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**DEPARTMENT OF
HOMELAND SECURITY**

**Ongoing Challenges in
Creating an Effective
Acquisition Organization**

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DEPARTMENT OF HOMELAND SECURITY



Ongoing Challenges in Creating an Effective Acquisition Organization

Highlights of [GAO-07-948T](#), a testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

In fiscal year 2006, the Department of Homeland Security (DHS) obligated \$15.6 billion to support its broad and complex acquisition portfolio. Since it was tasked with integrating 22 separate federal agencies and organizations into one cabinet-level department, DHS has been working to create an integrated acquisition organization while addressing its ongoing mission requirements and responding to natural disasters and other emergencies. Due to the enormity of this challenge, GAO designated the establishment of the department and its transformation as high-risk in January 2003.

This testimony discusses DHS's (1) challenges to creating an integrated acquisition function; (2) investment review process; and (3) reliance on contracting for critical needs. This testimony is based primarily on prior GAO reports and testimonies.

What GAO Recommends

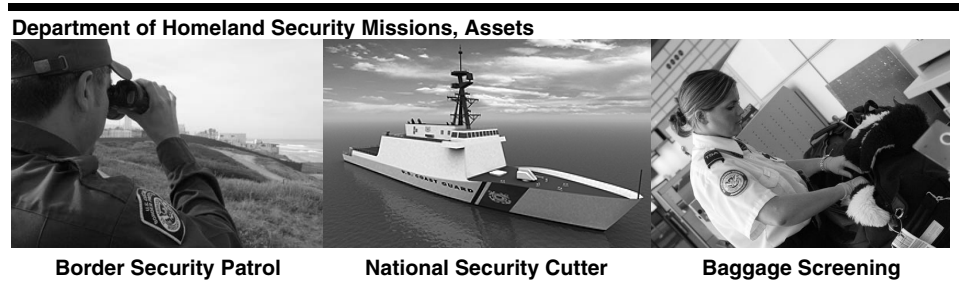
While GAO is not making recommendations in this testimony, GAO has made numerous recommendations over the past few years to help improve DHS's acquisition function. The department has generally concurred with these recommendations and is taking, or plans to take, action to improve its acquisitions.

What GAO Found

The structure of DHS's acquisition function creates ambiguity about who is accountable for acquisition decisions because it depends on a system of dual accountability and collaboration between the Chief Procurement Officer (CPO) and the component heads. Further, a common theme in GAO's work on acquisition management has been DHS's struggle to provide adequate support for its mission components and resources for departmentwide oversight. In 2006, DHS reported significant progress in staffing for the components and the CPO, though much work remained to fill the positions. In addition, DHS has established an acquisition oversight program, designed to provide the CPO comprehensive insight into each component's acquisition programs and disseminate successful acquisition management approaches departmentwide. However, GAO continues to be concerned that the CPO may not have sufficient authority to effectively oversee the department's acquisitions.

In 2003, DHS put in place an investment review process to help protect its major complex investments. In 2005, GAO reported that this process adopted many acquisition best practices that, if applied consistently, could help increase the chances for successful outcomes. However, GAO noted that incorporating additional program reviews and knowledge deliverables into the process could better position DHS to make well-informed decisions. Concerns have been raised about how the investment review process has been used to oversee its largest acquisitions, and DHS plans to revise the process.

DHS has contracted extensively for a broad range of services and complex acquisitions. The growing complexity of contracting for technically difficult and sophisticated services increases challenges in terms of setting appropriate requirements and effectively monitoring contractor performance. However, DHS has been challenged to provide the appropriate level of oversight and management attention to its contracting for services and major systems.



Source: DHS.

www.gao.gov/cgi-bin/getrpt?GAO-07-948T.

