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BEFORE THE

**SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
ORGANIZATION, AND PROCUREMENT
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U.S. HOUSE OF REPRESENTATIVES

“Federal Contracting: Do Poor Performers Keep Winning?”

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Good afternoon, Mr. Chairman and Members of the Subcommittee. I am Richard L. Skinner, Inspector General for the Department of Homeland Security (DHS). Thank you for the opportunity to discuss acquisition management at the Department of Homeland Security.

The Department of Homeland Security Acquisition Structure

DHS began operations on March 1, 2003. It was created from components of 22 agencies of the federal government. 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 mirrored the expertise and capability they had before creation of DHS, with staff size that ranged from 21 to 346 procurement personnel. DHS established an eighth acquisition office, the Office of Procurement Operations, under the direct supervision of the Chief Procurement Officer, to service the other DHS components and manage department-wide procurements. In FY 2006, the Office of Procurement Operations, FEMA, USCG, and CBP awarded nearly 75 percent of DHS' obligated contracts.

In October 2004, management directives governing acquisitions, human capital, financial management, and information technology were issued, providing that a "Chief" of each of these functions exercise leadership and authority over all aspects of that area within DHS. The acquisition management directive acknowledges the existence of the eight distinct procurement offices, and stipulates that under the concept of dual accountability, each component head shares responsibility for the acquisition function with the DHS Chief Procurement Officer. Additionally, the directive makes clear that the Head of Contracting Activity in each of the eight procurement offices is the individual responsible for the direct management of the entire acquisition function within the component, and reports directly to the component head.

DHS Acquisition Management Challenges

Building an effective acquisition management infrastructure for the significant level of contracting activities in the department is a major challenge. 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 DHS' 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.

Acquiring cost-effective goods and services is essential to DHS' ability to accomplish its important and complex missions. To accomplish its mission of securing the homeland, DHS spends billions of taxpayer dollars annually. DHS spends nearly 40 percent of its budget through contracts and other contracting vehicles. These acquisitions must provide good value or we risk spending excessive money on unproductive investments for our homeland security. Funds spent ineffectively are not available for other, more beneficial uses.

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 lay the groundwork from the very beginning of the acquisition process. That is, contracts must specify precisely the 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.

Numerous opportunities exist for DHS to make better use of good business practices, such as well-defined operational requirements and effective monitoring tools, that would have preserved the government's ability to hold poorly performing contractors accountable. Several DHS procurements have encountered problems because contract technical and performance requirements were not well defined.

Implicit in each procurement is the desire to accomplish a mission need as reliably and as cost-effectively as possible. Due to our current homeland security vulnerabilities, however, DHS tends to focus its acquisition strategies on the urgency of meeting mission needs, rather than balancing urgency with good business practices. The urgency and complexity of the department's mission will continue to demand rapid pursuit of major investments. Excessive attention to urgency, however, without good business practices leaves DHS and the taxpayers vulnerable to spending millions of dollars with little improvement in homeland security and little chance of recovering money spent.

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 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.

To be fully successful, DHS must have an infrastructure in place that enables it to oversee effectively the complex and large dollar procurements critically important to achieving the DHS mission. 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.

Furthermore, DHS continues to pursue high-risk, complex, system-of-systems acquisitions programs. One procurement method DHS uses is performance-based contracting. While this method has certain advantages over traditional, specifications-based contracting, it also introduces risks that, unless properly managed, threaten achievement of cost, schedule, performance, and, ultimately, mission objectives.

A performance-based acquisition strategy to address the challenges of DHS' programs is, in our opinion, a good one. Partnering with the private sector adds fresh perspective, insight, creative energy, and innovation. It shifts the focus from traditional acquisition models, i.e., strict contract compliance, into one of collaborative, performance-oriented teamwork with a focus on performance, improvement, and innovation. Nevertheless, using this type of approach does not come without risks. To ensure that this partnership is successful, the department must lay the foundation to oversee and assess contractor performance, and control costs and schedules. This requires more effort and smarter processes to administer and oversee the contractors' work. Therein lies the critical importance of describing mission needs, and the yardsticks by which to measure achievement, completely and precisely. Again, without clear agreement between the government and the contractor about what the procurement is to achieve, the government is vulnerable to cost overruns, delays, and, in the end, not receiving a good or service that meets its needs.

Performance-based contracting may have additional risks, but with forethought and vigorous oversight, the risks can be managed. “[R]isk management is the art and science of planning, assessing, and handling future events to ensure favorable outcomes. The alternative to risk management is crisis management, a resource-intensive process” with generally more limited options.¹

While no one has yet formulated the perfect risk management solution, risks can be controlled, avoided, assumed, or transferred. For example, programs can develop alternative designs that use lower risk approaches, competing systems that meet the same performance requirements, or extensive testing and prototyping that demonstrates performance. Risk mitigation measures usually are specific to each procurement. The nature of the goods and services procured, the delivery schedule, and dollars involved determine what mitigation is appropriate.

A balanced approach is more likely to result in obtaining the right products and services at the right times for the right prices. 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. Adopting lower risk acquisition approaches that better protect the government's interests enhances the department's ability to take action against bad actors.

Elements of an Efficient, Effective, and Accountable Acquisition Process

We recently published the first of what will be a series of scorecards identifying the progress made in selected acquisition functions and activities within DHS. The data included in the scorecards reflect our audits and inspections reports issued through March 2007, as well as additional fieldwork conducted in February and March 2007. Our focus was on specific areas within acquisition management.

¹ *Risk Management Guide for DoD Acquisition*, Department of Defense, Defense Acquisition University, Fifth Edition (Version 2.0), June 2003.

We used GAO's *Framework for Assessing the Acquisition Function at Federal Agencies* (September 2005) and DHS' *Acquisition Oversight Program Guidebook* (July 2005) as a baseline. These references identify the following five interrelated elements essential to an efficient, effective, and accountable acquisition process:

- **Organizational Alignment and Leadership.** The end goal of organizational alignment is to ensure that the acquisition function enables the agency to meet its overall mission and needs. The acquisition function needs proper management support and visibility within the organization to meet that goal. Leaders have the responsibility to set the corporate agenda, define and communicate the organization's values and culture, and remove barriers that block organizational change.
- **Policies and Processes.** Policies and processes embody the basic principles that govern the way an agency performs the acquisition function. Planning strategically requires determining and managing relationships of those involved in the acquisition process, analyzing aggregate agency needs, and devising strategic acquisition plans to meet those needs. Agency processes need to ensure that contracted goods and services will be delivered according to the schedule, cost, quality, and quantity specified in the contract. Particular attention should be given to capital investments since they require more analysis, support, and review than projects that cost less, have shorter timeframes, or have less agency-wide impact.
- **Financial Accountability.** Sound financial systems 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.
- **Acquisition Workforce.** Successful acquisition efforts depend on agency and management valuing and investing in the acquisition workforce. By focusing on hiring, training, and professional development, strategic planning outlines ways to help fill gaps in knowledge, skill, and abilities. Sufficient attention needs to be given to acquiring, developing, and retaining talent or federal agencies could lose a significant portion of their contracting knowledge base. Leading organizations foster a work environment in which people are empowered and motivated to contribute to continuous learning and mission accomplishment.
- **Knowledge Management and Information Systems.** Leading organizations gather and analyze data, generally through information systems, to identify opportunities to reduce cost, improve service, measure compliance, and provide better management. Data collected in support of meaningful metrics can assist agencies to track achievement of plans, goals, and objectives and to analyze the differences between actual performance and planned results. However, it is essential that acquisition management systems contain appropriate, cost-effective controls to: (1) safeguard assets, (2) ensure accurate

aggregation and reporting of information, and (3) support the accomplishment of organizational objectives. Appropriate and cost-effective controls provide accessible, timely, and accurate data to managers and others needing acquisition information.

