

DEPARTMENT OF HOMELAND SECURITY
Office of Inspector General

**Review of the
Port Security Grant Program**



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Security

Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the Homeland Security Act of 2002 (*Public Law 107-296*) by amendment to the Inspector General Act of 1978. This is one of a series of audit, inspection, and special reports prepared by the OIG as part of its DHS oversight responsibility to promote economy, effectiveness, and efficiency within the department.

This report assesses the strengths and weaknesses of the department's port security grant program. It is based on interviews with employees and officials of relevant agencies and institutions, direct observations, and a review of applicable documents.

The recommendations herein have been developed to the best knowledge available to the OIG, and have been discussed in draft with those responsible for implementation. It is my hope that this report will result in more effective, efficient, and economical operations. I express my appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in black ink that reads "Richard L. Skinner".

Richard L. Skinner
Acting Inspector General

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Abbreviations

| | |
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| CFR | Code of Federal Regulations |
| COTP | Captain of the Port |
| DOD | Department of Defense |
| ERB | Executive Review Board |
| FMSC | Federal Maritime Security Coordinator |
| FY | Fiscal Year |
| GAO | Government Accountability Office |
| IAIP | Information Analysis and Infrastructure Protection |
| MARAD | Maritime Administration, Department of Transportation |
| MTSA | Maritime Transportation Security Act of 2002 |
| NIPP | National Infrastructure Protection Plan |
| NRB | National Review Board |
| ODP | Office for Domestic Preparedness |
| OIG | Office of Inspector General |
| P.L. | Public Law |
| PSRAT | Port Security Risk Assessment Tool |
| SLGCP | Office of State and Local Government Coordination and Preparedness |
| SRB | Selection Review Board |
| TSA | Transportation Security Administration |
| UASI | Urban Area Security Initiative |
| USCG | United States Coast Guard |

Introduction

The terrorist attacks of September 11, 2001, against the United States resulted in a renewed focus on protecting the country's transportation systems, including seaports and port facilities. In 2002, Congress provided funding to the Transportation Security Administration (TSA), then under the Department of Transportation, to enhance the security of ports and other facilities. TSA, along with the Maritime Administration (MARAD) and the U.S. Coast Guard (USCG), developed the Port Security Grant Program. The purpose of this program is to reduce the vulnerability of American ports to potential terrorist attacks by enhancing facility and operational security. To date, the program has awarded over \$560 million for over 1,200 projects.¹

We reviewed the design and goals of the program, potential duplication of other programs, the roles and responsibilities of participating agencies, and the grant evaluation and selection process. We conducted our review between December 2003 and May 2004.

Results in Brief

The Port Security Grant Program provided funds for security within the maritime industry, generated additional investments, and significantly increased awareness of security needs. With no shortage of potential projects to choose from and limited funding, the program strove to award funds to projects that best matched its eligibility criteria. We observed good, respectful, working relationships among TSA, USCG, and MARAD, who collaborated to stand up a competitive grant program and leverage their expertise throughout multiple rounds of grant awards.

However, the program's strategic impact is less apparent and its purpose and goals require refinement to support national priorities effectively. Specifically:

¹ This includes \$75 million made available by the Department of Homeland Security's Office for Domestic Preparedness.

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- While the program's eligibility criteria are directed broadly at national critical seaports, the current design of the program compromises the program's ability to direct resources toward the nation's highest priorities.
 - The program is attempting to reconcile the goals of the Maritime Transportation Security Act of 2002 (MTSA),² the competitive grant program mandated by Congress, and risk based direction of grant monies. MTSA is a nationwide security mandate that widely affects the maritime industry. The program is faced with the competing pressures of offsetting MTSA related costs while making competitive and risk based grant decisions to protect the nation's most critical ports and port facilities.
 - The program did not have the benefit of national key asset and critical infrastructure protection information now being developed by the Information Analysis and Infrastructure Protection (IAIP) directorate. Program administrators and IAIP, which is responsible for developing strategies for protecting the nation's critical infrastructure, did not collaborate to integrate the program with broader national security initiatives.
 - Grant award decisions are made with the intent of expending all available funding and spreading funds to as many applicants as possible. The program funded projects despite dubious scores by its evaluators against key criteria, raising questions about the merits of several hundred projects. Frequently, headquarters and field reviewers did not agree about the eligibility or merit of projects and did not consistently document their rationale for recommending or not recommending funding.
 - The question of where the private sector's responsibility for preventing terrorism ends and where the federal government's responsibility begins poses a dilemma for the Port Security Grant Program. DHS does not have a formal policy to provide financial assistance to private entities, a group that includes those that own and operate high risk facilities. Private entities have applied for and received substantial funding. Some of that funding went to projects that reviewers scored below average or worse during the evaluation process.

² P.L. 107-295.

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- At each level of the application review process, reviewers were challenged to meet short deadlines to evaluate, rate, and rank projects. This affected the ability of reviewers to document thoroughly their decisions and made subsequent levels of review more difficult.
 - After three rounds of the Port Security Grant Program, recipients spent only a small portion of the entire amount awarded. Of the \$515 million awarded between June 2002 and December 2003, including \$75 million provided under the Office for Domestic Preparedness's (ODP's) Urban Area Security Initiative (UASI), grant recipients had expended only \$106.9 million, or 21% of total program awards as of September 30, 2004. As a result, the majority of projects have not been completed and the program has not yet achieved its intended results in the form of actual improvements to port security.
 - Following TSA's second round of grant awards in 2003, ODP made \$75 million available for port security grants under the UASI. The UASI is distinct from TSA's program and had not been used for port security grants previously. ODP, in consultation with TSA and the Office of State and Local Government Coordination,³ utilized a risk based approach,⁴ which differed from the program's original competitive process, to select 14 eligible port areas and the corresponding funding amounts for each area. TSA then provided unfunded applications from its second round of grants to ODP, which in turn, funded 86 projects. The TSA, USCG, and MARAD National Review Board had reviewed these projects before they were submitted to ODP and determined that 82 did not merit funding.
 - Secretary Ridge moved TSA's Port Security Grant Program into the Office of State and Local Government Coordination and Preparedness (SLGCP). SLGCP officials would like to combine elements of ODP's discretionary risk based approach with TSA's competitive program that relies on USCG and MARAD expertise for making grant award decisions. It is not clear how SLGCP will combine the elements of these programs.

³ The Office of State and Local Government Coordination and the ODP were moved into the Office of State and Local Government Coordination and Preparedness on May 17, 2004.

⁴ The UASI Port Security Grant Program is distinct from the primary UASI grant program. The primary UASI grant program identified and awarded formula grants to 50 high threat urban areas. The program utilized a different methodology to derive the funding amounts for the 14 selected port areas.

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- Port security grants were awarded through two different statutory authorities, TSA's appropriation and ODP's UASI program, which have different award processes and eligibility requirements. A third authority, MTSA, mandates security requirements for port facilities and vessels and contains another grant authority intended to offset the costs of the security mandates. The consolidation of ODP's UASI program and TSA's Port Security Grant Program into SLGCP and the impact of MTSA cloud the statutory intent and future direction of port security grants.

We are recommending that the Executive Director, Office of State and Local Government Coordination and Preparedness:

Recommendation #1: Determine to what extent the program should incorporate MTSA requirements.

Recommendation #2: Incorporate critical infrastructure and key asset data from IAIP into the evaluation of proposed port security projects. Among the changes to consider:

- The addition of an IAIP official on the Executive Review Board;
- Use of the IAIP national asset database to identify critical facilities in need of mitigation with a view toward soliciting proposals from these facilities; and
- Collaborating with IAIP in an outreach program to improve the quality of vulnerability assessments and proposals.

Recommendation #3: Consider changing the weighting of the evaluation criteria, with greater emphasis placed on the criteria that reduce critical vulnerabilities.

Recommendation #4: Cease the practice of funding projects that do not meet the definition of a Priority I project. Consider implementing a scoring threshold that ensures that projects not meeting that threshold are not funded. Consider seeking a change in appropriations language to have these grant funds designated as "no-year monies" to reduce the impetus to fund doubtful projects.

Recommendation #5: Require reviewers to document their decisions in the grants management system, particularly when they are inconsistent with recommendations from a lower level of review.

Recommendation #6: Develop parameters that define applicant eligibility under the "nationally important economic port or terminal," "responsible for movement

of a high number of passengers,” and “responsible for the movement of hazardous cargo” criteria.

Recommendation #7: Communicate information to field reviewers to educate them on eligibility. Improve dissemination of “lessons learned” at all levels of review.

Recommendation #8: Evaluate timeframes for reviewing applications with an emphasis on providing more time for review in the field and by the ERB.

Recommendation #9: Clarify department policy on funding private sector projects. In the absence of such policy, and if funding private sector projects is continued: (1) examine private sector projects to preclude the funding of cost of business expenses; (2) develop financial eligibility criteria, including an income test or cost-benefit analysis; and (3) consider giving greater preference to projects that are submitted jointly by private and public entities.

Recommendation #10: Accelerate the acquisition of more information from applicants about the scope of their projects.

Recommendation #11: Ensure that the program has sufficient operational expertise to administer the program after the award is made.

Recommendation #12: Seek clarification on the legislative intent for the program (sector-specific vs. larger infrastructure protection initiatives) and construct a unified program (policy, purpose, process, and eligibility) to comply with that intent.

Background

TSA, originally part of the Department of Transportation, was created by the Aviation and Transportation Security Act of 2001,⁵ which was signed into law on November 19, 2001. Shortly thereafter, on January 10, 2002, Congress passed the Department of Defense (DOD) Appropriations Act of Fiscal Year (FY) 2002,⁶ which included funding for port security grants. Congress made over \$93 million available to the Under Secretary of Transportation for Security to award

⁵ P.L. 107-71.

⁶ P.L. 107-117.

competitive grants to critical national seaports. These grants were to finance the cost of enhancing facility and operational security as determined by the Under Secretary of Transportation for Security, the Administrator of MARAD, and the Commandant of USCG. The grants could be used for security assessments and for implementation of measures once assessments had been performed. Congress did not intend for the funding to displace current security funding and activities either provided by the ports or by federal agencies, but rather that it be used for additional security activities that were not being performed at the ports at that time.⁷ On February 28, 2002, MARAD, on behalf of TSA, requested applications for the first round of port security grants based on the DOD provisions. Four months later, it awarded the initial round of grants, which totaled \$92 million and funded 24 security assessment projects, 14 proof-of-concept projects, and 106 facility and operational security enhancement projects.⁸

On November 25, 2002, President Bush signed MTSA. MTSA is designed to protect the nation's ports and waterways from a terrorist attack. MTSA was based, in part, on recommendations from the Interagency Commission on Crime and Security in U.S. Seaports. In its Fall 2000 report, the Commission concluded that the state of security at U.S. seaports generally ranged from poor to fair, control of access to seaports or sensitive areas within seaports was often lacking, and the vulnerability of American ports to potential terrorist attacks was high.

Section 70107 of MTSA authorized the Secretary of Transportation, acting through the MARAD Administrator, to establish a grant program for making a fair and equitable allocation among port authorities, facility operators, and state and local agencies. However, Congress did not appropriate funds toward MARAD's grant authority. Rather, Congress appropriated additional grant funds to TSA and required that the grants be awarded under the terms and conditions of the earlier DOD Appropriations Act of FY 2002.

Capitalizing on progress made during the initial round, TSA conducted three more rounds of port security grants. On January 14, 2003, the Under Secretary of Transportation invited applications for the second round of port security grants. Four and one-half months later, TSA awarded \$169 million to 199 applicants for 392 projects.⁹ On June 21, 2003, TSA invited applications for the third round of

⁷ House of Representatives Conference Report 107-350, Division B, Chapter 11, *Department of Transportation, Transportation Security Administration*.

⁸ Data obtained from MARAD's grant management system. MARAD developed the original web-based grant management system and administered the first round of grants on behalf of TSA.

⁹ TSA became part of the Department of Homeland Security on March 1, 2003.

grants; five and one-half months later it awarded \$179 million to 235 applicants for 442 projects.¹⁰ In total, the first three rounds combined to fund 978 projects at a cost in excess of \$440 million. Most grant awards were for access controls and physical enhancements (see Appendix A).

In addition to the \$169 million awarded by TSA in round two, ODP provided \$75 million under the UASI program to 49 applicants for 86 port security projects, bringing total awards for the first three rounds to approximately \$515 million.¹¹ The UASI program, separate and distinct from TSA's competitive grant program, provides discretionary grants for high-density and high-threat urban areas. UASI grants typically address the equipment, training, planning, and exercise needs of these areas. Prior to this, the UASI had not been used for port security grants. Unlike TSA, ODP did not use a competitive grant award process. Rather, in working with TSA and the Office of State and Local Government Coordination, ODP utilized a risk based process to identify eligible port areas and grant award amounts even before applications were submitted. While ODP did not use the same type of grant award process, ODP did rely on TSA to forward unfunded project applications from TSA's second round of grants. ODP then made grant awards for its projects from these applications.

On May 5, 2004, TSA requested applications for round four of the program. On September 13, 2004, TSA awarded \$49.4 million for 154 projects to 120 recipients.¹²

¹⁰ Funding for round two was a combination of \$150 million in FY 2003 Consolidated Appropriations (P.L. 108-7) and \$20 million from the FY 2003 Wartime Supplemental Appropriations Act (P.L. 108-11). Funding for round three was a combination of \$104 million in FY 2002 Supplemental Appropriations Act for Further Recovery From and Response to Terrorist Attacks on the US (P.L. 107-206) and \$75 million of the \$125 million set aside from the FY 2004 Homeland Security Appropriations Act (P.L. 108-90).

¹¹ The UASI derives its program and spending authorities from the USA PATRIOT Act, P.L. 107-56 § 1014; the Emergency Wartime Supplemental Appropriations Act of 2003 (P.L. 108-11), Title I, Chapter 6 (\$700 million, of which \$75 million was obligated for round two); and the Department of Homeland Security Appropriations Act of 2004, P.L. 108-90, Title III (\$725 million). See page 40 for further information on ODP and the UASI.

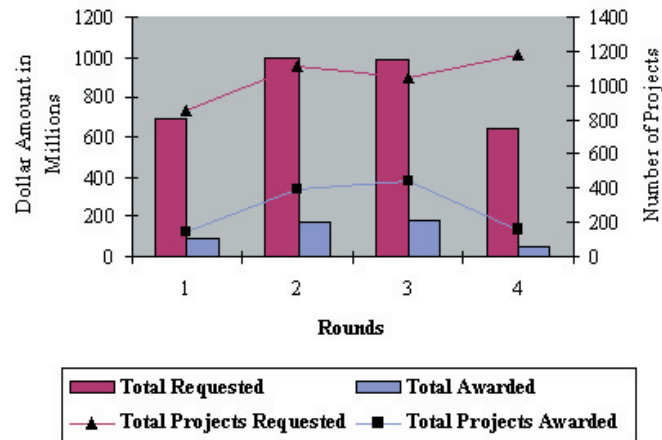
¹² The source of round four funds is the FY 2004 Homeland Security Appropriations Act (P.L. 108-90).

Figure 1. Summary of Port Security Grant Programs

| Program | Lead Agency | Amount Awarded | Characteristics |
|---------------------------------------|---------------------------------------|--|---|
| Port Security Grant Program | TSA (USCG and MARAD participate also) | FY 2002: 1 st round - \$92 million FY 2003: 2 nd round - \$169 million FY 2004: 3 rd round - \$179 million 4 th round - \$49.4 million | Competitive grant award process. Intended for enhanced operational and facility security at ports, port facilities and vessels. |
| Urban Area Security Initiative | ODP | FY 2003: \$75 million | Discretionary for large high-threat urban areas. Separate from its basic UASI program which provided formula grants to 50 urban areas for equipment, training, planning, exercise, operational needs, and critical infrastructure protection, ODP awarded port security grants to 14 high risk port areas. ODP collaborated with TSA and the Office of State and Local Government Coordination to identify the eligible port areas. TSA provided ODP with applications from its previously reviewed pool of applications. |
| MTSA Grant Program (unfunded) | MARAD | \$0 | Fair and equitable allocation of grants. Intended to offset the cost of implementing MTSA mandated facility and area maritime security plans including equipment, personnel, and other security related costs. |

Applicant interest in TSA’s program has been strong and applicant requests have far exceeded available funds. Although the program has increased the number of projects funded each year, program funding continues to fall far short of demand.

