STATEMENT OF RICHARD L. SKINNER

INSPECTOR GENERAL

U.S. DEPARTMENT OF HOMELAND SECURITY

BEFORE THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

U.S. HOUSE OF REPRESENTATIVES

"Procurement Practices of the Department of Homeland Security"

February 8, 2007

Introduction

Good morning, Mr. Chairman and Members of the Committee. I am Richard L. Skinner, Inspector General for the Department of Homeland Security (DHS). Thank you for the opportunity to discuss challenges facing the department in managing major acquisitions, such as Deepwater and SBInet.

My testimony today will address acquisition management challenges facing the department with a focus on major systems acquisitions. I will provide highlights of the unique management challenges facing the Deepwater and SBInet programs, and present our plans for oversight of these programs and the department's overall acquisition management function.

In July 2006, my Assistant Inspector General for Audits advised this committee about challenges the department faced in building an effective acquisition management infrastructure. Today I will expand on those observations focusing on the department's capacity for managing major systems acquisition programs. The particular focus of the committee on Deepwater and SBInet is prudent and I applaud your committee's interest and oversight of these two high-risk programs.

Deepwater and SBInet are inherently high-risk not only because of their scope, complexity, and high dollar value, but also because they are essential to the department's mission accomplishment. As our recent reviews have shown, further increasing their risk are the vulnerabilities stemming from the lack of acquisition management capacity.

Acquisition Management Challenges Across the Department

In prior years, we conducted audits and reviews of individual DHS contracts, such as the Transportation Security Administration's (TSA's) screener recruiting and TSA's information technology services. More recently, we have completed audits relating to the Coast Guard's Deepwater program, the SBInet program, and the Federal Emergency Management Agency (FEMA) contracting. Common themes and risks emerged from these audits, primarily the dominant influence of expediency, poorly defined requirements, and inadequate oversight that contributed to ineffective or inefficient results and increased costs.

The department continues to pursue high-risk, complex, system-of-systems acquisitions programs, such as SBInet and Deepwater. A performance-based acquisition strategy to address the challenges of these programs is, in our opinion, a good one. Partnering with the private sector adds fresh perspective, insight, creative energy, and innovation. It shifts the focus from traditional acquisition models, i.e., strict contract compliance, into one of collaborative, performance-oriented teamwork with a focus on performance, improvement, and innovation. Nevertheless, using this type of approach does not come without risks. To ensure that this partnership is successful, the department must lay the foundation to oversee and assess contractor performance, and control costs and schedules. This requires more effort and smarter processes to administer and oversee.

Acquisition management is not just awarding a contract, but fulfilling a mission need through a thoughtful, balanced approach that considers cost, schedule, and performance. The urgency and complexity of the department's mission will continue to demand rapid pursuit of major investment programs. In 2006, DHS spent about 40 of its budget through contracts.

DHS must have an infrastructure in place that enables it to oversee effectively the complex and large dollar procurements critically important to achieving the department's mission. While DHS continues to build its acquisition management capabilities in the component agencies and on the department-wide level, the business of the department goes on and major procurements continue to move. We identified significant risks and vulnerabilities that might threaten the integrity of the department's acquisition management program. In general, DHS needs to improve its major acquisitions planning, operational requirements definition, and implementation oversight.

The prerequisite for effective acquisitions, that is, obtaining the right, cost-effective systems and equipment to accomplish the department's missions, is program management. Complex and high dollar contracts require multiple program managers, often with varying types of expertise. Several DHS procurements have encountered problems because contract technical and performance requirements were not well defined. DHS needs more certified program managers; comprehensive department-wide standards for program management; a strengthened investment review board process to provide greater independent analysis and review; better defined technical requirements; and more balance among schedule, cost, and performance when expediting contracts. The Office of the Chief Procurement Officer recently established a program management advisory board, established standards for certifying program managers, and promoted program management training opportunities. The Office of the Chief Procurement Officer is assisting program offices with acquisition planning, including templates and one-on-one assistance.

