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Representatives

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HOMELAND SECURITY

Challenges in Creating an  
Effective Acquisition  
Organization

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Highlights of GAO-06-1012T, a testimony before the Committee on Government Reform, House of Representatives

## Why GAO Did This Study

The Department of Homeland Security (DHS) has some of the most extensive acquisition needs within the U.S. government. In fiscal year 2005, the department reported that it obligated almost \$17.5 billion to acquire a wide range of goods and services. DHS's acquisition portfolio is broad and complex, including procurements for sophisticated screening equipment for air passenger security; technologies to secure the nation's borders; trailers to meet the housing needs of Hurricane Katrina victims; and the upgrading of the Coast Guard's offshore fleet of surface and air assets.

This testimony summarizes GAO reports and testimonies, which have reported on various aspects of DHS acquisitions. It addresses (1) areas where DHS has been successful in promoting collaboration among its various organizations, and (2) challenges it still faces in integrating the acquisition function across the department; and (3) DHS' implementation of an effective review process for its major, complex investments. The information in this testimony is based on work that was completed in accordance with generally accepted government auditing standards.

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## HOMELAND SECURITY

### Challenges in Creating An Effective Acquisition Organization

#### What GAO Found

Since its establishment in March 2003, DHS has been faced with assembling 23 separate federal agencies and organizations with multiple missions and cultures into one department. This mammoth task involved a variety of transformational efforts, one of which is to design and implement the necessary management structure and processes for the acquisition of goods and services. We reported in March 2005 that DHS had opened communication among its acquisition organizations through its strategic sourcing and small business programs. With strategic sourcing, DHS' organizations quickly collaborated to leverage spending for various goods and services—such as office supplies, boats, energy, and weapons—without losing focus on small businesses, thus leveraging its buying power and increasing savings. Its small business program, whose reach is felt across DHS, is also off to a good start. Representatives have been designated in each DHS procurement office to ensure small businesses can compete effectively for the agency's contract dollars.

We also reported that DHS' progress in creating a unified acquisition organization has been hampered by policy decisions that create ambiguity about who is accountable for acquisition decisions. To a great extent, we found that the various acquisition organizations within DHS were still operating in a disparate manner, with oversight of acquisition activities left primarily up to each individual organization. DHS continues to face challenges in integrating its acquisition organization. Specifically, dual accountability for acquisitions exists between the Chief Procurement Officer (CPO) and the heads of each DHS component; a policy decision has exempted the Coast Guard and Secret Service from the unified acquisition organization; the CPO has insufficient capacity for department-wide acquisition oversight; and staffing shortages have led the Office of Procurement Operations, which handles a large percentage of DHS' contracting activity, to rely extensively on outside agencies for contracting support—often for a fee. We found that this office lacked the internal controls to provide oversight of this interagency contracting activity. This last challenge has begun to be addressed with the hiring of additional contracting staff.

Some of DHS' organizations have major, complex acquisition programs that are subject to a multi-tiered investment review process intended to help reduce risk and increase chances for successful outcomes in terms of cost, schedule, and performance. While the process includes many best practices, it does not include two critical management reviews, namely a review to help ensure that resources match customer needs and a review to determine whether a program's design performs as expected. Our prior reports on large DHS acquisition programs, such as the Transportation Security Administration's Secure Flight program and the Coast Guard's Deepwater program, highlight the need for improved oversight of contractors and adherence to a rigorous management review process.

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Mr. Chairman and Members of the Committee:

Thank you for inviting me here today to discuss the Department of Homeland Security's (DHS) acquisition organization. Since its establishment in March 2003, DHS has been faced with assembling 23 separate federal agencies and organizations with multiple missions, values, and cultures into one cabinet-level department. This mammoth task—one of the biggest mergers ever to take place within the federal government—involved a variety of transformational efforts, one of which is to design and implement the necessary management structure and processes for the acquisition of goods and services.

