

**DHS'S ACQUISITION ORGANIZATION: WHO IS  
REALLY IN CHARGE?**

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**HEARING**

BEFORE THE

OVERSIGHT OF GOVERNMENT MANAGEMENT,  
THE FEDERAL WORKFORCE, AND THE  
DISTRICT OF COLUMBIA SUBCOMMITTEE

OF THE

COMMITTEE ON  
HOMELAND SECURITY AND  
GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

—————  
JUNE 7, 2007  
—————

Available via <http://www.access.gpo.gov/congress/senate>

Printed for the use of the Committee on Homeland Security  
and Governmental Affairs



U.S. GOVERNMENT PRINTING OFFICE

36-612 PDF

WASHINGTON : 2008

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## **DHS'S ACQUISITION ORGANIZATION: WHO IS REALLY IN CHARGE?**

**THURSDAY, JUNE 7, 2007**

U.S. SENATE,  
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT  
MANAGEMENT, THE FEDERAL WORKFORCE,  
AND THE DISTRICT OF COLUMBIA,  
OF THE COMMITTEE ON HOMELAND SECURITY  
AND GOVERNMENTAL AFFAIRS,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 2:33 p.m., in Room 342, Dirksen Senate Office Building, Hon. Daniel K. Akaka, Chairman of the Subcommittee, presiding.

Present: Senators Akaka and Voinovich.

### **OPENING STATEMENT OF SENATOR AKAKA**

Senator AKAKA. Good afternoon. This hearing of the Homeland Security and Governmental Affairs Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia is called to order.

I want to welcome our witnesses and offer my special thanks to Under Secretary Schneider for taking time out of his busy schedule once again for this Subcommittee. Last month, this Subcommittee held its first hearing to examine the Department's management challenges, where we touched on several issues vital to integrating DHS successfully. In today's hearing, we hope to explore one of the most critical issues facing DHS, and that is acquisition management.

Four years ago, the Federal Government started a monumental task bringing together 22 agencies and offices from across the Federal Government to form the new Department of Homeland Security. This reorganization combined 180,000 employees as well as a massive procurement portfolio. DHS has become the third-largest spender on contracts behind the Departments of Defense and Energy, spending more than \$15 billion in fiscal year 2006.

While DHS is still a young agency, it has experienced its share of contracting woes. Since its creation in 2003, DHS has found itself on the Government Accountability Office's high-risk list. This has been due in large part to the challenges that existed in many of DHS's component agencies before the reorganization as well as the complexity and critical importance of a successful reorganization.

In particular contract management has posed a difficult problem throughout DHS's short history. The Department is already engaged in several large-scale procurement projects. Some were poorly executed and managed. Poor contract management leaves DHS vulnerable to waste, fraud, and abuse. Most importantly, it exposes the Nation to unacceptable security risks.

When the Department was created, a total of seven component agencies brought their own contracting shops to DHS. Those who did not have their own existing organization before coming to DHS now utilize the Office of Procurement Operations under the Chief Procurement Officer. While DHS does have a Chief Procurement Officer, the acquisition organizational structure at DHS gives the position little formal authority outside of the Office of Procurement Operations. A 2004 Management Directive at DHS gave the CPO oversight and auditing roles agency-wide, but limited its authority over the Secret Service and the Coast Guard. The CPO and DHS's other contracting shops share dual authority over contracting matters. This decentralized acquisition organization has proven problematic for the agency, according to GAO.

In addition to the acquisition structure at DHS, the Department has an inadequate contracting workforce. The shortage of qualified procurement professionals seriously hinders the Department's ability to oversee contracts effectively after they have been awarded. DHS has made some progress in improving recruitment, training, and retention of qualified acquisition professionals, notably with its new internship program.

However, more needs to be done. Without the experienced workforce the Department requires, I fear it will have to rely increasingly on large single-source contracts that it cannot effectively manage, leading to increased waste and fraud.

Last year, problems with the Coast Guard's Deepwater contract came to a head when costs soared and deliverables did not meet specifications required under the contract. I understand that over the last several months, the Coast Guard has reevaluated its Deepwater contract and implemented reforms, which I hope Admiral Currier will detail in his testimony, but it is most important to hear what lessons have been learned both by the Coast Guard and the Department that can be applied to future acquisition programs.

The Department is now in the process of implementing the Customs and Border Protection contract to secure our borders, known as the Secure Border Initiative, or SBInet. This will be a multi-year, multi-faceted project of a tremendous scale that would present a great procurement management challenge to even the most experienced, highest-functioning organization. However, as the DHS Inspector General pointed out in a November 2006 report, there are already early warning signs that the Department may not have the resources available to manage SBInet properly. According to that report, DHS lacks the appropriate workforce, business processes, and management controls to plan and execute it. I am greatly concerned by this. I hope that Under Secretary Schneider will lay out how DHS intends to mitigate the problems highlighted in the Inspector General's report.

DHS needs a comprehensive acquisition structure in which all components with procurement authority work together, do not du-

plicate efforts, and do not unnecessarily compete for resources. This is essential for the Department to perform its mission.

As Benjamin Franklin once famously said, “For want of a nail, the shoe was lost. For want of a shoe, the horse was lost. And for want of a horse, the rider was lost.” Acquisition management is a fancy term for making certain that our first responders and homeland security professionals have the tools they need to accomplish their mission. I intend to keep a close watch on how well DHS is managing acquisition and look forward to supporting Mr. Schneider’s efforts at reform.

Now, I would like to call on Senator Voinovich for his statement.

#### **OPENING STATEMENT OF SENATOR VOINOVICH**

Senator VOINOVICH. Thank you, Senator Akaka. I want to thank all of you for being here today. This is the second hearing we have had on management issues facing the Department of Homeland Security. I am very worried about the current state of the Department and where it is going. I don’t think the public understands what a gigantic task it is to take 22 agencies, 200,000 people, and bring them together and come up with an organization that really gets the job done.

Senator Akaka and I are going to stay committed to the Department’s management issues. We want to make sure that this gets off the GAO high-risk list, but more important than that, that it does the job that the people of this country expect it to do, which is to protect the homeland.

I think too often Congress fails to recognize the link between agency management and operational success. With a finite amount of resources and an ever-growing demand for homeland security services, it is imperative that the Department employ an effective acquisition management strategy to ensure taxpayer dollars are spent in a cost-effective manner.

In 2005, the GAO began reporting on the challenges inherent in the Department’s acquisition process. The 2007 GAO high-risk report found the Department lacks a unified acquisition organization and faces a shortage of experienced acquisition personnel to manage its \$15.7 billion procurement budget.

Senator Akaka and I have spent a considerable amount of time in the Senate focusing on human capital management and improving the effectiveness of agency programs deemed to be high risk. We understand how critical it is for DHS to have a highly-trained, appropriately staffed acquisition workforce to properly manage its acquisition process. We expect that individuals supporting the acquisition structure will know who is in charge. Mr. Schneider, I am pleased that you recognize these core needs and look forward to learning more about your plan to ensure that they are met.

One deficiency that continues to plague the Department’s ability to accomplish its mission is the lack of a Chief Management Officer. The CMO position will become even more important if the immigration bill currently being debated in the Senate becomes law. The Department’s plan to achieve the benchmarks in the immigration bill currently being debated by the Senate will require the dedication of top-level leadership and considerable resources. I think that our colleagues have no idea of what a gigantic task it

is going to be to implement this legislation, assuming it gets passed. That is why I am working on an amendment to ensure the Department consults with this Committee if the immigration bill becomes law. This will provide for greater oversight and more accountability.

Mr. Schneider, I remain convinced that elevating your current position to Deputy Secretary for Management and requiring a term appointment will provide the top-level leadership and continuity necessary to meet the current and future management challenges facing the Department. I recently read a *National Journal* article. You have 360 political appointees in the Department of Homeland Security, as contrasted to the Veterans Administration, which has 235,000 employees and only 64 appointees. The Defense Department has 283 political appointees, but they have 2.1 million employees.

I was talking to Senator Collins today and we agreed that we need to look at the number of political appointees and evaluate which can be eliminated and those positions that can be put into the civil service. We are going to see lots of people leave that are in strategic positions in the Department and then the issue is who is going to run the Department? It seems to me that we need a CMO. Senator Akaka, we have to really push to see if we can't get this legislation passed so we have some kind of decent transition over there, or God only knows what will happen in the interim period.

