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U.S. HOUSE OF REPRESENTATIVES

CONCERNING

**TSA REFORM: EXPLORING INNOVATIONS IN TECHNOLOGY
PROCUREMENT TO STIMULATE JOB GROWTH, PART III**

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Good morning Chairman Rogers, Ranking Member Jackson Lee 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 improvements that can be made to the procurement and acquisition practices at DHS and specifically at the Transportation Security Administration (TSA).

As you know, the DHS Office of Inspector General (OIG) was established in January 2003 by the *Homeland Security Act of 2002*, which amended 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. I will describe some of the serious challenges facing DHS in acquisition management and address some improvements the Department can make in the oversight of components' acquisition programs. I will also offer some recommendations regarding the Department's acquisition of detection equipment.

Background

Acquisitions consume a significant part of the DHS' annual budget and are fundamental to the Department's ability to accomplish its mission. In fiscal year (FY) 2010, DHS awarded over \$13 billion for more than 88,000 procurement actions. TSA's budget authority for FY 2010 was over \$7.5 billion.

The Under Secretary for Management (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.

Recognizing the continued increase in the quantity and complexity of DHS acquisitions, in November 2008 the USM classified acquisitions into three levels to define the extent and scope of required project and program management and 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 the Deputy Secretary or Under Secretary for Management. Level 2 acquisitions (between \$300 million and \$1 billion) are normally overseen by the USM or the Deputy USM and are potentially delegable to

Component Acquisition Executives. For level 3 acquisitions (less than \$300 million), the Acquisition Decision Authority is the component head. Thus, the Department oversees acquisition programs at or above \$300 million in life cycle cost. Individual components such as TSA are responsible for the oversight and controls for acquisition programs below the \$300 million threshold.

On May 26, 2010, the USM issued the Department's latest Major Acquisition Oversight List. The list identified 86 major acquisition programs, projects, and services requiring direct departmental oversight. TSA had seven level 1 and five level 2 acquisition programs on that list. These programs included:

- Information Technology Infrastructure Program (Level 1)
- Transportation Worker Identification Credentialing (Level 1)
- Electronic Baggage Screening Program (Level 1)
- HRAccess (Level 1)
- Passenger Screening Program (Level 1)
- Screening Partnership Program (Level 1)
- Secure Flight (Level 1)
- Field Real Estate Management (Level 2)
- National Explosives Detection Canine Team Program (K9) (Level 2)
- Security Technology Integrated Program (Level 2)
- Specialized Training (Level 2)
- TTAC Infrastructure Modernization Program (Level 2)

Additional DHS Oversight Needed for Component Acquisition

While the Department has taken 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. We made four recommendations to the CPO to strengthen the Department's management oversight and controls over component acquisition programs. The CPO agreed with our recommendations and initiated corrective actions.

Our report *DHS Oversight of Component Acquisition Programs* resulted from an audit that was designed to determine whether the Department established adequate management oversight and controls over component acquisition programs. As part of this audit, we reviewed 17 DHS acquisition programs, including 8 programs at TSA. The following TSA acquisition programs were included in our review:

- Screening Partnership Program (Level 1)
- TTAC Infrastructure Modernization (Level 2)
- National Explosives Detection Canine Team Program (Level 2)
- HAZMAT Threat Assessment Program (Level 3)
- Freedom Center (formerly Trans Security Ops Center) (Level 3)
- Performance and Results Information System (Level 3)

- Consolidated Screening Gateway (Level 3)
- Intermodal Security Training Exercise Program (Level 3)

Our report 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. The Department has neither fully defined an acquisition program for its components, nor developed consistent guidance for reporting acquisitions in its standard system. In addition, the Department has not ensured that components are using all acquisition tools available and that they have adequate policies and procedures in place to manage acquisition programs.

As a result, components created program management offices to manage simple procurements, incurring unnecessary administrative program costs without adding value to the programs. Additionally, without adequate controls in place, the Department did not have complete visibility of all programs within its acquisition portfolio.

Unclear Guidance

The Department has not fully defined when a component should manage an acquisition under the requirements of the Acquisition Lifecycle Framework or manage it as a simple procurement. We found that many components were committed to following the Department's guidance but needed more structure for determining when to establish a program to acquire a product or service. We requested a list of all programs from each component and received numerous questions and conflicting responses. For example, TSA personnel reported that they classified all acquisitions that appeared to be programs as acquisition programs because the definition was unclear.

