

September 2006

INTERAGENCY CONTRACTING

Improved Guidance,
Planning, and
Oversight Would
Enable the
Department of
Homeland Security to
Address Risks





Highlights of [GAO-06-996](#), a report to congressional requesters

INTERAGENCY CONTRACTING

Improved Guidance, Planning, and Oversight Would Enable the Department of Homeland Security to Address Risks

Why GAO Did This Study

The Department of Homeland Security (DHS) has some of the most extensive acquisition needs within the federal government. In fiscal year 2005, DHS spent \$17.5 billion on contracted purchases, \$6.5 billion, or 37 percent, of which was through the use of other agencies' contracts and contracting services, a process known as interagency contracting. While these types of contracts offer the benefits of efficiency and convenience, in January 2005, GAO noted shortcomings and designated the management of interagency contracting as a governmentwide high-risk area. Given the department's critical national security mission and the results of our earlier work, GAO reviewed the extent to which DHS manages the risks of interagency contracting and assessed DHS' guidance, planning, and oversight of interagency contracting.

What GAO Recommends

GAO recommends that the Secretary of Homeland Security consider the adequacy of the Office of the Chief Procurement Officer's resources and develop guidance and training; establish criteria to consider in the decision to use an interagency contract; and implement oversight to evaluate the outcomes of interagency contracts. DHS agreed with these recommendations. In addition, Congress should require the Secretary to report on efforts to provide the Chief Procurement Officer with sufficient authority.

www.gao.gov/cgi-bin/gettrpt?GAO-06-996.

To view the full product, including the scope and methodology, click on the link above. For more information, contact John Hutton at (202) 512-4841 or huttonj@gao.gov.

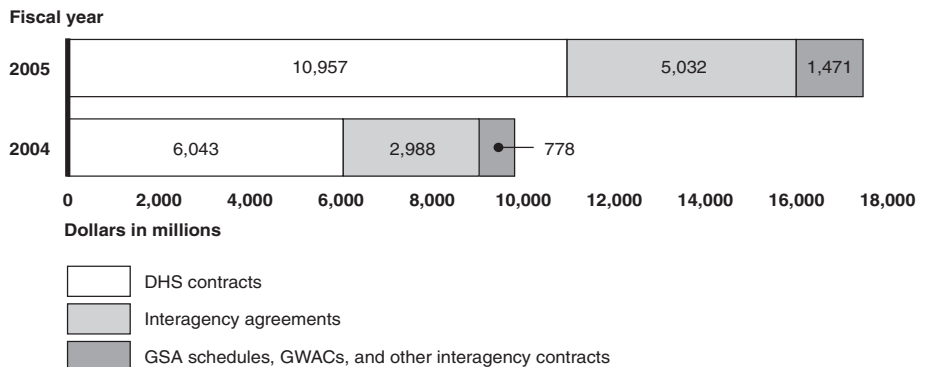
What GAO Found

DHS has developed guidance on how to manage the risks of some but not all types of interagency contracts. The department has guidance for interagency agreements—the largest category of interagency contracting at the department— but does not have specific guidance for using other types of contracts such as the General Services Administration (GSA) schedules and governmentwide acquisition contracts (GWAC), which amounted to almost \$1.5 billion in fiscal year 2005. Moreover, in some cases we found users may have lacked expertise that could be addressed through guidance and training on the use of these types of contracts.

DHS did not always consider alternatives to ensure good value when selecting among interagency contracts. While this contracting method is often chosen because it requires less planning than establishing a new contract, evaluating the selection of an interagency contract is important because not all interagency contracts provide good value when considering timeliness and cost. As of July 2005 DHS has required planning and analysis of alternatives for all acquisitions. In this review, we found that in all four cases for which an analysis of alternatives was required, it was not conducted. DHS officials said benefits of speed and convenience—not total value including cost—have often driven decisions to choose these types of contracts.

DHS does not systematically monitor its total spending on interagency contacts and does not assess the outcomes of its use of this contracting method. According to officials, DHS' acquisition oversight program has been hindered by limited resources and authority. As of August 2006, the Office of the Chief Procurement Officer had five staff assigned to departmentwide oversight responsibilities for \$17.5 billion in acquisitions. In March 2005, GAO recommended that the Chief Procurement Officer be provided sufficient authority to provide effective oversight of DHS' acquisition policies and procedures. Without this authority, DHS cannot be certain that acquisition improvements are made.

Growth in DHS Contracting



Source: GAO analysis of DHS data.

Contents

Letter		1
	Results in Brief	3
	Background	4
	Enhanced Guidance and Expertise Could Help DHS Address Interagency Contracting Risks	7
	DHS Did Not Always Assess Total Value When Choosing Interagency Contracts	12
	DHS Oversight Program Does Not Assess Outcomes of Interagency Contracting	16
	Conclusions	19
	Recommendations for Executive Action	20
	Matter for Congressional Consideration	20
	Agency Comments and Our Evaluation	21
Appendix I	Scope and Methodology	24
Appendix II	Department of Homeland Security Interagency Contracting	28
Appendix III	Comments from the Department of Homeland Security	29
Tables		
	Table 1: Department of Homeland Security Interagency Contracting in Fiscal Year 2005 (dollars in millions)	9
	Table 2: Examples of Need for Improved Training and Expertise	10
	Table 3: Cases with Limited Planning and No Assurance of Good Value	15
	Table 4: DHS Acquisition Oversight Program	18
	Table 5: Fiscal Year 2005 Cases Reviewed at Office of Procurement Operations, Customs and Border Protection, and Coast Guard	26
	Table 6: Interagency Contracting Methods Used by DHS	28

Figures

Figure 1: Growth in DHS Contracting

6

Abbreviations

CBP	Customs and Border Protection
DHS	Department of Homeland Security
DOD	Department of Defense
FedSim	Federal Systems Integration and Management Center
FAR	Federal Acquisition Regulation
FPDS-NG	Federal Procurement Data System-Next Generation
GSA	General Services Administration
GWAC	Governmentwide Acquisition Contract
OCPO	Office of the Chief Procurement Officer
OPO	Office of Procurement Operations

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



United States Government Accountability Office
Washington, DC 20548

September 27, 2006

The Honorable Susan M. Collins
Chairman
The Honorable Joseph I. Lieberman
Ranking Minority Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Daniel K. Akaka
Ranking Minority Member
Subcommittee on Oversight of Government Management,
Federal Workforce, and the District of Columbia
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Bennie G. Thompson
Ranking Minority Member
Committee on Homeland Security
House of Representatives

The Department of Homeland Security (DHS) performs a comprehensive homeland security mission encompassing protecting the nation's borders, airports and critical infrastructure, and response and recovery in the event of national emergencies. DHS meets these goals with some of the most extensive acquisitions within the federal government. Now one of the largest procuring agencies, DHS spent about \$17.5 billion on contracted purchases in fiscal year 2005.¹ Over \$6.5 billion, or approximately 37 percent of the department's total fiscal year 2005 contract dollars, was for purchases made through the use of other agencies' contracts and contracting services, a process known as interagency contracting.² While

¹This amount includes procurement obligations and interagency agreements as reported by DHS.