We determined that significant improvements were needed in all five of the elements identified above. Major concerns for the acquisition programs include: (1) an integrated acquisition system does not exist; (2) full partnership of acquisition offices with other departmental functions has not been realized; (3) comprehensive program management policies and processes are needed; (4) staffing levels and trained personnel are not sufficient; (5) financial and information systems are not reliable or integrated; and (6) timely, corrective actions have not been taken in response to many our and GAO report recommendations. Following is a summary of our assessment:

The Office of the Chief Procurement Officer

The Office of the Chief Procurement Officer is the DHS organization with responsibility for all department acquisition activities and services. This includes management, administration and oversight, financial assistance, and strategic and competitive sourcing. Responsibilities also include the development and publication of department-wide acquisition and financial assistance regulations, directives, policies, and procedures. However, as mentioned previously, each component head shares responsibility for the acquisition function with the DHS Chief Procurement Officer. Therefore, the Chief Procurement Officer has used collaboration and cooperation with the components as the primary means of managing DHS-wide acquisition oversight. Specifically, some of the collaborative methods in use include: integrating the diverse departmental components through common policies and procedures, meeting monthly with Heads of Contracting Activities to discuss issues and to work out problems, and providing input regarding new hires and employee performance for Heads of Contracting Activities staff.

In FY 2006, DHS obligated \$15.7 billion in contracts, of which 83 percent was for services. Recent congressional testimony, audits, and reviews cited significant deficiencies in DHS' overall acquisition program, including the following: (1) DHS leadership has not firmly established strong centralized acquisition authority in the Office of the Chief Procurement Officer; (2) DHS has not maintained effective internal control over financial reporting, with recurring significant weaknesses reported; (3) DHS Information Systems are not integrated and do not provide helpful reports and analysis; (4) improvements are needed in the description of technical and performance requirements in contracts; and (5) additional staffing is required for program management activities.

DHS acquisition leaders identified some progress, but significant work remains before the acquisition program is fully functional. While many of the remaining acquisition challenges impact the Office of the Chief Procurement Officer, some of these challenges fall outside of its control. Based on conditions recently disclosed by our office and GAO, interviews with DHS officials, and review of data, we rated the five interrelated elements essential to an efficient and effective acquisition process. The ratings and a brief summary of each element are discussed below.

Organizational Alignment and Leadership. Since March 2003, DHS' executive leadership has made modest progress in ensuring the department's 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 DHS. The atmosphere for collaboration between DHS and its component agencies on acquisition matters has also improved.

Important problems still exist in this area, however. Deficiencies previously reported by our office and GAO are largely uncorrected in critical areas necessary for effective acquisition organizations. The acquisition program continues to be viewed by many as a support function, i.e., contract processing office, instead of a partner. Furthermore, acquisition management has only recently begun receiving sufficient resources from DHS leadership for adequate staffing and training. Strong executive leadership is needed to ensure that the importance of the acquisition function is acknowledged and integrated with all other functions involved in, or affected by, procurement activities.

Policies and Processes. DHS has made modest progress over the past four years in developing policies and processes to ensure components comply with regulations, policies, and processes to achieve department-wide goals. In 2005, a management directive, accompanied by the *Acquisition Oversight Program Guidebook*, established policies and procedures for oversight of DHS acquisitions, with the common goal of delivering mission results while maintaining compliance with applicable laws, regulations, policies, and procedures. An acquisition manual and additional acquisition regulations for DHS have also been developed.

According to GAO and our recent reports and interviews with DHS officials, the need still remains for a comprehensive DHS approach to program management standards. Across various parts of DHS, expediency and poorly defined requirements have caused problems for the department's acquisition efforts.

Financial Accountability. DHS has made limited progress in ensuring that there is financial oversight and accountability within the acquisition function. DHS financial information is generally unreliable, and the financial systems do not have the internal controls and integration that acquisition personnel require. Also, 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 in the broader acquisition process.

Acquisition Workforce. DHS has made modest progress in building a skilled acquisition workforce. An increase in the personnel budget has allowed DHS to fill many needed acquisition staff positions. However, 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.

In previous reports, our office and GAO identified the need for additional certified program managers. The Office of the Chief Procurement Officer subsequently created a Program Management training program that should greatly increase the pool of certified program managers. Additional training and personnel are necessary, however, to reach an adequate number of certified program managers.

In addition to awarding contracts, the Office of the Chief Procurement Officer helps DHS components adhere to standards of conduct and federal acquisition regulations in awarding and administering contracts. This oversight role involves developing department-wide policies and procedures, and enforcing those policies and procedures.

Both our office and the GAO have reported that the Office of the Chief Procurement Officer needs more staff and authority to carry out its general oversight responsibilities. The Government Accountability Office recommended that DHS provide 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. The DHS, in response to our December 2006 report, *Major Management Challenges Facing the Department of Homeland Security*, said that it disseminated the Acquisition Professional Management Directive to identify and certify appropriately trained and experienced program managers, contracting officer's technical representatives, and authorized buying agents. It also has certified 348 program managers since 2004, and continues to focus on qualifications and placement.

During fiscal year 2006, the Under Secretary for Management established policies for acquisition oversight and directed each of the eight heads of contracting activities to measure and manage their acquisition organizations. Also, the number of oversight specialists in the Acquisition Oversight Division is authorized to expand to nine during fiscal year 2007. The Office of the Chief Procurement Office has undertaken an outreach program to involve DHS component staff to manage effectively and assist in acquisition oversight.

Finally, data from OPM indicates that more than 40 percent of DHS' contracting officers will be eligible to retire in the next 5 years. To counteract these problems, DHS plans to use additional appropriations to hire more personnel and implement an acquisition internship program that will bring in junior staff. The results of these efforts, unfortunately, are not yet apparent.

Knowledge Management and Information Systems. DHS has made limited progress since its creation in developing and deploying information systems to track and analyze acquisition data, and improve user efficiency. Current systems are not fully integrated, contain unreliable input, and do not have internal controls to verify data. As a result, the acquisition program cannot effectively provide information to all of its stakeholders and does not have the tools necessary to perform analysis for planning or monitoring its transactions.

Many DHS components still maintain their legacy contract writing systems, and a need for integration between contract writing and contract management systems increases the risk of data error. DHS has selected PRISM as its standard contract writing system, but 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.

Federal Emergency Management Agency

FEMA is the primary federal agency that leads the United States in preparing for, preventing, responding to, and recovering from disasters. FEMA's mission includes:

- Maintaining preparedness of emergency response personnel throughout the United States;
- Providing logistical support for disaster mitigation and recovery efforts;
- Disbursing funds for rebuilding required as a result of a disaster; and
- Providing relief for individual citizens and businesses.

FEMA coordinates the response to disasters that would otherwise overwhelm the resources of state and local authorities. FEMA's Office of the Chief Acquisition Officer provides acquisition services and solutions to support the agency's mission.

For FY 2006, FEMA obligated \$7 billion in contracts, of which 89 percent was for services. FEMA spent \$6.2 billion in services, such as construction and family housing, and \$727 million for goods, such as trailers and plastic fabricated materials.