Figure 2. Total Projects and Funding Requested vs. Awarded



To be eligible for grant funding under TSA’s program, applicants must be deemed to be a critical national seaport/terminal as defined by one or more of the following attributes:

- One of the 14 designated “strategic ports,” as designated by a MARAD port planning order.
- Controlled Port – Ports that have access controls for vessels from certain countries due to national security issues.¹³
- A nationally important economic port responsible for a large volume of cargo movement or for movement of products vital to U.S. economic interests as required for national security.
- Port or terminal responsible for the movement of a high volume of passengers.
- Port or terminal responsible for the movement of hazardous cargo.

There are 361 seaports in the United States and they vary considerably by their size, type of commerce, and amount of cargo. Public seaports are generally owned and operated by local governments through a port authority; however, large portions of seaport real estate are often leased to the private sector by the local government operating as a landlord. In addition, many privately owned and operated terminals exist within seaports independent of the local port authority.

¹³Controlled Ports are: New London/Groton, CT; Portsmouth, NH (including Kittery, ME, and Dover, NH, on the Piscataqua River); Hampton Roads, VA (including Norfolk, Newport News, Jamestown, Yorktown, and Portsmouth, VA); Charleston, SC; Kings Bay, GA; Port Canaveral, FL; Panama City, FL; Pensacola, FL; Port St. Joe, FL; Port Hueneme, CA; San Diego, CA; and Honolulu, HI.

Businesses operating in the seaport include terminal operators, ocean carriers, trucking companies, freight forwarders, brokers, and food servicing companies.¹⁴ Port facilities and vessels are eligible to receive grant funding if they meet any of the “critical national seaport/terminal” criteria cited above. This is determined during the application review process.

On January 23, 2004, Secretary Ridge announced DHS’ intention to consolidate ODP, then within the Directorate for Border and Transportation Security, with the Office of State and Local Government Coordination, which reports directly to the Secretary, to create the SLGCP. This action became effective on May 17, 2004. As a part of this action, TSA’s Port Security Grant Program and ODP’s UASI Port Security Grant Program were consolidated into SLGCP.

Purpose, Scope, and Methodology

We reviewed the design and goals of the Port Security Grant Program, the roles and responsibilities of agencies participating in the grants process, and the project selection and evaluation process. We looked for possible duplication between TSA’s and ODP’s grant programs. We assessed coordination between the program offices and DHS’ IAIP directorate, and how the grants strengthen critical infrastructure within the United States. We did not review TSA’s Operation Safe Commerce once we determined that it does not duplicate the Port Security Grant Program.

We interviewed management, program, and grant officials at several DHS organizations including TSA, USCG, IAIP, ODP, and SLGCP. We also interviewed officials at the Department of Transportation’s MARAD. These interviews included agency representatives on the National Review Board and Executive Review Board, which are responsible for reviewing grant applications at the headquarters level. We also interviewed an official at the Defense Threat Reduction Agency.

We visited ports in Maryland, Virginia, Texas, and California. As part of our site visits, we interviewed numerous people representing port authorities, private entities, USCG’s Marine Safety Units, and state and local emergency management/security offices. We also interviewed all five of MARAD’s Regional Directors and the Commander of the U.S. Army’s 842nd Transportation Battalion,

¹⁴Interagency Commission on Crime and Security in U.S. Seaports, Fall 2000.

Surface Deployment and Distribution Command, who oversees military cargo transportation operations at the Port of Beaumont, TX.

We reviewed documentation pertinent to the design and implementation of both TSA's and ODP's Port Security Grant Programs including authorization and appropriation language, "Requests For Applications," and guidance used by applicants and project evaluators. We analyzed the grant award information and project data for the second and third round of grants awarded between May and December 2003. We did not analyze data from the fourth round of grants awarded on September 13, 2004. We also reviewed the *Report of the Interagency Commission on Crime and Security in U.S. Seaports*, the *National Strategy for Physical Protection of Critical Infrastructure and Key Assets*, the *National Strategy for Homeland Security*, and other reports relating to port security and critical infrastructure protection.

We conducted our review between December 2003 and May 2004 under the authority of the Inspector General Act of 1978, as amended, and according to the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

Findings

Port Security Grants and National Strategic Considerations

TSA, USCG, and MARAD created and implemented a Port Security Grant Program, as Congress intended. Congress intended for the program to help port authorities and private entities harden their ports, facilities, and vessels. Over \$560 million has been awarded under the program for security improvements. However, the current design of the program compromises DHS' ability to direct resources toward the nation's highest priorities. The program needs to improve its use of national strategic data.

Balancing TSA's Program with MTSA

The 2002 DOD Appropriations Law authorizing TSA's program stipulated that TSA was to award competitive grants to critical national seaports to finance the costs of facility and operational security enhancements. On November 25, 2002, less than a year after the first appropriation to TSA and just five months after

the first round of grants, MTSA was enacted into law. MTSA is a nationwide security mandate that widely affects the maritime industry. MTSA created, but did not fund, a grant authority that differed in purpose from the TSA appropriation. Congress continued to fund the TSA program and did not require TSA to alter its program to adhere to the MTSA grant authority. The current program attempts to reconcile the competitive program set forth in TSA’s appropriation and the “equitable” program authorized by MTSA. The program is faced with the competing pressures of offsetting MTSA related costs while making competitive and risk based grant decisions to protect the nation’s most critical ports and port facilities.

Figure 3. Comparison of TSA Appropriation Authority and MTSA Grant Authority

| | Responsible Agency | Grant Award Process | Eligible Entities | Eligible Costs | Cost Share |
|--|---|-------------------------------|---|--|--|
| TSA Appropriation Authority | TSA in coordination with USCG and MARAD | Competitive | Critical National Seaports | <ul style="list-style-type: none"> • Facility and operational security enhancements • Security assessments | No cost share requirement |
| MTSA Grant Authority (not funded) | MARAD | Fair and equitable allocation | <ul style="list-style-type: none"> • Port Authorities • Facility operators • State and local agencies required to provide security | <ul style="list-style-type: none"> • Recurring costs for security personnel • Acquisition, operation, and maintenance of security equipment • Screening equipment for explosives and WMD • Vulnerability assessments | <ul style="list-style-type: none"> • 75% federal funding • No cost share for projects \$25,000 or less • Discretion to approve a lower non-federal cost-share |

MTSA’s authority was intended to authorize the costs of implementing area maritime security plans and facility security plans. MTSA required a fair and equitable allocation of funds to port authorities, facility operators, and state and local agencies that are responsible for security services, while taking into account national economic and strategic defense considerations. In addition, MTSA limited federal funding to a 75% cost share for projects costing greater

than \$25,000. MTSA did not require a competitive program for funding grant proposals. As noted earlier, MTSA was not funded.

In a September 9, 2003, report, the Government Accountability Office (GAO) noted the differences in eligibility between TSA's program and MTSA's grant authority.¹⁵ TSA officials said that the appropriation language limited TSA's ability to meet MTSA requirements. GAO asserted that continued deviation from MTSA's cost share requirement would keep federal dollars from reaching as many projects as possible and that the current program does not take into account the applicant's ability to participate in funding. Therefore, federal dollars were not leveraging as many projects as possible.

In response to GAO, rather than create a new grant program to accommodate MTSA, TSA adapted its existing program to meet MTSA requirements. TSA made an effort to observe MTSA provisions in rounds three and four. In the third round, TSA gave preference to MTSA regulated facilities and vessels located at eligible "critical national seaports/terminals."¹⁶ TSA also required a security assessment as a prerequisite for enhanced facility and operational security projects.¹⁷ In the fourth round, TSA limited eligibility to MTSA regulated facilities and vessels. However, TSA did not alter the program to reflect the MTSA mandate for cost sharing, nor did it allow for the funding of recurring costs such as salaries, benefits, and overtime of mandated security personnel and maintenance of security equipment.

MTSA requirements increased the demand for grant funding. USCG determined that approximately 12,300 facilities and vessels will have to absorb the cost of implementing MTSA required security plans at an estimated cost of \$7.3 billion over 10 years.¹⁸ TSA's program assisted regulated entities in a limited way in defraying some MTSA related costs by funding facility and operational security projects.¹⁹ Program officials asserted that it is important to ensure first that the

¹⁵ Testimony report dated September 9, 2003, to the Senate Committee on Commerce, Science, and Transportation on Maritime Security, *Progress Made in Implementing Maritime Transportation Security Act, but Concerns Remain*, (GAO-03-1155T).

¹⁶ USCG implemented MTSA security requirements for facilities and vessels through regulations located at 33 CFR Parts 101, 103, 104, 105, and 106.

¹⁷ On October 22, 2003, USCG published final MTSA regulations, requiring facility and vessel owners and operators to develop security plans and submit them to USCG by December 31, 2003. Facilities and vessels must comply with other MTSA security requirements and were to begin implementation of the approved security plans by July 1, 2004.

¹⁸ GAO reported that the accuracy of this estimate is uncertain due to the complexity of the estimate, the variation due to assumptions, and the limited amount of time for USCG to complete the estimate. See GAO's report, *Substantial Work Remains to Translate New Planning Requirements into Effective Port Security*, (GAO-04-838), dated June 2004.

¹⁹ In the first and second rounds of grants, security assessments and proof of concept projects also were eligible for funding.

security infrastructure, e.g., fences, cameras, access controls, etc., is in place. Such grants meet MTSA goals as well as TSA's. However, once these needs are met, TSA's limited program with its governing provisions will not be suitable to meet the needs of regulated port facilities and vessels, especially when personnel and other recurring costs become the predominant cost for the maritime industry.

Legislative guidance may be necessary to clarify the purpose of the funds. At issue is whether the program should continue to fund only regulated facilities and vessels for facility and operational security projects, or whether it should extend eligibility according to MTSA. The two mandates differ on other issues also, including the treatment of eligible costs, cost-share requirements, and participation by state and local entities that provide security at port facilities. Possibly the most significant issue is whether grants should be awarded through TSA's competitive process, through an equitable process as mandated by MTSA, or through a risk based approach as discussed later (see page 41).

Without clarification of these basic provisions, the direction of the program will remain disparate and unclear.

Program Design Hinders Strategic Effectiveness

TSA designed a broad and flexible Port Security Grant Program to achieve its goal of hardening ports, facilities, and vessels. It developed eligibility criteria that required applicants to be or operate near militarily strategic ports, controlled ports, or ports of significant economic importance. Vessels carrying high volumes of passengers and vehicles or vessels and facilities that handle hazardous materials also were eligible.²⁰ All applicants were required to link their proposals to a security assessment.²¹

While the program displays tendencies toward addressing national priorities, such as applying the above criteria and using the USCG's Port Security Risk Assessment Tool (PSRAT), its design hinders it from consistently valuing projects that address national priorities:²²

²⁰ The top 50 ports in the United States account for about 90% of all cargo tonnage. Cruise ships and ferries are eligible for funding due to the millions of passengers and vehicles they transport each year.

²¹ This requirement began in the second round of grants and only applied to enhanced facility and operational security projects. It did not apply to proof-of-concept projects.

²² USCG utilized the PSRAT during the field review of the applications. The PSRAT was used to assess the existing risk to the subject facility/vessel and to determine the reduction in risk that would result from the implementation of the measures proposed in each application.

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- TSA made grant award decisions based on the universe of applications received in each round. As a result, the criticality of an applicant's facility or vessel and the risk reduction value of the proposed projects were of relative importance; they were compared only to the applications submitted in a given round. Therefore, TSA had no assurance that the program is protecting the nation's most critical and vulnerable port infrastructure and assets.
 - The amount of available funds directly influenced the decision process behind the grant awards. TSA did not withhold funds in any round due to a shortage of viable projects, despite rankings that suggested otherwise (see page 23).
 - The evaluation and selection process focused on awarding funds to as many applicants as possible. Selecting officials capped funding per entity and per award in the third round in order to reach more applicants and projects. TSA officials said that these considerations caused the program to move away from funding large and more expensive projects toward funding a multitude of smaller, less costly projects.
 - The program led to competition between businesses and port authorities within the same port complexes. While preference is given to port-wide projects, the program does not reinforce the cooperative efforts that are required to develop an integrated approach to security.
 - Selected projects are not based on a national risk assessment because a mechanism to perform a national level risk reduction analysis does not yet exist within the department. The USCG uses its PSRAT analysis to assess risk, but the results of the risk reduction analysis are not shared with MARAD field reviewers or used extensively by headquarters level review boards that ultimately make the grant award decisions.
 - Threshold levels used to establish a project's criticality are not fixed. What evaluators determine to be a significant level of criticality in one round may not be considered significant in another round.
 - Applicants have increasingly turned to professional grant proposal writers. There is a perception among applicants that sound proposals with higher intrinsic value are passed over in favor of well-written proposals.

Better Use of National Strategic Information Needed

Administrators designed and operated the Port Security Grant Program as a sector-specific grant program and conducted three rounds of grants without the aid of a government-produced list of national critical infrastructure and key assets. Such a list could have guided the evaluation of security enhancements and grant award decisions. However, TSA, MARAD, and USCG launched the program while DHS was just forming and the IAIP directorate was just beginning operations. IAIP did not complete the list until 2004.

In general, IAIP officials said they do not like the design and direction of the program because, as a sector-specific program operating independently of IAIP, its policies and funding are not integrated with other national security interests. They said that program officials did not seek their assistance in designing the program or subsequently discuss how the program would help support critical infrastructure protection goals. Meanwhile, IAIP was developing a prioritized list of critical infrastructure and assets to serve as a baseline for making decisions on which critical infrastructure and key assets to safeguard first.²³ In May 2004, IAIP completed its initial Protective Measure Target List, a condensed list of assets that appear in the National Asset Database. Some assets on the list are located within port complexes.

In counterpoint, program officials believe that the current program is the most appropriate way to enhance port security and that they have the expertise to run it. Program officials insisted that they consulted IAIP on the design of the program, but IAIP did not provide any substantive feedback or guidance and would have added little value to the process because it lacked knowledge about port systems. They said that IAIP did not participate in the project evaluation process and asserted that it was unrealistic to expect IAIP to compare facilities and vessels from port to port and prioritize risk reduction proposals. One senior program official asserted that IAIP could not appropriately support the Port Security Grant Program, because IAIP was focusing on the “crown jewels” of critical infrastructure; whereas the grant program included assets that did not rise to an obvious level of criticality. Program officials also expressed skepticism concerning IAIP’s expertise in securing port assets.

DHS plans to harmonize its infrastructure protection activities. It is pursuing a mechanism for identifying vulnerabilities, assessing risk, comparing critical

²³ IAIP analyzes and integrates terrorist threat information, mapping those threats against vulnerabilities to critical infrastructure and key assets.

infrastructure and key assets throughout the country, and is consolidating risk management activities and various grant programs. IAIP is overseeing the implementation of the National Infrastructure Protection Plan (NIPP), the key strategic plan for identifying and protecting key assets and critical infrastructure.²⁴ IAIP delegated key responsibilities to agencies, including TSA and USCG, which have primary responsibility for implementing sector-specific plans in support of the NIPP. They are to identify assets, assess vulnerabilities, prioritize assets, develop sustainable programs, and use metrics to measure effectiveness. On behalf of IAIP, TSA and USCG are then to develop guidelines to identify unacceptable levels of risk to transportation assets and recommend strategies to manage those risks.²⁵

To date, grant reviewers have relied on project information provided by the applicants, including the applicants' own vulnerability assessments, the PSRAT analysis within the USCG, and the reviewers' expertise to judge the merits of the projects and potential for risk reduction. Without national risk data, DHS cannot ensure that its grant resources are being directed toward the nation's highest priorities. When IAIP data becomes available to program managers, they should work closely with IAIP to ensure that initiatives to protect the transportation sector are aligned with efforts to secure other critical infrastructure sectors.