²For the purposes of this review, interagency contracting includes the following: (1) interagency agreements in which one federal agency transfers funds to another federal agency to make a purchase through a contractual arrangement, such as purchases made through franchise funds and other fee-for-service operations; (2) orders placed through the General Services Administration's (GSA) schedules; and (3) orders placed through governmentwide acquisition contracts (GWAC) and other government agencies' contracts.

these types of contracts offer the benefits of efficiency and convenience, in January 2005, GAO noted shortcomings and designated the management of interagency contracting as a governmentwide high-risk area. Our work and the work of others has identified the need for improved guidance and expertise, planning, and oversight to manage and mitigate the risks of these types of contracts. In March 2005, we reported that DHS was not effectively managing acquisition, in particular interagency purchases, of the multitude of goods and services it needed to meet its mission.³

Given the department's critical national security mission and the results of our earlier work, you asked us to review the extent to which DHS manages interagency contracting. To address this question, we assessed (1) DHS guidance for the use of interagency contracts; (2) DHS planning and evaluation of contracting alternatives when using interagency contracts; and (3) DHS practices for overseeing the performance of interagency contracts.

To conduct our work, we selected 17 cases totaling \$245 million. Each case represented \$5 million or more in orders placed through several types of interagency contracting arrangements in fiscal year 2005. These cases represented orders placed by DHS' Office of Procurement Operations (OPO), Customs and Border Protection (CBP), and Coast Guard, which were the largest users of interagency contracts in fiscal year 2005. We interviewed senior procurement officials at the three components and at the Office of the Chief Procurement Officer (OCPO), interviewed contracting officers and program managers at the three components, and reviewed the guidance and oversight at the departmental level and at the components to address the management and planning of interagency contracting.⁴ We obtained data on procurement actions from DHS and compared it with data from the Federal Procurement Data System-Next Generation (FPDS-NG) and determined that the data were sufficiently reliable for our purposes. For more information on our scope and methodology, see appendix I. We conducted our work from February through August 2006 in accordance with generally accepted government auditing standards.

³GAO, *Homeland Security: Successes and Challenges in DHS's Effort to Create an Effective Acquisition Organization*, [GAO-05-179](#) (Washington, D.C.: Mar. 29, 2005).

⁴For the purposes of this review we refer to all DHS agencies and procurement organizations as components. We refer to those program managers or contracting officers using interagency contracts as DHS users.

Results in Brief

While DHS continues to rely heavily on interagency contracts to fill its purchasing needs, the departmentwide guidance on how to effectively manage and mitigate the risks of interagency contracting could be improved. These risks include not receiving good value and lack of expertise of users. DHS has issued specific guidance associated with the largest area of interagency contracting, which is performed under interagency agreements, but not for other types, such as GSA schedules and governmentwide acquisition contracts, which amounted to nearly \$1.5 billion in DHS spending in fiscal year 2005. We also found that some DHS users may have lacked expertise and could benefit from guidance and training in the use of these types of interagency contracts. For example, we found that controls, such as the annual review of purchase agreements for discounts on purchases through the GSA schedules, required by the Federal Acquisition Regulation to ensure that prices still represent the best value, were not in place. OCPO officials explained that their staff are needed to respond to crises at components, such as the Federal Emergency Management Agency during the response to Hurricanes Katrina and Rita, taking their attention away from acquisition policy efforts, such as developing guidance.

According to DHS officials, the department did not always select interagency contracts based on planning and analysis and instead made decisions based on the benefits of speed and convenience—not total value including cost. This contracting method is often chosen because it requires less planning than establishing a new contract, and users have typically relied on the servicing agency or the agency that manages the contracts to conduct planning, ensuring that prices are competitive and following proper procedures. However, our prior work has highlighted the importance of evaluating the use of these contracts for specific purchases because proper planning does not always occur. In our review, we found that DHS users conducted limited evaluation of interagency contracting alternatives. In the four cases for which an analysis of alternatives was required, it was not conducted. As of July 2005, DHS guidance requires planning for all types of purchases, including those made through interagency contracting, to include a discussion of alternative methods considered, but this policy does not include specific criteria to consider when analyzing alternative contracting methods.

DHS does not yet have in place sound oversight practices that would enable it to evaluate the outcomes of its use of interagency contracts. DHS has not been monitoring its use of interagency contracts and could not readily provide data, such as the total cost including fees paid to other agencies for the use of these vehicles, which could help in assessing costs

and benefits of interagency contracting. OCPO officials said they do not know how much DHS pays in fees to other agencies. OCPO is in the early stages of implementing an Acquisition Oversight Program. As part of this program, DHS plans to produce data through assessments and reviews to be conducted by the end of fiscal year 2007; however, this program is not expected to evaluate whether these interagency contracts provided good outcomes for the department. OCPO officials explained that in the few years since the department was created, their efforts have been focused on procurement execution rather than oversight due to urgent needs at component agencies and limited staffing. As of August 2006, OCPO officials said that they had five staff assigned to departmentwide oversight responsibilities for \$17.5 billion in acquisitions. In March 2005, we recommended that OCPO be provided sufficient enforcement authority and resources to provide effective oversight of DHS' acquisition policies and procedures. As of August 2006, OCPO still lacks authority to perform effective departmentwide oversight of the acquisition function across the component procurement organizations, which limits its ability to ensure that needed improvements are made.

To improve the management of interagency contracting at DHS, we are making recommendations to the Secretary of Homeland Security to consider the adequacy of the OCPO's resources and develop consistent, comprehensive guidance and training; establish criteria to consider in selecting an interagency contract; and implement oversight to evaluate the outcomes of using interagency contracts.

Because the Secretary has not taken action to ensure departmentwide acquisition oversight, Congress should require the Secretary to report on efforts to provide the Chief Procurement Officer with sufficient authority over procurement activities at all components.

In written comments on a draft of this report, DHS concurred with our recommendations and indicated planned actions to address them. DHS comments are reproduced in their entirety in appendix III.

Background

In recent years, federal agencies have been making greater use of interagency contracting—a process by which agencies can use another agency's contracting services or existing contracts already awarded by other agencies to procure many goods and services. An agency can enter into an interagency agreement with a servicing agency and transfer funds to the servicing agency to conduct the acquisition on its behalf, or an agency can order directly from a servicing agency's contract, such as the

GSA schedules or GWACs. When funds are transferred to another agency, the contracting service can be provided through entrepreneurial, fee-for-service organizations, which are government-run but operate like businesses. Interagency contracts are designed to leverage the government's aggregate buying power and simplify procurement of commonly used goods and services. In this way, the contracts offer the benefits of improved efficiency and timeliness in the procurement process.

Determining the value of a particular contracting method includes considering benefits such as timeliness and efficiency as well as cost—including price and fees. Although interagency contracts can provide the advantages of timeliness and efficiency, use of these types of vehicles can also pose risks if they are not properly managed. GAO designated management of interagency contracting a governmentwide high-risk area in 2005. A number of factors make these types of contracts high risk, including their rapid growth in popularity along with their administration and use by some agencies that have limited expertise with this contracting method, and their contribution to a much more complex procurement environment in which accountability has not always been clearly established.⁵ In an interagency contracting arrangement, both the agency that holds, and the agency that makes purchases against, the contract share responsibility for properly managing the use of the contract. However, these shared responsibilities often have not been well-defined. As a result, our work and that of some inspectors general has found cases in which interagency contracting has not been well-managed to ensure that the government was getting good value. For example, in our review of the Department of Defense's (DOD) use of two franchise funds, we found that the organizations providing these services did not always obtain the full benefits of competitive procedures, did not otherwise ensure fair and reasonable prices, and may have missed opportunities to achieve savings on millions of dollars in purchases.⁶ In another review, we found task orders placed by DOD on a GSA schedule contract did not satisfy legal requirements for competition because the work was not within the scope of the underlying contract.⁷ Recent inspector general reviews have found similar cases. For example, the Inspector General for the Department of

⁵GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: Jan. 2005).

⁶GAO, *Interagency Contracting: Franchise Funds Provide Convenience, but Value to DOD Is Not Demonstrated*, [GAO-05-456](#) (Washington, D.C.: July 29, 2005).

