Because of the unpredictable nature of emergency operations, such planning cannot always be used to select specific sources in advance of a disaster. However, our review of post-Katrina major contract awards found that:

FEMA scrambled to purchase supplies, commodities, equipment and other resources to support emergency and disaster response efforts from numerous vendors because requirement planning prior to Katrina was inadequate;

Call or standby contracts with pre-negotiated prices, quantities, terms and conditions, and specifications could have greatly facilitated post disaster procurement operations, but were not implemented;

In many instances, the government did not pay a reasonable price for its purchases, because competition was limited; and,

The government's contract oversight and monitoring was inadequate, resulting in cost and price variations.

### **DHS Begins to Improve its Acquisition Management Capacity**

In our 30-day assessment for Secretary Chertoff, we recommended that DHS (1) require expanded procurement ethics training for senior program and procurement officials; (2) monitor departmental procurement activities for potential standards of conduct violations; (3) create and staff a DHS organization to develop program management policies and procedures; provide independent technical support and share best practices; (4) optimize procurement organization resources across DHS; and, (5) provide OCPO with sufficient staff and resources to effectively oversee DHS procurement operations.

DHS concurred with each of these recommendations. To a great extent, the Chief Procurement Officer's agenda reflects the issues in our report. Specifically, the OCPO is developing a training class on procurement ethics for senior program

and procurement officials that is emphasizing real examples of procurement fraud in addition to teaching applicable regulations. The OCPO's December 2005 management directive on acquisition oversight increases the Department's ability to monitor procurement activities for standards of conduct violations.

In May 2004, DHS instituted a program management certification process that requires increasing levels of certification based on training and experience. A higher-level certification is required to manage higher dollar value programs. For example, Level I certification is required for programs with annual costs ranging from \$5 million to \$50 million or life-cycle costs ranging from \$20 million to \$100 million. Level III certification is required for programs with annual costs exceeding \$100 million or life-cycle costs exceeding \$200 million.

In December 2005, the Office of the Chief Procurement Officer issued a DHS management directive on acquisition oversight and is hiring additional staff to oversee the acquisition offices.

### **Risks Related to Major Acquisitions Underway**

The urgency and complexity of the Department's mission will continue to demand rapid pursuit of major investment programs. While DHS continues to build its acquisition management capabilities in the component agencies and on the department-wide level, the business of DHS goes on and major procurements continue to move forward. One of these major procurements is SBInet.

On November 2, 2005, the Department announced a multi-year strategy to secure America's borders and reduce illegal immigration, called the Secure Border Initiative (SBI). We are paying close attention to SBI procurements due to their size and scope and issues raised in our previous audits related to similar programs. We see risks and vulnerabilities similar to those identified in previous OIG audits and reviews.

### **SBInet Procurement Risks**

The Department issued a request for proposal to select a system integrator for SBInet using an indefinite quantity/indefinite delivery performance-based acquisition strategy. Requirements are described in a broad statement of objectives to the bidders, providing the flexibility for them to propose innovative solutions. It remains to be seen whether the proposed solutions fully address the Border Patrol's needs, what measures of performance and effectiveness can be applied to the contract, how soon the program can be implemented, and what a

reliable estimate of the program's cost would be. We anticipate scrutinizing the program's performance management plan, acquisition program baseline, schedules, cost controls, and cost estimates when they are prepared. We will also assess the effect on the program and its costs as CBP's operational requirements are set and adjusted after award.

In general, based upon our past audit work and experience with large acquisition programs, we believe that CBP faces some tremendous challenges and risks in pursuit of SBInet. These challenges and risks include:

#### *An Expedited Timeline*

The Department has set a tight deadline of September 2006, requiring CBP to press hard to meet tight deadlines while mitigating risks and avoiding mistakes. To mitigate these risks, CBP needs an institutional capacity, including a cadre of acquisition management personnel and robust business processes, to accomplish the tasks needed to set-up and implement a new program, administer the contract, and establish cost, schedule, and performance controls.

#### *Building an Organizational Oversight Capability*

Building a program management office entails not only recruiting and contracting for qualified acquisition managers and technical experts, but also establishing robust business processes. The SBInet acquisition strategy calls for scoping a series of task orders over a number of years; therefore, entailing not only vigilant contract administration but also continuing program decisions, systems engineering efforts, and business case analyses, all of which necessitate a substantial program management office capability.

#### *Defining Operational and Contract Requirements*

The department has adopted a high-risk acquisition strategy for SBInet that underscores the need for risk mitigation and controls. The use of a statement of objectives type of contract is made high-risk by broadly defined performance requirements. Translating the Border Patrol's operational requirements effectively into contract requirements entails thoroughly identifying the problems with status quo border control, communicating the problem to industry, negotiating a best value solution, and, applying measures of performance and effectiveness to gauge success. A broadly defined statement of objectives approach coupled with undefined requirements leaves programs vulnerable to failure and cost overruns.

## **Acquisition Management a Priority Area for the OIG**

We are currently developing our work plan for fiscal year 2007. Depending on available resources, we expect the plan to include audits and reviews that will examine crosscutting acquisition issues, in addition to individual programs and contracts. Acquisition management is a priority area for OIG and an area where we plan a proactive approach to identify the risks we see to avoid wasteful spending and obtain the right equipment and services to achieve DHS's mission.

We intend to initiate a review of the Department's use of sole source contracts. DHS's current advance acquisition plan lists eight non-competitive procurements valued at more than \$10 million each. Non-competitive procurements require justification and additional management controls to ensure that the procurements are in the best interest of the government and provide taxpayers the best value. Additionally, we plan a series of projects on Deepwater, SBI, and other major acquisitions. We look forward to conducting these projects and providing the results to Congress and the Secretary.

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

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