In their transition into DHS, seven agencies retained their procurement functions, including the United States Coast Guard, FEMA, and TSA. The expertise and capability of the seven procurement offices mirrored the expertise and capability they had before creation of DHS, with staff size that ranged from 21 to 346 procurement personnel. DHS established an eighth acquisition office, the Office of Procurement Operations, under the direct supervision of the Chief Procurement Officer, to service the other DHS components and manage department-wide procurements. Many DHS procurement offices reported that their lack of staffing prevents proper procurement planning and severely limits their ability to monitor contractor performance and conduct effective contract administration. The fiscal year 2007 DHS Appropriations Act provides over 400 additional contract specialist positions to alleviate part of the shortfall. Moreover, DHS is planning a contracting fellows program with up to 100 entry-level positions to begin in fiscal year 2008.

In addition to awarding contracts, the Office of the Chief Procurement Officer helps DHS components adhere to standards of conduct and federal acquisition regulations in awarding and administering contracts. This oversight role involves developing department-wide policies and procedures, and enforcing those policies and procedures. Both our office and the Government Accountability Office (GAO) have reported that the Office of the Chief Procurement Officer needs more staff and authority to carry out its general oversight responsibilities. GAO recommended that DHS provide the Office of the Chief Procurement Officer sufficient resources and enforcement authority to enable effective department-wide oversight of acquisition policies and procedures. We made a similar recommendation. The DHS, in response to our December 2006 report, *Major Management Challenges Facing the Department of Homeland Security*, said that it disseminated the Acquisition Professional Management Directive to identify and certify appropriately trained and experienced program managers, contracting officer's technical representatives, and authorized buying agents. It also has certified 348 program managers since 2004, and continues to focus on qualifications and placement.

During fiscal year 2006, the Under Secretary for Management established policies for acquisition oversight and directed each of the eight heads of contracting activities to measure and manage their acquisition organizations. Also, the number of oversight specialists in the Acquisition Oversight Division is authorized to expand to nine during fiscal year 2007. The Office of the Chief Procurement Office has undertaken an outreach program to involve DHS component staff to manage effectively and assist in acquisition oversight. The department also chartered the Program Management Council to develop recommendations and priorities for program management policies and requirements; develop and promote standards and performance measures; foster best practices; and advise on hiring, training, and professional development issues.

Deepwater Program & Challenges

The Integrated Deepwater System Program (Deepwater) is a $24 billion, 25-year acquisition program designed to replace, modernize, and sustain the Coast Guard's aging and deteriorating fleet of ships and aircraft, providing a deepwater-capable fleet for 40 years. The Deepwater acquisition strategy is a nontraditional approach by which private industry was asked to not only develop and propose an optimal system-of-systems mix of assets, infrastructure, information systems, and people solution designed to accomplish all of the Coast Guard's Deepwater missions, but also to provide the assets, the systems integration, integrated logistics support, and the program management. Under a more traditional acquisition strategy, the government would have separately contracted for each major activity or asset involved, such as cutters, aircraft, their logistics support,[1] communications equipment, systems integration, and program management support.

In June 2002, the Coast Guard awarded Integrated Coast Guard Systems (ICGS) with an initial 5-year contract to serve as the Deepwater systems integrator. The current base contract expires in June 2007 and the Coast Guard may authorize up to five additional

---

[1] For example spares, repair parts, maintenance, supply support, user manuals, and operator training.

5-year award terms. ICGS is a joint venture of Northrop Grumman and Lockheed Martin. The 2002 award decision followed a multiyear competitive phase where two other industry teams vied with ICGS.