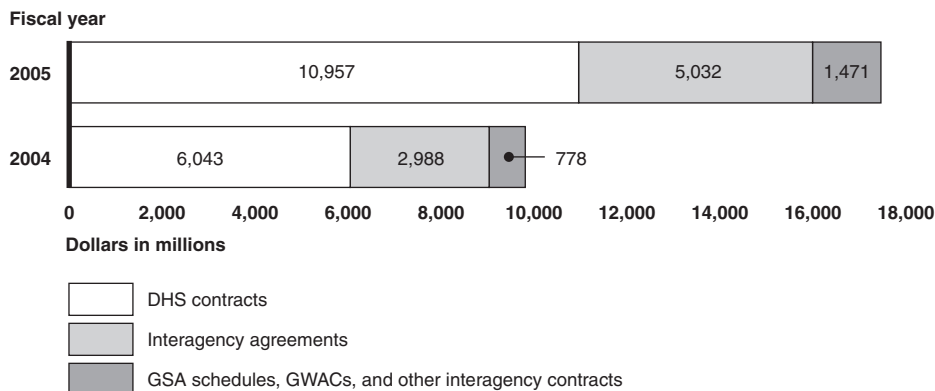
⁷GAO, *Rebuilding Iraq: Fiscal Year 2003 Contract Award Procedures and Management Challenges*, [GAO-04-605](#) (Washington, D.C.: June 1, 2004).

the Interior found that task orders for interrogators and other intelligence services in Iraq were improperly awarded under a GSA schedule contract for information technology services.⁸

The Federal Acquisition Regulation (FAR) is the primary regulation governing how most agencies acquire supplies and services with appropriated funds. The regulation provides general guidance for interagency agreements that fall under the authority of the Economy Act and for the GSA schedules and GWACs. The FAR precludes agency acquisition regulations that unnecessarily repeat, paraphrase, or otherwise restate the FAR, limits agency acquisition regulations to those necessary to implement FAR policies and procedures within an agency, and provides for coordination, simplicity, and uniformity in the federal acquisition process. There are several types of interagency contracting. For more information on those included in our review, see appendix II.

DHS spends significant and increasing amounts through interagency contracting—a total of \$6.5 billion in fiscal year 2005, including \$5 billion through interagency agreements and about \$1.5 billion by placing orders off other agencies’ contracts (see fig. 1). DHS’ total spending on interagency contracting increased by about 73 percent in just 1 year.

Figure 1: Growth in DHS Contracting



Source: GAO analysis of DHS data.

⁸U.S. Department of the Interior, Office of the Inspector General, *Review of 12 Procurements Placed Under General Services Administration Federal Supply Schedules 70 and 871 by the National Business Center*, W-EV-055-0075-2004 (Washington, D.C.: July 16, 2004).

DHS was established as of March 1, 2003, by merging the functions of 23 agencies and organizations that specialize in one or more aspects of homeland security. OCPO is responsible for creating departmentwide policies and processes to achieve integration and to manage and oversee the acquisition function but does not have enforcement authority to ensure that initiatives are carried out.

There are seven acquisition offices within DHS that pre-date the formation of DHS and continue to operate at the components. OPO was formed with the new department to serve the newly established entities and those components that did not have a separate procurement operation. Of those that pre-date DHS, the Coast Guard and CBP provide different examples of the types of components that formed DHS. The Coast Guard, previously under the Department of Transportation, already had an extensive procurement operation, whereas CBP was created by combining the United States Customs Service, formerly part of the Department of the Treasury, Border Patrol and the inspectional parts of the Immigration and Naturalization Service, and portions of the Department of Agriculture's Animal Plant and Health Inspection Service. Thus, CBP has been faced with the added challenge of creating a procurement organization to meet its new mission. Our prior work has found that an effective acquisition organization has in place knowledgeable personnel who work together to meet cost, quality, and timeliness goals while adhering to guidelines and standards for federal acquisition.

Enhanced Guidance and Expertise Could Help DHS Address Interagency Contracting Risks

While DHS has developed guidance on the use of interagency agreements—the largest category of interagency contracting at DHS, which amounted to \$5 billion in fiscal year 2005—it does not have specific guidance for other types of interagency contracting, including GSA schedules and GWACs, which accounted for almost \$1.5 billion in fiscal year 2005. Moreover, we found that some DHS users may have lacked expertise in the proper use of interagency contracts. Although some DHS acquisition officials believe the FAR provides adequate guidance on the use of interagency contracts, such as the GSA schedules, our prior work and inspector general reviews have found numerous cases in which these contracting methods have not been properly used. For example, users have requested work that was not within the scope of the contract and administrators have not ensured fair and reasonable prices. Recognizing this concern, other large agencies, such as DOD and the Department of Energy, have identified the need to carefully manage the use of these contracts and have issued supplemental guidance and emphasized training programs to mitigate these risks.

DHS Guidance Could be Expanded to All Types of Interagency Contracting

DHS departmentwide acquisition guidance covers interagency agreements but not other types of interagency contracting. In December 2003, DHS issued the Homeland Security Acquisition Regulation and the Homeland Security Acquisition Manual to provide departmentwide acquisition guidance. In addition, DHS issued a departmentwide directive on how to use interagency agreements by which funds are transferred to other agencies to award and administer contracts or to provide contracting services on behalf of DHS. However, as we reported in March 2005, the directive was not being followed for purchases made through these agreements. For example, there was little indication that required analyses of alternatives were performed or that required oversight was in place. Although DHS began revising the directive in fiscal year 2004, the revisions have yet to be issued. According to OCPO officials, its limited policy and oversight resources provide assistance to the components as needed, taking time away from acquisition policy efforts, such as developing guidance. For example, OCPO officials provided contracting assistance to the Federal Emergency Management Agency in the response to Hurricanes Katrina and Rita.

To supplement departmentwide DHS guidance on interagency agreements, each of the components we reviewed has issued some implementing guidance. OPO issued guidance addressing the appropriate use of interagency agreements that requires program officials and contracting officers to research other available contract vehicles. In contrast, CBP guidance addresses the goals of an analysis of alternatives, but emphasizes the process and the documentation necessary to execute the interagency agreement. The Coast Guard's supplemental guidance focuses mainly on the ordering and billing procedures for interagency agreements. However, none of the components we reviewed had implementing guidance for other types of interagency contracts. While DHS acquisition officials acknowledge the need to manage the risks of interagency agreements, some do not see other types of interagency contracting, such as the GSA schedules and GWACs, as needing the same type of attention and believe sufficient guidance is available in the FAR. In fiscal year 2005, the three components we reviewed spent a total of \$832 million through GSA schedules, GWACs, and other interagency contracts (see table 1). This is a 53 percent increase over the prior year.

Table 1: Department of Homeland Security Interagency Contracting in Fiscal Year 2005 (dollars in millions)

DHS component	Interagency agreements	GSA schedules, GWACs and other interagency contracts	Total interagency contracting
Office of Procurement Operations	\$3,463	\$280	\$3,743
Bureau of Customs and Border Protection	427	341	768
U.S. Coast Guard	483	211	694
Bureau of Immigration and Customs Enforcement	311	254	565
Federal Emergency Management Agency	245	255	500
Transportation Security Administration	49	82	131
U.S. Secret Service	42	31	73
Federal Law Enforcement Training Center	12	17	29
Total	\$5,032	\$1,471	\$6,503

Source: GAO analysis of DHS data.

Note: GSA schedule amounts include blanket purchase agreements negotiated by the components to receive volume discounts for repetitive purchases from the GSA schedule contracts.