As the Department moves forward with major acquisition projects such as SBInet, a key component of our efforts to secure the border, I want to be assured DHS has a clear governance structure in place. This structure must clearly define how and when decisions will be made, who will make them, require performance metrics to measure success. Are we doing any good? And while these characteristics might seem basic to some, a cursory view of the Federal Government's acquisition initiative shows they are too often forgotten.

I am pleased to see that SBInet is serving as a pilot for Acquisition Innovation Project, an effort launched by the Partnership for Public Service's Private Sector Council to improve post-award contract management. I encourage the Department to continue to participate in this pilot to aid in the success of SBInet and future DHS acquisition projects.

As governor, I know firsthand how important public-private partnerships can be in improving the functioning of our government. This Subcommittee has responsibility to ensure the Department has the ability to carry out its mission. Rest assured that we will continue to monitor the acquisition management at the Department.

I look forward to your testimony, and thank you, Senator.

Senator AKAKA. Thank you very much, Senator Voinovich.

It is my pleasure to welcome back Paul Schneider, who is now Under Secretary for Management, Department of Homeland Security; also Rear Admiral John Currier, Assistant Commandant for Acquisition, U.S. Coast Guard; and John Hutton, Director of Acquisition and Sourcing Management, Government Accountability Office.

As you know, it is the custom of the Subcommittee to swear in all witnesses, so will you please stand and raise your right hand.

Do you swear that the testimony you are about to give the Subcommittee is the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. SCHNEIDER. I do.

Admiral CURRIER. I do.

Mr. HUTTON. I do.

Senator AKAKA. Thank you. Let the record note that the witnesses responded in the affirmative.

I want to thank you again for being here. Although your statements are limited to 5 minutes, I want all of our witnesses to know that their entire statement will be included in the record.

So Mr. Schneider, will you please proceed with your statement.

**TESTIMONY OF HON. PAUL A. SCHNEIDER,<sup>1</sup> UNDER SECRETARY FOR MANAGEMENT, U.S. DEPARTMENT OF HOMELAND SECURITY**

Mr. SCHNEIDER. Thank you, Mr. Chairman, Senator Voinovich, and Members of the Subcommittee. It is a pleasure to appear before you again. I am here today to discuss acquisition and procurement issues and authorities.

The Department of Homeland Security is in the midst of many crucial acquisitions that are vital to the success of DHS. Acquisition is the process that starts with identifying a mission need, developing the requirements and budget to meet that need, developing sound business strategies, contracting with industry to deliver the products and the services to fulfill that need, assessing trade-offs, managing program risks, and sustaining the delivered system through its life. Procurement is the actual transaction for goods or services and plays only a part in the overall acquisition process.

The Coast Guard Deepwater program and SBInet are perhaps the two largest acquisition programs in the Department. The Deepwater program has been restructured with the role of the Coast Guard in managing this large-scale effort to be one of more hands-on control. The Coast Guard is also implementing a major organization restructuring to strengthen acquisition, which Admiral Currier will discuss in more detail. The major challenge the Coast Guard now faces in executing the Commandant's Blueprint for Acquisition is hiring the experienced talent that it needs to manage complex acquisitions and to establish acquisition as a valued career field with appropriate career plans for both military and civilians. This will require several years to fully mature.

I am frequently asked if SBInet will turn into a Deepwater problem. The answer is unequivocally no. SBInet is the Department's multi-year plan to secure our borders and reduce illegal immigration. It is managed by one of the most experienced program managers in government, Kirk Evans. The program's approach is comprehensive and includes risk mitigation factors. Project 28 will demonstrate SBInet's system capabilities by deploying sensor towers, unattended ground systems, and upgrades to existing Border

<sup>1</sup>The prepared statement of Mr. Schneider appears in the Appendix on page 27.

Patrol vehicles and communication systems. Upon completion of Project 28, which is set for this month, the Army will conduct an independent test and evaluation and provide an assessment of SBInet's interim operating capabilities.

Because this is a modular and scalable architecture, we will be in a position to make important trade-offs on performance, risk, and total system cost very early, all this in less than 1 year after this contract was awarded. In my personal opinion, this is a model for how spiral acquisition and risk reduction ought to be accomplished.

People are the key for us to achieving acquisition excellence. We currently have a serious shortage of people who are experienced in program management and the related career fields. We have the funding to pursue aggressive hiring and are doing so.

Regarding our acquisition structure, given how the Department was formed and its current maturity, it is not surprising to me that we do not have a consistent organization structure throughout the Department. My written testimony covers this in some detail. While this may not be ideal for the long term, I think it is more important to focus on people, acquisition processes, and the individual program efforts rather than trying to develop the more perfect organization structure at this point in time.

The two key positions in the Department with authorities related to procurement and acquisition are the Chief Procurement Officer and the Under Secretary for Management. In accordance with the Service Acquisition Reform Act, which was enacted as part of Title XIV of the National Defense Authorization Act for fiscal year 2004, I am the Chief Acquisition Officer, or CAO, of DHS, as that law requires, the CAO require to be a non-career employee.

The Chief Procurement Officer, Ms. Elaine Duke, who is here with me today, is a career civil servant with nearly 25 years of government service. She serves as the Chief Procurement Officer and the Senior Procurement Executive of the Department. The Chief Procurement Officer has authority to exercise whatever oversight she determines to be proper over the execution of the procurement and contracting functions across the Department.

As the Chief Acquisition Officer, my authorities include, and I will just summarize the big ones, monitoring the performance of acquisition activities and acquisition programs of the Department, evaluating the performance of these programs on the basis of applicable performance measurements, and advising the Secretary regarding the appropriate business strategy to achieve the mission of the Department, making acquisitions consistent with applicable laws and establishing clear lines of authority, accountability, and responsibility for acquisition decisionmaking in the Department.

The major differences between the responsibilities of the Department of Homeland Security Chief Acquisition Officer, me, and the Under Secretary of Defense for Acquisition Technology and Logistics is that the Under Secretary of Defense for Acquisition Technology and Logistics has very specific authority granted by Title X to direct the service secretaries in acquisition matters. I think, however, it is important to recognize that this major change took place as a result of the Goldwater-Nichols legislation and a major restructuring of the entire Defense Department and that occurred

roughly in 1986 with Goldwater-Nichols and the Defense Management Review, I think it was of 1989.

DHS is still in the developing stages, and I strongly agree with the Secretary's decision that as a result of his second-stage review, there would be no more major reorganizations during his administration.

I would like to thank you for this opportunity to be here today and I would be pleased to respond to any questions you may have.

Senator AKAKA. Thank you very much, Mr. Secretary.

Now, Admiral, will you please proceed with your statement.

**TESTIMONY OF ADMIRAL JOHN P. CURRIER,<sup>1</sup> ASSISTANT  
COMMANDANT FOR ACQUISITION, U.S. COAST GUARD**

Admiral CURRIER. Good afternoon, Chairman Akaka, Ranking Member Voinovich. Thank you for allowing my written testimony to be entered into the record, sir. I am grateful for this opportunity to come here today and discuss with you the acquisition policies, processes, and practices of the U.S. Coast Guard and also describe our relationship with the Department.

Our acquisition portfolio now totals approximately \$25.8 billion of critical investment, and that is about a \$1.4 billion annual obligation across 16 major programs. When Admiral Thad Allen became Commandant in May 2006, his first order directed the consolidation of our previously disjointed acquisition activities into a single, comprehensive directorate with a goal of better supporting and enhancing mission execution by creating a responsive, competent, and efficient acquisition organization.

Standing up on July 13 of this year, the Acquisition Directorate will include the Deepwater Program Executive Office and 15 other acquisition programs, the Office of Procurement Policy, the Research and Development Program, and the Head of Contracting Activity. The consolidated Acquisition Directorate will more effectively deliver the material solutions to maintain mission readiness for the operating forces of the Coast Guard.