As demonstrated after Hurricane Katrina, FEMA was not well prepared to provide the kind of acquisition support needed for a catastrophic disaster. FEMA's overall response efforts suffered from:

- Inadequate acquisition planning and preparation for many crucial needs;
- Lack of clearly communicated acquisition responsibilities among FEMA, other federal agencies, and state and local governments; and
- Insufficient numbers of acquisition personnel to manage and oversee contracts.

To support emergency and disaster response efforts in the aftermath of Hurricane Katrina, FEMA hastily purchased supplies, commodities, equipment, and other resources from numerous vendors because requirements' planning before Katrina was inadequate. In many instances, the government did not pay reasonable prices for its purchases because competition was limited. Additionally, the government's contract oversight and monitoring were inadequate, resulting in payment of questionable costs.

In February 2006, we reported that FEMA purchased mobile homes without having a plan for how to use them. As a result, FEMA now has thousands of surplus mobile homes. Similarly, in

September 2006, we reported that FEMA spent \$7 million renovating a facility to shelter evacuees. However, due to inadequate planning, the facility was never needed and the money spent to renovate it was wasted.

We conducted several investigations concerning FEMA's programs and operations, such as the Short Term Lodging Program. The Flagship Hotel's owner and others have been indicted for over billing the government for more than \$250,000, by submitting bills to FEMA's hotel billing contractor, Corporate Lodging Consultants, for Dallas, Texas, hotel rooms that Hurricane Katrina evacuees never occupied.

Based on conditions disclosed by our office and other independent reviews, and discussions with FEMA personnel, we rated the five interrelated elements essential to an efficient and effective acquisition process. These ratings reflect the performance capabilities of the acquisition process. The ratings and a brief summary of each element are discussed below.

Organizational Alignment and Leadership. FEMA's acquisition office is viewed more as a support function than as a partner, and it is not aligned organizationally to ensure efficiency and accountability. The actions taken by DHS have been too few and the process too slow to ensure that FEMA's acquisition function will meet the department's goals.

FEMA had reorganized its divisions and offices five times since 1995. In February 2007, I testified that a need for clear lines of acquisition authority among states, local, and federal authorities contributed to the poor response to Hurricane Katrina.

Since Hurricane Katrina, FEMA has made some improvements, such as increasing the number of standby contracts in place and ready to be executed when disaster strikes. Also, DHS created a Disaster Response/Recovery Internal Control Oversight Board to address many of FEMA's acquisition problems.

It also created an Acquisition Business Office to assist with strategic planning, and the establishment of a Project Integration System, which will create teams consisting of staff from different offices to draw up acquisition proposals. Additional positive signs include the restructuring of two Heads of Contracting Activities into one, and the development of the new Acquisition Tracker, to monitor status of all acquisitions from beginning to end.

Remaining significant issues include the need for more funding and staffing, especially for strategic planning. Internal reviews of management structure need to be completed so that improvements can be implemented. Also, acquisition personnel are frequently left out of key decisions, sometimes leading to "buying the wrong thing quickly." Finally, the Acquisition Business Office is not yet recognized in FEMA's financial system, and therefore has no money for travel or training.

Policies and Processes. FEMA has not formed the necessary relationship with stakeholders to analyze agency needs and ensure goods and services are delivered according to the contract terms.

Some progress has been made, however, since Hurricane Katrina, in the following areas: an increase in readiness contracts; the development of a Contract Management Guide to assist new employees; and the creation of an Emergency Acquisition Field Guide to assist disaster response staff. FEMA has exceeded its goals for procurements from small businesses and drafted a new set of FEMA policies and procedures for acquisitions.

Significant issues still remain, however. FEMA still lacks all the resources it needs to provide oversight of contractor performance, increasing the risk of waste, fraud, and abuse. Also, FEMA does not have an automated system or checklist for identification of high-risk contracts. Finally, outdated policies and limited training for staff using the Emergency Acquisition Field Guide present additional concerns.

Financial Accountability. FEMA's financial systems hinder strategic planning and contract administration. Our prior reports have disclosed a need for internal controls and proper accounting. FEMA does not have disaster contract information readily available and it was unable to fully support the accuracy and completeness of \$22.3 billion in unpaid obligations and \$1.5 billion in accounts payable, as of November 2006.

FEMA's new Acquisition Tracker, which includes data from the procurement, program, and finance offices, is seen as an important first step to integrate FEMA's finance and acquisition offices. Unfortunately, current financial systems do not have important analytical capabilities and FEMA does not have an information technology strategy for integrating financial and acquisition management data. Several other remaining significant issues included immature partnerships between FEMA offices with acquisition functions, frequently irrelevant or unusable financial reports, and incomplete assessments of payment accuracy.

Acquisition Workforce. FEMA continues to experience problems with fully staffing its acquisition office and giving the workforce necessary skills and training. The acquisition staff in FEMA is improperly trained and too small to oversee the large number of Katrina-related contracts, and prevent fraud, waste, and abuse.

FEMA acquisition leaders have plans for improvements in this area, including a formal process for reviewing and adjusting workloads, the creation of a Strategic Workforce Plan, and the development of an Acquisition Intern Program. Moreover, steps have been taken to expedite hiring, align performance plans with FEMA's goals, and measure acquisition effectiveness and efficiency.

Unfortunately, further work is needed on many issues, including finalizing the Strategic Workforce Plan, which remains in draft form. Further work is also needed to decrease the length of the hiring process, improve FEMA's image in order to attract staff, and decrease attrition in an office where half of the contracting officers will be eligible to retire over the next 5 years.

Knowledge Management and Information Systems. Information technology systems are not meeting the needs of the acquisition management function, and while a need for improvement is widely recognized, FEMA leadership and acquisition personnel disagree on the best way to rectify these deficiencies.

Previous reviews and audits have identified several problems with FEMA's information technology systems. Our November 2006 report said that FEMA's National Emergency Management Information System was unable to compare actual purchases in the field to the maximum amount authorized. In January 2007, a FEMA contractor performed an independent assessment and reported that FEMA had no clearly communicated information technology strategy. Another report said that FEMA's information technology tools were deficient, outdated, or nonexistent.

The use of the department's PRISM contract writing system throughout FEMA, beginning in February 2008, should be a positive development. Currently, however, the use of several outdated and nonintegrated systems frequently requires manual data input from one system to another. Also, systems are not user friendly and training is inadequate, which lends itself to data inputting errors.

Customs and Border Patrol's SBInet Program

In the fall of 2005, the White House and the department announced the Secure Border Initiative (SBI), a comprehensive multiyear effort to secure the borders and reduce illegal immigration, which included a U.S. Immigration and Customs Enforcement-led plan to increase and improve the apprehension, detention, and removal of illegal aliens; a U.S. Citizenship and Immigration Service-led plan for expanding the guest worker program and streamlining immigration benefits processes; and a U.S. Customs and Border Protection (CBP)-led program to gain control of the Nation's land borders. This DHS program, referred to as SBInet, is intended to improve border control operations, deploying more infrastructure and personnel with modernized technology and tactics.

The objective of SBInet is to develop solutions to manage, control, and secure the borders using a mix of proven, current and future technology, infrastructure, personnel, response capability, and processes. SBInet is a new-start major acquisition program that replaces and expands upon two previous efforts to gain control of the borders: the Integrated Surveillance Intelligence System (ISIS) and the America's Shield Initiative (ASI).