In February 2003, the U.S. Department of Transportation Office of Inspector General (DOT OIG) reported that:

❑ The underlying operational requirements for the Deepwater program were not stable and, therefore, all of the program's plans, budgets, and cost estimates were invalid. Operational requirements changed with the increased emphasis on presence-based missions, secure communications, rapidly deploying response teams, and other needs. A further source of instability was uncertainties about the mix and number of assets needed to meet post-September 11th requirements, the increasingly deteriorated condition of the fleet from high operating tempos, and congressional calls to accelerate the program.

❑ The Coast Guar's management controls and capacity to oversee the program were not in place. The program was initiated without the people and processes needed to manage the effort, even with the outsourcing of program management support to ICGS. Specifically, the necessary staffing, business processes, information systems, earned value management systems, integrated product development processes and teams, and support arrangements were not in place.[2] Also, an acquisition program baseline of cost, schedule, and technical performance measures had not been set, although funding constraints were known and ICGS had laid out a notional program in its winning proposal. The DOT OIG also warned that information system support and defined business processes for the new program office were not in place to document the basis for decisions that future program and contracting officials would need to know.

The Coast Guard acknowledged some of the concerns, and identified actions underway to redress them, but decided that the number of staff assigned was adequate.

Establishing the proper foundation for the Deepwater program remains a challenge the Coast Guard and ICGS have not been able to overcome. The Coast Guard has encountered a number of similar challenges in executing its Deepwater Acquisition program, despite the expenditure of more than $3 billion over 4 years. Our reviews have identified the difficulties the program has encountered, which have resulted in cost increases, schedule delays, and reduced operational performance. This applies to both the Deepwater surface and air domains, and the Command Control Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) Systems. For example, we identified management deficiencies and inadequate technical oversight related to the acquisition of the National Security Cutter. In this case, the Coast Guard did not exercise sufficient oversight authority of the contract with Integrated Coast Guard Systems to address design deficiencies. Consequently, the National Security Cutter (NSC) acquisition is expected to cost more than originally planned and the cutters may be

---

[2] Such as an agreement with Defense Contract Management Agency for contract administration support.

subject to operational limitations that affect the ability of the Coast Guard to execute its Deepwater mission.

Reviews of Deepwater assets revealed problems with the definition and clarity of operational requirements, contract requirements and performance specifications, and contractual obligations. For example, from our review of the NSC, we reported the Coast Guard and the American Bureau of Shipping (ABS) jointly developed standards that would govern the design, construction, and certification of all cutters acquired under the Deepwater Program. These standards were intended to ensure that competing industry teams developed proposals that met the Coast Guard's unique performance requirements. Prior to the Phase 2 contract award, the Coast Guard provided these design standards to the competing industry teams. Based on their feedback, the Coast Guard converted the majority of the standards (85% of the 1,175 standards) to guidance and permitted the industry teams to select their own alternative standards. Without a contractual mechanism in place to ensure that those alternative standards met or exceeded the original guidance standards, the competing teams were allowed to select cutter design criteria.

In our review of the Helicopter Interdiction Tactical Squadron (HITRON) acquisition, the MH-68A aircraft did not fully meet performance requirements or operational needs for endurance, power, and maneuverability as set in the 2003 contract. In order to provide uninterrupted operations with the MH-68A, the Coast Guard modified the performance requirements from the 2003 contract, both omitting and decreasing requirements in the 2005 contract, so that the current MH-68A aircraft could meet the reduced contract and mission requirements.

Another example of weakness in translating operational requirements into contract requirements is the video surveillance system for the 123' Island Class Patrol Boat. The performance specifications the Coast Guard included in the Deepwater contract specified only that a video surveillance system be installed. It did not state the number of cameras to be installed or a requirement that the system provide 360-degrees of coverage. As a result, the installation consists of a four-camera system with coverage gaps that meets minimum Deepwater contract requirements but may not meet all the 123' Patrol Boat's surveillance and security requirements.