Also in support of the Commandant's intent, we developed a blueprint for acquisition reform as a capstone strategy document defining our future state. We desire to become a model mid-sized Federal agency for acquisition and procurement. The blueprint shows the way through a number of improvements in organizational alignment and leadership, policies and processes, human capital, which we consider to be the most important, and knowledge and information management and the development of decisionmaking tools for program managers. We have selected or chosen to use the Government Accountability Office framework for evaluation of Federal acquisition as a framework for our strategy for restructuring.

Additionally, Vice Admiral Vivien Crea, who is the Agency Acquisition Executive, is fully engaged with the Department in two particular activities to ensure that through the Joint Requirements Council that whatever procurements we are doing are surveyed across the Department for applicability to other component agen-

<sup>1</sup>The prepared statement of Admiral Currier appears in the Appendix on page 36.

cies, as well as her involvement in the Investment Review Board on a cyclical basis to review our financial and program status.

We have established several collaborative teams to facilitate communications and best practices amongst our stakeholders within the Coast Guard and within the Department. For example, the Capstone Integrated Project Team, under the direction of the Under Secretary for Science and Technology, was convened for the first time this year to identify technology gaps and to assess whether projects are capable of meeting those gaps and meeting the stated objectives of the procurements.

Under our blueprint strategy, an area of particular focus will be the New Start Management. We and virtually all other Federal agencies have been weak in managing the front end of major systems acquisitions. Adequate cost estimation and programmatic risk assessment are critical to the success of program execution. We need to become better at the formulation of systems acquisition strategies early on in the project identification phase. This includes not only requirements generation, but resources and contract vehicle planning. We also need to become more effective at oversight in two critical areas, at the program level and at the executive level.

Our blueprint effort to date has already resulted in some progress. For example, using the Defense Acquisition University as a third party, we accomplished a nose-to-tail review of our Rescue 21 program to determine problems, adequacy of our acquisition strategy, and most importantly, a way ahead in close collaboration with the prime contractor, General Dynamics. The contract has been restructured to improve our business relationship with the prime and also contain costs.

We have aggressively restructured the Deepwater program to position the Coast Guard to assume a greater systems integrator responsibility. We want to enhance competition, pursue service-wide logistics and network architecture solutions, and create necessary bench strength within our workforce to be able to see this execution through, we need to see through this vital recapitalization.

Our executive oversight has been materially enhanced by our Commandant, Admiral Allen, who periodically meets with the chief executive officers of the major companies with which we are contractually engaged. The purpose for those meetings are to review the programs and to align expectations.

At my level, Admiral Blore, the PEO Deepwater, and myself regularly meet with our vice president counterparts with the major companies with which we have contracts and program reviews on a regular cycle.

Our reformation in acquisition is the result of robust analysis process, tapping the expertise of several third parties, notably DOD, the Office of Naval Research, the Center for Naval Analysis, Naval Sea Systems Command, and the Defense Acquisition University. We are closely working with the Department's Chief Procurement Officer, Chief Information Officer, and Chief Financial Officer to ensure a meaningful relationship for oversight, guidance, and investment review.

In the end, the Coast Guard must be able to do three things: Contract for sustainment; procure assets and acquire major sys-

tems on a single asset basis—an example would be patrol boats; and also employ a government or non-government commercial systems integrator for networked complex acquisitions. We are currently reorganizing the Coast Guard acquisition and, in fact, the overarching mission support architecture to effectively meet our mission requirements, not only now but in the future as we grow with our security focus in the post-September 11 world.

Thank you, Senators, for this opportunity to describe our program and I look forward to answering your questions.

Senator AKAKA. Thank you very much, Admiral.

Mr. Hutton, will you please proceed with your statement.

**TESTIMONY OF JOHN P. HUTTON,<sup>1</sup> DIRECTOR OF ACQUISITION AND SOURCING MANAGEMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE**

Mr. HUTTON. Thank you. Mr. Chairman, Senator Voinovich, and Members of the Subcommittee, thank you for inviting GAO to this hearing to discuss the Department of Homeland Security's acquisition organization.

As you know, DHS is the result of one of the biggest mergers to take place in U.S. Government, integrating 22 separate Federal agencies and organizations with multiple missions, values, and cultures into one department. Now, such a merger involves a variety of transformational efforts, one of which is to design and implement the necessary management structure and processes for acquiring goods and services. In fact, DHS has some of the most extensive acquisition needs in the Federal Government. In fiscal year 2006, the Department reported that it obligated over \$15 billion for goods and services to support its broad and complex acquisition portfolio.

Now, my testimony today focuses on accountability and management of DHS acquisitions and it is based primarily on GAO's reports and testimonies. I will discuss three issues: First, the Department's challenges in creating an integrated acquisition function; second, the investment review process; and third, the Department's reliance on contractors for critical services.

Having an acquisition function that efficiently, effectively, and appropriately acquires goods and services is critical for agencies that rely heavily on the private sector to support its mission. We have reported, however, that the structure of DHS's acquisition function creates some ambiguity about who is actually accountable for acquisition decisions. Specifically, the structure depends on a system of dual accountability and cooperation and collaboration between the Chief Procurement Officer and the component heads.

An October 2004 Management Directive, the Department's principal guidance for governing and integrating and managing the acquisition function, highlights the Chief Procurement Officer's broad authority, including the management, administration, and oversight of department-wide acquisition. In our report, we noted that the directive may not achieve its goal of establishing an integrated acquisition organization because it creates unclear working relationships between the CPO and the component heads. For example,

<sup>1</sup>The prepared statement of Mr. Hutton appears in the Appendix on page 41.

some of the duties delegated to the CPO are shared with the component heads, such as recruiting, selecting key acquisition officials at the components, etc.

Another potential integration issue concerns managing and providing appropriate resources across DHS's acquisition organization. Indeed, a common theme in our work has been DHS's struggle to provide adequate support for its mission components and resources for department-wide oversight. For example, in our 2005 report, we noted disparities in the staffing levels and workload among the component procurement offices and we recommended that DHS conduct a department-wide assessment, and it is my understanding they plan to do so. While DHS reported progress in providing staff for the component contracting offices in 2006, much work, as we have been noting, remains to fill the positions with qualified, trained acquisition professionals.

The CPO recently established a department-wide acquisition oversight program, and this is a promising initiative. It is designed to provide insight into components' acquisition programs as well as facilitate lessons learned across the components. Now, while implementation is ongoing, we reported in 2006 that the CPO lacks the authority needed to ensure that the Department's components comply with its procurement policies and procedures, such as the acquisition oversight program.

Now, turning to DHS's major investments, DHS put in place a review process intended to reduce risk and increase the chances for successful outcomes in terms of cost, schedule, and performance. In 2005, we reported that this process adopted many acquisition best practices that, if applied consistently, could increase the chances for success. We also noted how additional management reviews and other steps could better position DHS to make well-informed decisions. Concerns have been raised about how the investment review process has been used to oversee its largest acquisitions and we understand DHS expects to make some changes to the process.

Finally, to quickly get the Department up and running and to obtain necessary expertise, DHS has relied extensively on contracts with the private sector for a broad range of mission-related services and complex acquisitions. In particular, our work has found at DHS, and it is similar to other government agencies, they face challenges, particularly when they are managing the use of another agency's contracting service or existing contracts to acquire services. Although use of such interagency contracts can provide advantages in terms of timeliness and efficiency, they may not necessarily provide the best outcome for the agency.

Further, the government agencies, including DHS components, have also turned to a systems integrator in situations such as when they believe they do not have the in-house capability to design, develop, and manage a complex acquisition. This arrangement creates an inherent risk as a contractor is given more discretion to make certain program decisions. With the increased reliance on contractors comes a need for an appropriate level of oversight and management attention to its contracting for services and major systems.

In closing, since DHS was established in 2003, it has been challenged to integrate 22 separate Federal agencies and organizations.

Such a merger involves a variety of transformational efforts, one of which is to design and implement and the necessary management structure and processes for acquiring goods and services, and given the size of DHS and the scope of its acquisitions, we are continuing to assess the Department's acquisition efforts in ongoing work and planned work.

Mr. Chairman, this concludes my statement. I will be happy to answer any questions.

Senator AKAKA. Thank you very much.

Mr. Hutton, GAO has recommended for years that the Chief Procurement Officer be given authority over the Coast Guard and the Secret Service. You also recommend that the CPO be given more authority over other DHS component procurement operations. Exactly what new authorities is GAO recommending for the CPO and how do you think this would improve acquisition management at DHS?