Directive 102-01, which prescribes guidance over the Acquisition Review Process, Acquisition Lifecycle Framework, and Acquisition Review Board, establishes the overall policy and structure for acquisition management within the Department. But the directive does not provide a decision-making tool to determine if an acquisition warrants the higher level of internal controls required by the Acquisition Lifecycle Framework. The supplemental Acquisition Instruction/Guidebook 102-01-001 (Guidebook) provides detailed instructions on implementing and managing acquisitions, but also does not provide clear instruction for determining if an acquisition should become an acquisition program, and in attempts to comply with the directive, components over-classified programs.

We reviewed several acquisition programs that do not clearly fit into the Acquisition Lifecycle Framework process. Ten of the 17 (59%) programs we reviewed, with an estimated life cycle cost of about \$5.3 billion, were acquisitions that identified commercial-off-the-shelf equipment or existing contracts to fulfill the needs identified by the program office. Component personnel likely could have managed these as simple procurements rather than acquisition programs. For example, the TSA classified renovation of an existing warehouse building as an acquisition program. It leased the

104,000-square-foot building in 2003 and renovated approximately 89,000 square feet for about \$42 million over the initial 10-year leasing period. In 2008, TSA primarily relied on existing contracts to complete 12,500 of the remaining 15,000 square feet of the warehouse building. According to TSA personnel, the renovation for the additional 12,500 square feet cost about \$2.5 million, with construction completed in January 2010. For this small renovation project, TSA personnel could have used simple procurement rules but instead increased administrative costs by implementing the more complicated internal control structure prescribed in Directive 102-01.

Based on the definition of an acquisition program in the Guidebook, this renovation could possibly be an acquisition program. However, based on the processes and procedures laid out in Directive 102-01's Acquisition Lifecycle Framework and Acquisition Review Process, this renovation does not meet the intentions of the existing guidance or present a high enough level of risk to warrant the increased costs of being managed as a program.

Components should not create acquisition programs for acquiring products and services that are outside the intent and spirit of Directive 102-01. The Department can reduce some of the conflicts at the component level by developing a decision matrix that the components can apply in the pre-planning phases of the purchasing process.

Use of Available Tools

The Department developed inconsistent reporting requirements for components to follow when reporting an acquisition's progress in nPRS, the Department's standard reporting system. nPRS is an integrated system that provides DHS headquarters visibility of 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. Moreover, the Department has not ensured or mandated that components use nPRS, which would provide transparency and efficiency of component acquisition programs. Because the Department has not consistently mandated use of nPRS, component personnel have developed, or are in the process of developing, their own data-tracking systems.

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.

The Department has also not ensured that the components use the Strategic Sourcing Program Office (SSPO) when managing acquisition programs. According to a 2005 memorandum from the Office of Management and Budget:

Strategic sourcing is the *collaborative* and *structured* process of critically analyzing an organization's spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently. This process helps agencies optimize performance, minimize price, increase achievement of socio-economic acquisition goals, evaluate total life cycle management costs, improve vendor access to business opportunities, and otherwise increase the value of each dollar spent.¹

The Department created the SSPO to help components identify best prices available for a requirement, engage in market research to identify the best available vendors and manufacturers, minimize duplication of effort for market research, and provide department-wide contract vehicles. Because the current guidance is silent regarding the use of the SSPO, the Department may be incurring increased cost for component procurements. In addition, components may be conducting duplicative market research for procurements that the SSPO has performed. The Department should make sure that personnel at TSA and other components are at least considering the use of the SSPO during the planning stages of their acquisition programs.

Department-wide Management of Detection Equipment

Our recent audit report, *OIG-11-47, DHS Department-wide Management of Detection Equipment* (March 2011), highlighted some of the acquisition challenges facing the Department when multiple components have similar requirements or are buying the same type of equipment. We identified steps the Department can take to improve its acquisition processes. With improved management, DHS can streamline the acquisition process, improve efficiencies, and provide uniform equipment inventory information.

DHS has eight different procurement offices that purchase detection equipment. Seven of these offices are at the component level, and each has its own head of contracting. These components are as follows:

- United States Customs and Border Protection
- Federal Emergency Management Agency
- Federal Law Enforcement Training Center
- United States Immigration and Customs Enforcement
- Office of Procurement Operations²
- Transportation Security Administration
- United States Coast Guard

¹ Office of Management and Budget memorandum to Chief Acquisition Officers, *Implementing Strategic Sourcing* (May 20, 2005).

² In 2004, the Department created the Office of Procurement Operations to provide acquisition services to components that did not have a procurement office.

