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BEFORE THE

**SUBCOMMITTEE ON MANAGEMENT,
INVESTIGATIONS, AND OVERSIGHT**

COMMITTEE ON HOMELAND SECURITY

U.S. HOUSE OF REPRESENTATIVES

September 17, 2008



Good afternoon, Mr. Chairman and Members of the Subcommittee. I am James L. Taylor, Deputy Inspector General for the Department of Homeland Security. Thank you for the opportunity to discuss the acquisition management challenges facing DHS.

The Department of Homeland Security is charged with extremely challenging and critical missions; be it reducing illegal immigration, preventing dangerous individuals and materials from entering our country, protecting our waterways, ensuring safe travel by air and rail, or working in collaboration with states and localities to prepare for, and respond to natural disasters, to name just a few. Contracting for goods and services is absolutely critical to achieving these missions and consumes nearly 40% of the Department's annual budget of \$47 billion. As a result, effective acquisition management is fundamental to DHS' ability to accomplish its 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, balanced approach that considers cost, schedule, and performance. A successful acquisition process requires an effective acquisition management infrastructure. This is especially true when complex and large dollar procurements are involved.

Today, I would like to highlight acquisition management challenges facing the department in the following areas:

- Organizational alignment and leadership;
- Policies and processes;
- Financial accountability;
- Acquisition workforce;
- Knowledge management and information systems; and
- Balancing urgency and good business practices.

These interrelated elements are essential to an efficient, effective, and accountable acquisition process.

Organizational Alignment and Leadership

DHS was created from components of 22 agencies of the federal government. In their transition into DHS, seven agencies retained their procurement functions, including U.S. Coast Guard (USCG), Federal Emergency Management Agency (FEMA), and Transportation Security Administration (TSA). The seven procurement offices, called Heads of Contracting Activities, retained the expertise and capability they had before creation of DHS, with staff size that ranged from 21 to 346 procurement personnel. To manage department-wide procurements and provide procurement services for the remaining components, DHS created an eighth office, the Office of Procurement Operations.

DHS also established a Chief Procurement Officer reporting directly to the Undersecretary for Management. Each component head shares responsibility for the acquisition function with the DHS Chief Procurement Officer. As a result of this dual accountability, the Chief Procurement Officer has used collaboration and cooperation with the components as the primary means of managing DHS-wide acquisition oversight.

The department continues to face challenges associated with implementing an acquisition function that is not fully integrated. The structure of DHS' acquisition function creates ambiguity about who is accountable for acquisition decisions. Within FEMA, for example, we found that the agency's acquisition function is viewed more as a support function than as a partner, and it is not aligned organizationally to ensure efficiency and accountability.

DHS' executive leadership has made modest progress in ensuring the acquisition program achieves the organizational alignment needed to perform its functions. One area of improvement is the increased communication by acquisition leadership to inform staff about the role and importance of their mission to the department. The atmosphere for collaboration between DHS and its component agencies on acquisition matters has also improved.

Policies and Processes

DHS has made modest progress in developing policies and processes to ensure that components comply with regulations, policies, and procedures to achieve department-wide goals. DHS has developed and begun to implement an acquisition oversight plan that incorporates policy, internal controls, and other elements of an effective acquisition function. While it is too early to assess the acquisition oversight plan's overall effectiveness, the initial implementation has helped the components prioritize actions to address identified weaknesses.

An effective acquisition function includes processes and procedures that ensure contracts are written with specific measurable criteria against which the contractor's performance may be evaluated. DHS components have struggled to implement this important practice, even before DHS stood up. For example, in August 2002 TSA awarded a \$1 billion performance-based contract for information technology managed services to Unisys Corporation, using a broad statement of objectives to describe requirements rather than a specific statement of requirements. At the time of our review¹, TSA had expended 83% of the contract ceiling in less than half of the contract period and had not received many essential deliverables that were critical to airport security and communications, such as high-speed operational connectivity. Many airports were operating with archaic telephone systems, dial-up internet, ineffective e-mail connectivity, and land mobile radios that were not interoperable with other law enforcement agencies and did not have reception throughout the airport.