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Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me here today to discuss the Department of Homeland Security's (DHS) acquisition organization. As you know, DHS is the result of one of the biggest mergers in the U.S. government and, as such, involves a variety of transformational efforts, one of which is to design and implement the necessary management structure and processes for acquiring goods and services. DHS's acquisition needs range from increasingly sophisticated screening equipment for air passenger security to upgrading the Coast Guard's offshore fleet of surface and air assets. In fiscal year 2006, the department reported that it obligated \$15.6 billion for goods and services to support its broad and complex acquisition portfolio. DHS has been working to develop an integrated acquisition organization while addressing its ongoing mission requirements and responding to emergencies, including Gulf Coast recovery from Hurricane Katrina, which caused more damage than any other natural disaster in the history of the United States. Due to the enormity of challenges facing the department—and concern that failure to effectively address DHS's management and program challenges would seriously compromise our homeland security—we designated the establishment of the department and its transformation as high-risk.¹

My testimony today focuses on accountability and management of DHS acquisitions. Specifically, the department's (1) challenges in creating an integrated acquisition function; (2) need for improvements in its investment review process; and (3) reliance on contracting for critical services. This statement is based primarily on GAO reports and testimonies performed in accordance with generally accepted government auditing standards.

Summary

DHS has recognized the need to improve acquisition outcomes and taken some positive steps, but continues to lack clear accountability for the outcomes of acquisition dollars spent. A common theme in our work on acquisition management is DHS's struggle to provide adequate support for its mission components and resources for departmentwide oversight. DHS has not yet accomplished its goal of integrating the acquisition function across the department. The structure of DHS's acquisition function creates ambiguity about who is accountable for acquisition decisions because it

¹GAO, *High-Risk Series: An Update*, [GAO-03-119](#) (Washington, D.C.: January 2003).

depends on a system of dual accountability and cooperation and collaboration between the Chief Procurement Officer (CPO) and the component heads. In addition, our work and the work of the DHS Inspector General has found acquisition workforce challenges across the department. The CPO has established a departmentwide program to improve oversight. However, we continue to be concerned that the CPO may not have sufficient authority to effectively oversee the department's acquisitions.

In 2003, in an effort to address the need for successful outcomes in its major programs—in terms of cost, schedule, and performance—DHS put in place an investment review process. While this process adopts many acquisition best practices, it does not include critical reviews and has been under revision since 2005. Concerns have been raised about how the investment review process has been used to oversee the department's largest acquisitions. DHS's performance and accountability report states that changes to the process will be made by the first quarter of fiscal year 2008.

To obtain necessary expertise to carry out its mission, DHS has had to contract extensively for a broad range of services and major acquisitions. The growing complexity of contracting for technically difficult and sophisticated services increases challenges in terms of setting appropriate requirements and effectively overseeing contractor performance. However, DHS has been challenged to provide the appropriate level of oversight and management attention to its contracting for services and major systems.

DHS Faces Challenges in Establishing an Integrated Acquisition Function

The structure of DHS's acquisition function creates ambiguity about who is accountable for acquisition decisions. A common theme in our work on DHS's acquisition management has been the department's struggle from the outset to provide adequate support for its mission components and resources for departmentwide oversight.² Of the 22 components that initially joined DHS from other agencies, 7 came with their own procurement support. In January 2004, a year after the department was created, an eighth office, the Office of Procurement Operations, was created to provide support to a variety of DHS entities. To improve oversight, in December 2005, CPO established a departmentwide acquisition oversight program, designed to provide comprehensive insight into each component's acquisitions and disseminate successful acquisition management approaches throughout DHS.

Acquisition Function Is Not Integrated

DHS has set a goal of integrating the acquisition function more broadly across the department. Prior GAO work has shown that to implement acquisition effectively across a large federal organization requires an integrated structure with standardized policies and processes, the appropriate placement of the acquisition function within the department, leadership that fosters good acquisition practices, and a general framework that delineates the key phases along the path for a major acquisition. 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. DHS, however, relies on dual accountability and collaboration between the CPO and the heads of DHS's components.

The October 2004 management directive for its acquisition line of business—the department's principal guidance for leading, governing, integrating, and managing the acquisition function—allows managers from each component organization to commit resources to training, development, and certification of acquisition professionals.³ It also

²GAO, *Contract Management: INS Contracting Weaknesses Need Attention from the Department of Homeland Security*, [GAO-03-799](#) (Washington, D.C.: July 25, 2003); *Transportation Security Administration: High-Level Attention Needed to Strengthen Acquisition Function*, [GAO-04-544](#) (Washington, D.C.: May 28, 2004); and *Homeland Security: Successes and Challenges in DHS's Efforts to Create an Effective Acquisition Organization*, [GAO-05-179](#) (Washington, D.C.: Mar. 29, 2005).