The department recognized that differences in the geography and conditions among sectors of the border require a different mix of technology, infrastructure, and personnel. Therefore, the department selected a performance-based acquisition strategy that solicited solutions from industry, and then selected a systems integrator to develop solutions to manage, control, and secure the borders. The department awarded the SBInet systems integration contract to the Boeing Company in September 2006.

The department awarded an indefinite delivery, indefinite quantity contract, leaving the work tasks and deliverables largely undefined until the government negotiates a specific delivery task order. The contract base period is 3 years with three 1-year options. The initially awarded task was for Boeing to provide and integrate equipment to achieve operational control of a segment of the border near Tucson, Arizona, by June 2007.

In FY 2006, CBP was provided \$325 million in supplemental funding for tactical infrastructure and technology. With the subsequent SBInet program initiation, Congress appropriated \$1.2 billion in the CBP Border Security, Fencing, Infrastructure, and Technology appropriation for FY 2007. However, Congress withheld \$950 million of the FY 2007 appropriation contingent upon approval of the FY 2007 SBInet Expenditure Plan. On March 22, 2007, the House of Representatives approved the release of \$405 million of the withheld funds. The Senate has not commented on the FY 2007 SBInet Expenditure Plan. The FY 2008 President's Budget requests an additional \$1 billion to fund the SBI Program offices, the operations and maintenance of new and legacy equipment, and to continue to develop and deploy SBInet solutions for technology and tactical infrastructure, as well as the common operational picture.

Due to its size and scope, the SBI procurement presents a considerable acquisition risk. DHS is embarking on this multibillion-dollar acquisition project without having laid the foundation to effectively oversee and assess contractor performance and effectively control cost and schedule. DHS has not properly defined, validated, and stabilized operational requirements and needs to do so to avoid rework of the contractor's systems engineering and the attendant waste of resources and delay in implementation. Moreover, until the operational and contract requirements are firm, effective performance management, and cost and schedule control are precluded.

Also, the department does not have the capacity needed to effectively plan, oversee, and execute the SBInet program; administer its contracts; and control costs and schedule. The department's acquisition management capacity lacks the appropriate work force, business processes, and management controls for planning and executing a new-start, major acquisition program such as SBInet. Without a preexisting professional acquisition workforce, Customs and Border Protection has had to create staffing plans, locate workspace, and establish business processes, while simultaneously initiating one of the largest acquisition programs in the department. DHS needs to move to establish the organizational capacity to properly oversee, manage, and execute the program.

While the department has taken steps to establish adequate oversight of this contract, there are risks similar to those occurring in other DHS acquisitions where contract management and oversight has failed. Prior to award of the SBInet contract, the department did not lay the foundation to oversee and assess contractor performance, and control costs and schedule of this major investment.

Management and Oversight Capacity. The department's acquisition management capacity does not have the appropriate work force, business processes, and management controls for planning and executing a new-start major acquisition program such as SBInet. Without a preexisting professional acquisition workforce, CBP had to create staffing plans, locate workspace, and establish business processes, while simultaneously initiating one of the largest acquisition programs in the department. At the time of the contract award, the organizational structure was in flux and key positions were still being identified and filled.

The emerging organization proposed 252 positions; however, it is unclear whether that organization will be up to the challenges ahead. Staffing the SBInet program office has been a critical problem for the department. Other specific management oversight risks also existed at the time the award:

- Whether organizational roles and functions will be assigned appropriately for employees and contractors. While contractors are appropriate for support services, only federal employees should perform inherently governmental functions. The emerging organizational structure identified 65 percent of the 252 positions as contractors. This appears excessive for the management control environment that will be needed for such a large, complex acquisition.
- Whether the staff will have the appropriate qualifications and necessary training in acquisition management, as well as the right skill mix. A question remains whether the emerging organizational structure will adequately provide for the use of integrated product teams, as required by OMB capital budgeting regulations.
- How workforce turnover and fluctuations will be managed. As a stopgap measure, CBP is detailing agents and other staff on temporary assignment to identify and perform tasks for which they are not experienced or trained. The program office had no clear plan for replacing the detailees and transferring their institutional knowledge. Without turnover procedures and documentation of decisions and deliberations, new personnel could be at a disadvantage in managing implementation.

Operational Requirements. Until the department fully defines, validates, and stabilizes the operational requirements underlying the SBInet program, the program's objectives are at risk and effective cost and schedule control are precluded.

The department deferred fully defining operational requirements until after award of the systems integration contract. In selecting the systems integrator, the department used a broad statement of objectives as part of its acquisition strategy in order to allow industry to be creative in its solutions and, consequently, deferred setting contract requirements, including performance metrics, until delivery task order negotiations.

While the SBInet broad statement of objectives is an appropriate algorithm for encouraging the systems engineering desired, success in accomplishing this macro algorithm cannot be

practically measured. By not setting measurable performance goals and thresholds, the government was at increased risk that offerors would rely on unproven technologies and high-risk technical solutions that would delay implementation or be unaffordable.

To mitigate this risk, the solicitation asked for solutions that used commercial off-the-shelf and government off-the-shelf solutions, even as the department publicly encouraged use of high-risk, developmental items, such as unmanned aerial vehicles. Also, the department aggressively pursued Quality Assurance Surveillance Plans and included Earned Value Management requirements as part of the proposals to mitigate this risk. However, it remains to be seen whether the contractor's quality assurance plan will satisfy the department's needs or whether the department's criteria for gauging program success is sufficient to evaluate the contractor's performance. To control this risk, the department needs to refine, validate, and set stable operational requirements for SBInet, enabling the program office to define and set contract requirements in task order negotiations, including the performance metrics needed to ensure accomplishment of the program's objectives.

At the time, the department also needed to define and document the underlying operational requirements, i.e., translating mission needs, describing shortcomings with the status quo systems and tactics, setting thresholds and objectives for key performance parameters including affordability, and prioritizing among competing needs and conflicting goals. Without operational requirements, the department will not have a common understanding of what it is to be accomplished, and program managers will not have the guidelines needed to balance competing objectives in cost, schedule, and performance objectives through the life of the program. Furthermore, until operational requirements are fully defined and validated, providing firm support and validated assumptions for the program's cost estimates, the credibility of budget estimates is undermined.

The department took steps during the competition for the systems integration contract to compensate for the lack of fully defined, validated, stabilized, and documented requirements. While the participating DHS and CBP officials had a strong sense of the underlying operational requirements they expected the SBInet program to fulfill, such an understanding was not reduced to writing and conveyed to others. However, the department provided industry with a library of documents and videos that describe mission goals, current operations, and desired improvements over current operations. Also, the department conducted an extensive "due diligence" process and held oral presentations and question-and-answer sessions with the competitors to exchange information. Additionally, the department developed a structure to frame analysis of the offerors' approaches. The department then modified the solicitation, requiring offers to be mapped to this structure; thereby clarifying proposed approaches, assumptions, and costs and facilitating comparisons. Eventually, this work breakdown analysis should facilitate comparison of the winning industry approach to the validated operational requirements.

However, until the operational requirements are validated and stabilized, the SBInet program will be vulnerable to changing direction. Changing the program's direction will likely require

contract changes and equitable adjustments; rework of the contractor's planning, management, and systems engineering efforts; and add cost and delay.