We recommend that Executive Director, Office of State and Local Government Coordination and Preparedness:

Recommendation #1: Determine to what extent the program should incorporate MTSA requirements.

Recommendation #2: Incorporate critical infrastructure and key asset data from IAIP into the evaluation of proposed port security projects. Among the changes to consider:

²⁴ The Homeland Security Act of 2002 requires DHS to develop a comprehensive national plan for securing the key resources and critical infrastructure of the United States (P.L. 107-296, sec.201 (d)(5)). The National Infrastructure Protection Plan is to include among other things: (1) a strategy to identify, prioritize, and coordinate the protection of critical infrastructure and key resources, including how the department intends to work with federal departments and agencies, state and local governments, the private sector, and foreign countries and international organizations, and (2) a summary of activities to be undertaken in order to define and prioritize, reduce the vulnerability of, and coordinate the protection of critical infrastructure and key resources.

²⁵ TSA has the Transportation Sector Specific responsibility for managing the risk of terrorist attacks to the transportation system, including maritime, aviation, highway, rail, pipelines, and mass transit. MTSA gives USCG primary responsibility for maritime security. Operational considerations for the maritime sub-sector fall within the scope of the comprehensive system of maritime security plans required by MTSA and managed by USCG. As such, USCG is working with TSA to develop the maritime sub-sector section of the Transportation SSP.

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- The addition of an IAIP official on the Executive Review Board;
 - Use of the IAIP national asset database to identify critical facilities in need of mitigation with a view toward soliciting proposals from these facilities; and
 - Collaborating with IAIP in an outreach program to improve the quality of vulnerability assessments and proposals.

Project Evaluation and Selection Process

Based on our analysis of the evaluation, selection, and award process, we determined that: (1) TSA's program funded several hundred projects despite dubious marks by its evaluators against key criteria; (2) field and headquarters reviewers did not document their rationale for recommending or not recommending funding some projects sufficiently; (3) field reviewers claimed to be hindered by a lack of direction concerning how to evaluate eligibility requirements; and (4) reviewers were forced to meet short deadlines to evaluate, rate, and rank projects, which diminished the quality of the review process.

Overview of the Process

The Port Security Grant Program, including the application and award process, is carried out via an electronic, web-based system. Once applications are received, they are grouped corresponding to the USCG's Captain of the Port (COTP) zones.²⁶

USCG representatives from each COTP zone and MARAD regional officials jointly perform what is known as a "field review." The teams attempt to visit each entity, conduct a site evaluation of each port, and prioritize the projects within that zone in the order that they would fund them. This is important because the application evaluation process relies heavily on the USCG's and MARAD's familiarity with the port's surroundings and each entity's location and security needs. The teams spend up to four weeks evaluating the applicants' proposed projects, entering comments on each project in the system, and reaching a consensus ranking of them. Field reviewers arrive at a consensus ranking of all of the proposed projects in their respective COTP zones. The field review is also

²⁶ There are 45 COTP zones within USCG. A zone is a specific geographic area where the COTP has law enforcement responsibility for certain activities within the Coast Guard's authority. The COTP enforces regulations for the protection and security of vessels, harbors, and waterfront facilities; anchorages; bridges; safety and security zones; and ports and waterways.

significant because its rankings lay the foundation for the next level of review, the National Review Board (NRB).

The NRB consists of up to 12 representatives from TSA, USCG, and MARAD.²⁷ The NRB relies on information provided by the applicant and the field review teams that explains how a project will reduce risk. The NRB spends two to three weeks reviewing the project applications and the corresponding comments and rankings provided by the field review. The NRB reviews all of the projects submitted into the web-based system and places them in one of three “priorities” based on the following guidelines:

Priority I Applications

- Meet the mandatory requirement of being a Critical National Seaport²⁸
- Security assessments and measures have already been conducted/implemented
- Proposed approach addresses a critical security area
- Proposed approach is comprehensive and detailed with a high degree of likelihood of successful implementation

Priority II Applications

- Meet the mandatory requirement of being a Critical National Seaport
- Although some security assessments and measures have been conducted/implemented, further assessments/measures are needed to assess the level of potential improvement
- Proposed approach is acceptable, but further detail may be needed to assess the success of implementation

Priority III Applications

- Meet the mandatory requirement of being a Critical National Seaport
- Minimal security assessments and measures have been conducted/implemented, requiring more extensive future assessments
- Proposed approach is lacking in detail and the likelihood of success is not evident

After the NRB sorts the Priority II and III projects, from highest to lowest field ranking, it conducts a more meticulous review of the Priority I projects.²⁹ The

²⁷ In round four, ODP and Customs and Border Patrol representatives were added to the NRB.

²⁸ As described on page 11, the program defines a critical national seaport/terminal by one or more of the following attributes: (1) it is one of the 13 designated “strategic ports,” as designated by a MARAD port planning order; (2) it is a controlled port, which has access controls for vessels from certain countries due to national security issues; (3) it is a nationally important economic port responsible for a large volume of cargo movement or for movement of products vital to U.S. economic interests as required for national security; (4) it is a port or terminal responsible for movement of high volume of passengers; and (5) it is a port or terminal responsible for the movement of hazardous cargo.

²⁹ As a precaution, the NRB also includes in the more detailed review a handful of the top-ranked Priority II projects. If there are not enough Priority I projects to exhaust the grant money, the NRB will elevate Priority II projects to Priority I until the grant money is depleted.

NRB completes a scoring matrix for these projects and rates each project against six criteria:

1. Proposed project falls in the highest risk category due to location, nature of operations, national need, type/volume of commodity or number of passengers
2. Proposed approach addresses a critical security need/vulnerability (complements state or national efforts to improve port security)
3. Mitigation approach provides high risk reduction of identified vulnerability
4. Extent of actions taken thus far by the local and state entities and appropriateness of federal government in the security partnership
5. Proposed approach is comprehensive and detailed (consider personnel qualifications, schedule realism, methodology realism, highest degree of success)
6. Cost-effectiveness (consider partnering, cost sharing, innovative methodologies)

On behalf of the NRB, one evaluator reviews each application against one of the above selection criteria. Each application is rated excellent, good, satisfactory, marginal, or unsatisfactory, and given a score of one to five respectively (see figure 4) for each criterion. The NRB tallies the score for each criterion to produce an overall score for the project. The NRB then ranks all of the projects from highest to lowest based on the overall score for each project.

Figure 4. Sample Scoring Matrix

| Selection Criteria | Unsatisfactory (1pt.) | Marginal (2pts.) | Satisfactory (3pts.) | Good (4 pts.) | Excellent (5 pts.) | Score |
|---|----------------------------------|-----------------------------|---------------------------------|--------------------------|-------------------------------|--------------|
| 1. Highest risk category | | | X | | | 3 |
| 2. Addresses a critical security need | | | X | | | 3 |
| 3. Provides high risk reduction | | | X | | | 3 |
| 4. Extent of actions taken thus far | | | X | | | 3 |
| 5. Approach is comprehensive and detailed | | | X | | | 3 |
| 6. Cost effectiveness | | | X | | | 3 |
| Total Score | | | | | | 18 |

An Executive Review Board (ERB) review follows the NRB review. The ERB is made up of three executives, one each from TSA, USCG, and MARAD. The ERB reviews the NRB rankings and recommendations and makes any adjustments it

deems necessary. Finally, the Selection Review Board (SRB), consisting of a top-ranking official from TSA, USCG, and MARAD, conducts a final review of the rankings.³⁰

Analysis of Grant Awards

We reviewed the NRB's individual scores and overall rankings of 200 Priority I projects from both rounds two and three to confirm that the rankings accurately represented each project's overall score. Our results were consistent with the NRB's rankings. The NRB's rankings generally corresponded with the criteria scores: the higher the combined score from the six categories, the higher the project ranked overall and vice versa. However, there were instances where a project's overall score did not support its ranking.³¹

The NRB Gave Many Projects Poor Ratings

In rounds two and three, the program funded several hundred questionable projects. In rounds two and three combined, the NRB rated 258 out of 811 projects (32%) below average or worse during its evaluation process and awarded grants totaling \$67 million for the 258 below average projects.³² One official very knowledgeable about the deliberations remarked that one-third to perhaps two-thirds of the projects in each round did not meet the NRB's expectations as meaningful projects.

The NRB scored 29 out of 369 projects (8%) in round two below average or worse. In round three, the NRB scored 229 out of 442 projects (52%) below average or worse. In addition to these scores, many of the projects received *marginal* or *unsatisfactory* ratings in the first three selection criteria: (1) falls in the highest risk category; (2) addresses a critical security need/vulnerability; and (3) provides high-risk reduction. Of the 29 below average round two projects, 20 were rated *marginal* or *unsatisfactory* in at least one of these three criteria. Of the 229 below average round three projects, 167 were rated *marginal* or *unsatisfactory* in at least one of the top three criteria. For all funded Priority I projects, including those with average or better ratings, 87 of 369 (24%) round

³⁰ In round four, a representative of SLGCP was added to the ERB and SRB.

³¹ Both the ERB and the SRB may alter the rankings of the board below it.

³² This analysis is based only on enhanced operational and facility security projects. We defined an "average" project as one that received a total score of 18 or the equivalent of satisfactory for all six evaluation criteria. Hence a "below average" project scored 17 or less. See Figure 4 for reference.

two projects and 216 of 442 (49%) round three projects were rated *marginal* or *unsatisfactory* in at least one of the first three criteria.

It is troubling that there was a pattern of funding lower ranked projects with poor scores among the first three criteria. We consider these criteria key to the viability of the project, and interpret the presence of single or multiple *marginal* or *unsatisfactory* scores in these categories to mean the evaluators viewed the project as flawed. In our opinion, if the NRB does not view a project as at least *satisfactory* in each of these areas, then it should not fund the project. For example, a rating of *excellent* in ‘high-risk category’ but *marginal* in ‘addresses a critical need’ suggests the applicant may not be targeting the right vulnerability.

The program gives equal weight to the six selection criteria. This means that projects with insignificant, low risk reduction outcomes could be rated well enough, based on the last three criteria, to receive funding over projects with greater risk reduction potential.

Projects Funded Despite Low Rankings by the Field Review

Field reviewers ranked all of the applications received in their respective COTP zones. Based on our analysis of guidance for field reviewers as well as their comments on hundreds of applications, we deduced that field reviewer rankings reflected their highest priorities down to their lowest priorities in terms of the projects’ importance and risk reduction potential. Both the NRB and ERB recommended funding for projects despite low rankings by the field reviewers. In total, in round two, 112 of the 369 (30%) projects funded were ranked in the 50th percentile or lower by the field review.³³ In round three, 180 out of the 442 (41%) projects funded were ranked in the 50th percentile or lower by the field review. Program administrators should review this process, i.e., the process that permitted the use of federal funds for projects found by subject matter experts with first-hand knowledge of the criticality and vulnerability of the facilities and vessels to be low priorities.

Projects Not Funded Despite Strong Support by the Field Review

In round three, the NRB did not recommend funding for 54 projects that were ranked highly, i.e., in the top five of their respective COTP zones, by field reviewers. We examined comments by the field, NRB, and ERB for all unfunded

³³ This analysis was based on enhanced operational and facility security Priority I projects. It does not include assessments or proof of concept projects.

projects ranked by the field review as one of the top three projects in each COTP zone. Our objective was to obtain a better understanding of why these projects were not funded despite strong support from the field reviewers. Generally, the NRB was thorough in justifying and documenting why it did not recommend funding certain projects. The NRB denied projects for several reasons, namely that they: (1) appeared to benefit a federal agency; (2) duplicated a national level initiative, such as the Automatic Identification System; (3) were considered to be in a relatively low risk category from a national perspective; (4) did not address a vulnerability identified in the prerequisite security assessment; or (5) were response focused, rather than prevention and detection oriented.

Threshold Needed to Identify Worthy Projects

The NRB did not apply a minimum score threshold that would separate worthy from unworthy projects. The absence of such a threshold meant that the universe of Priority I projects was defined not by the merits of the projects, but rather by the amount of available funding for that round. Program officials did not dispute that a number of projects originally categorized as Priority II projects by the NRB were later re-categorized as Priority I projects and funded only because money was available and there was pressure to spend it.

Insufficient Justifications for Funded Projects

The records did not always contain adequate explanations to support funding decisions. Specifically, the records contained: (1) insufficient justification for the NRB's ratings and funding recommendations; (2) inconsistent evaluations by the field review teams, NRB, and ERB; (3) inconsistency between the field review comments and rankings; and, (4) insufficient justification for inclusion of grants for applicants that are not located at strategic or controlled ports.

TSA grant policies did not require reviewers to document the results of their evaluations beyond what is shown in the comment boxes. TSA officials said that the NRB's rankings of the projects were based on the NRB selection criteria ratings, but that final award decisions need not adhere to the rankings. The NRB, ERB, and SRB can deviate from the rankings to elevate a project or move a project down. For this reason, scoring and ranking may be inconsistent.

To maintain system integrity, reviewers at all levels should be required to explain and document their rationale for deviations from recommendations and rankings.

Examples of the records that did not contain adequate explanations to support funding decisions follow.

1) Insufficient justification for project ratings and funding recommendations by the NRB.

Grant Recipient A, control gate/fencing/cameras/lighting, grant exceeds \$250,000

The entity handles non-hazardous, bulk cargo. It is adjacent to a sulfuric acid plant with access to six other chemical plants. Field reviewers noted, “Strongly recommend approval. Second highest priority in the port.” Conversely, the NRB gave it five unsatisfactory ratings and one satisfactory rating, and ranked the project 450 of 452 overall. The NRB comments do not indicate how the NRB rationalized its unsatisfactory ratings and its decision to fund the project.

Grant Recipient B, fencing/lighting, grant exceeds \$575,000

The field review team “strongly recommended” the project and ranked it 26 out of 90. However, the NRB rated the project as only *marginal* in each of the first three selection criteria. The NRB did not explain its ratings or its recommendation to fund the project.

Grant Recipient C, communications, grant exceeds \$10,000

The field review team said that encrypted radios were not needed for effective communications and were not necessarily compatible with federal and state radios. The field ranked the project 34 out of 35. The NRB rated the project *satisfactory* in the first three criteria and ranked it 180 of 452 overall. The NRB did not explain its ratings or recommendation to fund the project.

Grant Recipient D, mobile maritime security enhancement, grant exceeds \$750,000

The field review team had positive comments for this project. However, the NRB rated this project unsatisfactory in all six selection criteria. The NRB did not reject any of the field comments or provide their own explanations for awarding funds despite such poor ratings.

Grant Recipient E, closed circuit television (CCTV), grant exceeds \$130,000

The field review team ranked the project 27 out of 29, stating, “. . .these initiatives would be redundant to what the port authority has in place.” The NRB determined that it *marginally* addressed a critical need, yet ranked the project 81 out of 452 overall. The NRB did not explain why the project should be funded despite the field review team comments and its own *marginal* rating. It stated only that the applicant should provide a more detailed cost breakdown and scope of work. The project was funded.

- Continued on next page -

Grant Recipient F, gate/cameras/lighting, etc., grant exceeds \$150,000

The field review team strongly recommended approval of this project. The NRB rated the project *marginal* in the first and third evaluation categories and *unsatisfactory* in the rest. The project was ranked 451 out of 452 Priority I projects. The NRB comments do not explain why this project received such low ratings and yet was recommended for full funding.

Grant Recipient G, security vessel, grant exceeds \$115,000

The field review team ranked this project 59 out of 61, with the comment, “This project will not significantly enhance the physical security measures or reduce the risk for the port area.” The NRB rating of *marginal* in the first two criteria suggests that the NRB did not support the project either. The NRB comments did not explain the rationale for recommending funding despite a very low field review ranking, unsupportive field review team comments, and marginal NRB ratings.

Grant Recipient H, lighting, grant exceeds \$180,000

The field reviewers noted that this was a “small, remote facility that receives less than twenty ships per year. Consequently, security improvements here would have minimal impact.” The NRB gave the project four *marginal* ratings and two *unsatisfactory* ratings and ranked it 449 out of 452 overall. NRB comments do not indicate how the NRB rationalized the unsatisfactory ratings or its decision to fund the project.