Mr. HUTTON. Senator, if we take it back to the original Management Directive where we noted that a goal was to integrate an acquisition function over at DHS, in reading that and in our past work, we noted, too, though, that it was assigning dual accountability and collaboration between CPO and the component heads. So we had recommendations, as you pointed out, that we felt that the CPO needed some additional resources and enforcement authority to make sure that the procurement policy and procedures are followed through.

Now, we are not talking about a direct report or centralized procurement, and quite frankly, there is really no single optimal way to organize an acquisition function. But I think in our work, what we are trying to point out is that are we aligned in such a way that we can have an effective acquisition organization?

And just to use one example, in our work in 2005, we noted that the Coast Guard and Secret Service were explicitly exempted from the Management Directive. So you had a situation where you had a couple components over at DHS and you had the CPO with their operations and you had several others, but the way the directive was written, it basically made it sound like the CPO had no authority over the Secret Service and the Coast Guard.

So when we raised that issue in that work, initially, we were informed that it was for statutory reasons, but in that work, in discussions with DHS General Counsel, we found that it really was more of a policy decision. And it is my understanding that DHS is considering having the Secret Service and Coast Guard under that umbrella of the Management Directive. So that would be a good thing.

Senator AKAKA. Let me try to clarify your last remarks here. Do you think that DHS can strengthen the CPO using their own current authority? You used the word "statutory." Is some kind of Congressional action needed?

Mr. HUTTON. Well, sir, I think that GAO wouldn't want to be prescriptive as to how DHS should go about doing it. I think what we tried to do was apply some best practices and principles, and the Admiral went through some of them, what drove his blueprint, and one of the issues has to do with organizational alignment and leadership.

What we were just pointing out is that, for example, if you had a situation, like in our 2005 report where we noted that the components had varying numbers of contract specialists and you looked at what their workload is, and just doing simple math, and that may not be the best analysis, but it is just showing that, well, maybe the staff isn't perfectly aligned. As we all note, DHS brought in all these different components and basically had to start and get up and running.

What we said there was that we felt that we ought to have an analysis across the components. What are the needs on a component basis? What are the needs of the DHS? If there are opportunities that, because of urgent needs and other reasons, you need to move some people, how easy would that be? What kind of authorities would be required to be able to do something like that? And that was where we were coming from when we were making that particular point about what authorities does the CPO have to effectively carry out what we are reading in the Management Directive as the responsibilities.

Senator AKAKA. Mr. Schneider, in your testimony, you explained that you are the Chief Acquisition Officer at DHS while Ms. Duke is the Chief Procurement Officer. I understand that Ms. Duke also sits on the Chief Acquisition Officer Council at the Office of Management and Budget. Do you and the Chief Procurement Officer have authority over particular acquisition functions or are you essentially letting the CPO exercise your authority as the Chief Acquisition Officer under your supervision?

Mr. SCHNEIDER. Senator, first, regarding the Chief Procurement Officer being on the Acquisition Council, in the absence of—in the gap between when my predecessor left the position of Under Secretary until I was appointed, Ms. Duke, in fact, assumed the responsibility of not just being the Chief Procurement Officer, but the Chief Acquisition Officer. So as such, she participated in the Chief Acquisition Officer Councils.

I believe that the responsibilities of the Chief Procurement Officer are very clear and so let us kind of take this a piece at a time. This is where I think, with all due respect to the GAO reports and considerations, I think there has been a continuing confusion of this issue of procurement versus what I will call the big concept of acquisition.

I believe that the responsibilities and authorities of the Chief Procurement Officer are very clear and I believe the responsibilities from a procurement standpoint within the organizational operating components of the Department are very clear. I also believe that the Chief Procurement Officer has the authority, if you will, to review—for example, if Ms. Duke decides that she wants to review every procurement and concur with every procurement, whether it is CBP or you name the agency, above \$1,000, above \$1 million, whatever the threshold she establishes, that is her authority. She has the authority to go in and conduct procurement oversight reviews. She has the authority, I believe, to basically request the removal of a contracting officer's warrant if she determines, in fact, that contracting officer is not following the rules and regulations as dictated by applicable law.

And regarding the issue of resources throughout the Department, the Chief Procurement Officer at headquarters works very closely with the Chief Procurement Officers in each of the operating components. They address resource issues. Ms. Duke acts as, for all practical purposes, the Chief Recruiting Officer for contracting officers among the Department. So from my standpoint, I observe, having been in this job now 5 months, an unprecedented degree of cooperation, if you will, among the Chief Procurement Officers at headquarters and within the Department.

Let us talk the second point about the Coast Guard. From a practical standpoint, on a day-to-day operational basis, I couldn't ask, and I know if you asked her she would say the same thing, for a better, closer working relationship with the Coast Guard than what we have today. And so regardless of what the directives say or the like, the fact of the matter is the Coast Guard is an inherent part of the Department. We operate as one. I spend a tremendous amount of time with Admiral Currier, Admiral Blore, the Commandant, Admiral Crea, and their Chief Procurement Officer when we work together on major procurement and acquisition issues.

Now, let us talk about acquisition authority. And that is one of the reasons why I tried to emphasize that in my testimony—here is where—let us talk about dual accountability. I do not believe in the case of acquisition there is a dual accountability. I think it is very clear. I think it is the Secretary who has responsibility and the head of the operating component. There is absolutely no doubt in my mind that the head of Customs and Border Protection is the official that the Secretary holds responsible and accountable for the execution of SBInet. There is absolutely no doubt that the Secretary holds the Commandant responsible for the execution of Rescue 21 and Deepwater. And so in terms of dual accountability, I am sorry, but I do not agree with that statement.

In the course of exercising the Secretary's oversight, however, there are processes that are put in place at the Department level to conduct reviews of the program. That is where we, the Department, exercise oversight. I think the perfect example of this is the Deepwater program. The Deepwater program will be coming up for a major acquisition milestone decision in terms of proceeding to award of National Security Cutter 3. There was an Investment Review Board review of the Deepwater program, an acquisition decision memorandum that was signed by me on behalf of the Deputy Secretary who chairs the IRB, that basically says prior to coming and getting a milestone approval, you must do A, B, C, D, and E. It was done in a cooperative manner with participation on the Coast Guard, the CPO, the CIO, etc., and so I think that is a process that is in place by which the Secretary exercises oversight.

That does not dilute, in my mind, or that does not change what I consider to be the clear line of responsibility and accountability between the Secretary and the head of the operating component.

Senator AKAKA. Thank you. We will have another round of questions. Senator VOINOVICH.

Senator VOINOVICH. Thank you, Senator Akaka.

You made mention of the issue of recruiting people with the experience that you need in acquisition. I would like you to share with me if you have the budget to hire the people that you need

to get the job done? Second, do you have the flexibilities to bring them on board?

Mr. SCHNEIDER. Thank you, Senator, for the question. This is really the key issue and I would say people is our No. 1 priority. I think, first of all, the most critical career field in my view is the contracting officer career field, and in that particular career field, we have direct hiring authority across the Department, which means we interview somebody, we like them, we can hire him or her immediately.

And so the challenge then is to find qualified contracting officers, and to be very frank, we are aggressively trying to recruit at the mid-level and the higher level. Our intern program is structured to prime the pipeline, so to speak, at the intern level, and we have funds in the fiscal year 2008 budget to begin that program. So I am pretty comfortable with 1102s, or the contracting officers.

The other career fields, we do not have direct hire authority. I will be signing a letter to OPM requesting the direct hire authority for these other career fields, and this ends up being logisticians, cost estimators, people that have managed programs, program management experience, test and evaluation-type experience, and the reason being is we are in a very competitive market, not just with private industry but government, and if we cannot—we think we have a mission that sells relative to attracting people, but we need to be able to act and act fast.

So I think, frankly, I am hopeful that we will get the direct hire authority from OPM without too much difficulty. So I think that is No. 1.