With firm requirements, the program office can and should move to implement performance management processes. A deferred, but critical, first step in establishing control of cost, schedule, and performance is the setting of an "acquisition program baseline." This baseline of performance and schedule requirements and total cost estimates is needed to monitor the health of the program. The absence of an acquisition program baseline is a significant risk to the success of the SBInet program. The department deferred setting a baseline until after contract award because of the uncertainties related to industry solutions. Without an "acquisition program baseline," however, it is impossible to gauge the effectiveness of the program. An acquisition program baseline is a necessary first step in implementing "earned value management." The department plans to rectify this omission through the Investment Review Board, and Joint Requirements Council review and approval process.

"Earned value management" is a comprehensive management information and analysis system, fed by cost accounting data arrayed against work breakdown structures and program schedules. It is essential to the department's understanding of the program status, the contractor's performance, and reliability of program budgets and cost estimates. The program manager must know at all times how the actual cost of the work performed compares to the budgeted cost of the work scheduled. Automated analyses of this data across the many tasks and activities being undertaken by all personnel working on the program should focus management's attention where needed and trigger early corrective action. "Earned value management" is not only a best practice, it is an OMB capital budgeting requirement.

The department included provisions for "earned value management" in the solicitation, and the program office is developing plans to start and implement the process. Until it is put in place, the department does not have a sound basis for its program cost estimates. Early, effective "earned value management" implementation will be key to understanding the effect that changes will have on the program, including trade-offs needed to balance progress across the many components of the program.

In addition to the prior mentioned steps, the SBInet program has taken the following steps to mitigate risks and avoid the problems encountered by other DHS programs:

- Unlike ISIS, CBP retained decision authority.
- SBInet included contract provisions ensuring government insight and involvement into subcontract management and make or buy decisions. The systems integrator is not necessarily the source of supply.
- SBInet adopted short contract terms and included exit clauses in the contract.
- SBInet is using concept demonstrations and incremental approaches before committing to a long-term solution and investment.

Based on conditions disclosed by our office and other independent reviews, and discussions with SBI-net personnel, we rated the five interrelated elements essential to an efficient and effective acquisition process. These ratings reflect the performance capabilities of the acquisition process. The ratings and a brief summary of each element are discussed below.

Organizational Alignment and Leadership. The organizational structure has the SBI-net Systems Program Office (SPO) reporting to a SBI Program Executive Office (PEO). The PEO reports directly to the CBP Commissioner's office. While this organizational structure now closely resembles the recommendations of a contracted staffing study completed in December 2006, the SBI-net program's organization structure has been unstable and evolving. In March 2007, CBP reorganized the Procurement Directorate to commit procurement specialists to the planning of SBI-net acquisitions. The new SBI Acquisition Office reports directly to the CBP Chief Financial Officer and has its own Heads of Contracting Activities.

In addition, CBP created the Executive Steering Council to provide senior management oversight of the SBI program. However, gaps remain among program management, planning, and contract administration.

Further, CBP faces challenges overcoming cultural change and improving planning and acquisition through cooperation, teamwork, and defined roles and responsibilities.

Policies and Processes. CBP did not have a pre-existing program management workforce to establish, implement, and refine SBI-net policies and processes. The SBI-net SPO had to create staffing plans, locate workspace, and establish business processes while simultaneously initiating one of the largest acquisition programs in the department. The SBI-net SPO has begun identifying and generating program management policies and processes and recently created a Process Library to communicate program management policies and processes. In addition, the Executive Steering Council meets frequently and communicates lessons learned from CBP's other major systems acquisition programs.

DHS has a Memorandum of Understanding with the Defense Contract Audit Agency (DCAA) for audit services. Interagency Agreements were issued for audits of cost incurred on future Cost-Reimbursable Tasks Orders and Cost/Price Proposals. However, a planned interagency agreement with the Defense Contract Management Agency to provide contract oversight services at The Boeing Company facilities is not in place.

The SBI-net SPO has not finalized an acquisition program baseline to establish program cost, schedule, and technical performance goals from which to gauge progress. Further, an EVMS to measure program and contractor performance was not operating because a performance management baseline has not been finalized.

On March 6, 2007, CBP created the SBI Acquisition Office to enhance upfront communications with the SBI-net SPO and to administer SBI-related acquisitions, including SBI-net. The SBI Acquisition Office adheres to the Federal Acquisition

Regulation, DHS Acquisition Regulation, and CBP policies and processes administered by the CBP Procurement Directorate. However, acquisition planning and program management systems and processes need improvement. Additionally, roles and responsibilities under the new office have not been clarified.

Financial Accountability. New legislative mandates and policy direction required the use of FY 2007 appropriations to accelerate fence-building projects and to begin addressing Northern Border vulnerabilities. At the SBInet program initiation in FY 2006, CBP used supplemental funds and the CBP Salaries and Expenses appropriation to fund program start-up. The House of Representatives continues to withhold \$545 million of the FY 2007 appropriation contingent upon CBP's demonstration of how the SBInet program will achieve a certain, defined, and measurable level of border control. The Senate has not provided comment on the FY 2007 SBInet Expenditure Plan. Progress in meeting SBInet mission needs is contingent upon the release of the \$950 million withheld from the FY 2007 appropriation and upon the continued funding of the program through FY 2011.

CBP uses Systems Applications Products (SAP) and the Intelligent Procurement System (IPRO) to record and manage budgets and expenditures. These systems provide key functionality for financial management of major systems acquisition program. The IPRO facilitates contract writing and records obligations, and SAP provides tools to display obligations and expenditures graphically, which is useful for gauging contractor progress. However, the latter product has limited interface with the DHS Federal Procurement Data System Next Generation, requiring information transferred to be manually verified for accuracy.

Acquisition Workforce. In November 2006, we reported that the department did not have the capacity to effectively plan, oversee, and execute the SBInet program; administer its contracts; and control costs and schedule. The SBInet SPO has made significant progress since November. For example, the department conducted an independent study of the organization and staffing needs for the program, and CBP has implemented an organizational structure that closely reflects the study's recommendations. The PEO consisted of approximately 25 positions and the SBInet SPO consisted of approximately 124 positions. However, additional staff with the requisite skills is needed to perform analysis of alternatives, prepare and administer task orders, and manage contractor cost, schedule, and performance. Furthermore, CBP does not have a performance-based rating system to link performance with organizational goals and SBInet does not have a Human Capital Plan.

Filling the positions in the SBInet organizational structure has been and continues to be a difficult challenge, which adversely affects the program. The transfer of 14 positions originally assigned to the CBP Procurement Directorate comprised the SBI Acquisition Office. Five Procurement Directorate specialists supplemented the SBI Acquisition Office staff on a part-time basis. The PEO was recruiting personnel to fill 26 positions and the SBInet SPO was recruiting to fill 235 positions. The SBI Acquisition Office was also actively recruiting to fill 17 positions concurrently with the Procurement Directorate's attempts to fill 50 contract and acquisition specialist positions. On-board staff, while focused and motivated, has unsustainable workloads.

While SBInet officials assert sufficient staff are on-hand to administer the four task orders issued, more contract actions are planned. Moreover, as a result of unfilled positions, work on tasks for major systems acquisition programs, especially the analysis of alternative solutions and logistics support analysis and planning, which are key to managing and reducing lifecycle costs, is deferred. The SBInet program's ambitious schedule of work planned for summer 2007 will exceed the staff's capacity to manage the program without significant staff increases.