Grant Recipient I, hazardous chemical project site, grant exceeds \$495,000

The field reviewers rated the project 61 out of 90 and noted, “Additions would improve soft security, but are nice to haves rather than critical needs.” The application identifies needs, but does not offer a detailed description of the project. The NRB rated the project *unsatisfactory* in providing high-risk reduction. Again, the project received funding without the NRB’s explanation of the ratings or why the project is worthy of funding in light of the field review team comments.

Grant Recipient J, command and control center, grant exceeds \$175,000

The field reviewers rated the project 49 of 61, noting, “While this is a critical port area and increased security measures are vital, this project will not significantly enhance the physical security measures or reduce the risk for the port area.” The NRB did not address this conclusion in its comments. Instead, it called for a more detailed cost breakdown and scope of work. The NRB ranked the project 114 out of 452 overall and the project was funded.

2) Inconsistent evaluations by the field review teams, NRB, and ERB.

While the evaluation process is subjective based on the evaluators’ knowledge of the program’s requirements and eligibility criteria, there appear to be significant differences in how each level interprets eligibility and what types of projects should be funded, as demonstrated below:

Grant Applicant K, gate improvements, \$0

The field review team did not recommend funding for this project and ranked it 12 out of 12 projects. The NRB rated it *unsatisfactory* in addressing a critical security need, but still recommended full funding while ranking it 312 of 452. Again, there was no explanation for the ratings, but the ERB agreed with the field review team in this case and ranked the project 443 of 452. The project was not funded.

Grant Applicant L, fencing, lighting, cameras, etc. \$0

The field reviewers said the port is “not in high target area...” and a “low priority for fencing and lighting,” but the NRB, without adding documentation, recommended the project for funding in the full amount. The ERB cited the field review team comments and a lack of detail in the application and denied funding for the project. The NRB ranked the project 383 of 452 while the ERB ranked the project down to 445 of 452.

Grant Applicant M, harbor police vessel transponders, \$0

According to the field review, “this project addresses concerns identified in the USCG Security Assessment.” The field reviewers ranked it 2 out of 37 projects. The NRB recommended full funding. The ERB said it “concur(red) with National Review Team,” but also stated “AIS like funding is not being funded at this time.” AIS is a USCG initiative, which explains why this type of project was not eligible. However, this was apparently unknown to the field review team. The NRB ranked the project 385 and the ERB ranked it 446 out of 452 overall.

Grant Recipient N, joint enforcement, grant exceeds \$245,000

The field reviewers highly recommended the project based on its deterrence value and ranked it 1 out of 4 projects. However, the NRB made strong negative comments questioning the likelihood of success. The ERB recommended partial funding to “prove the feasibility.” This project raises additional questions as to who will monitor the project’s feasibility and who will provide future funding if it is successful.

Grant Recipient O, cameras, grant exceeds \$20,000

The field reviewers did not offer a strong endorsement of the project, but ranked it 1 out of 3 projects. The NRB rejected the project since it was to repair/replace cameras. The ERB recommended funding new cameras, which was not in the scope of work.

Grant Applicant P, security fencing, \$0

The field reviewers did not recommend funding, because “existing security fencing is already in place.” Despite this, the NRB rated this project *good* in addressing a critical security need and *satisfactory* in providing high-risk reduction. The NRB ranked it 328 out of 452 and recommended full funding. The ERB agreed with the field reviewers and did not recommend funding.

- Continued on next page -

Grant Recipient Q, access control and monitoring, grant exceeds \$1,995,000

The field reviewers strongly supported the application, ranking it 1 out of 38 and described it as a “well written proposal.” The NRB did not recommend any funding saying the statement of work did not provide sufficient detail for evaluation. The ERB funded the project despite the NRB’s comments. The ERB capped funding for any project at \$3 million in round three, but how it arrived at the funding amount was not documented.

Grant Recipient R, harbor patrol boat, grant exceeds \$150,000

The field reviewers highly recommended the project and ranked it 1 out of 5 projects. The NRB stated that the project did not address a need described in the applicant’s vulnerability assessment and provides low risk reduction. Conversely, the ERB recommended funding for the boat.

Grant Recipient S, security equipment program, grant exceeds \$195,000

The field reviewers recommended funding for a patrol boat and ranked the project 1 out of 29. The NRB said the project provided low risk reduction of the identified vulnerability and did not recommend funding for the boat. The ERB concurred with the field review, but funded a smaller boat than requested.

3) Inconsistency between the field review comments and rankings

The field review comments were not consistent with the field rankings. This is critical, because the local USCG and MARAD representatives have the greatest understanding of how well the proposed project addresses local vulnerabilities and reduces risk. Without a clear field assessment, it is much more difficult for the NRB and ERB to evaluate projects. The level of detail in the field comments varied considerably across the COTP zones. Some field review teams included detailed explanations of the relative importance of the projects and the extent to which the projects reduced risk. By contrast, others provided only a brief statement, such as “recommend approval.” In several cases, it was unclear whether the field review team was recommending the project for funding. All applications were to be forwarded from the field review team to the NRB regardless of whether funding was recommended.

4) Better justification needed for inclusion of applicants not located at strategic or controlled ports.

An applicant must qualify as a “National Critical Seaport/Terminal” to be eligible to participate in the program. Strategic and controlled ports are identified and meet this criterion. However, the program does not clearly identify “National Critical Seaport/Terminals” in the other three categories:

- Nationally important economic port or terminal;

- Facility or vessel responsible for high passenger volume; or
- Facility or vessel responsible for the movement of hazardous cargo.

Some entities that received funding were not located at strategic or controlled ports, and yet application reviewers did not document how the applicant met eligibility requirements under the economic, passenger, and hazardous cargo criteria. Program guidelines do not stipulate when an entity is eligible under these criteria.

Reviewer comments did not reveal how funded projects in the following ports met the three criteria:

| Examples of funded ports not on the list of strategic or controlled ports: | |
|---|---------------------------|
| Port Fourchon, LA | Bridgeport, CT |
| Port of Port Lavaca/Point Comfort, TX | Rochester, NY |
| BASF Hannibal Site Barge Terminal, Hannibal, MO | Port of Ketchikan, AK |
| Port of Stockton, CA | Destrehan, LA |
| Martinsville, WV | Port of Victoria, TX |
| Global Revere, MA | Ludington, MI |
| Sewaren, NJ | Manitoc, WI |
| Perth Amboy, NJ | Bellingham, WA |
| Carteret, NJ | Venice, LA |
| Port of Everett, MA | Port of Brunswick, GA |
| Christiansted, St. Croix, VI | Whittier, AK |
| Krum Bay, St. Thomas, VI | Homer, AK |
| Woods Hole, Nantucket, Hyannis, and Martha's Vineyard, MA | Haines, AK |
| Anacortes, WA | Port of Seward, AK |
| Port of Skagway, AK | Argo, IL |
| | Tulsa Port of Catoosa, OK |

These ports may have been nationally/economically important, responsible for high passenger volume, or responsible for the movement of hazardous cargo, but they were not established as such in the reviewer comments.

Interpreting Eligibility Criteria

While we anticipated some ranking adjustments by the NRB and ERB, the volume of changes that occurred demonstrated to us that after three rounds of grants, field reviewers and headquarters are not yet operating under commonly understood goals and evaluation criteria. Some of this can be attributed to

differing philosophies among program officials and evaluators. In particular, field reviewers had many different opinions on what they considered important when evaluating projects. It appeared that some reviewers preferred a purely risk based approach, whereas others preferred distributing funds as widely as possible to help applicants cover the cost of complying with MTSA. Some reviewers preferred to fund entities with fewer resources over those with greater means. Others did not take an entity's revenue or profits into consideration. In terms of the types of projects, some reviewers favored waterside security measures to maximize risk reduction, whereas others favored perimeter security and access control or communications equipment. Several COTPs expressed concerns that DHS was not funding projects that offered the most benefit in vulnerability reduction.

In addition to these varying perceptions and preferences, differences in reviewer comments and their recommendations often occurred due to the interpretation of broad eligibility criteria. For example, a program official said that the NRB's interpretation of the "nationally important economic," "high passenger volume," and "hazardous cargo" criteria varied from round to round, based on the applications submitted in each round. In an after action review following the second round of grants, program officials identified the need to tighten up the grant requirements: "While it is nice to let everyone feel like they could receive the grant money, using an all-encompassing approach wound up in resulting in significant amounts of applicant (and reviewer) time for projects that had no realistic chance of approval."³⁴

Field reviewers claimed that program guidance was inadequate and unclear. They were slowed by the lack of direction concerning how to interpret eligibility criteria, evaluate proposed projects, identify eligible projects, and prioritize them. Some reviewers argued that more guidance was needed to identify and rank projects if the system is to improve. The inconsistencies in ratings and funding decisions seem to support their claims.

Program officials contended that they have provided, and will continue to provide, sufficient guidance to field reviewers. They cited their after action review of the first two rounds of grants that they said led to improvements in the grant announcement, applications, eligibility requirements, the review process, the PSRAT, and the web-based grant system. They also cited teleconferences to discuss lessons learned during the evaluation process, and asserted that the written guidance to field reviewers improved in each round.

³⁴ From document titled, "Lessons Learned," and generated by TSA's Office of Maritime and Land Security following round two.

Program officials should be concerned that some confusion still exists among field reviewers over evaluating grant proposals. The program has matured significantly, but the lack of guidance for taking a systematic approach toward security within the port areas needs attention. In general, the program would benefit by clarifying eligibility criteria and describing the types of projects that best mitigate the greatest risks.

Reviewers Pressured by Program's Timeframes

Throughout the application review process, reviewers were forced to meet short deadlines to evaluate, rate, and rank projects. Public and private entities submitted more than 1,000 applications in both rounds two and three. Field reviewers in each COTP zone, who could have up to 100 applications or more to review, had four weeks to visit the project sites, interview applicants, and review related documents. Following the field review, the NRB had three weeks to review proposals. These tight timeframes contributed to the insufficient documentation needed to support reviewer recommendations and decisions, particularly at the NRB level, and placed an extra burden on the ERB to maintain the integrity of the process. The ERB had two days to consider the NRB's recommendations. We question whether the ERB also had enough time to: (1) become familiar with 452 round three Priority I projects given inconsistent explanations of reviewer decisions; (2) thoughtfully consider increases or decreases in award amounts; (3) add or remove projects from consideration, and (4) compile its final recommendations to the Selection Review Board.³⁵

Program officials said that they were under pressure to award the grants quickly, driving them to expedite the review process. Both field reviewers and NRB participants complained to us that these timeframes were too compressed to adequately review applications, particularly for round three. While the USCG had sufficient resources to conduct field reviews, it appeared that MARAD did not. Each round of grants taxed its regional operations by taking staff away from their normal jobs to work full time on reviewing grant applications. MARAD reviewers were not able to visit every applicant as intended.

We recommend that the Executive Director, Office of State and Local Government Coordination and Preparedness:

³⁵ In round three, the ERB reduced funding for 127 of the 442 funded projects.

Recommendation #3: Consider changing the weighting of the evaluation criteria, with greater emphasis placed on the criteria that reduce critical vulnerabilities.

Recommendation #4: Cease the practice of funding projects that do not meet the definition of a Priority I project. Consider implementing a scoring threshold that ensures that projects not meeting that threshold are not funded. Consider seeking a change in appropriations language to have these grant funds designated as “no-year monies” to reduce the impetus to fund doubtful projects.

Recommendation #5: Require reviewers to document their decisions in the grants management system, particularly when they are inconsistent with recommendations from a lower level of review.

Recommendation #6: Develop parameters that define applicant eligibility under the “nationally important economic port or terminal,” “responsible for movement of a high number of passengers,” and “responsible for the movement of hazardous cargo” criteria.

Recommendation #7: Communicate information to field reviewers to educate them on eligibility. Improve dissemination of “lessons learned” at all levels of review.

Recommendation #8: Evaluate timeframes for reviewing applications with an emphasis on providing more time for review in the field and by the ERB.

Funding Private Sector Projects

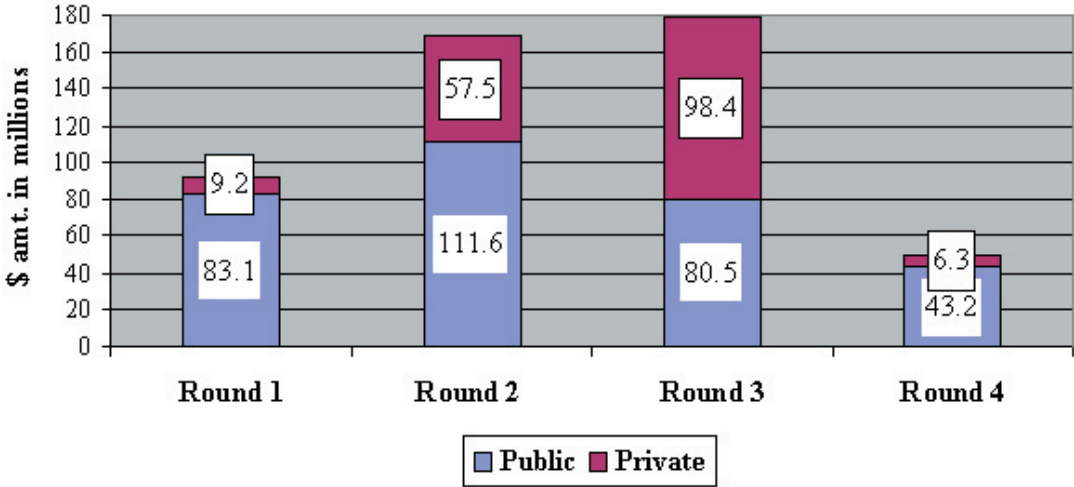
The question of where the local responsibility for preventing terrorism ends and where the federal government’s responsibility begins poses a dilemma for the Port Security Grant Program. DHS has not formulated a strategy or policy to set forth circumstances under which it will or will not award grants to private entities. The program does not: (1) apply an income test to applicants, (2) judge whether the expenditure under consideration is a normal cost of doing business, and (3) require a cost-share in order to receive a grant award.

Private entities have applied for, and received, substantial funding under the Port Security Grant Program. Some of these funds went to projects that reviewers rated overall as below average or worse during the evaluation process, calling into question the merits of these projects. In rounds two and three, the NRB ranked 8

(\$1.3 million in awards) and 147 (\$31 million in awards) private sector projects, respectively, as below average or worse, totaling 155 projects that were funded at a cost of \$32.4 million.³⁶

Awards to private entities increased in rounds two and three (see Figure 5). In the first round, the public sector received \$83.1 million for 109 projects, while the private sector received \$9.2 million for 35 projects. In round two, the public sector received \$111.6 million for 206 projects, while the private sector received \$57.5 million for 189 projects. By round three, the public sector received less funding than the private sector: \$80.5 million for 154 public sector projects, compared with \$98.4 million for 288 private sector projects. In round four, the public sector received \$43.2 million for 94 projects, while the private sector received \$6.3 million for 60 projects.

Figure 5. Allocation of Funds



The government’s responsibility to protect the homeland, weighed against the realization that it cannot assume the burden of the costs to protect the nation’s entire critical infrastructure, of which 85% is estimated to be privately owned or controlled, presents a major policy issue for the department. Further complicating the matter is the question of the extent to which the government should pay for the costs to comply with MTSA, a federal mandate to improve port security that Congress has thus far not funded directly.

³⁶ By comparison, in rounds two and three the NRB ranked 21 (\$6.4 million in awards) and 82 (\$28.2 million in awards) public projects, respectively, below average or worse. In total, over two rounds, \$67 million went to projects rated below average or worse.