Additional Training Could Help Reduce Management Risks

We have previously reported that use of interagency contracts demands a higher degree of business acumen and flexibility on the part of users and administrators than in the past, and acquisition officials need sufficient training and expertise to ensure the proper use of these types of contracts in an increasingly complex procurement environment. During our review, we identified several examples that showed that DHS may not have obtained a good value for millions of dollars in spending and indicated a need for improved training and expertise (see table 2).

Table 2: Examples of Need for Improved Training and Expertise

No assurance of good value	Cases
No review of purchase agreements for competitive prices	CBP's contracting officers placed seven orders totaling \$51.7 million through two blanket purchase agreements against the GSA schedules without assurance that these agreements were reviewed annually as required by the FAR and CBP standard operating procedures to ensure prices still represent the best value. ^a In one of these cases, program officials said that they had been using blanket purchase agreements to acquire information technology services for as long as 15 years, but the contracting officers did not determine whether the proposed orders were within the scope of the agreement or whether the agreements were still a good value for the department.
Inability to recoup costs	CBP terminated an order placed with a GSA schedule contractor because of lack of performance and sought re-procurement costs in the amount of \$1.3 million. The contractor asserted that its performance failures were excusable, and CBP failed to refer the dispute to the GSA contracting officer as required by the FAR. Because of this error, CBP was unable to pursue recovery of its costs.
Contract files missing key documentation	OPO had difficulty locating the contract files we requested for our review, and when the files were found, they lacked key documentation such as an analysis of alternatives for purchases made through interagency agreements. This is consistent with OPO's March 2006 internal review of 10 interagency agreements totaling \$114.2 million, which found 5 lacked the required analysis of alternatives, 4 lacked a determination and findings, 8 lacked terms and conditions, and most lacked evidence that adequate contractor oversight was being performed. The study also found that the required sole source/limited source justification was missing or was not well documented for orders off the GSA schedule. The review noted that OPO contracting officials did not seem to understand the significance of a thorough and complete evaluation for determining best value.
Transferring funds to a franchise fund at year-end	CBP transferred funds to a franchise fund late in fiscal year 2005, and, according to contracting and program officials, as of June 2006, the funds had not been obligated. CBP received \$5 million in additional funding for a vehicle license plate reader program late in the fiscal year, and there was little time to conduct a competitive procurement before the end of the fiscal year. CBP used an interagency agreement to transfer the \$5 million to GovWorks, the Department of the Interior's franchise fund. According to the program manager and contracting officials, the \$5 million in fiscal year 2005 funds was "parked" with the franchise fund until a contract could be awarded, and as of June 2006, the funds remained with GovWorks. ^b Franchise funds are not intended for parking funds. In fact, this practice has been the subject of recent DOD Inspector General reviews that found mismanagement of funds transferred to GSA for contracting services resulted in DOD losing over \$1 billion. ^c

Source: GAO analysis of DHS data.

^aFAR, Subpart 8.405-3(d) and CBP's Office of Procurement Standard Operating Procedure Number 2004-14.

^bThe term to "park" funds refers to the transfer of appropriated funds by one agency to another agency's acquisition center for the procurement of goods and services under circumstances where a bona fide need determination is in doubt.

^cDepartment of Defense, Office of the Inspector General, *Acquisition: DOD Purchases Made through the General Services Administration*, D-2005-096 (Arlington, Va.: July 29, 2005).

Several contracting officials stated that additional training is needed in the use of interagency contracts but that there was not much training available. In addition, other contracting officials told us that they were not aware of the range of available alternatives for interagency contracting.

Other Large Agencies Have Developed Guidance and Emphasized Training for all Types of Interagency Contracting

To ensure the proper use of all types of interagency contracts, other large procuring agencies, including DOD and the Department of Energy, have issued guidance to supplement the FAR and have emphasized specialized training. DOD is the largest user of other agencies' contracts and the Department of Energy reported that it spent about \$1.7 billion on other agencies' contracts in fiscal year 2005—a substantial amount, but less than DHS. For example, DOD issued special guidance to ensure that proper procedures and management practices are used when using other agencies' contracts including GSA schedules. The guidance requires DOD acquisition personnel to evaluate, using specific criteria, whether using a non-DOD contract for a particular purchase is in the best interest of the department.⁹ The criteria include the contract's ability to satisfy the requirements in a timely manner and provide good value. DOD's guidance also emphasizes using market research to help identify the best acquisition approach to meet the requirement and states that the contracting officer should document this research.¹⁰ The Department of Energy also has issued guidance addressing the proper use of GSA schedules and GWACs. This guidance emphasizes that these contracts are not to be used to circumvent agency regulations and that the contracting officer should ensure that the original order and all future orders are within the scope of the contract. In the case of the GSA schedules, the contracting officer should seek and document advice from GSA's contracting officer on the proper use of the schedules whenever an issue is in doubt.

In 2004, GSA took a step toward improving the management of GSA contracts and services by implementing the "Get It Right" program in part to secure the best value for federal agencies, improve education and training of the federal acquisition workforce on the proper use of GSA contracts and services, and ensure compliance with federal acquisition

⁹This October 29, 2004, memo, entitled "Proper Use of Non-DOD Contracts," was issued by the Acting Under Secretary of Defense (Acquisition, Technology and Logistics) and the Principal Deputy Under Secretary of Defense (Comptroller).

¹⁰This requirement applies to procurements above the simplified acquisition threshold, which is generally \$100,000.

policies, regulations, and procedures. As part of the program, DOD and GSA have partnered to offer updated training on the proper use of GSA schedules. In addition, the Department of Energy has instituted training to emphasize the proper use and the need for planning when using the GSA schedules and GWACs.

DHS Did Not Always Assess Total Value When Choosing Interagency Contracts

Interagency contracts are intended to offer a simplified procurement process whereby users commonly rely on planning that has already been conducted by the agency that established the contract to ensure that the prices are competitive. However, our recent work, as well as the work of others, has found that not all interagency contracts provide good value when considering both timeliness and cost. This suggests the need for evaluating the selection of an interagency contract. According to DHS contracting officials the benefits of speed and convenience—not total value including cost—have often driven decisions to choose interagency contracting vehicles. As of July 2005, DHS has required an analysis of alternatives for all purchases. Of the 17 cases in our review, this analysis was only required for the four interagency agreements. None of these interagency agreements indicated that the required analysis was conducted. Without an evaluation of interagency contracting alternatives, DHS users cannot be sure they are obtaining a good value.

Speed and Convenience, Rather Than Planning and Analysis, Often Determined Contract Selection

A sense of urgency has prevailed in DHS' acquisition decision-making process, according to officials from the Office of Inspector General. For example, one official said that expediting program schedules and contract awards limits time available for adequate procurement planning, which can lead to higher costs, schedule delays, and systems that do not meet mission objectives.¹¹ Eight of the 16 contracting officers we interviewed at OPO, CBP, and Coast Guard told us that using interagency contracts was a quick and convenient way to acquire needed products and services. A few DHS contracting officers felt that interagency contracts—in particular, GSA schedules—were the only viable alternatives given time constraints. In some cases, officials told us that it could take 4 to 6 months to establish and obtain goods and services through an in-house contract. In other

¹¹Testimony before a joint hearing of the Subcommittee on Economic Security, Infrastructure Protection, and Cyber-Security, Committee on Homeland Security, and the Subcommittee on Criminal Justice, Drug Policy, and Human Resources, Committee on Government Reform, House of Representatives, on July 20, 2006; and before the Committee on Government Reform, House of Representatives, on July 27, 2006.

cases, officials stated that purchase requests were received too close to the end of the fiscal year to use anything other than an interagency contract. None of the contracting officials said they chose to use interagency contracts because they also provided good value to DHS in terms of total cost.