³DHS Management Directive 0003, *Acquisition Line of Business Integration and Management*, October 2004.

highlights the CPO's broad authority, including management, administration, and oversight of departmentwide acquisition. However, we have reported that the directive may not achieve its goal of creating an integrated acquisition organization because it creates unclear working relationships between the CPO and the heads of DHS components. For example, some of the duties delegated to the CPO have also been given to the heads of DHS's components, such as recruiting and selecting key acquisition officials at the components, and providing appropriate resources to support the CPO's initiatives. Accountability for acquisitions is further complicated because, according to DHS, the Coast Guard and Secret Service were exempted from its acquisition management directive because of DHS's interpretation of the Homeland Security Act. We have questioned this exemption, and recently CPO officials have told us that they are working to revise the directive to make it clear that the Coast Guard and Secret Service are not exempt. Furthermore, for major investments—those exceeding \$50 million—accountability, visibility, and oversight is shared among the CPO, the Chief Financial Officer, the Chief Information Officer, and other senior management.⁴ Recently, the DHS Inspector General's 2007 semiannual report stated an integrated acquisition system still does not exist, but noted that the atmosphere for collaboration between DHS and its component agencies on acquisition matters has improved.

Efforts to Address Acquisition Workforce Staffing

In addition, our work and the work of the DHS Inspector General has found acquisition workforce challenges across the department. In 2005, we reported on disparities in the staffing levels and workload among the component procurement offices. We recommended that DHS conduct a departmentwide assessment of the number of contracting staff, and if a workload imbalance were to be found, take steps to correct it by realigning resources. In 2006, DHS reported significant progress in providing staff for the component contracting offices, though much work remained to fill the positions with qualified, trained acquisition professionals. DHS has established a goal of aligning procurement staffing levels with contract spending at its various components by the last quarter of fiscal year 2009.

Staffing of the CPO Office also has been a concern, but recent progress has been made. According to CPO officials, their small staff faces the

⁴DHS Management Directive 1400, *Investment Review Process*, May 2003.

competing demands of providing acquisition support for urgent needs at the component level and conducting oversight. For example, CPO staff assisted the Federal Emergency Management Agency in contracting for the response to Gulf Coast hurricanes Katrina and Rita. As a result, they needed to focus their efforts on procurement execution rather than oversight. In 2005, we recommended that the Secretary of Homeland Security provide the CPO with sufficient resources to effectively oversee the department's acquisitions.⁵ In 2006, we reported that the Secretary had supported an increase of 25 positions for the CPO to improve acquisition management and oversight. DHS stated that these additional personnel will significantly contribute to continuing improvement in the DHS acquisition and contracting enterprise. To follow-up on some of these efforts, we plan to conduct additional work on DHS acquisition workforce issues in the near future.

CPO Has Established an Acquisition Oversight Program

Our prior work has shown that in a highly functioning acquisition organization, the CPO is in a position to oversee compliance by implementing strong oversight mechanisms. Accordingly, in December 2005, the CPO established a departmentwide acquisition oversight program, designed to provide comprehensive insight into each component's acquisition programs and disseminate successful acquisition management approaches throughout DHS.⁶ The program is based in part on elements essential to an effective, efficient, and accountable acquisition process: organizational alignment and leadership, policies and processes, financial accountability, acquisition workforce, and knowledge management and information systems. The program includes four recurring reviews, as shown in table 1.

⁵GAO-05-179

⁶DHS Management Directive 0784, *Acquisition Oversight Program*, December 2005.

Table 1: 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 acquisition planning.
Operational status reviews	The CPO 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.

In September 2006, we reported that the CPO's limited staff resources had delayed the oversight program's implementation, but the program is well under way, and DHS plans to implement the full program in fiscal year 2007. Recently, the CPO has made progress in increasing staff to authorized levels, and as part of the department's fiscal year 2008 appropriation request, the CPO is seeking three additional staff, for a total of 13 oversight positions for this program. We plan to report on the program later this month.