National strategic policies suggest that the government and industry share this burden. According to the *National Strategy for Homeland Security*, “The private sector should conduct risk assessments on their holdings and invest in systems to protect key assets. The internalization of these costs is not only a matter of sound corporate governance and good corporate citizenship but also an essential safeguard of economic assets for shareholders, employees, and the Nation.” The *Physical Protection of Critical Infrastructures and Key Assets* identifies planning and resource allocation as one of its five objectives and stresses the importance of incentives for private organizations, and market solutions where appropriate. According to the *National Infrastructure Protection Plan*, private owners and operators are expected to bear the preponderance of protection and mitigation costs for surface and maritime modes of transportation.

DHS officials have said publicly that the private sector has a financial responsibility in the protection of its assets. In April 2004, referring to meeting MTSA requirements, Secretary Ridge remarked that, “Private companies will have to help foot the bill for the additional security measures needed to protect the nation’s ports from terrorists.” He further noted that, “We can’t go around using public money for every private sector need.” In June 2004, DHS’s Undersecretary for Border and Transportation said, “I believe that if you’re going to enhance security, you have to have investment by the private sector. I think the federal role is that leadership role, that partnership role and helping to invest in technology.”

Thus, while these positions described above might seem clear, DHS made awards to private sector projects that: (1) appeared to be for a purpose other than security against an act of terrorism; (2) were required as a normal course of business; (3) replaced existing security measures; or (4) were very low in cost and affordable. These grants raise concerns that not all of the grant award decisions best leveraged the government’s limited resources. To illustrate:

Private Sector Projects

Grant Recipient T, additional video surveillance/alarm equipment, grant exceeds \$25,000

Field reviewers rated this project 61 out of 61. The NRB elevated it to Priority I status, ranking it 44 out of 452 projects, despite concluding that it marginally provided high-risk reduction. The ERB concurred.

The project appears to support a normal course of business that should have been addressed in this luxurious entertainment pavilion featuring gaming facilities, restaurants, a hotel, and spa. The application stated that “regular access points” need monitoring, although it has existing measures: “Video surveillance monitoring equipment along with alarm and telephone systems have been installed.” But “present means are inadequate to protect and conduct effective surveillance and monitoring of facility areas around the passenger vessel and within vulnerable parts of the complex to prevent access [including the lack of] an immediate intruder alarm system to security personnel.”

Grant Recipient U, security improvements, grant exceeds \$935,000

The project scope is unclear from the summary. The applicant states, “The goal of this application is to implement necessary security improvements while striving to maintain and increase local industry.” The field reviewers commented, “A new industrial park is being built at the port, causing some concern to the field review team that some of the proposed fencing would really be economic development in nature.” The NRB rated the project *marginal* in addressing a critical security need.

Grant Recipient V, CCTV monitor, grant exceeds \$5,000

This builds on a grant provided in round one for the CCTV system. However, a project for an additional surveillance monitor to a private terminal company is questionable, especially in light of its existing security measures and the fact that a SWAT team and armed Coast Guard presence is in place during transfer of cargo operations. The NRB rated this project *marginal* in addressing a critical security need.

Grant Recipient W, access control, grant exceeds \$2,000

The applicant justified the project by commenting on its application, “The facility is unable to systematically and reliably account for and verify the identity of personnel entering the facility, particularly at locations other than the main gate.” This appeared to be a security measure well within the company’s financial reach. The field review ranked the project 54 out of 57, yet recommended approval. The NRB rated this project *unsatisfactory* in the high-risk category and ranked it 423 out of 452 overall. The ERB ranked it 414th overall, and funded the project.

- Continued on next page -

Grant Recipient X, fencing with gates, grant exceeds \$10,000

The terminal handles solvents. The application noted that the result of an event would be release of solvents, which would present an environmental issue, not a security event. It is not clear why the company has not taken these precautions already to prevent this from occurring. The NRB rated the project *marginal* on critical security need/vulnerability and the extent of actions taken thus far. The NRB asked for a more detailed scope of work, but recommended funding.

Grant Recipient Y, badging, lighting, and cameras, grant exceeds \$55,000

This project is to improve security for a liquefied petroleum gas storage facility. The NRB thought the project “marginally” addressed a critical security need.

The company was for sale at the time of award. The parent company of grant recipient Y entered into a definitive agreement to sell its gas division in December 2002 for \$115 million and sold it August 2003 for \$119 million in cash. The company’s natural gas segment accounted for \$216.5 million, or 8% of total company revenues in 2002. Round two began in January 2003, after the definitive agreement that the gas division would be sold. The government’s award essentially enhanced the financial position of the company.

In addition, considering the ramifications of a terrorist act described in the application, we question why the company had no lighting around the facility.

Finally, there is a badging system in place and TSA refrains from funding “replacement” projects, but funded it in this case.

The department needs to assess the goals of this program and reexamine whether and, if so, to what extent, it will award grants to private companies. At a minimum, it needs to develop guidelines that link awards to national interests.

DHS is learning that many private companies are unwilling to share security information and collaborate on security projects with port authorities. Port officials discussed the reluctance of private sector entities to share information about their vulnerabilities for fear of reducing their competitive advantage. Port authorities, while cognizant of this concern, want to establish integrated and port-wide security plans and security systems. This requires greater cooperation and increased information sharing on the part of private entities. While there were occasional references to the program’s goal of giving preference to port-wide projects, neither guidance nor reviewer comments indicated this was occurring. The program does not adequately reinforce the cooperative efforts between public and private entities that are required to develop an integrated approach to security.

We recommend that the Executive Director, Office of State and Local Government Coordination and Preparedness:

Recommendation #9: Clarify department policy on funding private sector projects. In the absence of such policy, and if funding private sector projects is continued: (1) examine private sector projects to preclude the funding of cost of business expenses; (2) develop financial eligibility criteria, including an income test or cost-benefit analysis; and (3) consider giving greater preference to projects that are submitted jointly by private and public entities.

Status of Funds and Project Monitoring

After the first three rounds of grants under the Port Security Grant Program, recipients have spent only a small portion of the entire amount awarded. Of the \$515 million awarded in the first three rounds since June 21, 2003, including \$75 million provided under ODP's Urban Area Security Initiative, grant recipients have expended \$106.9 million or 21% of total program funding. As a result, the majority of projects have not been completed, and the program has not yet achieved its intended results in the form of actual improvements to port security. Most of the expended funds are from the first round.

The time available to obligate funds varied, depending on when DHS announced the availability of funds. In round one, the appropriation language stated that the funds should be expended no later than September 30, 2003. DHS had slightly more than a year and a half to exhaust the funds. As of April 19, 2004, recipients had not drawn down more than 40% of those funds.

DHS allowed 12 months to complete projects. Grant recipients said that one year is inadequate because the period begins on the award date, and precedes the date when the program office finally defines the scope of, and approves, the project. The kind of project and the local entity's acquisition processes also affect the amount of time required to spend the grant funds.³⁷ Program officials said that

³⁷ We recently reported on similar problems confronting ODP in report #OIG-04-15, *An Audit of Distributing and Spending "First Responder" Grant Funds*, March 2004.

they granted extensions to the majority of grant recipients in round one.³⁸ They also confronted this issue in later rounds.

The table below summarizes the status of TSA funds as of September 22, 2004 and ODP funds as of September 30, 2004.³⁹

Figure 6. Status of Funds

| Round | Date Announced | Total Available (Authorized) | Date Funds Awarded | Total Awarded | Total Obligated | Expended | Balance |
|--------|----------------|------------------------------|--------------------|---------------|-----------------|---------------|---------------|
| 1 | 02/28/02 | \$92,022,239 | 06/17/02 | \$92,033,239 | \$92,022,239 | \$56,012,075 | \$36,010,164 |
| 2 | 01/14/03 | 169,142,815 | 06/03/03 | 169,142,815 | 167,163,470 | 29,824,262 | 137,339,208 |
| ODP | 05/14/03 | 75,000,000 | 9/18-12/10/03 | 75,000,000 | 16,646,150 | 13,843,476 | 2,802,674 |
| 3 | 06/21/03 | 178,925,255 | 12/10/03 | 178,860,070 | 178,489,664 | 7,239,342 | 171,250,322 |
| 4 | 05/05/04 | 49,500,000 | 09/13/04 | 49,429,867 | | | |
| Totals | | \$564,645,212 | | 564,465,991 | \$454,321,523 | \$106,919,155 | \$347,402,368 |

We attributed the large amount of unspent funds to incomplete applications, the award of hundreds of grants before the full scope and details of the projects were known, and delays in performing work and executing contracts. Projects were rarely ready to be initiated at the time of award. We counted numerous projects where the NRB or ERB stipulated during its review that the applicant needed to clarify the project. This in turn led to a lengthy negotiation process.⁴⁰ During this process, the applicant and program office further negotiated the scope of the project and the applicant subsequently submitted additional information.

Another matter relating to the status of funds is the program office's ability to monitor these projects properly to ensure, among other things, their timely completion. MARAD had oversight responsibility for round one. TSA, which had primary grant administration responsibilities for rounds two and three, dedicated one full-time person to the operational oversight of port security grant projects. Rounds two and three produced a total of 811 enhanced facility and operational

³⁸ We did not assess the frequency of extensions granted to date. Barring a change in policy, the increasing complexity of projects and the time needed to review them likely means that extensions will be necessary.

³⁹ Round one information is accurate as of April 19, 2004. We requested, but did not receive, updated information for round one.

⁴⁰ Negotiations are exchanges between the government and applicants that are undertaken with the intent of allowing the applicant to revise its proposal. A warranted Contracting Officer or Grants Officer conducts negotiations. Recommendations by the evaluation teams to the Grants Officer for negotiation may include items related to the technical scope, price, schedule, or any conditions the applicant may have placed on the proposed approach.

security projects. One person cannot provide adequate oversight for a program of this size. DHS needs to take steps to ensure that it has adequate resources to oversee program implementation effectively and to accommodate the increasing workload of the program.

We recommend that the Executive Director, Office of State and Local Government Coordination and Preparedness:

Recommendation #10: Accelerate the acquisition of more information from applicants about the scope of their projects.

Recommendation #11: Ensure that the program has sufficient operational expertise to administer the program after the award is made.

Dichotomy Between TSA and ODP Approaches

ODP is responsible for preparing the nation for acts of terrorism. Its mission is to provide training, funds for the purchase of equipment, support for the planning and execution of exercises, technical assistance, and other support to help states and local jurisdictions prevent, plan for, and respond to acts of terrorism.

The 2003 Emergency Wartime Supplemental Appropriations Act⁴¹ made \$700 million available to ODP's UASI program. It provided funds for discretionary grants for use in high-density urban areas, high-threat areas, and for protection of critical infrastructure. UASI grants typically address the equipment, training, planning, and exercise needs of high threat urban areas. Following TSA's second round of grants, ODP announced a \$75 million port security grant program separate from the basic UASI.

ODP's approach differed substantially from TSA's process. It was discretionary and more risk based in determining the port areas that were eligible for funding. The dichotomy between the two approaches has implications for the future design and administration of the program. The department recently consolidated both programs under a new office, the Office of State and Local Government Coordination and Preparedness (SLGCP). SLGCP faces a challenge in integrating TSA's competitive program with DHS' other grant programs, including the UASI, which have varied statutory foundations and program requirements.

⁴¹ P.L. 108-11.

ODP Approach is Discretionary and More Risk Based

ODP, in coordination with TSA and the Office of State and Local Government Coordination, used a risk based approach which determined, even before applications were received, which port areas would be eligible and how much funding each would receive. ODP reported that it obtained threat and criticality information from the Federal Bureau of Investigation, the Central Intelligence Agency, and IAIP for port areas. However, ODP said that TSA ultimately identified five passenger, container, liquid bulk, and cargo tonnage ports (in volume) as the high threat areas that should be considered for grant funding. Twelve port areas were selected and two others were added bringing the total to 14 port areas.⁴² Some port areas were in the top five in more than one category.

ODP said that once TSA selected the eligible port areas and determined the funding amounts for each, TSA provided ODP with project applications from the selected ports that TSA, USCG, and MARAD had already reviewed and ranked. ODP requested that the applicants for those projects re-apply to ODP. Since TSA had already awarded its second round of grants, it selected project proposals from among those that it did not fund. From among those projects, TSA provided applications with funding requests that added up to the pre-determined funding amount for each port area selected. Because of the requirement that the project amounts total the pre-determined award amount for each port area, TSA had to select some projects ranked lower by the field over more highly ranked projects. ODP awarded 49 grants encompassing 86 projects. We noted that 39 (45%) of the 86 selected projects were in the bottom 25% of the field review rankings.

TSA officials expressed frustration over this process. One official asserted that ODP considered the evaluation process to be secondary to the need to fund projects. Furthermore, it ran counter to ODP's own risk based approach by funding a number of questionable projects, many of which both field reviewers and the NRB previously determined did not substantially reduce risk and did not merit funding. Specifically, 82 of the 86 projects that TSA passed on to ODP were projects the NRB categorized as Priority II. Only four were Priority I projects. To illustrate, below are a few of the projects:

⁴² Two port areas were added by ODP based on Operation Liberty Shield activities at those locations.

ODP Projects

Grant Recipient Z, fireboat, grant exceeds \$595,000

The NRB categorized the project as Priority II and the field review ranking is 31 of 38. This project was selected over eighteen Priority II projects within the COTP zone with a higher field ranking. The project does not refer to a vulnerability or security assessment. The COTP/MARAD review comments state, “Although a fire boat within the port would be nice it does not reduce the physical threat of the port to a terrorist attack.”

Grant Recipient A1, mobile command center, grant exceeds \$315,000

This is a NRB Priority II project and the field review ranking was 51 of 57. This project was selected over 26 Priority II projects within the COTP zone ranked higher by the field review team. Field reviewers comments state, “Project is response based vice prevention based. Proposed mobile command post would be used if primary fixed EOC (Emergency Operations Center) were destroyed/compromised, yet there is no assurance that the mobile command post wouldn’t be destroyed or would be able to be moved to the needed location. Port authority facilities are pretty good – this appears to be a luxury item.”

Grant Recipient B1, trucker ID system, grant exceeds \$1,000,000

This is another NRB Priority II project with a field review ranking of 39 of 57. This project was selected over nineteen Priority II projects in the COTP zone with higher field rankings. This privately owned terminal was awarded over \$1 million for a project that the field review team determined, “does not present any tangible port security value other than helping to instill some integrity in the container movement business.” In addition, the application does not cite a vulnerability or security assessment.

Grant Recipient C1, automotive patrol vehicles, grant exceeds \$110,000

This is a Priority II project with the lowest possible field review ranking of 31 of 31. The application for this project states that, “... facilities need to be improved to deter theft of goods and property, and to protect against undetected human intrusion and machinery invasion.” It appears this is an anti-theft project and this project was not a priority according to the field review team.

Grant Recipient D1, fortified crash beams, grant exceeds \$1,060,000

This is a Priority II project and the field review team ranked this 54 of 57. It was selected over 20 Priority II projects in the COTP zone with higher field rankings. The field reviewers believed that this project was primarily anti-theft, not anti-terrorism, insofar as the port deals solely with automobiles.

- Continued on next page -

Grant Recipient E1, enhanced video surveillance of ferry passengers, grant exceeds \$5,000

The NRB ranked this a Priority II project and the field review team ranked it 18 of 26. It was selected over seven Priority II projects in the COTP zone with higher field rankings. This private company received a grant although the field reviewers said, “The proposed installation of CCTV is not supported in their assessment and will not significantly decrease vulnerability of their operations.”

Grant Recipient F1, terminal security enhancements, grant exceeds \$210,000

The NRB categorized this project as a Priority II project and the field review team ranked it 16 of 18. The field reviewers concluded that, “proposed security enhancements do not yield any great risk reductions when compared to the existing security. Organic security creates multiple barriers that are difficult to defeat, coupled with the port’s contracted patrols makes (the) proposal largely an inefficient use of PS (Port Security) Grant funds.” Despite these comments, the company’s project still received a grant.

Grant Recipient G1, access control, grant exceeds \$100,000

Ten unfunded Priority II projects in the COTP zone were higher ranked than this one that received funding. The field review team ranked the project 21 of 26 and funding was not recommended. Field reviewers noted, “The proposed implementation of physical access controls, smart cards for employees, does not significantly reduce vulnerability at the terminal.”