Interagency contracts are designed to be convenient to use and require less planning than entering into a full and open competition for a new contract, and users commonly rely on planning that has already been conducted by the agency that established the contract. However, we found that GSA schedule prices may not always be the most competitive, and agencies do not always obtain the required competition when using the schedules, thus, there is no assurance that these contracts are providing good value.¹² In another review, we found that fees charged by the agency that provides the contracting service may not make these contracts cost-effective in some cases. Purchasing agencies also sometimes pay fee on top of fee for the use of another agency's contract because servicing agencies may be using other agencies' contracts—including GSA schedules—to make purchases.¹³ Fees charged for the use of GWACs also range between 0.65 and 5 percent. Given these concerns, evaluating the selection of an interagency contract is a sound management practice used by other large agencies.

Pursuant to DHS acquisition policy, purchases made through interagency agreements require an analysis of alternatives to determine that the approach is in the government's best interest; however, in the four cases we reviewed that fell under this requirement, there was no indication that this analysis was performed. In one case, CBP used FedSim, one of GSA's contracting service providers, to place an order for \$9 million for information technology support for systems security. In another case, CBP transferred \$5 million to a franchise fund for the purchase of license plate readers. In the two remaining cases, OPO used FedSim to place orders totaling about \$45 million against one contract to provide information technology support for the Homeland Secure Data Network. In these examples, there was little evidence that DHS users determined whether this was the best method for acquiring the needed services. These findings are consistent with our March 2005 review, in which we did not find an

¹²GAO, *Contract Management: Opportunities to Improve Pricing of GSA Multiple Award Schedules Contracts*, [GAO-05-229](#) (Washington, D.C.: Feb. 11, 2005).

¹³[GAO-05-456](#).

analysis of alternatives in 94 percent of the cases where it was required. Recent internal reviews at OPO and CBP cited similar findings in which evidence that a determination of findings or an analysis of alternatives was conducted was missing.

In our review of 17 cases, we also found several examples where contracting officers placed orders to fulfill what were perceived to be critical needs, for convenience without comparing alternatives, or to spend funds at the end of the fiscal year without obtaining competing proposals. While an analysis of alternatives was not required in most of these cases, performing such an analysis could have helped DHS users to address some of the known concerns about these types of contracts to ensure that they obtained good value for the department¹⁴ (see table 3).

¹⁴As of July 2005, DHS required an analysis of alternatives for all acquisitions. Because our review covered fiscal year 2005, which extended from October 1, 2004, to September 30, 2005, this requirement did not apply to most of the cases in our review.

Table 3: Cases with Limited Planning and No Assurance of Good Value

DHS' decision factor	Cases
Critical need	We found that OPO placed \$33.4 million in orders and modifications against a GSA schedule without obtaining competing proposals as required by the FAR. In this case, OPO used a GSA schedule to establish a temporary "bridge" arrangement without competition to avoid disruption of critical support services. The need for this arrangement became critical in December 2004 when DHS' general counsel advised OPO to discontinue the contracting arrangement with the Department of Veterans Affairs, which provided contracting services to DHS via an interagency agreement, as the required work was grossly beyond the scope of the contract. To ensure that critical support services continued, DHS used GSA schedules to acquire services from the incumbent on a sole-source basis. This was to be a temporary measure for an initial amount of \$18 million to continue services until OPO could establish new competitive contracts. However, according to the contracting officer this order had been modified 20 times; 10 modifications, totaling \$15.5 million, occurred in fiscal year 2005. As of July 2006, this arrangement was still being used to provide some services to DHS organizations.
Convenience	To maintain information technology services and maintain and upgrade several safety systems, in fiscal year 2002, the Coast Guard placed two orders with one GWAC because the contracting officer thought it was convenient, a timely way to complete the purchases, and thought it was probably less costly than other options. We found that only one order contained a comparison of contracting alternatives, and according to the contracting officer, no analysis of fees charged for the use of the GWAC was performed on either order. Three years later, in fiscal year 2005, the Coast Guard placed work orders against the original orders 47 times for a total of \$19.5 million.
Year-end spending	We found two cases in which orders were placed at the end of the fiscal year without comparing alternatives. In one case, when placing an order for \$2 million for computer equipment on September 26, 2005, the CBP program office requested that the contracting officer place the order against a specific blanket purchase agreement without comparing alternatives. Both the purchase request and the order were issued near the end of the fiscal year.

Source: GAO analysis of DHS data.

Recent Planning Requirement Does Not Include Evaluation Criteria

As of July 2005 DHS has required an analysis of alternatives for all acquisitions, including all types of interagency contracts. DHS policy now states that all acquisition plans must include an analysis of alternatives including a discussion of why the acquisition process was chosen and the processes considered. The guidance states that the plan must contain information about the type of contract selected. However, the guidance does not include factors to consider or specific criteria for making a good choice among alternative contracting options. We have found that some agencies have established factors to consider in making this decision. For example, DOD and the Department of Energy have established factors that incorporate considerations of value, policy and regulatory requirements,

customer needs, and administrative responsibilities. Following are some of the factors these agencies use:¹⁵

- *Value*: cost (including applicable fees or service charges); whether using an interagency contract is in the best interest of the department.
- *Policy and regulatory requirements*: departmental funding restrictions; departmental policies on small business, performance-based contracting, and competition.
- *Customer needs*: schedule; scope of work; unique terms, conditions and requirements.
- *Contract administration*: including oversight, monitoring, and reporting requirements.

DHS Oversight Program Does Not Assess Outcomes of Interagency Contracting

Although DHS' spending through interagency contracting totals billions of dollars annually and increased by 73 percent in the past year, the department does not systematically monitor its use of these contracts to assess whether this method for acquiring goods and services is being properly managed and provides good outcomes for the department. While OCPO has established a framework for an acquisition oversight program, the program is not designed to assess the outcomes of different contracting methods including interagency contracting. According to officials, DHS' acquisition oversight program has been hindered by limited resources and authority.

DHS Does Not Monitor or Assess Use of Interagency Contracting

DHS does not systematically monitor spending on its interagency contracts, which totaled \$6.5 billion in fiscal year 2005—37 percent of DHS' procurement spending for that year. This type of monitoring could provide DHS with useful information to assess its use of this contracting method. For example, as part of its strategic sourcing initiative, DHS officials said they reviewed the component's use of information technology and telecommunications contracts and determined that the department could achieve savings of \$22.5 to \$45 million in fees and reduced prices by establishing its own departmentwide contracts. However, DHS does not have available information to make comparable assessments for interagency contracts. For example, DHS officials were

¹⁵DOD memorandum dated October 24, 2004, entitled "Proper Use of Non-DOD Contracts" issued by the Acting Under Secretary of Defense (Acquisition, Technology and Logistics) and the Principal Deputy Under Secretary of Defense (Comptroller). Department of Energy Acquisition Letter Number 2005-05 revised, dated April 26, 2005.

not able to readily provide data on the amounts spent through different types of interagency contracts. To respond to our request for information, OCPO prepared a special report on the use of GSA schedules and GWACs. For information on interagency agreements, OCPO had to request data from components. Ultimately, however, we had to compile a summary and clarify information obtained from components.