DHS has some of the most extensive acquisition needs within the U.S. government. In fiscal year 2005, the department reported that it has obligated almost \$17.5 billion to acquire a wide range of goods and services. The DHS acquisitions portfolio is broad and complex. For example, it has purchased increasingly sophisticated screening equipment for air passenger security; acquired technologies to secure the nation's borders; purchased trailers to meet the housing needs of Hurricane Katrina victims; and is upgrading the Coast Guard's offshore fleet of surface and air assets. DHS has been working to integrate the many acquisition processes and systems that the disparate agencies and organizations brought with them while still addressing ongoing mission requirements and emergency situations such as responding to Hurricane Katrina. As you know, we designated the establishment of the department and its transformation as high risk;<sup>1</sup> we also pointed out that not effectively addressing DHS' management challenges and program risks could have serious consequences for our national security.

Based on work done for this committee last year,<sup>2</sup> today I would like to discuss areas where DHS has been successful in promoting collaboration among its various organizations and areas where it still faces challenges, such as integrating and unifying the acquisition function across the department. I will also discuss our assessment of the department's progress in implementing an effective review process for its major, complex investments, highlighting some recent GAO work related to these issues. This testimony is based on GAO reports and testimonies that were

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<sup>1</sup> GAO, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

<sup>2</sup> GAO, *Homeland Security: Successes and Challenges in DHS's Efforts to Create an Effective Acquisition Organization*, GAO-05-179, (Washington, D.C.: Mar. 29, 2005).

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done in accordance with generally accepted government auditing standards.

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## Summary

Designing and implementing the necessary management structure and processes for the acquisition of goods and services for 23 separate federal agencies and organizations, with multiple missions and cultures, has been a mammoth task for DHS and, while it has had some success, there are many challenges remaining. DHS has opened communication among its acquisition organizations through its strategic sourcing and small business programs. DHS' organizations quickly collaborated to leverage spending for various goods and services without losing focus on small businesses, thus leveraging its buying power and increasing savings.

We reported in March 2005 that DHS' efforts to create a unified, accountable acquisition organization have been hampered by policies that create ambiguity as to who is accountable for acquisition decisions. Further, we found that, to a great extent, the various acquisition organizations within the department are still operating in a disparate manner, with oversight of acquisition activities left primarily up to each individual organization. DHS continues to face challenges in creating a more effective acquisition organization. For example:

- A policy directive intended to integrate the acquisition function relies on a system of dual accountability for acquisitions between the Chief Procurement Officer (CPO) and the heads of each DHS component. This directive does not apply to the U.S. Coast Guard and the Secret Service, which is likely to hinder the formation of a unified acquisition organization.
- Although the CPO has issued guidance providing a framework for acquisition oversight, implementation of the oversight program has been limited due to insufficient staffing in the CPO's office.
- Staffing shortages in the Office of Procurement Operations, which handles a significant portion of DHS' contracting activity—over \$4 billion last year—have led this office to rely heavily on outside agencies for contracting support, often for a fee. The office did not have adequate internal controls in place to effectively oversee this interagency contracting. Due to the challenges associated with interagency contracts,

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we recently designated interagency contracting as a government-wide high risk area.<sup>3</sup>

To protect its major, complex investments, DHS has put in place an investment review process that adopts many best practices—that is, proven methods, processes, techniques, and activities—to help the department reduce risk and increase the chances for successful acquisition outcomes. However the process does 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 found that some critical information is not addressed in DHS’ investment review policy or the guidance provided to program managers. For example, before a program is approved to begin, DHS does not require that cost and schedule estimates be established for the acquisition based on knowledge from preliminary designs. The review process also does not fully address how program managers are to conduct effective contractor tracking and oversight. Our prior reports on large DHS acquisition programs, such as the Transportation Security Administration’s (TSA) Secure Flight program and the U.S. Coast Guard’s Deepwater program, have highlighted the need for improved oversight of contractors and a management review that provides decision makers with critical information at the right time.