While this program is a positive step, we have reported that the CPO lacks the authority needed to ensure the department's components comply with its procurement policies and procedures such as the acquisition oversight program. We reported in September 2006 that the CPO's ability to effectively oversee the department's acquisitions and manage risks is limited, and we continue to believe that the CPO's lack of authority to achieve the department's acquisition goals is of concern.

DHS Investment Review Process Needs Improvement

In 2003, DHS put in place an investment review process to help protect its major, complex investments. The investment review process is intended to reduce risk associated with these investments and increase the chances for successful outcomes in terms of cost, schedule, and performance. In March 2005, we reported that in establishing this process, DHS has adopted a number of acquisition best practices that, if applied consistently, could help increase the chance for successful outcomes. However, we noted that incorporating additional program reviews and knowledge deliverables into the process could better position DHS to make well-informed decisions on its major, complex investments.

Specifically, we noted that the process did not include two critical management reviews that would help ensure that (1) resources match customer needs prior to beginning a major acquisition and (2) program designs perform as expected before moving to production. We also noted that the review process did not fully address how program managers are to conduct effective contractor tracking and oversight.⁷ The investment review process is still under revision, and the department's performance and accountability report for fiscal year 2006 stated that DHS will incorporate changes to the process by the first quarter of fiscal year 2008.

Our best practices work shows that successful investments reduce risk by ensuring that high levels of knowledge are achieved at these key points of development. We have found that investments that were not reviewed at the appropriate points faced problems—such as redesign—that resulted in cost increases and schedule delays. Concerns have been raised about the effectiveness of the review process for large investments at DHS. For example, in November 2006, the DHS Inspector General reported on the Customs and Border Protection's Secure Border Initiative program, noting that the department's existing investment oversight processes were sidelined in the urgent pursuit of *SBI*'s aggressive schedule.⁸ The department's investment review board and joint requirements council provide for deliberative processes to obtain the counsel of functional stakeholders. However, the DHS Inspector General reported that for *SBI*, these prescribed processes were bypassed and key decisions about the scope of the program and the acquisition strategy were made without rigorous review and analysis or transparency. The department has since announced plans to complete these reviews to ensure the program is on the right track.⁹

⁷GAO-05-179.

⁸In November 2005, DHS established the Secure Border Initiative (SBI), a multiyear, multibillion dollar program aimed at securing U.S. borders and reducing illegal immigration. One element of SBI is *SBI*, the program responsible for developing a comprehensive border protection system.

⁹Department of Homeland Security, Office of the Inspector General, *Risk Management Advisory for the SBI Program Initiation*, OIG-07-07 (Washington, D.C.: Nov. 14, 2006).

DHS Reliance on Contracting For Critical Services Requires Enhanced Management Attention

To quickly get the department up and running and to obtain necessary expertise, DHS has relied extensively on other agencies' and its own contracts for a broad range of mission-related services and complex acquisitions. Governmentwide, increasing reliance on contractors has been a longstanding concern. Recently, in 2006, government, industry and academic participants in a GAO forum on federal acquisition challenges and opportunities noted that many agencies rely extensively on contractors to carry out their basic missions. The growing complexity of contracting for technically difficult and sophisticated services increases challenges in terms of setting appropriate requirements and effectively monitoring contractor performance.¹⁰ With the increased reliance on contractors comes the need for an appropriate level of oversight and management attention to its contracting for services and major systems.

Interagency Contracting Needs to be Carefully Managed

Our work to date has found that DHS faces challenges in managing services acquisitions through interagency contracting—a process by which agencies can use another agency's contracting services or existing contracts often for a fee.¹¹ In 2005, DHS spent over \$6.5 billion on interagency contracts. We found that DHS did not systematically monitor or assess its use of interagency contracts to determine whether this method provides good outcomes for the department.

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 can make these types of contracts high risk, including their 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. 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

¹⁰GAO, *Highlights of a GAO Forum: Federal Acquisition Challenges and Opportunities in the 21st Century*, [GAO-07-45SP](#) (Washington, D.C.: Oct. 6, 2006).