Grant Recipient H1, CCTV/lighting/ID badges, etc. grant exceeds \$565,000

This is a Priority II project with a field review ranking of 12 of 18. The portion of the terminal in question deals with asphalt, which does not appear to be at risk of a terrorist threat.

In general, ODP required all of these applicants to adhere to their previously submitted project proposals. However, construction and renovation of facilities was a statutorily prohibited use of ODP funds. This prohibition, which does not exist under TSA’s program, required eight ODP applicants to change their project descriptions and submit new proposals that met UASI eligibility criteria. In effect, TSA, USCG, and MARAD never had the opportunity to review these projects. The additional time required to negotiate new projects has further delayed their approval and completion. One applicant with whom we spoke found ODP’s application process, which required re-submission through a different website and grant negotiation with another agency, to be burdensome and confusing. They did not understand why DHS had two separate Port Security Grant Programs, with two separate application processes, and different eligibility and selection criteria.

SLGCP to Administer Program

On January 23, 2004, Secretary Ridge announced the department's intention to consolidate ODP with the Office of State and Local Government Coordination to create SLGCP. He said that this consolidation was "...not to shift or change the use or purpose of any of the available funding, but rather to enhance overall coordination between all programs." On May 17, 2004, a number of DHS grant programs were moved into SLGCP, including TSA's Port Security Grant Program.⁴³ According to SLGCP officials, the department's grant programs will follow national strategic and infrastructure protection policies.

The department's FY 2005 appropriation includes \$150 million for port security grants to be administered by SLGCP. A senior program official in SLGCP explained that SLGCP intends to maintain the "beneficial" qualities of TSA's program, but also add more strategic and risk based elements to the program. In his letter, the Secretary also stated, "While responsibility for crafting policy and guidelines for the Port Security Grant Program would reside within SLGCP, program development will still have significant input from and access to operational subject matter experts within the Border and Transportation Security Directorate, including TSA, as well as other agencies such as USCG, and MARAD. Moreover, the department will maintain those program mechanisms that have proven beneficial, such as determination of eligibility and evaluation criteria, solicitation and application review procedures, and selection recommendations." However, as SLGCP assumes ownership of the program, the sector specific nature of the program, and the shared decision making authority that currently exists among TSA, USCG, and MARAD are no longer ensured. Moving the program to SLGCP has created other anxieties for stakeholders:

- It is not clear how SGLCP's intention to create a more risk based model will affect the administration of the program. While we support a greater emphasis on risk based decision-making, attempts to more narrowly direct funds to higher risk facilities may not be readily accepted by the broader port/maritime industry that is faced with the cost of MTSA compliance. Opponents to a more risk based approach may argue that it

⁴³ SLGCP is now the single point of contact for facilitation and coordination of departmental programs that impact state, local, territorial, and tribal governments. The office is charged with facilitating the coordination of DHS-wide programs that affect state, local, territorial, and tribal governments; serving as the primary point-of-contact within DHS for exchanging information with state, local, territorial, and tribal homeland security personnel; identifying homeland security-related activities, best practices, and processes that are most efficiently accomplished at the federal, state, local or regional levels; and utilizing this information to ensure that opportunities for improvement are provided to state, territorial, tribal and local counterparts.

runs counter to the intent of MTSA by assisting the “critical” facilities and vessels that are more likely to have the resources or the incentive to absorb MTSA related costs.

- All MTSA regulated facilities and vessels are faced with new security requirements, including recurring costs. MTSA’s grant authority, which was unfunded, was intended to defray these costs and included a cost share requirement. TSA’s program did not fund recurring costs or require cost sharing. How SLGCP’s authority and appropriation will address MTSA requirements is unclear.
- Port authorities and port entities are concerned that states may contribute to delays and reductions in funding. Currently, port security grants flow directly to the applicants. However, in other ODP grant programs, the funds flow to the states and then to the applicants and the states may use up to 20% of the grant before allocating funds to local applicants. Port authorities and port entities are also concerned that they will be forced to compete for grant funds against other local entities, such as firefighters and police, and other infrastructure protection priorities. SLGCP said that it intends to award FY 2005 grants directly to the applicants.
- SLGCP faces a challenge in consolidating and analyzing infrastructure vulnerability information to ensure that funds will be spent on projects that maximize risk reduction at both the local and national levels.

We recommend that the Executive Director, Office of State and Local Government Coordination and Preparedness:

Recommendation #12: Seek clarification on the legislative intent for the program (sector-specific vs. larger infrastructure protection initiatives) and construct a unified program (policy, purpose, process, and eligibility) to comply with that intent.

**Summary of Port Security Grant Projects
 by Number of Projects and Proportion of
 Funding⁴⁴**

| Project Type | Round 1 | | | |
|-----------------------|----------|---------|--------------|---------|
| | Projects | | Funding* | |
| | No. | % | \$ | % |
| Assessment | 25 | 17.36% | \$6,515,000 | 6.94% |
| Proof of Concept | 17 | 11.81% | \$10,024,757 | 10.68% |
| Access Controls | 21 | 14.58% | \$21,867,672 | 23.29% |
| Communications | 2 | 1.39% | \$390,000 | 0.42% |
| Physical Enhancements | 43 | 29.86% | \$21,602,983 | 23.01% |
| Surveillance | 29 | 20.14% | \$29,129,389 | 31.03% |
| Vessel/Vehicle | 7 | 4.86% | \$4,343,947 | 4.63% |
| Totals: | 144 | 100.00% | \$93,873,748 | 100.00% |

| Project Type | Round 2 | | | |
|-----------------------|----------|---------|---------------|---------|
| | Projects | | Funding | |
| | No. | % | \$ | % |
| Assessment | 21 | 5.36% | \$1,243,483 | 0.74% |
| Proof of Concept | 2 | 0.51% | \$1,469,294 | 0.87% |
| Access Controls | 103 | 26.28% | \$36,234,437 | 21.45% |
| Communications | 8 | 2.04% | \$10,711,330 | 6.34% |
| Physical Enhancements | 127 | 32.40% | \$80,144,671 | 47.44% |
| Surveillance | 113 | 28.83% | \$34,832,149 | 20.62% |
| Vessel/Vehicle | 18 | 4.59% | \$4,288,772 | 2.54% |
| Totals: | 392 | 100.00% | \$168,924,136 | 100.00% |

| Project Type | Round 3 | | | |
|-----------------------|----------|---------|---------------|---------|
| | Projects | | Funding | |
| | No. | % | Funding | % |
| Assessment | 0 | 0.00% | \$0 | 0.00% |
| Proof of Concept | 0 | 0.00% | \$0 | 0.00% |
| Access Controls | 84 | 19.00% | \$46,229,529 | 25.82% |
| Communications | 20 | 4.52% | \$11,166,836 | 6.24% |
| Physical Enhancements | 170 | 38.46% | \$70,493,696 | 39.38% |
| Surveillance | 151 | 34.16% | \$47,238,899 | 26.39% |
| Vessel/Vehicle | 17 | 3.85% | \$3,896,940 | 2.18% |
| Totals: | 442 | 100.00% | \$179,025,900 | 100.00% |

⁴⁴ Information provided by TSA on December 19, 2003. Total projects and funding amounts may differ from amounts in award announcements due to negotiation of grants. Aggregated amounts are based on the “not-to-exceed” amount for individual projects at the time of the award. Assessment and Proof of Concept Projects were ineligible in round three.

Appendix A
Summary Tables of TSA Port Security Grants

| Project Type | Rounds 1, 2 & 3 Combined | | | |
|-----------------------|--------------------------|---------------------|---------------|-----------------------|
| | No. of Proj. | Percentage of Proj. | Funding | Percentage of Funding |
| Assessment | 46 | 4.70% | \$7,758,483 | 1.76% |
| Proof of Concept | 19 | 1.94% | \$11,494,051 | 2.60% |
| Access Controls | 208 | 21.27% | \$104,331,638 | 23.61% |
| Communications | 30 | 3.07% | \$22,268,166 | 5.04% |
| Physical Enhancements | 340 | 34.76% | \$172,241,350 | 38.98% |
| Surveillance | 293 | 29.96% | \$111,200,437 | 25.17% |
| Vessel/Vehicle | 42 | 4.29% | \$12,529,659 | 2.84% |
| Totals: | 978 | 100.00% | \$441,823,784 | 100.00% |

Project Type Descriptions:

- An Assessment ascertains vulnerabilities of physical or operational security of a port, multiple terminals, terminal or vessel (commuter or ferry service), and identifies mitigation strategies.
- Proof of Concept projects are pilot security enhancement projects whose feasibility or implementation has potential applicability across the broadest possible range of facilities or operations.
- Access Controls include, but are not limited to, identification systems and access gates.
- Communications include, but are not limited to, communication systems, command and control systems, and computer systems.
- Physical Enhancements include, but are not limited to, fencing, physical barriers, and screening and detection equipment.
- Surveillance includes, but is not limited to, cameras, closed circuit television (CCTV), and lighting.
- Vessel/Vehicle funding was awarded for patrol-related activities. Funding for vehicles was awarded in round one only.

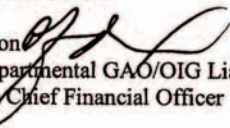
U.S. Department of Homeland Security
Washington, DC 20528



**Homeland
Security**

December 30, 2004

MEMORANDUM FOR: Richard L. Skinner
Acting Inspector General

FROM: Anna F. Dixon 
Director, Departmental GAO/OIG Liaison
Office of the Chief Financial Officer

SUBJECT: OIG Draft Report-Review of the Port Security Grant
Program (ISP Draft Report No. 21)

As you may know, the Port Security Grant (PSG) program was transferred from the Transportation Security Administration (TSA) to the Office of State and Local Government Coordination and Preparedness (SLGCP) in May 2004. As part of this transition, SLGCP assumed stewardship of legacy grants issued in prior fiscal years by TSA. Funding has also been provided directly to SLGCP in Fiscal Year 2005 for an additional round of grant awards.

As part of the FY 2005 Port Security Grant Program, SLGCP is working with TSA, the U.S. Coast Guard (USCG), Customs and Border Protection (CBP), the Information Analysis and Infrastructure Protection Directorate (IAIP), and the Maritime Administration (MARAD) to re-evaluate all aspects of the program in order to streamline the application process and ensure that funds are allocated to the highest port security priorities. The comments captured below are from the SLGCP and the USCG. The Department's position on security issues and questions have been provided under separate cover.

The findings and recommendations developed by the Office of Inspector General (OIG) will be extremely helpful as we move forward to ensure that Port Security Grant Program funding continues to enhance security and address real or potential vulnerabilities in our nation's ports and waterways. To assist the OIG with finalizing this report we submit the following comments:

I. Comments on the Previous PSG Application Process

The Department does not agree that the program as previously administered compromised DHS's ability to direct resources toward the nation's highest priorities. Although the nature of this competitive grant program allowed application by a broad range of entities that met the Request for Application (RFA) parameters, review and recommendations for award at all levels have been risked-based in an effort to award funds where they are needed most to improve security in U.S. ports. Field level review and recommendations were based on which

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applications would successfully lower security risk within a Captain of the Port/Federal Maritime Security Coordinator area of responsibility.

➤ **National Review and Recommendation Process**

A powerful aspect of the national review process was that it was conducted by TSA, MARAD, SLGCP, CBP and USCG representatives, including senior policy developers, who possessed front-line awareness of the status of security within the various sectors of port activity. This includes but not limited to the latest threat information, and of the type of security enhancements that were having the most impact on security in our ports. Armed with this knowledge the national review boards were able to direct funds toward those projects that addressed the nation's highest priorities. The senior members of the national review boards also ensured that RFA's were written in a manner that encouraged application submittal by those sectors of maritime activity that represented the highest priority.

➤ **Defining Critical National Seaports**

Although the definition of "critical national seaport" was left intentionally broad in an effort to encourage submittal of applications, it is clear that the RFA criteria listed to meet the "critical national seaport" threshold were focused on addressing the highest priorities in the nation's most critical ports. To merely provide a list of ports or a list of port activities (passenger, hazardous cargo operations etc.) that would have been eligible for grant funds is a simplistic approach to a complex problem and would have resulted in less applications with merit and the exclusion of projects that proved to be worthy of funding. The modifications made to the RFA's since the initial round provide an excellent illustration of the program's agility and ability to make changes to ensure funds are directed toward evolving port security needs.

➤ **IAIP Directorate Role**

The USCG concurs that the participation of members from DHS's IAIP Directorate will be beneficial during future port security grant rounds. It is worth noting that IAIP did not exist during the first round of grants, and that detailed CI/KA lists had not been developed fully during the second and third rounds. The report implies that there has been national CI/KA information that the review boards were not aware of during their review of grant prior year grant proposals. The Port Security Directorate staff that is responsible for the Coast Guard's role in the port security grant program, however, works very closely with the IAIP staff and is very aware of IAIP efforts, including the development of CI/KA lists and strategies for protecting the nation's CI/KA. Some of the more important CI/KA information developed by IAIP has been shared with Coast Guard field commands. These are the same commands that were responsible for reviewing grant applications. Additionally, the Coast Guard members of the national review boards were aware of this critical information, as were other members of the national review boards from other agencies.

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➤ **Strategy for Identification and Protection of Critical Port Infrastructure and Activities**

Although the information on CI/KA provided by DHS IAIP was limited, that in no means should be interpreted to mean that the DHS has not developed strategies for the identification and protection of the nation's critical port infrastructure and activities. The Maritime Transportation Security Act of 2002 and the subsequent MTSA regulations specifically identified those high priority activities in the nation's ports that would require enhanced security. This security regimen requires enhanced security in the form of vulnerability assessments, security plans, and the mitigation of security vulnerabilities through operational/physical security improvements for certain "high priority" facilities and vessels. During the most recent grant award rounds, these were the facilities and vessels that were eligible to receive funds.

➤ **Port Assessments**

The MTSA regulations also require Coast Guard Federal Maritime Security Coordinators who are the designated Captains of the Port to conduct port assessments, identify CI/KA, and write and implement Area Maritime Security Plans with established Area Maritime Security Committees. The knowledge gained by the FMSC's and their staffs as a result of the formation of these committees and the work they do to identify and protect "high priority" port activities was vital during the local grant review process. These FMSC's have prioritized CI/KA within their ports, and this information has been compiled into a classified maritime CI/KA list for the nation. This represents the best listing of maritime CI/KA within DHS, and was available during the national review of PSG grant applications. Thus, DHS believes that the Port Security Grant program was originally designed and continues to function in a way that will improve the security strategies contained within the MTSA of 2002 along with the associated MTSA regulations.

➤ **Field Level Review of Applications**

Field level ranking was an important decision factor for the national review boards. Field review, however, was limited to an evaluation that lead to a risk-based recommendation only. The national review boards were then required to evaluate the application against other published criteria (e.g., cost, schedule, qualification of key personnel, etc.) not considered during the field level review. Disqualifying factors during this review would sometimes result in a national review board recommendation to fund one project in lieu of another that may have been ranked higher during the risk-based field level review. Good stewardship of grant funds is important and the national review board did not recommend funding for projects that did not have a high likelihood of successful implementation within a reasonable timeframe. Documentation of the rationale for recommending or not recommending funding has improved during each subsequent round. During the most recent award rounds (three/four), extensive efforts were made to thoroughly document the national review boards' decisions.

➤ **Program Guidance**

The grant program administrators did a tremendous job launching the program within a short time frame in order to distribute emergency security funding quickly. One of their wisest decisions was to make the grant advertisement, application, and award processes

completely “electronic” via the Internet. This has allowed for a program that is iterative in nature and is focused on making improvements from one round to the next. Documentation submitted by applicants and reviewers in the first round was not as optimal as subsequent rounds. This issue was been largely addressed for reviewers in subsequent rounds by conducting lessons-learned teleconferences with field personnel, and by providing explicit direction and guidance on application review and documentation in the form of a “Program Guidance Document.” Extensive comments by field reviewers for recent rounds is an indication of the progress the program has made as a result of a focus on these quality improvements.