Knowledge Management and Information Systems. The SBInet SPO used electronic-Program Management Office System (*ePMO*), a government off-the-shelf management information system, to record deliverables, track program documentations, and support document flow through development, review, and approval processes. The SBI Acquisition Office was able to access *ePMO*. However, *ePMO* does not interface with other DHS systems, and CBP does not have a knowledge management system. The SBInet program uses two automated systems to collect procurement data. SAP is used to record and access financial information and IPRO is used to generate contract documents and track basic procurement data such as requisition numbers, obligations, and the date of contract awards. However, SAP and IPRO information uploaded to Federal Procurement Data System Next Generation must be manually verified for accuracy. In addition, the Boeing Company was not providing cost, schedule, and performance data to the Earned Value Management Reports to help the SBInet SPO exercise oversight of the program.

Coast Guard's Deepwater Program

The Integrated Deepwater System Program (Deepwater) is a \$24 billion, 25-year acquisition program designed to replace, modernize, and sustain the USCG's aging and deteriorating fleet of ships and aircraft. In June 2002, the Coast Guard awarded Integrated Coast Guard Systems (ICGS) a 5-year contract to serve as the Deepwater systems integrator. ICGS is a joint venture of Northrop Grumman and Lockheed Martin. The 2002 award decision followed a multiyear competitive phase in which two other industry teams vied with ICGS. The current base contract expired in June 2007. Between FYs 2001 and 2007, Deepwater was allocated more than \$4 billion, or 66 percent of the USCG's Acquisition, Construction, and Improvements budget. The Coast Guard announced its decision to award ICGS an extension of the Deepwater contract for 43 out of a maximum 60 months for the next award term beginning in June 2007.

The Deepwater acquisition strategy uses a nontraditional system-of-systems approach in which private industry was asked to develop and propose an optimal mix of assets, infrastructure, information systems, and people solutions designed to accomplish Deepwater's missions. Additionally, the private sector was to provide the assets, the systems integration, integrated logistics support, and program management.

Over the past year, a number of audits, studies, and internal reviews were conducted on the Deepwater Program. These reviews identified management challenges and risks that include: (1) inadequate definition, understanding, and stability of requirements; (2) excessive reliance on the system integrator to manage the Deepwater Program; (3) inability to properly assess

programmatic risk; (4) need for expertise in cost estimation; (5) Deepwater Program management did not easily adapt to the environment of changing missions and requirements, and major systems integration; and (6) a Deepwater acquisition workforce that does not have the requisite training, experience, certification, and structure to acquire assets and systems of significant scope and complexity.

Systems Integrator Approach. The Coast Guard's decision to outsource program management to the systems integrator fully empowered the contractor with authority to make day-to-day decisions regarding all aspects of the contract. According to the Coast Guard, its acquisition workforce did not have the requisite training, experience, and certification to manage an acquisition the size, scope, and complexity of the Deepwater Program. Further, the Coast Guard was reluctant to exercise a sufficient degree of authority to influence the design and production of its own assets. As a result, ICGS assumed full technical authority over all asset design and configuration decisions while the Coast Guard's technical role was limited to that of an expert "advisor."

Furthermore, there was no contractual requirement that the Systems Integrator accept or act upon the Coast Guard's technical advice, regardless of its proven validity. There are also no contract provisions ensuring government involvement into subcontract management and "make or buy" decisions. The Systems Integrator decides who is the source of the supply. The effectiveness of the contractor-led Integrated Product teams (IPTs), which were originally intended to be the vehicle for managing the Deepwater Program and resolving Coast Guard's technical concerns, has been called into question by the General Accountability Office and our office.

Contractor Accountability. Our reviews have raised concerns about the definition and clarity of operational requirements, contract requirements, performance specifications, and contractual obligations. For example, in our National Security Cutter (NSC) report, we reported that the Coast Guard and the American Bureau of Shipping jointly developed standards that would govern the design, construction, and certification of all cutters acquired under the Deepwater Program. These standards were intended to ensure that competing industry teams developed proposals that met the Coast Guard's unique performance requirements. Prior to the Phase 2 contract award, the Coast Guard provided these design standards to the competing industry teams. Based on industry feedback, the Coast Guard converted the majority of the standards (85 percent of the 1,175 standards) to guidance and permitted the industry teams to select their own alternative standards without a contractual mechanism in place to ensure that those alternative standards met or exceeded the original guidance standards. The competing teams were allowed to select cutter design criteria.

Additionally, the Deepwater contract gave the Systems Integrator the authority to make all asset design and configuration decisions necessary to meet system performance requirements. This allowed ICGS to deviate significantly from a set of cutter design standards originally developed to support the Coast Guard's unique mission requirements, and permitted ICGS to self-certify compliance with those design standards. As a result, the Coast Guard gave ICGS wide latitude to develop and validate the design of its Deepwater cutters, including the NSC.

Deepwater Performance Requirements Are Ill-Defined. Vague contract terms and conditions have also compromised the Coast Guard's ability to hold the contractor accountable by making possible competing interpretations of key performance requirements. For example, the performance specifications associated with upgrading the information systems on the Coast Guard's 123-foot patrol boat fleet did not have a clearly defined expected level of performance. Also, in our review of the Helicopter Interdiction Tactical Squadron (HITRON) lease, we determined that vague contract performance requirements inhibited the Coast Guard's ability to assess contractor performance. In another example, the performance specifications for the NSC were not clearly defined, which resulted in disagreements, both within the Coast Guard and between the Coast Guard and ICGS, regarding the intent behind the cutter performance requirements.

Deepwater Cost Increases. The cost of NSCs 1 and 2 are expected to increase well beyond the current \$775 million estimate, as this figure does not include a \$302 million Request for Equitable Adjustment (REA) submitted to the Coast Guard by ICGS on November 21, 2005. The REA represents ICGS's re-pricing of all work associated with the production and deployment of NSCs 1 and 2, which was caused by adjustments to the cutters' respective implementation schedules as of January 31, 2005. The Coast Guard and ICGS are currently engaged in negotiations over the final cost of this REA. ICGS has also indicated its intention to submit additional REAs for adjusted work schedules affecting future NSCs, including the additional cost of delays caused by Hurricane Katrina.

Additionally, the \$775 million cost estimate for NSCs 1 and 2 does not include the cost of structural modifications to be made to mitigate known design deficiencies. The cost of these modifications and the cost of future REAs could add hundreds of millions of dollars to the total NSC acquisition cost. We remain concerned that these and other cost increases within the Deepwater Program could result in the Coast Guard acquiring fewer and less capable NSCs, FRCs, and Offshore Patrol Cutters (OPCs) under the Deepwater contract.

To its credit, the USCG recognizes that urgent and immediate changes are needed in its management of major acquisitions. For example, the USCG recently issued its *Blueprint for Acquisition Reform* (Blueprint), which catalogs and proposes solutions to many of the aforementioned challenges that have historically impeded the execution of Deepwater projects. According to the USCG, implementing the Blueprint will enhance its ability to execute asset-based traditional projects, effectively employ a governmental or commercial entity as a systems integrator for complex acquisitions, and efficiently execute non-major acquisitions for necessary goods and services.

Based on conditions disclosed by our office and other independent reviews, and discussions with USCG personnel, we rated the five interrelated elements essential to an efficient and effective acquisition process. These ratings reflect the performance capabilities of the acquisition process. The ratings and a brief summary of each element are discussed below.

Organizational Alignment and Leadership. USCG is making modest progress in ensuring it achieves the organizational alignment needed to perform its acquisition functions. One sign of progress was the reestablishment of a single USCG acquisition structure, after the creation of a separate Deepwater acquisition structure proved problematic.