¹¹GAO, *Interagency Contracting: Improved Guidance, Planning, and Oversight Would Enable the Department of Homeland Security to Address Risks*, [GAO-06-996](#) (Washington, D.C.: Sept. 27, 2006).

agency inspectors general has found cases in which interagency contracting has not been well managed to ensure that the government is getting good value.

Use of System Integrator Poses Management Challenges

Government agencies, including DHS components, have turned to a systems integrator in situations such as when they believe they do not have the in-house capability to design, develop, and manage complex acquisitions. This arrangement creates an inherent risk, as the contractor is given more discretion to make certain program decisions. Along with this greater discretion comes the need for more government oversight and an even greater need to develop well-defined outcomes at the outset. Our reviews of the Coast Guard's Deepwater program have found that the Coast Guard had not effectively managed the program or overseen the system integrator.¹² Specifically, we expressed concerns and made a number of recommendations to improve the program in three areas: program management, contractor accountability, and cost control through competition.¹³ While the Coast Guard took some actions in response to some of our concerns, they have recently announced a series of additional steps to address problems with the Deepwater program, including taking on more program management responsibilities from the systems integrator.

Enhanced Oversight Required for Service Contracts

We also have ongoing work reviewing other aspects of DHS acquisition management. For example, we are reviewing DHS's contracts that closely support inherently governmental functions and the level of oversight given to these contracts. Federal procurement regulation and policy contain special requirements for overseeing service contracts that have the potential for influencing the authority, accountability, and responsibilities

¹²Deepwater is a 25-year, \$24 billion effort to upgrade or replace existing Coast Guard aircraft and vessels in order to carry out its missions along our coastlines and farther out at sea.

¹³GAO, *Coast Guard: Changes to Deepwater Plan Appear Sound, and Program Management Has Improved, but Continued Monitoring Is Warranted*, [GAO-06-546](#) (Washington, D.C.: Apr. 28, 2006); *Contract Management: Coast Guard's Deepwater Program Needs Increased Attention to Management and Contractor Oversight*, [GAO-04-380](#) (Washington, D.C.: Mar. 9, 2004); and *Coast Guard: Preliminary Observations on Deepwater Program Assets and Management Challenges*, [GAO-07-446T](#) (Washington, D.C.: Feb. 15, 2007).

of government officials.¹⁴ Agencies are required to provide greater scrutiny of these service contracts and an enhanced degree of management oversight, which includes assigning a sufficient number of qualified government employees to provide oversight, to better ensure that contractors do not perform inherently governmental functions. The risks associated with contracting for services that closely support the performance of inherently governmental functions are longstanding governmentwide concerns. We are also reviewing oversight issues related to DHS's use of performance-based services acquisitions. If this acquisition method is not appropriately planned and structured, there is an increased risk that the government may receive products or services that are over cost estimates, delivered late, and of unacceptable quality.

Conclusion

Since DHS was established in 2003, it has been challenged to integrate 22 separate federal agencies and organizations with multiple missions, values, and cultures into one cabinet-level department. Due to the complexity of its organization, DHS is likely to continue to face challenges in integrating the acquisition functions of its components and overseeing their acquisitions—particularly those involving large and complex investments. Given the size of DHS and the scope of its acquisitions, we are continuing to assess the department's acquisition oversight process and procedures in ongoing work.

Mr. Chairman, this concludes my statement. I would be happy to respond to any questions you or other members of the subcommittee may have at this time.

Contacts and Acknowledgments

For further information regarding this testimony, please contact John Hutton at (202) 512-4841 or huttonj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the

¹⁴Federal Acquisition Regulation (FAR) Subpart 37.114. OMB Policy Letter 93-1: *Management Oversight of Service Contracting*, Office of Federal Procurement Policy, May 18, 1994.

last page of this product. Other individuals making key contributions to this testimony were Amelia Shachoy, Assistant Director; Tatiana Winger; William Russell; Heddi Nieuwsma; Karen Sloan; and Sylvia Schatz.

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