DHS also does not collect data on the amount of service fees paid to other agencies for the use of contracting services or vehicles regarding interagency contracting, such as the amount of service fees paid to other agencies, and the components, which pay the fees, also do not collect this data. In prior work in this area, we have found that these fees can range from less than 1 percent to 8 percent. In March 2005, we found that OPO, the largest user of interagency contracts among the components, alone paid \$12.9 million in service fees in fiscal year 2004.¹⁶ Given that the volume of DHS' interagency contracting has increased by \$2.7 billion, or about 73 percent, since fiscal year 2004, it is likely that the fees paid also have increased substantially. This lack of data is not unique to DHS. Although the need to collect and track data on interagency contracting transactions has become increasingly important governmentwide, there is no governmentwide system to collect this data.¹⁷ In fact, the Office of Management and Budget has an effort underway to collect basic information on interagency contracting from all federal agencies.

While each of the components we visited has established its own internal reviews to evaluate contracting practices, including the use of interagency contracts, these reviews are compliance-based and are not designed to evaluate the outcomes of interagency contracting. For example, OPO, which has taken a comprehensive approach, established procedures for reviewing and approving procurement actions. The review includes an assessment of the documentation for compliance with acquisition regulations or policies; soundness of the acquisition strategy; use of business judgment; and completeness, consistency, and clarity. OPO also had a study completed to determine whether its contracts, task orders, interagency agreements, and other transactions were awarded and administered in compliance with procurement laws, regulations, and internal DHS and OPO operating policies and procedures. While the

¹⁶GAO-05-179.

¹⁷GAO, *Improvements Needed to the Federal Procurement Data System-Next Generation*, GAO-05-960R (Washington, D.C.: Sept. 27, 2005).

review found that much improvement was needed to comply with policies and procedures, it was not designed to address areas such as timeliness, total cost including price and fees paid, and customer service to determine whether a particular contract method resulted in the best outcome.

DHS Has Begun to Develop an Oversight Program, but Is Facing Challenges

In December 2005, OCPO issued a policy that provides a framework for a departmentwide acquisition oversight program. However, the framework does not evaluate the outcomes of different contracting methods, including interagency contracting, to determine whether the department obtained good value. Additionally, the Chief Procurement Officer lacks the authority needed to ensure the department's components comply with its procurement policies and procedures that would help to establish an integrated acquisition function.

The framework includes four key reviews (see table 4). According to DHS officials, the acquisition planning review was operational as of August 2006, and an on-site review was ongoing at the Federal Emergency Management Agency. DHS plans to implement the full program in fiscal year 2007.

Table 4: DHS Acquisition Oversight Program

Review	Purpose
Self assessment	The head of contracting for each component assesses the component's staff, processes, and programs.
Acquisition planning reviews	Each component's contracting activity annually reviews its programs and assesses the acquisition planning.
Operational status reviews	The Chief Procurement Officer and the head of contracting for each component assess, on a quarterly basis, the status of the acquisition function.
On-site reviews	These reviews, conducted triennially, assess each component's contracting activity, strategic capability to support DHS' mission, and compliance with acquisition regulations, policies, and guiding principles.

Source: GAO analysis of DHS data.

According to OCPO officials, while DHS expects to track interagency contracting through this framework, it will not gather data to determine whether these contracts were used effectively. For example, through the operational status reviews, DHS plans to track the number and dollar value of orders placed using interagency agreements and GSA schedules and GWACs. However, these reviews will not collect data on cost

including the price of goods and services and fees paid, timeliness, or customer service, that would help them to evaluate whether specific interagency contracts were a good value.

In addition, the Chief Procurement Officer, who is held accountable for departmentwide management and oversight of the acquisition function, lacks the authority and has limited resources to ensure compliance with acquisition policies and processes. As of August 2006, according to OCPO officials, only five staff were assigned to departmentwide oversight responsibilities for \$17.5 billion in acquisitions. According to OCPO officials, their small staff faces the competing demands of providing acquisition support for urgent needs at the component level. As a result, they have focused their efforts on procurement execution rather than oversight. Officials also noted that limited resources have delayed the oversight program's implementation.

DHS' acquisition function was structured to rely on cooperation and collaboration among DHS components to accomplish the department's goals. While this structure was intended to make efficient use of resources departmentwide, it has limited the Chief Procurement Officer's ability to effectively oversee the department's acquisitions, manage risks, and has ultimately wasted time and other resources. In our prior work, we have found that in a highly functioning acquisition organization, the chief procurement officer is in a position to oversee compliance with acquisition policies and processes by implementing strong oversight mechanisms. In March 2005, we recommended that OCPO be provided sufficient enforcement authority and resources to provide effective oversight of DHS' acquisition policies and procedures. In a 2005 review of the department's organization, the Secretary focused on mission initiatives and, as of August 2006, has not changed the structure of the operational functions to provide additional authority to the Chief Procurement Officer.

Conclusions

One of the largest procuring agencies in the federal government, DHS relies on contracts for products and services worth several billions of dollars to meet its complex homeland security mission. Effective acquisition management must include sound policies and practices for managing the risks of large and rapidly increasing use of other agencies' contracts. While the use of these types of contracts provides speed and convenience in the procurement process, the agencies that manage the contracts and DHS users have not always adhered to sound contracting practices. Guidance and training that could help DHS to address risks is not in place; planning was not always conducted; and adequate monitoring

and oversight were not performed. While DHS has developed a framework for an oversight program, until such oversight is in place, DHS cannot be sure that taxpayer's dollars are being spent wisely and purchases are made in the best interest of the department. While the challenges to effective management of an acquisition function in any organization with a far-reaching mission are substantial, these challenges are further complicated at DHS by an organizational structure in which the Chief Procurement Officer lacks direct authority over the components. Without such authority, the department cannot be sure that necessary steps to implement improvements to its acquisition function will be taken.

Recommendations for Executive Action

To improve the department's ability to manage the risks of interagency contracting, we recommend that the Secretary of Homeland Security consider the adequacy of the Office of the Chief Procurement Officer's resources and implement the following three actions:

- develop consistent, comprehensive guidance, and related training to reinforce the proper use of all types of interagency contracts to be followed by all components;
- establish, as part of the department's planning requirement for an analysis of alternatives, criteria to consider in making the decision to use an interagency contract; and
- implement oversight procedures to evaluate the outcomes of using interagency contracts.

Matter for Congressional Consideration

Because the Secretary has not taken action to ensure departmentwide acquisition oversight, Congress should require the Secretary to report on efforts to provide the Chief Procurement Officer with sufficient authority over procurement activities at all components.

Agency Comments and Our Evaluation

We provided a draft of this report to DHS for review and comment. In written comments, DHS concurred with all of our recommendations and provided information on what action would be taken to address them. The department's comments are reprinted in appendix III.

Regarding the recommendation for guidance and training to reinforce the proper use of all interagency contracts, DHS stated that it will issue a revised management directive in the near future. This directive will require the reporting of data on interagency agreements. DHS also will issue additional direction to the components on reporting the use of other types of interagency contracts. With regard to training, the OCPO will introduce specific training with respect to all types of interagency contracting for all contracting personnel during fiscal year 2007. With regard to establishing criteria to consider in making the decision to use an interagency contract, DHS will revise the acquisition planning guide to address this recommendation. With regard to implementing oversight procedures to evaluate the outcomes of using interagency contracts, DHS plans to incorporate oversight procedures assessing the proper use of interagency contracts and agreements into its acquisition oversight program.

Concerning the overall use of interagency contracts, the department's comments stated that it is the goal of the OCPO to reduce the number and value of contracts awarded through the use of interagency contracts or agreements. This will be accomplished in part through the use of new departmentwide contracts for information technology equipment and services. We believe this is a positive step toward improving DHS' contract management.

In responding to the Matter for Congressional Consideration that the Secretary report on efforts to provide the Chief Procurement Officer with sufficient authority over procurement activities, DHS noted some steps that the Secretary has taken to improve acquisition oversight.