No. 2 is the ability to hire re-employed annuitants. Let me give you an example. It is a well known fact, we do not have the range and depth of experienced acquisition personnel. Key to the success of our intern program is to have the right types of mentors to mentor these people. The other thing we are looking at is getting senior acquisition experienced people that can mentor ongoing programs, and especially new starts. And so what we want is the ability, if we can find people and get them interested in the mission, frankly, like the Administration did with me, to come back in and go work some of these programs. We believe that would be helpful. So I am about to request from OPM the authority to do that.

With respect to money, funding, we have the funding this year to and are aggressively hiring, so I am not worried about that. I am worried, however, about what I just learned relative to the House Appropriations Committee action on our budget for 2008 that basically removed a considerable amount of money that we had put in for hiring initiatives and training and development initiatives, especially in the acquisition career field. So that just happened apparently from what I understand yesterday, so what I plan to do is to get the facts and figures and hopefully when the appropriations bill gets considered by the Senate, we can get some help, if you will, to get that back in. That hurts us significantly.

So relative to authorities, yes, I have got what I need on contracting. I am going to OPM for expanding the direct hiring and to be able to employ re-employed annuitants. And money is okay this year, but I am worried about next year.

Senator VOINOVICH. Please let us know about the House action. We will look into it and see if we can make sure that it is in the Senate bill. If you don't have the money, you can't get the job done.

Mr. SCHNEIDER. Thank you.

Senator VOINOVICH. One thing that we have noticed is that DHS has doubled spending on contracts from 2004 to 2006. However, over the last 5 years, the number of dollars devoted to training employees in contract management across the government has remained basically the same. Once you bring new people on, how long does it take them to get to the point where they are fully trained. What is your training budget and why hasn't that budget increased to respond to the new hires so you can continue to upgrade their skills?

Mr. SCHNEIDER. I think that is a question, frankly, I have asked myself. I think one of the problems is when, prior to the forming of the agency or of the Department or shortly thereafter, the concept of major acquisition, that wasn't the nature of the business. It was relatively simple procurement. And so the Department relied most heavily on contracting officers who typically would be the procurement experts to basically perform what would be considered to be a simple or not as complex acquisition. I think it is only in the past 2 years when this concept of what is acquisition and the complexity of large systems came to the Department. The Department's budget, and I may not have the numbers totally right, but it has gone up like about 50 percent over the past 3 or 4 years. A lot of this stuff has gone into the development and the procurement of major systems.

So if we did not shape or modify the workforce, frankly, over the past 2 or 3 years, the response to the roughly 50 percent increase in budget authority, and so our training budget, and I would suspect most organizations, is fairly well baseline. So organizations like CBP or TSA, whose mission—well, CBP, for example, in the case of some of their major initiatives, they didn't have a SBInet, and I think that is one of the reasons—and the reason they didn't, because their previous attempts at it in different initiatives were not successful. Part of the reason it was not successful was because they didn't have trained people. And so I don't think there was an ability to, in real time, fundamentally give like an adrenaline shot of training to people that were trying to execute.

So what we have been doing with the Chief Human Capital Officer is work across the Department. What are our training and development needs? We have a Chief Learning Officer who is working very closely with all of the operating components across the Department to leverage those training and development opportunities that is best of breed and then use, whether it is CBP or if it is the Coast Guard, use that as the foundation to provide that training and development capability for the entire Department.

So we are in many cases relying on Coast Guard for a lot of their training and development. There are a couple of nuggets that CBP had in terms of, I believe it is leadership training. And so that is one of the reasons why we have been trying to justify, if you will, an increased budget, and it is one of the reasons why I am shocked, actually, at the budget action on the House, because for 2008, that

is where we wanted to basically make a significant increase. And so I think we are trying, but we have been having some difficulty.

And if I might add, I think part of the difficulty is we get a bad rap, frankly, on this HR Max effort that was initiated. And so I think there is a tendency, quite frankly, to paint everything that we are doing in the personnel training and development area, etc., even though Max HR had six or seven components, the fact of the matter is it all gets lumped into—that is one of these personnel things where—and so it is a target.

And so one of the reasons, frankly, why we have moved away from Max HR to Human Capital Operating, emphasizing training and development, is to get away from the stigma of something that is, frankly, from the public perspective, is out to do harm to employees, which is not the case.

Senator VOINOVICH. Thank you. Senator Akaka.

Senator AKAKA. Thank you. Admiral Currier, under a 2004 DHS Management Directive, the Coast Guard is not under the authority of the Chief Procurement Officer. Can you tell me to what extent the Coast Guard still works with the CPO?

Admiral CURRIER. Yes, sir, Senator. I think that Under Secretary Schneider accurately described our relationship with the Department. We are very closely tied to the Chief Procurement Officer, the Chief Information Officer, the Chief Financial Officer, and all of our processes in acquisition. I mean, basically, the Department controls our budget, so there are mechanisms for control of component agencies.

We don't look at it that way. We look at it as a mutually supportive organization where DHS has brought their organization and their engagement with the components. They have matured that as they have formed up the CPO Office. We helped them do that. We offered policy advice. We offered people. We have worked collaboratively with DHS to see them through this, and I think that they have matured to the point where we are quite comfortable with the relationship of a subordinate component agency working in close collaboration with DHS across the board.

I have seen, in my 2 years as Assistant Commandant for Acquisition, no problems, no issues where they have asked for a policy implementation and we have not complied, or when we raise an objection because we feel it is an onerous oversight or something that doesn't sink up, they are not very responsive. We have absolutely no complaints from an organizational level that our relationship with the Department is anything but proper and mutually supportive.

Senator AKAKA. Let me follow up to ask you whether or not the Coast Guard is under the authority of the Chief Procurement Officer.

Admiral CURRIER. I would say, sir, that if you read the letter, were I an attorney, I would tell you if I read the Management Directive, I would probably say that could be the case, but I can tell you functionally that is not the case.

Senator AKAKA. Let me ask, would there be a downside to having the CPO exert more authority over the Coast Guard?

Admiral CURRIER. I don't see it as being that way, sir. I really have—I feel that is the functional relationship that exists. If the

statute or the code followed that, currently, we have certainly no objection to that.

Senator AKAKA. Mr. Schneider, last year, DHS appropriations contained funding for 400 additional acquisition employees at DHS. How many new acquisition staff have you hired to date?

Mr. SCHNEIDER. The key number I track is the contracting officers. I know we were trying to hire somewhere around three to—I think we have hired about 50 percent of the number.

Senator AKAKA. Well, Mr. Schneider—

Mr. SCHNEIDER. It is about 150, so—I can provide that information.<sup>1</sup>

Senator AKAKA. If you can provide that—

Mr. SCHNEIDER. Sure.

Senator AKAKA [continuing]. That would be fine. And also, I would like to know how these staff are being divided between CPO's office and the component offices, as well.

Mr. SCHNEIDER. Well, it is really a joint recruiting effort, so what Ms. Duke does is if we get a pretty good athlete and she decides that TSA or CBP needs him, she ships him in that direction. They work together, the heads of contracts of all the operating components and the Chief Procurement Officer, on who is in the most serious shape and who desperately needs help. And so what they do is working together among themselves figure out how best to utilize the talent that comes in.

For example, we had a big exposition, job exposition one day downtown at the Reagan Building. We had, I think it was 1,200, 1,300 people showed up. And so what we do is we tag them and classify them. They go talk to people from the CPO's office. They talk to people from across the Department. Then we basically evaluate them and we decide who really needs to be looking at them depending on what the career fields are. We also advertised in the local papers a couple of months ago, and in response to two ads we have gotten, I believe it is 400, 500 applicants, and so doing the same thing with them. We are also targeting, quite frankly, where we think organizations are leaving town that perhaps we have some experienced people that may want to do that.

But basically, it is being run like a joint recruiting effort and, frankly, because they work so well together, this particular group of Chief Procurement Officers, they recognize who is in the most serious condition and they try and fulfill those needs first.

Senator AKAKA. Before I call on Senator Voinovich, Secretary Schneider, the Homeland Security Appropriations Act contained a provision I authored creating a rotation program at DHS to let staff gain expertise throughout the Department. With all of the component agencies of DHS still having their own individual acquisition shops, I believe this kind of program could be especially useful for procurement professionals. Is the Department doing anything to encourage procurement staff to rotate between procurement offices?