Significant changes to the USCG's acquisition organization are necessary to successfully merge the two acquisition components, both structurally and culturally. In its Blueprint, the USCG has identified action items that it plans to implement in order to improve its Deepwater Program. These include: (1) ensuring overarching roles and responsibilities of the acquisition function and acquisition personnel are well defined; (2) incorporating the Heads of Contracting Activities into the consolidated acquisition structure; (3) determining measures that assess the health of the acquisition function; and (4) expanding and building upon existing USCG surveys to solicit views on the effectiveness of communications, effectiveness of acquisition processes, and areas needing improvement.

Policies and Processes. USCG needs to strengthen its policies and processes to perform acquisitions effectively and efficiently. It is notable that, in advance of Blueprint implementation, the USCG has taken key steps toward improving Deepwater Program management and contractor oversight, including: (1) issuing a Commandant's Instruction reaffirming the Assistant Commandant for Systems as the USCG's "Technical Authority" for all acquisition projects; (2) revising Deepwater contract award terms to more accurately and objectively reflect past contractor performance; and (3) establishing a Risk Management Board to support a comprehensive approach to determining, assessing, documenting, and mitigating programmatic risks.

However, USCG recognizes that it must take further action to establish and strengthen policies and processes for its realigned acquisition function. In its Blueprint, USCG has identified action items that it plans to implement. They include updating the Major Systems Acquisition Manual to reflect collaborative requirements process, systems program management, acquisition strategy process, and conducting independent verification and validation of cost, schedule, and performance measurement baselines for major systems. The USCG also plans to institute third-party, independent programmatic assessments, determining technical maturity, and verifying design stability, while also ensuring that any modifications to the Deepwater contract for the performance period beginning in June 2007 will sufficiently support improved program management and increased contractor oversight.

Financial Accountability. USCG needs to improve its financial management capabilities and systems to ensure its acquisition function achieves the financial accountability needed to perform efficiently. It must address issues raised in the Defense Acquisition University review of the Deepwater Program. This review identified financial accountability as a special interest area. It reported that: (1) Deepwater financial management is distributed to a number of offices and individuals, and that no one person is responsible for oversight of financial planning; (2) the USCG does not routinely conduct independent third-party cost estimates; (3) there are an inordinate number of requirements changes and undefinitized contract actions; (4) Deepwater

decisions were not supported or needed business case studies; (5) the USCG needed flexibility in the reprogramming of funds during execution; and (6) the USCG does not routinely develop independent life cycle cost estimates.

In its Blueprint, the USCG has identified action items that it plans to implement in order to improve its Deepwater Program. These include: (1) integrating all three USCG accounting systems into a complete data set useable by all acquisition personnel; (2) developing business cases in support of all key Deepwater acquisition decisions; (3) developing an independent third-party cost estimates for the Deepwater Program; and (4) reducing the number of requirements changes and undefinitized contract actions.

Acquisition Workforce. USCG does not have the numbers and skills of acquisition workforce needed to support Deepwater acquisitions. The USCG has taken the first steps to revitalize its acquisition workforce. It is currently finalizing almost every acquisition position description to ensure the right personnel with the best skills are properly placed into the right acquisition positions, as needed to aid program success. It has added Deputy Program Manager positions to the various acquisition domains, and it has begun filling these positions with Senior Executive Service and General Schedule 15 level personnel, to build continuity into the acquisition program.

However, USCG has serious concerns regarding the size and capabilities of the acquisition workforce handling the Deepwater major systems acquisitions. Recently, the Defense Acquisition University reported the USCG does not possess a sufficient number of acquisition personnel with training, major acquisition experience, and certifications to properly manage the Deepwater Program. It also reported that the three major acquisition areas in greatest need of an infusion of experience are program management, contracting, and financial management.

In its Blueprint, USCG has identified action items that it plans to implement in order to improve its Deepwater Program. These plans include: (1) developing and implementing a comprehensive long-range Strategic Workforce Plan; (2) recruiting, hiring, and retaining experienced and certified acquisition professionals in program management (military), contracting (civilians), and other required acquisition career fields; (3) determining and applying creative pay, recruitment, retention, and other incentives to entice and retain qualified, experienced acquisition personnel; and (4) transitioning or developing specific individual acquisition skills through training, education, and internships.

Knowledge Management and Information Systems. USCG does not have the knowledge management and information systems needed to perform its acquisition functions. The GAO and the Defense Acquisition University have both reported concerns with the reliability and accuracy of USCG's Deepwater Program Earned Value Management System and Integrated Master Schedule information management systems. These information management systems are intended to help Deepwater Program managers make well-informed programmatic decisions and exercise oversight of the Deepwater contract.

However, both the GAO and the Defense Acquisition University have reported that these management systems were not properly maintained and therefore impaired the Coast Guard's ability to effectively manage the Deepwater Program. The Defense Acquisition University reported that the earned value metrics used in the Deepwater Program neglected to determine trends or highlight re-baselines.

The GAO reported in June 2004 that USCG was only maintaining the schedules of individual assets at the lowest, most detailed level and not at the integrated level. The need for an accurate integrated acquisition schedule for the Deepwater Program was a symptom of larger issues that they had raised questioning whether the Deepwater acquisition was being properly managed and the government's interest was being safeguarded.

In its Blueprint, USCG has identified action items that it plans to implement in order to improve its Deepwater Program. These planned items include: (1) implementing Earned Value Management on all required acquisition projects according to DHS requirements; (2) developing metrics to assess the effectiveness of the acquisition function for major systems; (3) developing an Acquisitions Directorate Integrated Master Plan and Integrated Master Schedule for all projects and to track status; and (4) developing key financial/schedule/Earned Value Management reports and provide training for all program and project managers.

Federal Protective Service

Contract guard services represent the single largest item in the DHS Federal Protective Service (FPS) operating budget, about \$577 million for fiscal year 2007. FPS has fewer than 1,000 FPS officers nationwide. However, its contract guard workforce has more than doubled to around 15,000, since the 1995 Oklahoma City bombing.

Based on our review of FPS' contract guard efforts within its National Capital Region, we concluded that FPS' National Capital Region was not consistently deploying qualified and certified contract guards. Contract guards were on post without current suitability determinations or with expired certifications. Also, security contractors were not consistently performing their services according to the terms and conditions of their contracts. These deficiencies occurred because FPS personnel were not effectively monitoring the contract guard program. While the contractor has the primary responsibility for ensuring that all contract provisions and requirements are met, FPS is required to actively monitor and verify contractor performance. In addition, FPS was not paying invoices in a timely manner for its contract guard services nationwide and was in violation of the *Prompt Payments Act*. Since we issued our October 2006 report, FPS has made progress implementing our recommendations to improve management of its contract guard program.

Separate from this audit, our investigation led to an FPS contracting officer's technical representative (COTR) pleading guilty to conspiracy to commit bribery, receiving an illegal gratuity, and making false statements to mislead investigators. The COTR monitored the

security guard contract for Superior Protection, Inc. (SPI), and in this role, approved FPS expenditures for additional SPI guard services and acted as a liaison between the FPS and SPI. Our investigation determined that SPI paid for the COTR's travel to Houston, Texas, to participate in charity golf tournaments with SPI management. In exchange, the COTR provided SPI with favorable references to obtain additional FPS guard services contracts. The contracting officer told us that the COTR's reference was critical to her decision to award SPI a \$1.9 million contract.