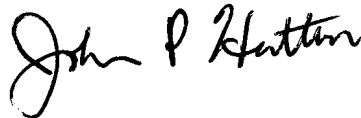
- revised the investment review process, placing the Chief Procurement Officer in a key position to review and provide oversight of the Department's most critical programs;
- supported an increase of 25 OCPO positions to improve acquisition and management oversight; and
- directed the Chief Procurement Officer to work with all component heads to report on departmentwide progress in key acquisition areas.

While these actions should help, they do not provide the Chief Procurement Officer with sufficient authority to ensure effective oversight

of DHS' acquisition policies and procedures, and we continue to believe that the Congress should require the Secretary to report on efforts to address this lack of authority.

We are sending copies of this report to the Secretary of the Department of Homeland Security, and to other interested agencies and congressional committees. We will also make copies available to others upon request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you have any questions about this report or need additional information, please contact me at (202) 512-4841 (huttonj@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Other staff making key contributions to this report were Amelia Shachoy, Assistant Director; Greg Campbell; Christopher Langford; Eric Mader; Bill McPhail; Russ Reiter; Karen Sloan; and Karen Thornton.



John P. Hutton, Acting Director
Acquisition and Sourcing Management

Appendix I: Scope and Methodology

To determine the level of interagency contracting at the Department of Homeland Security (DHS), we requested data from each component on fiscal year 2005 purchases made through all types of interagency contracts. We compiled a summary of purchases made through interagency agreements, the General Service Administration's schedules and governmentwide acquisition contracts (GWAC) from the individual reports we received from each component. We found that the Office of Procurement Operations (OPO), Customs and Border Protection (CBP), and Coast Guard were the largest users of interagency contracts in fiscal year 2005. Based on a review of this data, we selected 17 cases, totaling \$245 million. Interagency contracting actions for these components represented a sample of GSA schedule, GWAC, and interagency transactions made through fee-for-service contracting providers. See table 5. The 17 cases were selected to represent procurement actions of \$5 million or more at three DHS components. Because our findings included similar problems across these activities, we believe they represent common problems in DHS' procurement process. To assess the reliability of this data, we compared the data obtained from DHS to the data maintained in the Federal Procurement Data System-Next Generation (FPDS-NG). Based upon the comparison, we determined that the data were sufficiently reliable for our purposes.¹

To assess the extent to which DHS manages the risks of interagency contracting, we reviewed guidance and oversight at the departmental level and at the three components in our sample—OPO, CBP and Coast Guard, and we interviewed officials in the Office of the Chief Procurement Officer (OCPO) and senior officials of the components under review. To determine how other large agencies address the management risks of interagency contracting, we reviewed relevant guidance and training at the Departments of Defense and Energy. We also reviewed relevant GAO and Inspector General reports.

To assess DHS planning for the use of interagency contracts, we conducted fieldwork at CBP's National Acquisition Center in Indianapolis, Indiana; National Data Center in Springfield, Virginia; and at the Coast Guard's procurement office in Norfolk, Virginia, and reviewed contract files and completed a data collection instrument for each of the 17 cases

¹We have previously reported on the shortcomings of the Federal Procurement Data System—both the legacy and the Next Generation versions. However, the current system remains the most comprehensive database on federal procurement actions.

we selected. We also interviewed the contracting officer, program manager and Contracting Officer's Technical Representative to discuss each case. In conducting our review, we identified the reasons for using interagency contracts and the reasons for choosing a particular interagency contract.

We performed our review between February and August 2006 in accordance with generally accepted government auditing standards.

Table 5: Fiscal Year 2005 Cases Reviewed at Office of Procurement Operations, Customs and Border Protection, and Coast Guard

Component program	Type of service
Office of Procurement Operations	
Multi-office support services	Support services such as financial tracking, acquisition and human capital planning and budget support
Homeland Secure Data Network	Information technology support for Homeland Secure Data Network
Homeland Secure Data Network	Information technology support or Homeland Secure Data Network
Protective Security Division Vulnerability Assessment Support	Technical and operational services for vulnerability, identification and protective measures
District of Columbia Rail Security Corridor Pilot System	Security corridor on rail line near Washington, D.C.
U.S. Visit	Customer service for U.S. Visit program
Domestic Nuclear Detection Office	Science, engineering, and technical assistance support services
Total Office of Procurement Operations orders	
Customs and Border Protection	
CBP Nationwide Onsite Information Technology Support ^a	Information technology technical support services
U.S. Visit and Automated Commercial Environment (ACE) programs ^b	Information technology hardware and software
CBP Information Technology System Security	Enterprise-wide information technology systems security support
mySAP Business Suite Software	Software license for CBP SAP products
Applied Technology Division	Inspection system for checking cargo containers
Distributed Systems Engineering Storage Area Network Enhancement	Mainframe computer storage devices
Northern Border Initiative	License Plate Reader system
Total Customs & Border Protection orders	
Coast Guard	
Systems Engineering and Technical Services II	Information technology engineering and technical services
Maintenance and Technical Support Program	Maintain & upgrade National VHF-FM Distress System, Vessel Traffic Systems and Ports and Waterway Safety System
Information Technology Engineering and Technical Services	Information technology engineering and technical services
Total Coast Guard orders	
Total all agencies	

Source: GAO analysis of DHS data.

Appendix I: Scope and Methodology

Interagency contracting method						Total order amount (in millions)
General Services Administration schedules	General Services Administration's FedSim	General Services Administration governmentwide acquisition contract	General Services Administration blanket purchase agreement	Interior's GovWorks		
●						\$33.4
	●					23.2
	●					21.9
●						14.5
●						9.8
		●				9.0
				●		6.0
3	2	1	1	0		\$117.8
			●			\$45.9
			●			5.8
	●					9.1
●						8.1
●						7.4
●						5.2
				●		5.0
3	1	0	2	1		\$86.5
		●				\$21.0
		●				13.7
		●				5.8
0	0	3	0	0		\$40.5
6	3	4	3	1		\$244.8

Note: Total dollars include fiscal year 2005 orders and modifications.

^aThe total for this blanket purchase agreement includes four task orders issued in fiscal year 2005.

^bThe total for this blanket purchase agreement includes three task orders issued in fiscal year 2005.

Appendix II: Department of Homeland Security Interagency Contracting

Table 6: Interagency Contracting Methods Used by DHS

Contracting method	Description	Authority
Interagency agreement	Any agreement between two federal agencies in which one agency purchases goods or services from the other. These agreements are allowed by a number of authorities. In some cases these agreements are used when obtaining contracting services through government-run, self-supporting businesslike enterprises managed by federal employees, such as franchise funds like the Department of Interior's GovWorks. ^a GSA's Federal Systems Integration and Management Center (FedSim) also provides contracting services to agencies including access to GWACs and other types of contracts. These service providers charge a fee for their contracting services.	The Economy Act of 1932 (31 U.S.C. 1535). This authority applies to interagency agreements for which more specific statutory authority does not exist. The Government Management Reform Act of 1994 (P.L. 103-356, § 403) authorized the Office of Management and Budget to designate six federal agencies to establish franchise funds. GSA's FedSim derives its authority from the Brooks Act (40 U.S.C. 1101 et seq.) as amended.
GSA schedules	Under the GSA schedules program, GSA negotiates contracts with vendors for a wide variety of goods and services at varying prices. These contracts permit other agencies to place orders directly with the vendors, providing agencies with a simplified process of acquiring goods and services while obtaining volume discounts.	Federal Property and Administrative Services Act of 1949 (P.L. 94-519, § 102); Federal Acquisition Regulation Subpart 8.4.
Blanket purchase agreement	This contracting arrangement provides a simplified method of filling anticipated repetitive needs for supplies and services, allowing agencies to establish "charge accounts" with qualified vendors that can be GSA schedule contractors.	Federal Acquisition Regulation 8.405-3 and 13.303.
Governmentwide acquisition contract	A GWAC is a task or delivery order contract for information technology established by one agency for governmentwide use. The purchasing agency can either order directly from a GWAC, as with the GSA schedules, or request the GWAC executive agent to provide contracting services for a fee. These services can range from limited contracting assistance to an approach in which the executive agent handles all aspects of the procurement.	Clinger-Cohen Act of 1996 (40 U.S.C. 11302). This act gives the Office of Management and Budget the authority to designate federal agencies as executive agents for GWACs.