¹ Transportation Security Administration's Information Technology Managed Services Contract, OIG-06-23, February 2006.

Also on this contract, TSA used service requests, which sometimes lacked statements of work with delivery due dates and acceptance criteria. As a result, TSA had no assurance that costs were fair and reasonable; the contractor was sometimes allowed to perform unauthorized contract work; and TSA did not effectively manage its project priorities.

Financial Accountability

Financial accountability means having sound financial systems to provide credible, reliable, and accurate information that can: (1) ensure that the agency meets its financial obligations, (2) enhance strategic acquisition decisions, and (3) enable effective evaluation and assessment of acquisition activities. DHS has made limited progress in ensuring financial oversight and accountability within the acquisition function. The acquisition and finance offices have not successfully partnered on acquisition planning and strategic decision-making. DHS has numerous and persistent issues with inadequate internal controls and data verification. Improper payments have been made, and there are few checks on data once it is recorded in the system. This problem is exacerbated by the use of multiple, nonintegrated information technology systems across the department. Without a reliable data system, it has been very difficult for the financial office to make an impact on the broader acquisition process.

Acquisition Workforce

Successful acquisition efforts depend on agency and management valuing and investing in the acquisition workforce. The capabilities of DHS' acquisition workforce will determine, to a great extent, whether major acquisitions fulfill DHS' urgent and complex mission needs. Contracting officers, program managers, and Contracting Officer Technical Representatives (COTRs) make critical decisions on a daily basis that increase or decrease an acquisition's likelihood of success. It is critical that DHS devote adequate resources to ensure that it has the right staff, in the right number, with the right skills, in the right places, to accomplish its mission effectively.

Both our office and the Government Accountability Office (GAO) have reported that the Office of the Chief Procurement Officer needs more staff and authority to carry out its oversight responsibilities. GAO recommended that DHS provide the Office of the Chief Procurement Officer sufficient resources and enforcement authority to enable effective, department-wide oversight of acquisition policies and procedures. We made a similar recommendation.

Our recent audit of DHS' acquisition workforce,² confirmed that DHS cannot provide reasonable assurance that qualified acquisition personnel are managing acquisitions. Federal policy requires each agency to collect, maintain, and utilize information to ensure the effective management of the acquisition workforce. However, neither DHS, USCG,

² Acquisition Workforce Training and Qualifications, OIG-08-56, May 2008.

TSA, nor Customs and Border Protection (CBP) have complete, reliable information and supporting documentation about their acquisition personnel or their assignments. The majority of the acquisition training and certification files we reviewed were incomplete and did not have supporting training or certification documentation. Furthermore, major differences existed between the DHS Acquisition Workforce Development Office database and acquisition workforce databases maintained by the components.

This audit also found that DHS had problems with policies and procedures associated with the acquisition workforce. Management directives for the federal acquisition certification programs related to contracting officers and program and project managers were not revised timely to reflect current federal requirements. Additionally, DHS has not established a policy on the development, selection, assignment, and management of program managers, and certification levels for program and project managers were inconsistent among various management directives.

To its credit, DHS has made some progress in building and maintaining a skilled acquisition workforce. Personnel budget increases have allowed the department to fill many acquisition staff positions. GAO reported in April 2008 that approximately 61% of the minimum required staff are in place. However, this constitutes only 38% of the optimal level of contract specialists. Further, Office of Personnel Management data indicates that more than 40% of DHS' contracting officers will be eligible to retire within the next 5 years. Competition with other departments for acquisition personnel is intense. To mitigate these circumstances, DHS plans to implement an acquisition internship program that will bring in junior staff. Additionally, the Office of the Chief Procurement Office created a training program to increase the pool of certified program managers, and has also undertaken an outreach program to involve DHS component staff to assist in acquisition oversight.