Mr. SCHNEIDER. Yes, sir. Let me just give you a couple of examples. We have two what I call premier leadership programs. We have an OPM-approved SES candidate program, and so our first

<sup>1</sup>The information provided by Mr. Schneider appears in the Appendix on page 59.

class of SES candidates were selected, I think it might have been about 4 or 5 months ago. As part of that candidate development program, these folks are required to go do rotational assignments.

We also have, and it was actually initiated by the Commandant of the Marine Corps, Admiral Allen, who had a personal interest in it, is a DHS Fellows Program. Part of that DHS Fellows Program, and this is where the best and the brightest at different grade levels, civilian and in the case of the Coast Guard military, were picked for this very special effort. What we have decided to do is at the tail end of that program, and I forget how long it is, is to require a mandatory, I think it is 4- or 5-month rotational assignment, and this is where we use, and this is probably along the lines of the best practice that many of the Fortune 500 companies use, we have these folks working critical corporate-type projects. They work—it is about, I think, roughly 34 of them—and then at the end of this development effort, they get assigned at one of—a different operating component from where they come from, and I think it is 4 to 6 months.

The other thing we do is this. Our Chief Financial Officer, the counterpart of the Chief Procurement Officer, he has been very key in hiring. We get a lot of Presidential Management Interns. He is a former Presidential Management Intern and apparently that program draws people to where successful folks that have been in the program are. And what he does is takes these people, rotates them throughout the Department, and ultimately we are building a financial officer type of infrastructure that has had experience across the Department.

I also think it is important to note that I think at least one and maybe two of the Chief Procurement Officers that are in the Department used to work at headquarters.

So I think there is no massive initiative that says we are going to take 25 percent of the workload and start rotating them around, but I think we started on the right path within the past 6 months on these key initiatives to making rotation a key element and almost to be considered as a future prerequisite to promotion.

Senator AKAKA. Senator Voinovich.

Senator VOINOVICH. Admiral, in your testimony you said that the end result of the Coast Guard's Blueprint for Acquisitions Reform will be an Acquisition Directorate capable of efficiently and effectively meeting mission requirements. Do you have metrics to measure if the blueprint is successful, and was Mr. Schneider or anybody from DHS involved with developing the blueprint? Did you consult with GAO in developing the blueprint?

Admiral CURRIER. Thank you, Senator. The blueprint was put together because we looked at Rescue 21 and the nose-to-tail survey that I described earlier, and we also did that with Deepwater over the last 18 months. We looked at a compilation, a library of IG reports and GAO reports and different programs and projects that the Coast Guard had done. Initially when I took over as Assistant Commandant for Acquisition, I looked at these individually, viewed them, quite frankly, as history and put them aside.

But it became evident there were emergent themes throughout these reports, so we cataloged those themes and we put together about 12 efficiencies in acquisition across the board. When I

showed them to Defense Acquisition University (DAU), it became evident that those were common acquisition shortcomings across the Federal Government. So we tried to decipher a way, how could we devise a strategy that would give us meaningful solution to some of these things.

The other theme that emerged is the GAO framework for Federal agency acquisition assessment. We decided to use that for two reasons. One is it made sense, and secondarily, often you are what you measure. So we did do that.

As far as metrics, when we produced our first edition of the blueprint, we had a catalog of activities as an appendix. I got my senior staff together. We collaborated with the Department and we cataloged activities that we had to do. Initially, our metrics were the accomplishment of those activities on time and basically if there were cost elements, on cost.

The second edition that will come out when we stand up the consolidated Acquisition Directorate on July 13 will have a more robust set of metrics that also measure projects, program outcomes as far as cost control and schedule execution. So there will be two tiers of metrics within the blueprint. One is for activities that are specifically called out, and the second is the aggregate effect on program execution.

We did closely collaborate with the Department, the Defense Acquisition University, Admiral Massenburg at NAVAIR, actually Retired General Kadish, who at one time was in charge of DOD acquisition reform. They were very generous with their time sitting down with me, and I will tell you in all honesty, I am an operator by trade. I am level three certified as a program manager, but my main experience is certainly not on a par with theirs. Very generous with their time. The Under Secretary was generous with his time. Ms. Duke was very—contributed to this. And I think that the Under Secretary would tell you that certain elements within this are going to be used as a model for other agencies within the Department.

Sir, I hope that answers your question.

Senator VOINOVICH. Mr. Hutton, you have been listening to the testimony. I would like your comments about what the Admiral has made reference to and how you feel about it and how do you think they are coming along.

Mr. HUTTON. Sure, Senator. First, I want to say at the outset that obviously we are very pleased that the Admiral found that the framework for assessing the acquisition function was very useful, because that was based on a lot of work that we have done over the years, best practices, literature searches, panels that we held and things like that. And it is a holistic approach to look at the whole function and it breaks down into very key areas that one wants to look at how they are doing. It is general guidance. It is not a cookbook, but it is really used more for self-reflection and assessment of where you are.

So I was very pleased to hear that. I have reviewed the Coast Guard's blueprint at a very high level several months back. I can't right now give you an assessment of the merits and of all the details and the specifics, and as the Admiral mentioned, there is apparently going to be a revision coming very shortly. But I was very

pleased to hear that the GAO framework is one of the instruments that they used to assess their acquisition function.

Senator VOINOVICH. Mr. Schneider, it looks like the Coast Guard is really getting it. It looks like their system is in decent shape. Mr. Schneider, do you agree with the Admiral?

Mr. SCHNEIDER. Let me, Senator—

Senator VOINOVICH. They have their own acquisition, but Ms. Duke is in charge of acquisition everywhere else?

Mr. SCHNEIDER. Let me try it this way. I guess within the spirit of full disclosure, the in-depth reviews of the Coast Guard programs that the Admiral referred to, Rescue 21 and Deepwater, it really is a coincidence because all this happened before I was even considered by the Administration for this job. But I am the guy that led those reviews for the Defense Acquisition University. It just kind of turns out that way.

It really is a fluke that all these improvements and recommendations that we developed, especially in the case of Rescue 21, the Admiral aggressively instituted them, and then with Deepwater, I think led to a more systematic overview, just like he said. So we have—which is why—the Admiral and I first met last March, and so they were kind enough that, just as he indicated, to work very closely with DAU and I was the lead for DAU, and so this whole Blueprint for Acquisition, I believe truly reflects the best practices and lessons learned from a lot of major programs that have had difficulties.

There is no daylight between us, quite frankly, at the Department level and at the Coast Guard level in terms of structure and process. There is no daylight between us in terms of the individual efforts, whether it be the National Security Cutter, the Offshore Patrol Cutter, the Aviation Initiatives, logistics, CFR, ISR, etc. So we are in full concurrence and working very closely on everything.

And so I think, just as the Admiral said and as I indicated, this Chief Procurement Officer contracting function and how I exercise acquisition oversight for the Secretary, I think it works very well, and quite frankly, it is a model for how it ought to work across the Department.

Senator VOINOVICH. Good. Is it coordinated?

Mr. SCHNEIDER. Yes, sir.

Senator VOINOVICH. If GAO reviewed this, they would say that you are communicating?

Mr. SCHNEIDER. Yes, sir.

Senator VOINOVICH. And are sharing and learning from each other.

Since the Deepwater problem, you have analyzed the issues. Is there a piece of paper someplace that talks about lessons learned and how the new system is going to make sure that those things don't occur again?

Mr. SCHNEIDER. I think, if I recall, the DAU Deepwater report lists the lessons learned and a series of recommendations which you or your staff may find informative as a starting point. I also think, I am not sure if we sent you several months ago, and maybe not, but we can check that, we can send you a document that indicates the status of the Deepwater program which goes asset by

asset through what is the status and what is being done in terms of the restructuring. I think you would find that informative.

Senator VOINOVICH. In other words, the recommendations that came out of that GAO report are being folded into the new system to make sure that the problems that—

Mr. SCHNEIDER. Their blueprint—

Senator VOINOVICH [continuing]. Occurred there are not going to occur with other procurement—

Mr. SCHNEIDER. Their blueprint for acquisition and reemergence of a technical authority within the Coast Guard and migrating to a single logistics concept, C4I that is directed and more hands-on direction and breaking up some of these procurements like the Admiral referred to relative to procurement of patrol boats, which is their specialty and the like, that is exactly what they are doing.