Management and Oversight Capacity. Weaknesses in Coast Guard execution and program oversight of the Deepwater contract were revealed during several different audits, including reviews of the NSC, the 123' Island Class Patrol Boat, HITRON, and C4ISR systems. These deficiencies, in several instances, resulted in the development of assets that do not meet all contractual requirements or Coast Guard mission needs. Common causes for insufficient program oversight and execution include lack of resources, staff capacity, and the ability and willingness to hold the contractor accountable for ensuring sufficient contract performance. For example, from our NSC audit, we reported weaknesses in the Coast Guard's oversight processes and controls, which left the program office either unwilling or unable to prevent the contractor from focusing on reinterpreting aspects of the performance specifications rather than working

to meet performance requirements. Additionally, serious structural design concerns raised by the Coast Guard's in-house technical experts were not resolved in a timely manner. As a result, the first two cutters were produced despite known design concerns. Furthermore, the lack of supporting documentation for key program decisions puts the Coast Guard at a disadvantage during critical contract negotiations and calls into question Coast Guard stewardship of public resources. The audit of the C4ISR systems revealed that the Coast Guard did not have sufficient resources to carry out effective oversight of the contract to install the desired systems nor adequate user training or IT support.

Additionally, the route the Coast Guard took to outsource program management to the systems integrator has presented challenges in implementation. The Deepwater contract essentially empowered the contractor with authority for decision-making. Therefore, the Coast Guard was reluctant to exercise a sufficient degree of authority to influence the design and production of its own assets. Specifically, under the contract ICGS was the Systems Integrator and assigned full technical authority over all asset design and configuration decisions; while the Coast Guard's technical role was limited to that of an expert "advisor." However, there is no contractual requirement that the Systems Integrator accept or act upon the Coast Guard's technical advice, regardless of its proven validity. Further, as the primary management tool for the Coast Guard to contribute its input on the development of Deepwater assets, the effectiveness of the contractor-led Integrated Product Teams (IPTs) in resolving the Coast Guard's technical concerns has been called into question by both the GAO and the OIG. As a result, key Deepwater assets, such as the National Security Cutter, have moved into the production phase with significant design and performance concerns intact.

Ineffective business processes and controls were evident from our reviews as well. For example, regarding the NSC, although the Coast Guard and ABS initially specified a certifying agent for each standard to ensure that all cutters would be objectively evaluated for compliance, the Coast Guard ultimately allowed the competing industry teams to determine the certifying entity for any non-ABS standards it selected and, to the extent that it was permitted, the contractor elected to self-certify compliance with these standards. This decision is not only in sharp contrast to the intended role of the an independent certifying authority as provided in the Deepwater contract, but also eliminated an oversight tool for ensuring the cutter designs developed under the Deepwater program would meet both contractor and Deepwater mission performance requirements.

General ambiguities in the Deepwater contract's terms and conditions have compromised the Coast Guard's ability to hold the contractor accountable by creating situations where competing interpretations of key provisions exist. For example, the performance specifications associated with upgrading the information systems on the Coast Guard's 123' Island Class Patrol Boats did not have a clearly defined expected level of performance. In our review of the HITRON acquisition, we determined that a similar lack of clarity in the asset's contractual performance requirements challenged the Coast Guard's ability to effectively assess contractor performance. On the NSC acquisition, while the Coast Guard admits that the cutter's performance specifications contain "minor

ambiguities," these ambiguities open the door to allow the contractor to focus its energy on reinterpreting the NSC's performance requirements to accommodate the ship's current design rather than on designing the ship to meet its stated performance capability.

Similar issues were previously identified related to the 110-foot patrol boat conversion project. This project was curtailed at eight cutters due to design, construction, performance, and cost concerns. In December, the Coast Guard decided to take the eight converted cutters out of service due to structural design deficiencies. In response to these challenges, the Coast Guard accelerated plans to design, construct, and deploy the composite Fast Response Cutter by more than 10 years as a replacement for the 110-foot patrol boat. However, an independent analysis has confirmed that the Fast Response Cutter design is outside patrol boat design parameters; i.e., too heavy, too overpowered, and not streamlined enough to reduce resistance. These concerns led to the Coast Guard's April 2006 decision to suspend work on the Fast Response Cutter until these issues could be resolved or an alternative commercial off-the-shelf design identified.