Components within the department such as USCG and CBP's Secure Border Initiative have initiatives to develop and retain a workforce capable of managing complex acquisition programs, but they are still relying on support contractors to fill key positions. Until a fully trained acquisition workforce is developed, it will be difficult to achieve further progress needed for an efficient, effective, and accountable acquisition function.

Knowledge Management and Information Systems

The department's acquisition-related information systems are generally not integrated, contain unreliable data, and lack adequate internal controls. As a result, the acquisition program cannot effectively provide information to its stakeholders and does not have the tools necessary for planning or monitoring its transactions. Many DHS components maintain their legacy contract writing systems and DHS lacks integration between contract writing and contract management systems. Although DHS has selected PRISM as its standard contract writing system, the department-wide rollout is behind schedule. Integration and data accuracy problems will continue to exist until all components migrate to the same contract writing system. DHS also needs to improve the tracking of

its acquisition workforce training and qualifications to ensure workforce development and appropriate assignment to acquisition projects.

DHS has made some progress in improving the integration of its information systems. For example, the USCG has completed the integration of three separate accounting systems into a single Acquisition, Construction, and Improvement data set that is usable by all Coast Guard acquisition personnel as part of their *Blueprint for Acquisition Reform*.

Balancing Urgency and Good Business Practices

Due to our current homeland security vulnerabilities, DHS tends to focus its acquisition strategies on the urgency of meeting mission needs, rather than balancing urgency with good business practices. Excessive attention to urgency without good business practices leaves DHS and the taxpayers vulnerable to spending millions of dollars on unproductive homeland security investments. Acquisitions must provide good value, because funds spent ineffectively are not available for other, more beneficial uses.

Common themes and risks have emerged from our audits and reviews of individual DHS contracts, primarily the dominant influence of expediency, poorly defined requirements, and inadequate oversight that contributed to ineffective or inefficient results, and increased costs. DHS has not consistently balanced the urgency of meeting mission needs with good business practices, leaving DHS and the taxpayers vulnerable to spending millions of dollars on unproductive homeland security investments. Expediting program schedules and contract awards 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.

For example, as a result of the September 11, 2001 terrorist attacks, TSA faced a formidable challenge to hire a federalized screener workforce, while concurrently standing up an agency within a one-year congressional mandate. Although TSA successfully recruited more than 56,000 airport screeners within the mandated period, success came at a high cost. The recruitment contract costs grew more than 600% over a 10-month period. In response to congressional concerns over press reports of perceived wasteful government spending by TSA's recruitment contractor, NCS Pearson, we audited TSA's management and oversight of the recruitment program.³

As a relatively new agency, TSA did not have the staff or infrastructure necessary to adequately plan and manage contracts. As a result, TSA made critical decisions without the benefit of sound acquisition planning or adequate cost control, significantly increasing costs. The establishment of temporary assessment centers, delays, and revisions in issuance of the airport federalization schedule and staffing requirements, and higher than expected applicant rejection rates significantly impacted the costs to establish

³ Review of the Transportation Security Administration's Management Controls Over the Screener Recruitment Program OIG-06-18, December 2005.

and operate 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 necessitated larger and more accessible assessment centers. All of these factors contributed to the escalation of contract costs from the original estimate of \$104 million to the settlement amount of \$742 million.

Programs developed under a sense of urgency sometimes overlook key issues during program planning and development of mission requirements. An over-emphasis on expedient contract awards may also hinder competition, which frequently results in increased costs or improper sole-source contracts. For example, CBP did not comply with federal regulations when it awarded Chenega Technology Services Corporation a sole-source contract under an incorrect industry classification code.⁴ Had CBP used the correct classification, the contractor would have been ineligible for the sole source award. This action prevented eligible small businesses from competing for a nearly \$475 million contract and might not have provided the best value for the government.