➤ **Technical Assistance**

The USCG assigned two headquarters staff personnel to provide guidance and to answer field questions as they arose. The grant website also contained valuable information on the grant program for reviewer and applicant education in the form of a repository for all grant policy documents, examples of superior applications, and a frequently asked questions section that has been improved from round-to-round. Some examples of poor communication to field personnel cited in the draft OIG report are an indication that some of the field personnel interviewed were not familiar with the guidance provided on the grant website. The program will continue to communicate with field reviewers so that they are made aware of available guidance information and are specifically given guidance to prevent discrepancies.

II. Response to Recommendations

Recommendation #1 – Determine to what extent the program should incorporate MTSA requirements.

Response:

We concur with this recommendation and will review the MTSA issue with the goal of including updated guidance on this subject in the forthcoming FY 2005 Port Security Grant Program.

Recommendation #2 – Incorporate critical infrastructure and key asset data from IAIP into the evaluation of proposed port security projects. Among the changes to consider:

- The addition of an IAIP official on the Executive Review Board;
- Use of the IAIP national asset database to identify critical facilities in need of mitigation with a view toward soliciting proposals from these facilities; and
- Collaborating with IAIP in an outreach program to improve the quality of vulnerability assessments and proposals.

Response:

We concur with this recommendation and SLGCP will work with IAIP to include critical infrastructure and key asset data into the evaluation process for the forthcoming FY 2005 Port Security Grant Program. SLGCP will also work with IAIP on the development of a standardized risk assessment methodology for prioritizing CI/KA for all sectors.

Recommendation #3 –: Consider changing the weighting of the evaluation criteria, with greater emphasis placed on the criteria that reduce critical vulnerabilities.

Response:

We concur with this recommendation and will incorporate a weighted approach to evaluating projects that places an increased emphasis on risk reduction as part of the forthcoming FY 2005 Port Security Grant Program.

Recommendation #4 – Cease the practice of funding projects that do not meet the definition of a Priority I project. Consider implementing a scoring threshold that ensures that projects not meeting that threshold are not funded. Consider seeking a change in appropriations language to have these grant funds designated as “no-year monies” to reduce the impetus to fund doubtful projects.

Response:

We non-concur with this recommendation. SLGCP did not utilize its own formula for awarding these grants. Rather, the Office for Domestic Preparedness (now part of SLGCP), the State and Local Coordination Office (also now part of SLGCP) and TSA worked together to focus the \$75 million from the UASI grant funding on the highest risk port areas and highest evaluated projects in those port areas. TSA identified the port areas using passenger volume, bulk cargo, liquid bulk, number of containers and gross tonnage. In addition, two ports were included due to the fact that they were “Liberty Shield” ports. Working with ODP and SLC, TSA then determined the amount to be available for projects in each port area. Lastly, TSA provided what they considered to be the next projects that had been evaluated from the previous round that deserved funding. All of the 86 projects were funded based on TSA’s recommendations. Nevertheless, the Department believes that the problems noted with the FY 2003 process will not recur.

Recommendation #5 – Require reviewers to document their decisions in the grants management system, particularly when they are inconsistent with recommendations from a lower level of review.

Response:

We generally concur that comments should be mandatory when there is inconsistency between any of the review levels, and will implement this change by requiring reviewers to document their decisions in the grants management system as part of the forthcoming FY 2005 Port Security Grant Program. Field and national level reviewer comments have improved with each subsequent round as a result of sharing of lessons learned and guidance provided to evaluators at the national review panels. Improvements to field guidance documents, conference calls with field reviewers, and information provided on the Port Security Grant website have improved the quality of field review comments.

Recommendation #6– Develop parameters that define applicant eligibility under the “nationally important economic port or terminal,” “responsible for movement of a high number of passengers,” and “responsible for the movement of hazardous cargo” criteria.

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Response:

We concur that parameters need to be developed that focus on defining eligibility based on asset criticality. SLGCP will work with IAIP, the Coast Guard, TSA and MARAD to develop and include these asset criticality criteria in the forthcoming FY 2005 Port Security Grant Program.

Recommendation #7 – Communicate information to field reviewers to educate them on eligibility. Improve dissemination of “lessons learned” at all levels of review.

Response:

We concur with this recommendation. Program administrators will continue to share lessons learned with all levels of review. We will seek ways to improve dissemination of useful information to potential grant applicants and government reviewers, and will ensure clear and appropriate guidance and other relevant information is provided to those responsible for reviewing applications as part of the forthcoming FY 2005 Port Security Grant Program.

Recommendation #8 – Evaluate timeframes for reviewing applications with an emphasis on providing more time for review in the field and by the ERB.

Response:

We concur and will explore ways to improve grant procedures with an eye toward ensuring that future port security projects have been thoroughly vetted. However, we also believe that efforts by SLGCP to redesign the process in coordination with IAIP, the Coast Guard, MARAD and TSA will achieve time savings through a more efficient process. As a result, a balance will be achieved between ensuring funds are distributed in a timely manner for needed security improvements and ensuring reviewers have adequate time to give careful consideration to all applications.

Recommendation #9 – Clarify department policy on funding private sector projects. In the absence of such policy, and if funding private sector projects is continued: (1) examine private sector projects to preclude the funding of cost of business expenses; (2) develop financial eligibility criteria, including an income test or cost-benefit analysis; and (3) consider giving greater preference to projects that are submitted jointly by private and public entities.

Response:

We concur with this recommendation that the Department’s policy on funding private sector projects needs to be clarified. In Round 4 of the Port Security Grants, Departmental policy was not to fund any private sector entities that were Fortune 500 companies. The Department will develop a formal policy on funding for private sector entities as part of the forthcoming FY 2005 Port Security Grant Program.

Recommendation #10 – Accelerate the acquisition of more information from applicants about the scope of their projects.

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Response:

We concur with this recommendation and will ensure that appropriate guidance on the submission of relevant information within specified timeframes is included in the application kit for the forthcoming FY 2005 Port Security Grant Program.

Recommendation #11 – Ensure that the program has sufficient operational expertise to administer the program after the award is made.

Response:

We concur with this recommendation and have established a Transportation Infrastructure Security Division (TISD) within SLGCP to administer the FY 2005 Port Security Grant Program. As part of the transfer of the Port Security Grant Program from TSA to SLGCP, six TSA personnel were transferred to SLGCP. These personnel form the core of the new Division. They will be supplemented over the coming months with additional experienced staff as the remaining vacancies in the new TISD are filled.

Recommendation #12 – Seek clarification on the legislative intent for the program (sector-specific vs. larger infrastructure protection initiatives) and construct a unified program (policy, purpose, process, and eligibility) to comply with that intent.

Response:

We concur with this recommendation and will reach out to the appropriate Congressional committees for clarification. In the interim, SLGCP is already working with IAIP and the USCG to examine what identified national critical infrastructure lies within key seaports, and will incorporate this information into the forthcoming FY 2005 Port Security Grant Program to assist in setting funding priorities.

III. Technical Comments

Page 3, Introduction, 1st Paragraph – The last sentence refers to the total funding and number of projects that have been approved under the program. The actual number of projects funded is over 1200.

Page 4 2nd Bullet. The national review boards only recommended funding for projects they believed would lower security risks to critical operations within ports.

Page 4, 3rd Bullet – With respect to the third sentence, which states that private entities have received substantial funding, it should be noted that many high risk assets within ports, including refineries and chemical plants, are owned and operated by private entities.

Page 5, 1st Bullet – The Department strongly objects to the statement that SLGCP undermined TSA's evaluation process. SLGCP did not utilize its own formula for awarding these grants. Rather, the Office for Domestic Preparedness (now part of SLGCP), the State and Local Coordination Office (also now part of SLGCP) and TSA

worked together to focus the \$75 million from the UASI grant funding on the highest risk port areas and highest evaluated projects in those port areas. TSA identified the port areas using passenger volume, bulk cargo, liquid bulk, number of containers and gross tonnage. In addition, two ports were included due to the fact that they were "Liberty Shield" ports. Working with ODP and SLC, TSA then determined the amounts to be available for projects in each port area. Lastly, TSA provided what they considered to be the next projects that had been evaluated from the previous round that deserved funding. All of the 86 projects were funded based on TSA's recommendations.

Page 5, 2nd and 3rd Bullets – There appears to be a general misunderstanding of the UASI program as it has been applied to port security. The basic UASI grants provide funding to fifty high-threat urban areas for equipment, training, exercises, planning and operational costs. The only funding provided thus far by SLGCP specifically for port security was through the Fiscal Year 2003 UASI Port Security Grant Program. The use of UASI in the title was meant to convey a linkage with regional security efforts (the basic UASI grants, the UASI Transit Security Grant Program, etc.). However, the distribution of these funds was based on the process outlined in the previous bullet and was not tied to the overall UASI formula as indicated. In collaboration with the Coast Guard, IAIP, MARAD and TSA, SLGCP is working on a more risk-based model for allocating Fiscal Year 2005 funding that will be sensitive to the mandates of MTSA.

Page 8, Paragraph Continued from Previous Page – The last sentence should be clarified to state that the Maritime Administration (MARAD), not TSA, issued Round 1 awards.

Page 8, Last Paragraph – The third sentence reports that TSA awarded 410 projects. The correct number of projects funded was 392.

Page 8, 1st Paragraph – As noted in the comments on the Results in Brief Section, SLGCP believes that there are misperceptions of the FY 2003 UASI Port Security Grant Program's linkage to the basic UASI grant program, and about the actual process used to identify the projects that were funded (see comments for Page 5, 2nd and 3rd Bullets).

Page 9, Last Paragraph – The last sentence should be corrected to read, ". . . TSA awarded \$49.4 million to 120 recipients." In addition, there were 154 projects within 120 awards.

Page 10 Figure 1 – As noted in the comments on the Results in Brief section, the characteristics identified for the Urban Areas Security Initiative mix characteristics of the general UASI program with those of the UASI Port Security Grant Program.

Page 12, 1st Complete Paragraph – The last sentence should state that stewardship of the UASI and TSA Port Security Programs was consolidated for management purposes within SLGCP. The programs were not merged.

Page 13, 2nd Paragraph – The draft report states that "documentation pertinent to the design and implementation of the program" were reviewed. The draft report does not distinguish which program is addressed by this statement, as the TSA and SLGCP efforts were separate and distinct. In addition, copies of the Program Guidance for both the Urban Areas Security Initiative and the UASI Port Security grant programs were

provided to the IG team for review, although they are not included in the discussion relating to documents reviewed.

Status of Funds and Project Monitoring

Page 41 – The term “obligated” is being applied inconsistently to awards. For the SLGCP awards, the term refers to the amount the grantees have reported on their quarterly financial status reports as obligated. The amounts indicated as being obligated for the TSA awards are an indication that TSA has obligated the funds, and not what the individual grantees have obligated.

Page 43/44 – As noted previously, the Department strongly objects to the statement that SLGCP undermined TSA’s evaluation process. SLGCP did not utilize its own formula for awarding these grants. Rather, the Office for Domestic Preparedness (now part of SLGCP), the State and Local Coordination Office (also now part of SLGCP) and TSA worked together to focus the \$75 million from the UASI grant funding on the highest risk port areas and highest evaluated projects in those port areas. TSA identified the port areas using passenger volume, bulk cargo, liquid bulk, number of containers and gross tonnage. In addition, two ports were included due to the fact that they were “Liberty Shield” ports. Working with ODP and SLC, TSA then determined the amounts to be available for projects in each port area. Lastly, TSA provided what they considered to be the next projects that had been evaluated from the previous round that deserved funding. All of the 86 projects were funded based on TSA’s recommendations.

Page 46, Paragraph 2 – The Department is concerned about the statement that coordination with TSA, USCG and MARAD may be jeopardized by the program’s transition. SLGCP believes this coordination and collaboration is vital to the success of its Port Security Grant Program, and is committed to ensuring this continues.

Page 47, Bullet #3 – SLGCP intends to award the FY 2005 Port Security Grant Program funds directly to the recipients, as opposed to awarding them to states for pass-through.

In its initial response, dated November 19, 2004, DHS agreed that opportunities exist to further improve the program and said that it already is taking aggressive action to address many of the issues identified by the OIG. However, it did not address each recommendation and we requested that DHS revise and resubmit a more responsive document. In its second response, dated December 30, 2004, DHS concurred with 11 of the 12 recommendations and did not concur with one recommendation. We consider 11 of the 12 recommendations resolved and one recommendation unresolved. All recommendations remain open.

To summarize our report, several practices hinder the program from achieving national strategic priorities and, in fact, conflict with this goal. Program administrators and reviewers (1) attempted to spread the grant funds to as many recipients as possible, (2) changed the definition of a ‘national critical seaport’ from round to round to widen eligibility, and (3) funded projects that lacked clear security-related merit. Although the department response claimed that reviewers applied national security and risk information, we did not find evidence to support the assertion. Moreover, there were numerous instances of grants to ports/facilities not on the national strategic or controlled port list where the grantee’s eligibility under the criteria could not be ascertained from the application documents. These facts weaken the premise that the program is risk-based and cloud the meaning of “highest priorities.” DHS did not agree that the program in its current state compromises DHS’ ability to direct resources toward the nation’s highest priorities.

The department objected to our statement that ODP undermined TSA’s evaluation process, replying that ODP and TSA coordinated closely on how to allocate the \$75 million and it was TSA that recommended the 82 projects that ODP funded. Our concern is not with how well TSA and ODP worked together, which they did, but whether the department funded 82 projects that it should not have awarded. SLGCP believes that the problems noted with the FY 2003 process will not be repeated.

We obtained different views of how TSA represented and transferred the 82 projects to ODP. Regardless of whether the projects were the “next best” projects available that met UASI criteria, TSA was not going to fund them. ODP’s faith in the evaluation and selection process and belief that TSA, USCG, and MARAD sufficiently evaluated those projects allows for the possibility that it did not know the quality of the projects it received. As our report discusses, we took exception to funding many of these projects based on their overall rankings and our analysis of reviewer comments.

SLGCP asserted that the funding allocation decisions for the 12 eligible urban areas, under which the 82 projects were selected, were not based on the same formulas used for basic UASI grants. We looked only at port grants and did not examine the formulas used for basic UASI grants. We did not intend to imply otherwise, and we modified our report accordingly.

We witnessed widespread support and enthusiasm for the port security grant. We observed good, respectful, working relationships among all of the participating agencies, i.e., TSA, ODP, USCG, and MARAD, that collaborated to stand up a competitive grant program and leverage their expertise

throughout multiple rounds of grant awards. Evaluators at all levels of review worked hard to reach consensus on grant decisions. Program officials clearly desire to improve the program and the increasing quality of applications and program administration is evident.

However, DHS' response to our recommendations revealed little about specific corrective actions that will be taken. One of our most serious concerns is that our review revealed conflicting goals for the program. The program should be more risk based, but we found statutory direction and actual implementation that effects a distributive approach to the grants. DHS' comments did not acknowledge the incompatibility of the approaches, and did not convincingly commit to establishing a clear goal toward which grant funds can be directed. The Executive Director, SLGCP, or a more senior official responsible for the program, did not sign either the first or second response to our draft report. Who will oversee the corrective actions and redesign the program remains unclear.

DHS has now spent \$560 million on port security grants and has been allocated \$150 million for fiscal year 2005. Because several of our recommendations are fundamental to the effectiveness of the program, i.e., recommendations 1, 3-4, 6, and 9, we strongly encourage the DHS to fully implement our recommendations before proceeding with the next round of port security grants.

Below are management comments and OIG analysis of management comments for each recommendation.

Recommendation #1: Determine to what extent the program should incorporate MTSA requirements.

DHS Response: DHS concurred with this recommendation and will review the MTSA issue with the goal of including updated guidance on this subject in the forthcoming FY 2005 Port Security Grant Program. DHS said it has developed and implemented a strategy for the identification and protection of the nation's critical port infrastructure resulting from MTSA and subsequent regulations. This has enhanced security through the completion of vulnerability assessments, security plans, and the mitigation of security vulnerabilities for certain "high priority" facilities and vessels. DHS noted that these "high priority" facilities and vessels were eligible to receive funds in the most recent round of grants.