In the Deepwater air domain, the HH-65C helicopter and unmanned aerial vehicle acquisitions have encountered schedule delays and cost increases. These Deepwater design, construction, performance, scheduling, and cost issues are expected to continue to present significant challenges to Coast Guard Deepwater Program in the future.

The Coast Guard recognizes these challenges and is taking aggressive action to strengthen program management and oversight—such as technical authority designation; use of independent, third party assessments; consolidation of acquisition activities under one directorate; and redefinition of the contract terms and conditions, including award fee criteria. Furthermore, and most importantly, the Coast Guard is increasing its staffing for the Deepwater program, and reinvigorating its acquisition training and certification processes to ensure that staff have the requisite skills and education needed to manage the program. The Coast Guard is also taking steps to improve the documentation of key Deepwater related decisions. These steps should go a long way in improving the management and oversight of the Deepwater Program as it moves forward.

SBInet Program & Challenges

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

The objective of SBInet is to develop solutions to manage, control, and secure the borders using a mix of proven, current and future technology, infrastructure, personnel, response

capability, and processes. SBInet is a new-start major acquisition program that replaces and expands upon two previous efforts to gain control of the borders: the Integrated Surveillance Intelligence System (ISIS) and the America's Shield Initiative (ASI). The department recognized that differences in the geography and conditions among sectors of the border require a different mix of technology, infrastructure, and personnel. Therefore, the department selected a performance-based acquisition strategy that solicited solutions from industry, and then selected a systems integrator to develop solutions to manage, control, and secure the borders. The department awarded the SBInet systems integration contract to the Boeing Company in September 2006.

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

We have monitored the initiation of the SBInet program and provided a risk advisory with recommendations to address observed weaknesses in the program. The department was fully interactive and responsive during our SBInet review, agreed to our recommendations, and is planning and pursuing corrective actions. However, the SBI procurement continues to present a considerable acquisition risk because of its size and scope.

Our main concern about SBInet is that DHS is embarking on this multibillion-dollar acquisition project without having laid the foundation to effectively oversee and assess contractor performance and effectively control cost and schedule. DHS has not properly defined, validated, and stabilized operational requirements and needs to do so quickly to avoid rework of the contractor's systems engineering and the attendant waste of resources and delay in implementation. Moreover, until the operational and contract requirements are firm, effective performance management, and cost and schedule control are precluded. As acknowledged in our report, the department took actions to mitigate risk during the course of our review and is planning further actions to establish an effective performance management system for SBInet.

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

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

Management and Oversight Capacity. The department's acquisition management capacity lacked the appropriate work force, business processes, and management controls for planning and executing a new-start major acquisition program such as SBInet. Without a preexisting professional acquisition workforce, CBP had to create staffing plans, locate workspace, and establish business processes, while simultaneously initiating one of the largest acquisition programs in the department. At the time of the contract award, the organizational structure was in flux and key positions were still being identified and filled.

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

- ❑ Whether organizational roles and functions will be assigned appropriately for employees and contractors. While contractors are appropriate for support services, only federal employees should perform inherently governmental functions.[3] The emerging organizational structure identified 65% of the 252 positions as contractors. This appears excessive for the management control environment that will be needed for such a large, complex acquisition.

- ❑ Whether the staff will have the appropriate qualifications and necessary training in acquisition management, as well as the right skill mix. A question remains whether the emerging organizational structure will adequately provide for the use of integrated product teams, as required by OMB capital budgeting regulations.[4]

- ❑ How workforce turnover and fluctuations will be managed. As a stopgap measure, CBP is detailing agents and other staff on temporary assignment to identify and perform tasks for which they are not experienced or trained. The program office had no clear plan for replacing the detailees and transferring their institutional knowledge. Without turnover procedures and documentation of decisions and deliberations, new personnel could be at a disadvantage in managing implementation.