In another example, in 2005 FEMA issued noncompetitive Individual Assistance – Technical Assistance Contracts to four large contractors in 2005: Fluor Enterprises, Inc., Shaw Group, CH2M Hill Constructors, Inc., and Bechtel National, Inc. These contractors were tasked to provide and coordinate comprehensive project management services. Our recently released report⁵ focused on the contractor costs incurred by FEMA for the delivery, installation and maintenance of temporary housing units for the Hurricane Katrina relief effort on group, commercial and private sites. We determined that the combination of deficiencies in acquisition planning and contract oversight led to waste of government funds and questioned costs of \$45.9 million of the \$3.2 billion contract obligation. We observed a correlation between deficient procurement practices and contract management procedures, and uncontrolled growth in the amount of funds obligated and expended under the contracts. FEMA's ability to properly inspect and accept goods and services was hampered because of (1) the number and complexity of contractor invoices it received, (2) inadequate FEMA staffing, and (3) unclear contractor invoices. Of the \$45.9 million of questioned costs, \$37.2 million or 81% related to inspection and acceptance of goods and services.

We recognize that FEMA has already begun the process of improving its operation and controls. New competitively bid contracts were awarded in August 2006 and FEMA has been working to improve policy and procedures. It is well understood that one of FEMA's biggest challenges during disaster relief efforts is to balance the need to quickly provide assistance to victims while ensuring accountability to protect against waste, fraud, and abuse. However, FEMA should ensure contract terms are clear and enforced.

Although there were established procedures to inspect goods and services, and perform invoice reviews, amounts invoiced by the contractors needed to include adequate cost

⁴ Customs and Border Protection Award and Oversight of Alaska Native Corporation Contract for Enforcement Equipment Maintenance and Field Operations Support, OIG-08-10, October 2007.

⁵ Hurricane Katrina Temporary Housing Technical Assistance Contracts, OIG-08-88, August 2008.

details to allow FEMA to link invoices to specific contractor activities under the statement of work. We question how FEMA determined that the amounts invoiced were allowable and reasonable. Overall, an adequate number of staff should be employed to 1) sufficiently plan acquisitions; 2) monitor contracts and hold contractors compliant to the terms of the contract; and 3) inspect and accept services rendered.

Numerous opportunities exist for DHS to make better use of good business practices, such as well-defined operational requirements and effective monitoring tools that preserve the government's ability to hold poorly performing contractors accountable.

Suspension and debarment are the most serious methods available to hold government contractors accountable for failed performance and to protect the government's interests in future procurements. To ensure the government has the option of using these methods, along with other tools to hold contractors accountable, the government must use good business practices to lay the groundwork from the very beginning of the acquisition process. That is, contracts must specify precisely expected outcomes and performance measures, and the government must properly oversee contractor performance. Without these basic provisions, the government will have no basis to assert that a contractor failed to perform, and thus, no basis to pursue suspension and debarment to protect the taxpayers in future procurements.

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. DHS has been given a difficult and complex task in addressing these threats. However, we should not allow expediency to completely and consistently overrule sound business practices. When that happens, we fail to get the right products and services at the right times for the right prices.

Outlook and OIG Oversight

DHS can protect the public interest in major acquisitions. The long-run solutions include:

- Strong program and procurement offices;
- Clearly articulated program goals;
- Defined program technical requirements, performance measures, and acceptance terms;
- Well-structured contracts; and
- Thorough cost and performance oversight.

In the near term, DHS can mitigate risks and limit government's exposure through such actions as the following:

- Writing shorter-term contracts with smaller, incremental tasks;
- Using contract vehicles that better share risk between government and vendor; and
- Ensuring that the government retains negotiating power with decision points and options.

For our part, the OIG will continue a vigorous audit and investigation program to identify DHS acquisition vulnerabilities and recommend swift, cost-effective improvements. Acquisition management is and will continue to be a priority for my office. Our plan is to continue examining such crosscutting acquisition issues as workforce qualifications, competition, small and disadvantaged business utilization, and corporate compliance, in addition to individual projects such as Deepwater and the Secure Border Initiative.

Mr. Chairman, this concludes my prepared statement. I will be pleased to answer any questions you or the Members may have.