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## Early Initiatives to Leverage Buying Power and Small Business Programs Fostered Collaboration Among DHS Organizations

In the three years since its creation, DHS realized some successes among its various acquisition organizations in opening communication through its strategic sourcing and small business programs. Both efforts have involved every principal organization in DHS, along with strong involvement from the CPO, and both have yielded positive results. DHS’ disparate acquisition organizations quickly collaborated on leveraging spending for various goods and services, without losing focus on small businesses. This use of strategic sourcing—formulating purchasing strategies to meet departmentwide requirements for specific commodities, such as office supplies, boats, energy, and weapons—helped DHS leverage its buying power, with savings expected to grow. At the time of our March 2005 review, DHS had reported approximately \$14 million in savings across the department. We also found that the small business program, whose reach is felt across DHS, was off to a good start. In fiscal year 2004, DHS reported that 35 percent of its prime contract dollars went to small businesses, exceeding its goal of 23 percent. Representatives have been

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<sup>3</sup> GAO, *High Risk Series: An Update*, GAO-05-207 (Washington, D.C.: January 2005).

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designated in each DHS procurement office to help ensure that small businesses have opportunities to compete for DHS' contract dollars.

However, some officials responsible for carrying out strategic sourcing initiatives have found it challenging to balance those duties with the demands and responsibilities of their full-time positions within DHS. Officials told us that strategic sourcing meetings and activities sometimes stall because participants must shift attention to their full-time positions. Our prior work on strategic sourcing shows that leading commercial companies often establish full-time commodity managers to more effectively manage commodities. Commodity managers help define requirements with internal clients, negotiate with potential vendors, and resolve performance or other issues arising after a contract is awarded and can help maintain consistency, stability, and a long-term strategic focus.

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## DHS Faces Key Challenges In Creating An Integrated Acquisition Organization

DHS continues to face challenges in creating a unified, accountable acquisition organization due to policies that create ambiguity as to accountability for acquisition decisions, inadequate staffing to conduct department-wide oversight, and heavy reliance on interagency contracting in the Office of Procurement Operations, which is responsible for a large portion of DHS' contracting activity.

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## Policy Directive Relies on Dual Accountability and Exempts Coast Guard and Secret Service

Achieving a unified and integrated acquisition system is hampered because an October 2004 policy directive relies on a system of dual accountability between the CPO and the heads of the department's principal organizations. Although the CPO has been delegated the responsibility to manage, administer, and oversee all acquisition activity across DHS, in practice, performance of these activities is spread throughout the department, reducing accountability for acquisition decisions.

This system of dual accountability results in unclear working relationships between the CPO and heads of DHS' principal organizations. For example, the policy leaves unclear how the CPO and the director of Immigration and Customs Enforcement are to share responsibility for recruiting and selecting key acquisition officials, preparing performance ratings for the top manager of the contracting office, and providing appropriate resources to support CPO initiatives.

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The policy also leaves unclear what enforcement authority the CPO has to ensure that initiatives are carried out because heads of principal organizations are only required to “consider” the allocation of resources to meet procurement staffing levels in accordance with the CPO’s analysis. Agreements had not been developed on how the resources to train, develop, and certify acquisition professionals in the principal organizations would be identified or funded.

While the October 2004 policy directive emphasizes the need for a unified, integrated acquisition organization, achievement of this goal is further hampered because the directive does not apply to the U.S. Coast Guard and U.S. Secret Service. The Coast Guard is one of the largest organizations within DHS, with obligations accounting for about \$2.2 billion in fiscal year 2005, nearly 18 percent of the department’s total. The directive maintains that these two organizations are exempted from the directive by statute. We disagreed with this conclusion, as we are not aware of any explicit statutory exemption that would prevent the application of the DHS acquisition directive to either organization. We raised the question of statutory exemption with the DHS General Counsel, who shared our assessment concerning the explicit statutory exemptions. He viewed the applicability of the management directive as a policy matter.