Transportation Security Administration

As a brand new agency, Transportation Security Administration (TSA) did not have the staff or infrastructure necessary to plan and manage its acquisitions, such as the mammoth effort to hire airport passenger and baggage screeners after September 11, 2001. As a result, TSA decisions, such as delayed issuance of and revisions to the airport federalization schedule and staffing requirements, greatly increased costs for NCS Pearson, TSA's recruiting contractor. TSA directed NCS Pearson to establish temporary assessment centers. Applicant rejection rates were higher than expected, causing NCS Pearson to assess more than nine times the number of applicants originally estimated. The increased candidate volume necessitated larger and more accessible assessment centers. These and other factors, such as mapping subcontractor labor rates to NCS Pearson labor rates, increased contract costs from the original \$104 million estimate to the \$742 million settlement amount. In addition, TSA's delay in recording contractual obligations may have increased its risk of violating the *Antideficiency Act*.

Another example of where an expedited schedule led to procurement problems is TSA's information technology managed services contract with Unisys. In 2002, the TSA Office of Information Technology and contracting office had small staffs overseeing numerous high value acquisitions. TSA started the rollout of airport security operations under congressionally mandated timeframes with significant budget constraints. Using a broad statement of objectives, TSA awarded Unisys a \$1 billion contract to establish an information technology and telecommunications infrastructure that would support employees at headquarters and locations across the United States. By early fiscal year 2006, TSA had spent 83 percent of the contract ceiling without receiving many of the contract deliverables critical to airport security and communications. TSA issued numerous requests for tasks and deliverables, but did not always ensure that technical proposals included required contracting elements, such as statements of work with delivery dates and acceptance criteria. Two years into the contract, TSA did not have adequate performance measures. Instead, performance measures evolved during the life of the contract and were added too late in the contract cycle to be effective in assessing the contractor's performance. Moreover, they applied to a small portion of contract work.

Wackenhut Services, Inc. and Bechtel Group, Inc.

In your invitation for me to testify at this hearing, you requested that I discuss DHS' security contract with Wackenhut Services, Inc. and FEMA's disaster contracts with Bechtel Group, Inc.

Wackenhut. In February 2006, Senators Dorgan and Wyden wrote to me about current and former Wackenhut employees who reported limited and inadequate training for DHS headquarters security guards and glaring security problems there. Employee concerns about DHS headquarters included unguarded entrances, lack of training on handling toxic substances, 24-hour shifts with dozing guards, unsecured firearms and ammunition, and other problems. Moreover, the employees said the company did not fix known security weaknesses and retaliated against whistleblowers. The Senators pointed out that the Wackenhut contract was scheduled to expire at the end of March 2006.

We examined the information and determined that before Congress created DHS, the Department of Defense (DoD) contracted with Wackenhut to provide maintenance services at the Nebraska Avenue Complex (NAC), a military facility at the time. DoD subsequently expanded the contract to include guard services, also prior to creation of DHS. The contract was to expire March 31, 2006. In the interim, the facility became the DHS headquarters. Rather than take over the existing DoD contract, DHS solicited competitive bids for NAC security services. Unable to complete the new contract award by March 31, 2006, DHS awarded Wackenhut a 120-day sole source contract.

We also determined that the Wackenhut employee allegations concerned pay disputes, time sheet discrepancies, and excessive overtime. The security allegations also concerned lack of training, insufficient and improper equipment, access issues, persons without security clearances entering secured areas, and weapons carriers without appropriate permits. We ended our investigation in March 2006 at the Senators' request to prevent disclosure of the employees' identities.

Bechtel. Shortly after Hurricane Katrina struck, FEMA awarded four major Individual Assistance contracts for technical assistance (IA TAC) in the gulf region to Shaw Environmental & Infrastructure, Fluor Enterprises Inc., Bechtel National, and CH2M Hill. Technical assistance primarily involves the installation, operations, maintenance and deactivation of housing facilities such as travel trailers and mobile homes. We currently have an ongoing review looking at the original sole source contracts worth about \$3 billion. Bechtel contracts exceeded over \$500 million. Though all four companies were among the top 50 construction contractors in the country, the contract files did not contain documentation describing the process used to select these firms over other large firms. In addition, some of the task orders on these contracts were not definitized for several months, and FEMA initially did not have trained and experienced staff to monitor the costs or performance of these contracts. Our forthcoming work will determine the adequacy of contract documents, price reasonableness, the effectiveness of the inspection and payment processes, the effective use of warranties, and FEMA's adherence to effective contracting practices.

To date we determined that Bechtel cannibalized 36 travel trailers at its forward staging area in Mississippi and used the cannibalized trailer parts, including batteries, propane tanks, and other small items, to repair trailers that were either damaged or not mission capable. Bechtel did not comply with its contract requirement to report the damaged travel trailers to FEMA, and, FEMA did not inspect the trailers before accepting them into inventory. Bechtel's decision to cannibalize some of the deficient trailers may have voided the manufacturer's warranty. Our assessment is ongoing.

Sharing Performance Information

Before I close my statement, Mr. Chairman, I would like to say a few words about contractor performance information and the ability of agencies to share and access such information.

For many years, the federal government has pursued databases that contain contractor performance information and provide easy access to agencies planning to award new contracts. In fact, several systems with varying levels of functionality exist now. Nevertheless, we do not have a single system that includes all relevant information. For example, consent decrees, negotiated settlements, and state information are not readily available. Data on contracts closed more than three years ago are not included. At the same time, we are cognizant of industry concerns about due process, fairness, consistency, and relevance.

In July 2006, we reported on the challenges that DHS faces in planning, monitoring, and funding efforts to ensure the accurate and timely reporting of procurement actions to interested stakeholders. The Executive Branch, the Congress, and the public rely upon such procurement information to determine the level of effort related to specific projects and also to identify the proportion of government contracts that are awarded to small businesses. Currently, however, DHS has several different contract-writing systems that do not automatically interface with its Federal Procurement Data Systems—Next Generation (FPDS-NG)—a government-wide procurement reporting system that is accessible by the public. Some of the systems may need to be replaced. Additionally, not all DHS procurements are entered into FPDS-NG. For example, grants, mission assignments, and purchase card data may not be entered into FPDS-NG, resulting in an understatement of DHS' procurement activities.

I currently co-chair the legislative committee of the National Procurement Fraud Task Force. The Justice Department initiated this broad effort last fall to focus the resources and talents of U.S. Attorneys, Inspectors General, and other parts of the government on fighting procurement fraud. Our legislative committee is looking at what statutory and regulatory changes would be needed to strengthen the tools available to prevent, detect, remedy, and prosecute misconduct in federal contracting. One proposal we are exploring would address the issue of collecting and sharing contractor performance information.

More attention is needed to address this important and complex issue. The Honorable Mrs. Maloney introduced legislation in the previous Congress to address this issue, expand federal resources, and strengthen accountability in contracting. I understand she plans to

reintroduce it. My legislative committee and I look forward to working with her, this Committee, and others on solutions that will improve contractor performance information availability, reliability, accuracy, and usefulness.

In conclusion, DHS can protect public interests 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 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.

We will continue a vigorous audit and investigation program to uncover DHS acquisition vulnerabilities and recommend swift, cost-effective improvements. Acquisition management is and will continue to be a priority for my office and an area where we focus considerable resources. Our plan is to continue examining such crosscutting acquisition issues as workforce qualifications, competition, and corporate compliance, in addition to individual programs, such as Deepwater and SBI. We share your concerns about proper use of suspension and debarment to protect the government. We are currently refining our fiscal year 2008 performance plan, which will likely include an audit of DHS' use of suspension and debarment proceedings. We welcome your input into our planning process.

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