- United States Secret Service

Components maintain separate inventories for their detection equipment. For FY 2010, the components had a combined inventory of more than \$3.2 billion worth of detection equipment, most of which is deployed. The components purchased an average of about \$387 million worth of detection equipment in each of the last 3 years, ranging from about \$280 million to \$511 million. This equipment includes metal detectors, explosive detection systems, and radiation detectors (including some personal protective safety equipment) for screening people, baggage, and cargo at airports, seaports, and land ports of entry, as well as federal buildings. As of March 1, 2010, TSA's detection equipment accounted for 66% of the Department's total inventory.

Our audit work showed that DHS can better manage the acquisition of detection equipment by developing processes based on best practices such as strategic sourcing.

Strategic Sourcing

As discussed above, DHS has established a Strategic Sourcing Program and has applied strategic sourcing strategies for many common use items, such as firearms, ammunition, and office supplies; however, the Department is not managing its detection equipment through this program. According to DHS officials, components are encouraged but not required to use the Strategic Sourcing Program and generally do not coordinate and communicate when acquiring detection equipment. There is no mechanism in place for components to standardize equipment purchases or identify common mission requirements among components. For example, the Department's Joint Requirements Council is inactive, and components do not have the expertise of commodity councils or single-item managers to rely on when acquiring detection equipment. Further, components view detection equipment as unique to their missions and do not attempt to identify common mission requirements among other components. This results in numerous inefficient purchases by individual components instead of consolidated purchases.

Standardizing Equipment Purchases

Some components did not standardize equipment purchases and purchased a variety of different detection equipment models. For example, United States Citizenship and Immigration Services (USCIS) has 24 and CBP has 21 different models of small x-ray equipment, and CBP and USCIS each have 14 different models of walk-through metal detectors. When components have multiple models of equipment to meet similar missions, DHS incurs higher procurement administrative costs and logistic support costs for maintenance, training, and support. In contrast, TSA, which uses and maintains the largest inventory of detection equipment in the Department, uses only seven different models of small x-ray equipment and three models of walk-through metal detectors. By limiting the number of models and types of equipment, TSA is in a position to increase efficiencies in procurement, maintenance, and personnel flexibilities.

Common Mission Requirements

We identified about \$170 million worth of small x-ray machines, metal detectors, and personal and hand-held radiation detectors that DHS could acquire through strategic sourcing strategies. Although multiple components were using similar equipment to meet similar screening missions, each component purchased the equipment separately. Components did not coordinate with each other to identify common requirements, consolidate purchases to gain buying power, or consolidate logistic support requirements.

DHS Management Directive 1405 established a Joint Requirements Council (JRC) as a senior-level requirements review board to identify cross-cutting opportunities and common requirements among DHS organizational elements for non-information technology investments. The JRC met periodically between fiscal years 2004 and 2006. Representatives on the JRC reviewed programs and processes for potential mission overlap and redundancies. Among the programs reviewed were TSA's Secure Flight and Registered Traveler and CBP's Consolidated Registered Traveler programs. In 2006, the JRC stopped meeting after the Department assigned the council chair to other duties. However, DHS now recognizes the importance of the JRC and indicated that it might revive the council or pursue another alternative to identify duplicate programs and processes across the Department. This undertaking should include an effort to identify common data elements and nomenclature within inventories and to establish a data dictionary for the Department's detection equipment.

In addition to the JRC, commodity councils are an integral element of developing an effective strategic sourcing program. Commodity councils include representatives from across the organization. The members act as the subject matter experts in the acquisition process and in establishing requirements for a specific commodity or service. Generally, the component purchasing the largest quantity of a particular item takes the lead role in acquiring the commodity or service and may serve as that commodity's single-item manager.

DHS and other federal agencies use the commodity council concept. For example, in 2003, DHS established the Weapons and Ammunition Commodity Council to create a department-wide strategy for consolidating requirements and gaining economies of scale for the acquisition of weapons and ammunition. The council, which includes representatives from each component that uses weapons, developed requirements for firearms, ammunition, and body armor. ICE took the lead role, using service-level agreements with other components to establish one overall contract, which is available to all DHS entities.

The Department has agreed in principle with our two recommendations, and is taking action to implement the recommendations. DHS is evaluating reestablishing the Joint Requirements Council and other alternatives to achieve the same goal. It will perform a business case analysis of detection equipment and establish a commodity council or working group if it determines that this equipment can be strategically sourced.

Conclusion

Though DHS was established by combining 22 agencies with different legacy systems, missions, and cultures, it has made considerable strides in establishing its acquisition management practices and procedures. It has established oversight policies, clarified roles and responsibilities for acquisition, and worked to address staff shortages. It needs to continue improvements that affect its cohesion as a Department and its bottom line. Increased use of such tools as strategic sourcing and a commonly applied definition of an acquisition program will help the components such as TSA and will result in more cost effective and efficient acquisitions.

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