Senator VOINOVICH. Thank you. Senator Akaka.

Senator AKAKA. We will have another round here.

Mr. Schneider, as you know, and I want to in a sense follow up on what Senator Voinovich was indicating. As you know, the Coast Guard recently dropped their lead systems integrator, choosing instead to fulfill the role itself. In light of Deepwater, should the Department continue to rely so heavily on LSIs for large projects?

Mr. SCHNEIDER. I have given this a lot of thought, Senator, and I think in many ways the concept—that the originators of the Deepwater concept with the integration concept—there are some days I think it was not a good idea, but frankly, in many ways, it might have been a brilliant idea. I think the serious problem that—I think it is almost like a confluence of factors that contributed to the problem.

First off, clearly, I don't think the Coast Guard had the range and depth of talent to manage that type of contract. And so an integrator means different things to different people. In this particular type of contract, we were talking about a concept whereby the Coast Guard said, here are my requirements. I want to totally recapitalize my entire Deepwater fleet of planes, ships, boats, land-based infrastructure, and logistics, so you figure out how best to do it.

And so the concept, depending—it might have been brilliant in concept, but it was seriously flawed in practically being able to be executed by a Department who is so hands-on operationally. And I think to think that the operational forces would allow just an industry team to decide what was best in terms of operational spaces and how things were going to operate, what the mix would be, was probably not the right decision. I also think that trying to start so many individual asset developments, like the Offshore Patrol Cutter, the Fast Response Cutter, and National Security Cutter, at the same time, given the lack of depth and experience they had, was one of the major contributions to its not being successful.

On the other hand, I think on major system integration-type contracts where you have, for example—and that is why SBI-net, and I differentiate between it—it may, in fact, be the appropriate type of concept and contract vehicle, especially in the fact that I think the SBI-net is manned with many more resources and in many cases they have the range and depth of talent that are needed to manage a very complex technical integration effort.

So I would not, to use the expression, throw the baby out with the bathwater. I think it has a place. I think it needs to be based on the circumstances and the nature of the contract and how it is structured and how you incentivize the contractor. But I think there were really some very strong reasons why people thought at the start it was a good idea.

Senator AKAKA. Admiral, as I understand it, between June 2003 and December 2006, Lockheed and Northrup Grumman, the former Deepwater lead system integrator, received \$18 million in contract award fees from the Coast Guard. This is about 88 percent of the available award fees, which would seem to indicate that the job was done 88 percent well. To give it a grade, you might think of it as being a B-plus in most grading systems. I don't think, from what we have heard about the problems with Deepwater, that it deserves a B-plus. My question to you is, how would you grade Deepwater?

Admiral CURRIER. Well, Senator, I will be honest with you. This puts me in a little bit of a difficult situation because I have been in charge of the Acquisition Directorate, which is contracting and programs that are non-Deepwater, so I can give you an observation, but I want to be clear that I am not the program executive officer for Deepwater.

I can give you my opinion on this, there was a set of criteria used for award term evaluation that are currently being reviewed, such that they are more applied to actual performance than some of the general criteria that were used in the first evaluation of the award term. I think that is being relooked at by Admiral Blore, who is the PEO for Deepwater, and I think that there is going to be some overhaul in that area, sir. But I cannot give you—I will have to get back to you with specifics on that information.

Senator AKAKA. Would you consider the contract award fees in this case, fair?

Admiral CURRIER. Sir, I am not trying to be evasive, but I don't have enough information. I really don't. I can get back to you with that, with a statement from Admiral Blore, who is the PEO. But I, quite frankly, would be uncomfortable rendering an opinion on that.

Senator AKAKA. Let me ask Mr. Hutton, can you give me your thoughts on these contract award fees? How is it that a program with so many issues could get 80-plus percent of available award fees?

Mr. HUTTON. Senator, GAO issued a report, I believe a year ago, where they looked more broadly across several contracts over at DOD and I think there was a finding that was similar, that there were fees around that range. But yet when you look at the systems, they were having problems and it just raised the issue of are you sufficiently motivating the contractor for positive performance.

I share the Admiral's point that the award fee determining official basically makes that determination based on what was established as the criteria that they were going to use to judge the contractor's performance. So if that process was followed as appropriate and the determinations were considered appropriately and that is the score, then I think that is what they get. But I do think if there are major problems with systems, maybe one place you

might look at first, though, is just what was the criteria we were evaluating, if it seemed out of sync.

Senator AKAKA. Senator Voinovich.

Senator VOINOVICH. Mr. Schneider, a number of corrective actions to improve acquisition management for the SBInet program were to have been completed by this January. In the CBP response to the DHS Inspector General report, made with the concurrence of the Chief Procurement Officer, the Department said it would address concerns about the lack of defined project activities, measures for operational requirements and performance management objectives, time lines, anticipated costs, staffing levels, and expected outcomes. GAO testified in February that many of these issues remained.

I would like you to respond directly to the concern raised by the GAO and the DHS OIG and to tell us what, in your view, has been done, what needs to be done, and then Mr. Hutton, if you are at all familiar with what has transpired since February, what are your observations.

[The information requested for the Record follows:]

#### INFORMATION SUBMITTED FOR THE RECORD

DHS's Secure Border Initiative Network (SBInet) is a multi-year, multi-billion dollar program that will develop a comprehensive border protection system through a mix of technology, infrastructure, and personnel. In fiscal year 2007, the Congress appropriated \$1.2 billion for the program and asked GAO to review the SBInet expenditure plan. In February 2007, we recommended that DHS (1) ensure that future expenditure plans include explicit and measurable commitments relative to the capabilities, schedule, costs, and benefits associated with individual SBInet program activities; (2) modify the SBInet contract to include a maximum quantity or dollar value; and (3) re-examine the level of concurrency and appropriately adjust the acquisition strategy. To address our recommendation on the level of concurrency, in March 2007, DHS submitted a revised SBInet expenditure plan for fiscal year 2007 to Congress. The new plan delayed some technology deployment and, in its place, accelerated tactical infrastructure construction.

As of July 2007, SBInet is behind schedule because the pilot deployment project, Project 28, did not meet its June 2007 deadline. We continue to monitor the implementation of the SBInet program as part of our on-going work.

Mr. SCHNEIDER. Well, Senator, first off, as of right now, we are on track in terms of completing Project 28, and Project 28 is absolutely key. This is a 28-mile stretch of the border south of Tucson. So this is where we are basically—I call it the initial deployment of SBInet, where we are using cameras, we are using radar, we are using wireless communications. We have these roughly, I think it is 98-foot towers. We are basically exercising command and control, a common operating picture that goes back to Tucson headquarters as well as mobile command units, and we are actually—this is where the Army is going to be doing this test and evaluation.

So there is a modeling and simulation that has been done to predict, if you will, how well this system will perform in terms of tracking, cueing, and then determining the optimum method of intercept prior to the point of where the illegal aliens can basically not be apprehended.

So our plan is to—we have a pretty good idea of how well this system will perform. This equipment, for the most part, is off-the-shelf type of equipment and the communications gear is pretty straightforward. So our plan is—and we know how much this cost. This is a fixed price. I think it is roughly a \$20 million effort. And

so our plan is, as a result of this initial deployment and this independent test evaluation of the Army, is to figure out what the cost-benefit, if you will, is, how scalable it is as we march across the border.

So while sometimes we are criticized, and I have personally had this discussion with both the Inspector General and with the Comptroller General, David Walker, so while we are criticized sometimes for not having very clear performance requirements, etc., this is an example where we are trying to use available technology to minimize the risk and get an assessment for how well this system will perform, how we can augment it, if we need to put more cameras, if we need to put more radar, if we need to put more unattended ground sensors, etc., to enhance the performance if it is not adequate, and then make these trade-offs about is that performance acceptable, what is the manpower that it takes to go execute this, what is the cost—

Senator VOINOVICH. What I am trying to get at is that it is my understanding that they came back and they had some criticisms of the way this was being undertaken. What have you done to respond to those criticisms in terms of a system? Mr. Hutton, are you familiar at all with what has been happening since February? You folks came in and said they hadn't done these things. They were supposed to have them done by the end of January and the fact was they haven't been done. Have they been done to your knowledge or haven't you reviewed it lately?