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### Chief Procurement Officer’s Staffing for Oversight Is Insufficient

DHS’ goal of achieving a unified, integrated acquisition organization is in part dependent on its ability to provide effective oversight of component activities. We reported in March 2005 that the CPO lacked sufficient staff to ensure compliance with DHS’ acquisition oversight regulations and policies. To a great extent, the various acquisition organizations within the department were still operating in a disparate manner, with oversight of acquisition activities left primarily up to each individual organization. In December 2005, DHS implemented a department wide management directive that establishes policies and procedures for acquisition oversight. The CPO has issued guidance providing a framework for the oversight program and, according to DHS officials, as of May 2006, five staff were assigned to oversight responsibilities. We have ongoing work in this area and will be reporting on the department’s progress in the near future.

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The challenge DHS faces overseeing its various components' contracting activities is significant. For example, in May 2004<sup>4</sup> we reported that TSA had not developed an acquisition infrastructure, including organization, policies, people, and information that would facilitate successful management and execution of its acquisition activities. The development of those areas could help ensure that TSA acquires quality goods and services at reasonable prices, and makes informed decisions about acquisition strategy.

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### Office of Procurement Operations' Heavy Use of Interagency Agreements

To support the DHS organizations that lacked their own procurement support, the department created the Office of Procurement Operations. In 2005, we found that, because this office lacked sufficient contracting staff, it had turned extensively to interagency contracting to fulfill its responsibilities. At the time of our review, we found that this office had transferred almost 90 percent of its obligations to other federal agencies through interagency agreements in fiscal year 2004. For example, DHS had transferred \$12 million to the Department of the Interior's National Business Center to obtain contractor operations and maintenance services at the Plum Island Animal Disease Center. Interior charged DHS \$62,000 for this assistance.

We found that the Office of Procurement Operations lacked adequate internal controls to provide oversight of its interagency contracting activity. For example, it did not track the fees it was paying to other agencies for contracting assistance. Since our report was issued, the office has added staff and somewhat reduced its reliance on interagency contracting. Recently, DHS officials told us that the office has increased its staffing level from 42 to 120 employees, with plans to hire additional staff. As reported by DHS, the Office of Procurement Operations' obligations transferred to other agencies had decreased to 72 percent in fiscal year 2005.

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<sup>4</sup> GAO, *Transportation Security Administration: High-Level Attention Needed to Strengthen Acquisition Function*, [GAO-04-544](#) (Washington, D.C.: May 28, 2004).



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## Review Process for Major Investments, Despite Use of Best Practices, Was Inconsistent and Lacked Some Management Controls

To protect its major, complex investments, DHS has put in place a review process that adopts many acquisition best practices—proven methods, processes, techniques, and activities—to help the department reduce risk and increase the chances for successful investment outcomes in terms of cost, schedule, and performance. One best practice is a knowledge-based approach to developing new products and technologies pioneered by successful commercial companies, which emphasizes that program managers need to provide sufficient knowledge about important aspects of their programs at key points in the acquisition process, so senior leaders are able to make well-informed investment decisions before an acquisition moves forward.

While DHS' framework includes key tenets of this approach, in March 2005 we reported that it did not require two critical management reviews. The first would help ensure that resources match customer needs before any funds are invested. The second would help ensure that the design for the product performs as expected prior to moving into production. We also found that some critical information is not addressed in DHS' investment review policy or the guidance provided to program managers. In other cases, it is made optional. For example, before a program is approved to start, DHS policy requires program managers to identify an acquisition's key performance requirements and to have technical solutions in place. This information is then used to form cost and schedule estimates for the product's development to ensure that a match exists between requirements and resources. However, DHS policy does not establish cost and schedule estimates for the acquisition based on knowledge from preliminary designs. Further, while DHS policy requires program managers to identify and resolve critical operational issues before proceeding to production, initial reviews—such as the system and subsystem review—are not mandatory.