OIG Evaluation: The OIG agrees that DHS has made substantial progress in identifying and protecting vulnerable port facilities and vessels, and these actions have, in turn, enhanced the grant application review process. However, DHS failed to articulate how the department will resolve the discrepancies that exist between TSA's grant program, MTSA's grant authority, and SLGCP's intention to create a more risk-based model. These represent three competing philosophies that not only relate to port security, but also reflect the broader debate on how homeland security funds, in general, should be spent. That debate consists of the extent DHS should broadly disperse funds to assist with nationwide security

needs and mandates such as MTSA, versus focusing funds on the nation's most critical and vulnerable infrastructure.

We concur with DHS' intent to examine MTSA requirements and consider the recommendation resolved, but open, until DHS resolves the discrepancies between the intent and authority of MTSA and the existing grant program.

Recommendation #2: Incorporate critical infrastructure and key asset data from IAIP into the evaluation of proposed port security projects. Among the changes to consider:

- The addition of an IAIP official on the Executive Review Board;
- Use of the IAIP national asset database to identify critical facilities in need of mitigation with a view toward soliciting proposals from these facilities; and
- Collaborating with IAIP in an outreach program to improve the quality of vulnerability assessments and proposals.

DHS Response: DHS concurred with the recommendation. DHS agreed that the participation of members from IAIP would be beneficial. SLGCP will work with IAIP to include critical infrastructure and key asset data into the evaluation process for the next round of port security grants.

DHS pointed out that IAIP did not exist during the first round of grants and that detailed critical infrastructure/key asset (CI/KA) lists had not been developed fully during the second and third rounds. DHS asserted that our report implies national CI/KA information was available that the review boards had not been aware of during the grant review process. In addition, DHS asserted that the Coast Guard works very closely with the IAIP staff and is very aware of IAIP efforts, including the development of CI/KA lists and strategies for protecting the nation's CI/KA. It also asserted that some of the CI/KA information developed by IAIP has been shared with Coast Guard, as well as with members of the national review boards from other participating agencies.

DHS said that MTSA regulations require Coast Guard Federal Maritime Security Coordinators (FMSCs) to conduct port assessments, identify critical infrastructure, and develop Area Maritime Security Plans with established Area Maritime Security Committees. The knowledge acquired through these activities is then applied during the local grant review process. Furthermore, the FMSCs have prioritized critical infrastructure within their ports, and this information has been compiled into a classified maritime critical infrastructure list for the nation and was available during the national review of grant applications.

OIG Evaluation: DHS asserted that USCG, through MTSA implementation, was able to apply its knowledge of maritime vulnerabilities to the field review and that this information was compiled into a classified national list that was shared with national level review boards. We are aware of the USCG

efforts to compile maritime vulnerability information at the local and national levels, but it was not clear that this information was vetted by IAIP or integrated with IAIP's national CI/KA information. We did not find any evidence that this information was provided to the personnel that participated in the national level evaluation process. This may be the current practice, but this was not evident in our review of the first three rounds of grants.

However, we concur with DHS' plans to work with IAIP and consider the recommendation resolved, but open, until it explains how additional information will be incorporated into the evaluation process. Specifically, DHS has not described what process, methodologies, or guidance that it will use in the future to ensure that field and national level grant reviewers not only are knowledgeable of IAIP's CI/KA information, but also understand how it is to be applied in the context of the grant program.

Recommendation #3: Consider changing the weighting of the evaluation criteria, with greater emphasis placed on the criteria that reduce critical vulnerabilities.

DHS Response: DHS concurred with the recommendation and will incorporate a weighted approach to evaluating projects that places an increased emphasis on risk reduction as part of the forthcoming round of port security grants.

DHS stated that the field level ranking is an important decision factor for the national review boards. The field review evaluation leads to a risk-based recommendation only. The national review boards then evaluate the application against other RFA published criteria, e.g., cost, schedule and qualification of key personnel that are not considered at the field level review. Disqualifying factors during this review will sometimes result in a national review board recommendation to fund a project in lieu of one that may have been ranked higher during the risk-based field level review. DHS stated that the national review board will not recommend funding for a project that does not have a high likelihood of successful implementation within a reasonable timeframe.

OIG Evaluation: We concur with DHS' intention to incorporate a new weighted approach and consider the recommendation resolved, but open, pending the development of this approach. DHS should explain how the reviewing bodies will use criteria and weights to evaluate projects.

We did not underestimate the importance of the field review process; it lays the foundation for the national level reviews. While the program guidance requires that the field review rankings be based solely on risk, some field reviewers told us that other factors sometimes were considered. The Coast Guard utilizes the PSRAT tool in the field review process to assist them in making risk-based recommendations and rankings. The MARAD field reviewers, however, do not use the PSRAT tool. Although the Coast Guard and MARAD frequently agreed on rankings, they were required to come to a consensus and this process did not always lead to a purely risk-based recommendation.

Our concern has been that DHS funded a large number of projects that received unsatisfactory or marginal scores in the three risk and criticality criteria. First and foremost, the goal of the program must be to reduce risk and protect critical facilities. To award grants that do not receive favorable evaluations in these criteria does not appear to support these goals or the goal of good stewardship of federal funds.

Recommendation #4: Cease the practice of funding projects that do not meet the definition of a Priority I project. Consider implementing a scoring threshold that ensures that projects not meeting that threshold are not funded. Consider seeking a change in appropriations language to have these grant funds designated as “no-year monies” to reduce the impetus to fund doubtful projects.

DHS Response: DHS did not concur with this recommendation, but only cited the collaborative TSA and ODP process that resulted in grant awards for 82 Priority II projects in FY 2003 under the UASI port security grants. DHS suggests that this problem will not recur since SLGCP is now administering the program.

OIG Evaluation: We consider the recommendation unresolved. This issue extends beyond the process that led to the funding of 82 Priority II projects cited in the management comments. DHS did not address whether it will retain the Priority I, II, and III designations during the evaluation process or whether it will implement a scoring threshold. DHS funded a number of projects that received marginal or unsatisfactory rankings in the risk reduction and criticality evaluation criteria. Program officials told us that there was pressure to expend available funds and to spread those funds to as many applicants as possible. This suggests that risk reduction was not the primary consideration in awarding grants.

The NRB also elevated a limited number of projects in each round from their initial Priority II status to Priority I. In the end, the program funded numerous projects that received below average scores overall.

Finally, DHS did not address our suggestion to seek a change in appropriations language to have these grant funds designated as “no-year monies” as part of an effort to improve the quality of the grant application, grant process, and overall mitigation of vulnerability. We continue to believe that a threshold is required and that the “no-year monies” issue needs to be considered.

Recommendation #5: Require reviewers to document their decisions in the grants management system, particularly when they are inconsistent with recommendations from a lower level of review.

DHS Response: DHS generally concurred that comments should be mandatory when there is inconsistency between any of the review levels, and will implement this change by requiring reviewers to document their decisions in the grants management system as part of the next round of grants. DHS said that national review boards also utilized knowledge gained from working in the national policy development arena and this may result in ranking projects differently from the field review. DHS said that documentation for the rationale for recommending or not recommending funding has improved

during each subsequent round. During the most recent rounds, extensive efforts were made to document thoroughly the decisions of the national review boards.

OIG Evaluation: We determined that the documentation to support decisions generally improved from round to round. In general, when a project or a portion of the scope of a project was deemed ineligible for funding, the documentation supported this decision. However, in round three, we found that decisions that were inconsistent with a lower level of review generally were not documented sufficiently. Contrary to DHS' view that "extensive efforts were made to thoroughly document the national review board's decisions," national and executive reviewers did not sufficiently justify their changes. We maintain that improvement in documenting funding decisions is necessary at all levels of review.

We concur with DHS' plans to add the mandatory requirement and consider the recommendation resolved, but open. DHS should include in its action plan evidence that it has provided the above instructions to evaluators through written guidance.

Recommendation #6: Develop parameters that define applicant eligibility under the "nationally important economic port or terminal," "responsible for movement of a high number of passengers," and "responsible for the movement of hazardous cargo" criteria.

DHS Response: DHS concurred that parameters need to be developed that focus on defining eligibility based on asset criticality. DHS said that SLGCP will work with IAIP, the USCG, TSA, and MARAD to develop and include these asset criticality criteria in the FY 2005 program. DHS also said that, although the definition of "critical national seaport" was intentionally broad in an effort to encourage submittal of applications, the Request For Applications criteria listed to meet the "critical national seaport" threshold proved DHS has focused on addressing the highest priorities in the nation's most critical ports and critical activities within ports. DHS said merely providing a list of ports or list of port activities, e.g., passenger and hazardous cargo operations, that would have been eligible for grant funds is a simplistic approach to a complex maritime environment and would have resulted in fewer grant applications of merit and exclusion of projects that were worthy of funding.

OIG Evaluation: We concur with DHS' commitment and consider the recommendation resolved, but open. DHS should include in its action plan the parameters that define applicant eligibility based on asset criticality.

DHS' acknowledgement that it used a broad definition to encourage the submittal of applications, and the lack of parameters for qualifying under the three above referenced criteria, brings into question DHS' position that it is focused on the nation's most critical ports and activities within ports. The program's interpretation of these criteria varied from round to round based on the universe of applications submitted and we did not find any information to support how an entity would meet one or more of these criteria for eligibility. We concur that the port/maritime environment is complex and that the program

requires flexibility to address the broad range of port/facility/vessel characteristics, vulnerabilities, etc. However, not defining applicant eligibility effectively makes all entities eligible for funding and limits the value of having any eligibility requirements at all. This, in turn, makes the evaluator's job of discerning which facilities or vessels rise to a level of criticality that merits federal funding more difficult.

Recommendation #7: Communicate information to field reviewers to educate them on eligibility. Improve dissemination of "lessons learned" at all levels of review.

DHS Response: DHS concurred with the recommendation. Program administrators will (1) continue to share lessons learned with all levels of review, (2) seek ways to improve dissemination of useful information to potential grant applicants and government reviewers, and (3) will ensure clear and appropriate guidance and other relevant information is provided to those responsible for reviewing applications as part of the next round of port security grants.

OIG Evaluation: We concur with DHS' response and consider the recommendation resolved, but open. DHS should attach to its action plan additional documentation supporting the steps noted above. We believe that program guidance and communication has improved. However, field reviewers, in particular, expressed to us their concern that guidance was unclear. This is especially important in light of the fact that the field review teams, specifically those in the Coast Guard, experience significant turnover due to personnel rotation.

Recommendation #8: Evaluate timeframes for reviewing applications with an emphasis on providing more time for review in the field and by the ERB.

DHS Response: DHS concurred with the recommendation and will explore ways to improve grant procedures with a commitment to ensuring that future port security projects have been thoroughly vetted. DHS also stated that it is sensitive to the OIG's concerns regarding insufficient time for thorough project reviews. DHS believes that its efforts to redesign the process in coordination with IAIP, the Coast Guard, MARAD, and TSA will achieve timesavings through a more efficient process.

OIG Evaluation: We concur with DHS' commitment to improve grant procedures and consider the recommendation resolved, but open. DHS should provide more information regarding the redesign of the process as it becomes available.

Recommendation #9: Clarify department policy on funding private sector projects. In the absence of such policy, and if funding private sector projects is continued: (1) examine private sector projects to preclude the funding of cost of business expenses; (2) develop financial eligibility criteria, including an income test or cost-benefit analysis; and (3) consider giving greater preference to projects that are submitted jointly by private and public entities.

DHS Response: DHS concurred that the department's policy on funding private sector projects needs to be clarified. In round four, departmental policy was not to fund any private sector entities that were Fortune 500 companies. The department committed to develop a formal policy on funding for private sector entities as part of the forthcoming FY 2005 program.

OIG Evaluation: We concur with DHS' response and consider the recommendation resolved, but open. The private sector will continue to seek funding and the department must rigorously examine those applications. To close the recommendation, DHS should provide a copy of the policy for funding private sector projects when it becomes available. The policy should address cost of business criteria, financial eligibility criteria issues, and how much preference should be given to joint private and public sector projects.

Recommendation #10: Accelerate the acquisition of more information from applicants about the scope of their projects.

DHS Response: DHS concurred with this recommendation and will ensure that appropriate guidance on the submission of relevant information within specified timeframes is included in the application kit for the next round of grants.

OIG Evaluation: We concur with DHS' response and consider the recommendation resolved, but open. DHS should provide a copy of the application kit for the FY 2005 program.

Recommendation #11: Ensure that the program has sufficient operational expertise to administer the program after the award is made.

DHS Response: DHS concurred with the recommendation. It has established the Transportation Infrastructure Security Division within SLGCP to administer the FY 2005 grants. Six TSA personnel have also been transferred to SLGCP to form the new division. They will be supplemented over the coming months with additional experienced staff as the remaining vacancies in the new division are filled.

OIG Evaluation: We concur with DHS' response and consider the recommendation resolved, but open. To close the recommendation, DHS should provide an organization chart and information on the status of current and planned full-time personnel for the new division.

Recommendation #12: Seek clarification on the legislative intent for the program (sector-specific vs. larger infrastructure protection initiatives) and construct a unified program (policy, purpose, process, and eligibility) to comply with that intent.

DHS Response: DHS concurred with the recommendation and stated that it will reach out to the appropriate congressional committees for clarification. In the interim, SLGCP is already working with IAIP and the USCG to examine what national critical infrastructure lies within key seaports, and will incorporate this information into the next round of the Port Security Grant Program.

OIG Evaluation: We concur with DHS' response and consider the recommendation resolved, but open. DHS should include in its action plan the status of efforts to obtain congressional input, as well as any related correspondence with congressional committees. This also is discussed in our analysis of the department's comments on Recommendation #1.

Recommendations

We recommend that the Executive Director, Office of State and Local Government Coordination and Preparedness:

Recommendation #1: Determine to what extent the program should incorporate MTSA requirements.

Recommendation #2: Incorporate critical infrastructure and key asset data from IAIP into the evaluation of proposed port security projects. Among the changes to consider:

- The addition of an IAIP official on the Executive Review Board;
- Use of the IAIP national asset database to identify critical facilities in need of mitigation with a view toward soliciting proposals from these facilities; and
- Collaborating with IAIP in an outreach program to improve the quality of vulnerability assessments and proposals.

Recommendation #3: Consider changing the weighting of the evaluation criteria, with greater emphasis placed on the criteria that reduce critical vulnerabilities.

Recommendation #4: Cease the practice of funding projects that do not meet the definition of a Priority I project. Consider implementing a scoring threshold that ensures that projects not meeting that threshold are not funded. Consider seeking a change in appropriations language to have these grant funds designated as “no-year monies” to reduce the impetus to fund doubtful projects.

Recommendation #5: Require reviewers to document their decisions in the grants management system, particularly when they are inconsistent with recommendations from a lower level of review.

Recommendation #6: Develop parameters that define applicant eligibility under the “nationally important economic port or terminal,” “responsible for movement of a high number of passengers,” and “responsible for the movement of hazardous cargo” criteria.

Recommendation #7: Communicate information to field reviewers to educate them on eligibility. Improve dissemination of lessons learned at all levels of review.

Recommendation #8: Evaluate timeframes for reviewing applications with an emphasis on providing more time for review in the field and by the ERB.

Recommendation #9: Clarify department policy on funding private sector projects. In the absence of such policy, and if funding private sector projects is continued: (1) examine private sector projects to preclude the funding of cost of business expenses; (2) develop financial eligibility criteria, including an income test or cost-benefit analysis; and (3) consider giving greater preference to projects that are submitted jointly by private and public entities.

Recommendation #10: Accelerate the acquisition of more information from applicants about the scope of their projects.

Recommendation #11: Ensure that the program has sufficient operational expertise to administer the program after the award is made.

Recommendation #12: Seek clarification on the legislative intent for the program (sector-specific vs. larger infrastructure protection initiatives) and construct a unified program (policy, purpose, process, and eligibility) to comply with that intent.

Appendix E
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Congress

Congressional Oversight and Appropriations Committees, as appropriate

Government Accountability Office

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