Source: GAO analysis.

^aFranchise fund enterprises are a type of intragovernmental revolving fund, all of which have similar legal authority and operations and are generally created to provide common administrative services. An intragovernmental revolving fund is established to conduct continuing cycles of businesslike activity within and between government agencies. An intragovernmental revolving fund charges for the sale of goods or services and uses the proceeds to finance its spending, usually without the need for annual appropriations.

Appendix III: Comments from the Department of Homeland Security

U.S. Department of Homeland Security
Washington, DC 20528



**Homeland
Security**

September 25, 2006

Mr. John P. Hutton, Acting Director
Acquisition and Sourcing Management
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Hutton:

Thank you for the opportunity to review and comment on the Government Accountability Office's (GAO's) draft report entitled *INTERAGENCY CONTRACTING: Improved Guidance and Oversight Would Enable the Department of Homeland Security to Address Risks* (GAO 06-996).

The Department of Homeland Security (DHS) concurs with the three recommendations directed for our action and provides comments on each recommendation. We also comment on GAO's "Matter for Congressional Consideration."

Recommendation 1: Develop consistent, comprehensive guidance, and related training to reinforce the proper use of all types of interagency contracts to be followed by all components.

The DHS Office of the Chief Procurement Officer (OCPO) accepts this recommendation. Action on this recommendation will be addressed in two ways. First, concerning the proper use of Interagency Agreements, as provided for in the Federal Acquisition Regulation, Part 17, DHS Management Directive 0710.1 addressing such agreements is planned to be issued in the near future. This Management Directive will require the reporting of data, including cost of acquisition on all Interagency Agreements. Secondly, based upon the GAO recommendation, the DHS OCPO will issue additional direction to the Heads of Contracting Activities (HCAs) at DHS with respect to reporting on the use of other types of Interagency Contracts, such as Federal Supply Schedules, Government Wide Agency Contracts (GWAC) and Franchise Funds. It is noted, however, that, as detailed in the report, the Federal Procurement Data System – Next Generation (FPDS-NG) is not currently suitable for this type of data collection. The DHS OCPO will explore with the HCAs the possibility of collecting and providing this information as part of the quarterly reviews as detailed in the DHS Acquisition Oversight program guide based on a manual data collection until FPDS-NG is able to provide it. Regarding training, the DHS OCPO will introduce specific training modules with respect to all types of Interagency Contracting for all contracting personnel via the Department's Learning Management System during FY-07.

www.dhs.gov

The Department also notes that a substantial portion of the contracts reviewed during this engagement were contracts for Information Technology equipment and services. The Department has recently awarded a set of multiple award contracts under the Eagle Program, DHS's Information Technology Acquisition Program. In the near future, a set of multiple award contracts for IT Services known as the First Source program will also be awarded. It is Department policy that mandatory consideration be given to the use of these DHS contracts for all of the Department's and component's Information Technology acquisitions. Use of these DHS contracts should significantly reduce the dependence on Federal Supply Schedule and GWAC vehicles beginning in FY-07.

The report notes that while the total amount of spending under Interagency Agreements and Interagency Contracts significantly increased from FY-04 to FY-05, the proportion of total procurement spending attributed to such contracting vehicles was reduced. This is attributed to the increases in staffing experienced at the component level along with more time and attention paid to Acquisition Planning. As component procurement staffing is addressed during FY-07, the Department anticipates a further reduction in the use of all Interagency Contracts. That this is a Departmental priority is evidenced by the direction from the Secretary that the CPO report semi-annually regarding the status of the DHS Acquisition Program including, specifically, the reliance on other government agencies to award critical Department contracts (DHS Secretarial Memorandum dated 15 July 2005).

Recommendation 2: Establish, as part of the department's planning requirement for an analysis of alternatives, criteria to consider in making the decision to use an interagency contract.

The DHS OCPO accepts this recommendation. The DHS OCPO will issue a revision to the DHS Acquisition Planning Guide specifically addressing the analysis of alternatives decisions by the contracting officer in the selection of the appropriate method and type of contracting and the documentation of that decision.

Recommendation 3: Implement oversight procedures to evaluate the outcomes of using interagency contracts.

The DHS OCPO accepts this recommendation. The DHS CPO will incorporate oversight procedures assessing the proper use of Interagency Contracts and Agreements into the DHS Acquisition Oversight program guide. Additionally, it is the goal of the DHS OCPO to reduce the number and value of contracts awarded through the use of Interagency Contracts or Agreements. The Secretary has declared that reliance upon other government agencies to award DHS's critical contracts is a weakness in the internal control structure. As these changes occur the CPO and the HCAs will assess methods for evaluating the outcomes of those remaining interagency contracts.

We also wish to make the following comments regarding procurement office staffing:

A recurring comment in the report is that DHS staffing of the contracting offices has been an ongoing problem. The Department recognizes this shortfall. The chart below displays the staffing of the component contracting offices over the past and through the President's Budget submission for Fiscal Year 2007:

Component	Authorized FTE FY-05	On-Board FTE FY-05	Authorized FTE FY-06	On-Board FTE as of 31 Mar 06	President's Budget FTE FY-07
TSA	67	57	106	71	126
OPO	127	87	127	92	220
ICE	81	57	64	56	96
USCG	336	284	339	294	339
FLETC	31	31	41	31	41
FEMA	55	42	129	98	170
CBP	92	90	119	100	179
USSS	25	21	25	18	25
Total	814	669	950	760	1196

There has been significant progress made in providing staff for the component contracting offices, though much work remains to fill these positions with qualified, trained acquisition professionals. Regarding the immediate staff of the Office of the Chief Procurement Officer, the President's Fiscal Year 2007 budget includes the addition of an additional 25 billets for OCPO, including a significant increase in the number of billets dedicated to the DHS Acquisition Oversight Program. If funded through the Appropriations legislation these additional personnel positions will significantly contribute to continuing improvement in the DHS acquisition and contracting enterprise.

With respect to GAO's "Matter for Congressional Consideration" as found on page 24, we offer the following comment:

The Secretary has taken significant action to improve DHS acquisition oversight including:

1. The Secretary has re-vitalized the Investment Review Process within the Department, placing the Chief Procurement Officer, along with the other functional line of business Chiefs, in the key position to review and provide oversight of the Department's most critical programs.
2. The Secretary supported an increase of 25 positions in CPO staff to improve acquisition and management oversight.
3. The Secretary directed the CPO to work with all component heads to ensure the integrity of Department acquisition programs and to report semi-annually on Department-wide progress in several key areas, including: acquisition planning; reliance on other government agencies to award critical Department contracts;

Now on page 20

4

appropriate staffing levels in our contracting offices; increased use of competitive contracting methods; and integrity and ethics throughout the entire acquisition process.

Thank you again for the opportunity to comment on this draft report and we look forward to working with you on future homeland security issues.

Sincerely,



Steven J. Pecinovsky
Director
Departmental GAO/OIG Liaison Office

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548