---

[3] OMB Policy Letter 92-1 and Circular A-76 describe inherently governmental functions as those so intimately related to the public interest as to mandate performance by government employees.

[4] OMB Circular A-11 requires use of Integrated Product Teams (IPTs). IPTs bring a variety of functional disciplines to the task, ensuring full consideration of perspectives in making program decisions, so that the potential impacts are identified and trade-offs understood. At issue for SBInet is whether the appropriate mix of technical and business disciplines, such as engineers, logisticians, contracting officers, and cost analysts will be available to staff the IPTs.

Additionally, the investment review processes required by department directive[5] were bypassed, and key decisions about the scope of the program and the acquisition strategy were made without the prescribed review and analysis or transparency. The department has since moved toward completing these reviews. The department's Investment Review Board and Joint Requirements Council provide for deliberative processes to obtain the counsel of functional stakeholders.

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

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

While the SBInet broad statement of objectives is an appropriate algorithm[6] for encouraging the systems engineering desired, success in accomplishing this macro algorithm cannot be practically measured. By not setting measurable performance goals and thresholds, the government was at increased risk that offerors would rely on unproven technologies and high-risk technical solutions that would delay implementation or be unaffordable.

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

At the time, the department also needed to define and document the underlying operational requirements, i.e., translating mission needs, describing shortcomings with

---

[5] DHS Management Directive 1400, Investment Review Process
[6] The macro algorithm is to "detect entries, identify and classify, respond, resolve." The SBInet system is to detect entries when they occur; identify what the entry is; classify its level of threat (who are they, what are they doing, how many, etc.); effectively and efficiently respond to the entry; and bring the situation to the appropriate law enforcement resolution (apprehension, interdiction, transport to interdiction processing point, etc.).

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

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

However, until the operational requirements are validated and stabilized, the SBInet program will be vulnerable to changing direction. Changing the program's direction will likely require contract changes and equitable adjustments; rework of the contractor's planning, management, and systems engineering efforts; and add cost and delay.

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

"Earned value management" is a comprehensive management information and analysis system, fed by cost accounting data arrayed against work breakdown structures and

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

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

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

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

OIG Oversight Plans

The department's mission requires rapid deployment of new equipment, technology, and processes. These efforts frequently entail procurements with ambitious cost, schedule, and performance goals. For this reason, acquisition management is and will continue to be a priority for my office and an area where we focus considerable resources. Our plan is to continue examining crosscutting acquisition issues, in addition to individual programs, such as SBInet and Deepwater. For example, during this and the upcoming fiscal year, just for the areas of Deepwater and SBInet, we intend to:

- ❑ Review Deepwater's program performance and issue a "report card" on Coast Guard's management of the program;
- ❑ Perform additional follow-up on Deepwater program audits; and
- ❑ Perform a series of audits of the SBInet Program.

The first audit of the SBInet Program will address performance management and contract administration, and focus on the setting of an acquisition program baseline, use of performance metrics, and management of the systems integration contract with Boeing. The second audit of the SBInet Program will focus on tactical infrastructure aspects and oversight of Interagency Support Agreements with the Border Patrol's traditional sources of infrastructure construction, such as the Army Corps of Engineers and General Services Administration. The third audit of the SBInet Program will address information technology aspects of the program and focus on the Common Operating Picture and architecture. We also intend to follow up on our recommendations from the risk advisory report and ensure proper corrective measures are implemented.

I will conclude by restating that the OIG continues to be highly committed to the oversight of these and other major acquisitions within the department. We are working with the Coast Guard and CBP to identify milestones and due dates in order to assess the most appropriate cycle for reporting the program's progress.

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