In addition, while the review process adopts other important acquisition management practices, such as requiring program managers to submit acquisition plans and project management plans, a key practice—contractor tracking and oversight—is not fully incorporated. We have cited the need for increased contractor tracking and oversight for several large DHS programs. While many of DHS' major investments use commercial, off-the-shelf products that do not require the same level of review as a complex, developmental investment would, DHS is investing in a number of major, complex systems, such as TSA's Secure Flight program and the Coast Guard's Deepwater program, that incorporate new technology. Our work on these two systems highlights the need for

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improved oversight of contractors and greater adherence to a best practices approach to management review. Two examples follow.

We reported in February 2006<sup>5</sup> that TSA, in developing and managing its Secure Flight program, had not conducted critical activities in accordance with best practices for large scale information technology programs. Program officials stated that they used a rapid development method that was intended to enable them to develop the program more quickly. However, as a result of this approach, the development process has been ad hoc, with project activities conducted out of sequence. TSA officials have acknowledged that they have not followed a disciplined life cycle approach in developing Secure Flight, and stated that they are currently rebaselining the program to follow their standard systems development life cycle process, including defining system requirements. TSA officials also told us they are taking steps to strengthen contractor oversight for the Secure Flight program. For example, the program is using one of TSA's support contractors to help track contractors' progress in the areas of cost, schedule, and performance and the number of TSA staff with oversight responsibilities for Secure Flight contracts has been increased. TSA reports it has identified contract management as a key risk factor associated with the development and implementation of Secure Flight.

The Coast Guard's ability to meet its responsibilities depends on the capability of its deepwater fleet, which consists of aircraft and vessels of various sizes and capabilities. In 2002, the Coast Guard began a major acquisition program to replace or modernize these assets, known as the Deepwater program. Deepwater is currently estimated to cost \$24 billion. We have reported<sup>6</sup> that the Coast Guard's acquisition strategy of relying on a prime contractor ("system integrator") to identify and deliver the assets needed carries substantial risks. We found that well into the contract's second year, key components for managing the program and overseeing the system integrator's performance had not been effectively implemented. As we recently observed, the Coast Guard has made progress in addressing our recommendations, but there are aspects of the Deepwater program that will require continued attention. The program continues to face a degree of underlying risk, in part because of the

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<sup>5</sup> [GAO-05-356](#) and [GAO-06-374T](#).

<sup>6</sup> GAO, *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).

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unique, system-of-systems approach with the contractor acting as overall integrator, and in part because it is so heavily tied to precise year-to-year funding requirements over the next two decades. Further, a project of this magnitude will likely continue to experience other concerns and challenges beyond those that have emerged so far. It will be important for Coast Guard managers to carefully monitor contractor performance and to continue addressing program management concerns as they arise.

In closing, I believe that DHS has taken strides toward putting in place an acquisition organization that contains many promising elements. However, the steps taken so far are not enough to ensure that the department is effectively managing the acquisition of the multitude of goods and services it needs to meet its mission. More needs to be done to fully integrate the department's acquisition function, to pave the way for the CPO's responsibilities to be effectively carried out in a modern-day acquisition organization, and to put in place the strong internal controls needed to manage interagency contracting activity and large, complex investments. DHS' top leaders must continue to address these challenges to ensure that the department is not at risk of continuing to exist with a fragmented acquisition organization that provides stopgap, ad hoc solutions. DHS and its components, while operating in a challenging environment, must have in place sound acquisition plans and processes to make and communicate good business decisions, as well as a capable acquisition workforce to assure that the government receives good value for the money spent.

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Mr. Chairman, this concludes my statement. I would be happy to respond to any questions you or other Members of the Committee may have at this time. For further information regarding this testimony, please contact Michael Sullivan at (202) 512-4841 or [sullivanm@gao.gov](mailto:sullivanm@gao.gov).

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