Mr. HUTTON. Senator, I am not personally involved in that review. Colleagues at GAO are looking at that system. I believe there is some ongoing work right now, but I really do not know the status of those issues.

Senator VOINOVICH. I would like to know what were the issues and what have you done to respond to the issues.

I would also like to ask about your work with the Partnership for Public Service Private Sector Council. Max Stier and his group are a good resource that can be helpful. Have they been helpful in improving your post-award contract management? A lot of times the problem is that once they are awarded, nobody really stays on top of the contractor to make sure you get what has been promised. I would like you, Mr. Schneider, to comment on the partnerships pilot project.

Mr. SCHNEIDER. Well, I know that they are looking at best practices for contract administration, and that is the sum of it. I would have to get back to you and give you an assessment of—and I will—about exactly what they have done and what have we learned from them.

Senator VOINOVICH. Senator Akaka, I have no more questions.

Senator AKAKA. Thank you very much. I want to thank Senator Voinovich. As you know, I regard him as a champion of human capital management. He has been going after the high risks within our government system with me for years, and I want to emphasize that we are working together on these issues and trying to improve program outcomes.

So I want to thank you witnesses for being here today and contributing with your testimony and your responses. Getting DHS's acquisition management on track is vitally important to us and it

is an important issue because if it is not done properly, then there is the risk of waste, fraud, and abuse in contracting, and in this particular case in DHS contracting. It also puts not only our tax dollars at risk, but more importantly, our national security. I look forward to continuing to work with you, with the Department of Homeland Security, in monitoring this issue.

Senator VOINOVICH. Senator Akaka, could I make one more comment after you have finished?

Senator AKAKA. Yes. Let me call on Senator Voinovich for his closing remarks and then I will close it.

Senator VOINOVICH. I don't know whether this immigration bill is going to pass or not. Even if it doesn't pass, there is a lot in there that is already in the law. SBInet is going to be part of that.

I would like to say to you that there is a feeling out there that things aren't right at the Department of Homeland Security and that it has been an embarrassment to the Bush Administration. There is a feeling on the street that for some reason we just can't get things done around here. It is not helpful politically, and it is not helpful from a substantive point of view because people have to believe that those of us in government know what we are doing, especially when dealing with issues of national security.

I would suggest to you that if the immigration bill passes, the microscope is going to be focused on the Department. I would suggest that everybody be aware of that fact. Mr. Schneider, you and I have been talking about, are we winding up or are we winding down? One of the best things that could happen is that if it does pass, that you would really get together and make it happen.

And I am sure, following up on your suggestion about their budget, I know Senator Akaka and I will do everything within our power to make sure that money is put back in your budget so you have the money to do what you have to do.

Mr. SCHNEIDER. I would like the opportunity just to make a comment, if I may, Senator.

Senator AKAKA. Go ahead.

Mr. SCHNEIDER. I believe that if that bill passes, then the implementation and execution of that is probably the single most important thing that I have to worry about. If it helps, frankly, I would like you to know that going back about 4 or 5 weeks ago is when the Secretary asked me to make sure that we are positioned to successfully execute that. And I can tell you that we have put together a team from across the Department in a manner that is probably unprecedented since the Department was formed. This team works for me, and our job is the detailed execution of how this bill will be executed on the assumption that it passes.

We have the entire leadership of this Department that is mobilized in terms of focusing on what we have to do to execute, and I realize, and I know the Secretary and the Deputy Secretary and the heads of all the operating components realize what the importance of this bill is to the Nation, and the fact is we are very well aware that there will be a tremendous amount of visibility given to how well we perform. That is why I am personally satisfied that we have some of the best and brightest people from across the Department that are looking at how we are going to execute this thing.

Senator VOINOVICH. Thank you. Thank you, Senator.

Senator AKAKA. Thank you very much for your closing remarks, Mr. Schneider and Senator Voinovich.

Again, I want to thank you for your testimony and your responses. The hearing record will be open for 1 week for additional statements or questions other Members may have pertaining to this hearing.

The hearing is now adjourned.

[Whereupon, at 4:14 p.m., the Subcommittee was adjourned.]

# APPENDIX

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**TESTIMONY OF  
PAUL A. SCHNEIDER  
U.S. DEPARTMENT OF HOMELAND SECURITY  
UNDER SECRETARY FOR MANAGEMENT  
BEFORE THE US SENATE  
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL  
AFFAIRS COMMITTEE  
Subcommittee on Oversight of Government Management, the Federal  
Workforce and the District of Columbia  
*June 7, 2007***

Thank you Mr. Chairman, Ranking Member Voinovich and members of the Subcommittee. It's a pleasure to appear before you again.

I am here today to discuss the major Acquisition and Procurement challenges the Department faces and areas I will focus on as the Under Secretary for Management.

**Acquisition and Procurement**

Secretary Chertoff has expressed that his key goals for DHS are:

- Protect our Nation from dangerous people
- Protect the Nation from dangerous goods
- Protect and harden our critical infrastructure
- Strengthen our emergency preparedness and response
- Strengthen DHS core management, policy and operational integration

Achieving these goals places heavy reliance on the ability of the Department to have a strong acquisition and procurement capability.

The Department of Homeland Security is in the midst of many crucial acquisitions that are vital to the success of DHS. That is why we are working to strengthen acquisition and procurement by institutionalizing solid processes. To this end we are:

- Strengthening the requirements and investment review processes by improving the Joint Requirements Council (JRC) and Investment Review Board (IRB) process.
- Reviewing the major programs and investments to ensure that the requirements are clear, cost estimates are valid, technology risks are properly assessed, schedules are realistic, contract vehicles are proper, and the efforts are well managed.
- Building the capability to manage complex efforts by ensuring that program offices are properly structured and staffed with the right people and skills to ensure efficient and effective program management and oversight, and to aggressively hire where we have known shortages.
- Examining best practice metrics in use by other departments with the intent to start implementation this year.
- Expanding the DHS headquarters to provide leadership in all of the acquisition functions by hiring in each of the appropriate career fields.

To date, the Department has focused on procurement. Procurement, however, is only one element of acquisition management. Procurement is the actual transaction for goods or services and plays only a part in the overall acquisition process.

Acquisition is the process that starts with identifying a mission need, developing requirements and budget to meet that need, contracting with industry to deliver the products and services to fulfill the need, and sustaining the delivered system through its life. Acquisition includes managing operational and life-cycle requirements: from formulating concepts of operations, developing sound business strategies, and exercising prudent financial management to assessing trade-offs and managing program risks. Procurement or contracting teams act as business deal partners to the program office in the acquisition process.

Going forward, I will continue to focus on acquisition management as one of my major priorities and expedite training in key disciplines for those who manage the Department's major programs. By having more skilled employees and improved asset management tools, acquisition management will provide the Department with the infrastructure and resources it needs to complete its mission and secure the Homeland. In particular, DHS' \$15.7 billion procurement budget provides for the development, fielding and support of significant homeland security capabilities. These new capabilities are critical for the Department to better deliver large and complex initiatives.

**Key Processes**

During my tenure as the Under Secretary for Management and together with the Under Secretary for Science and Technology, we instituted a new process for making Science and Technology investments by ensuring the technology being pursued fills a defined operational need or mission gap.

To be successful institutionally, Acquisition requires the synchronization of science and technology with four major processes: requirements, budgeting, basic acquisition and procurement. This is essential in order to consistently produce acceptable capabilities within allocated resources. The difficulty occurs because these processes are usually executed independently, where different calendars and schedules drive their independent execution.

The urgency and complexity of DHS' mission will continue to demand rapid refinement of our major processes. One of the biggest challenges we have is to continue to build our capability in the operational components and at the Department-wide level, while the ongoing day to day business continues to move at a fast pace. That dictates a measured approach in implementation.

We have also instituted a new process for FY 09-13 planning which involves the entire Department. The objective is to identify the major issues and programs and those that cut across the entire department. The goal is to have adequate time to properly support the development of the FY 09 budget.

We have established the framework for a more responsive Investment Review process.

**U.S. Coast Guard Deepwater Program**

The major lessons learned from the several reviews of the program that were conducted are the following:

- The underlying assumption that government and industry were equal partners was not valid. The basic principle was flawed.
- The Coast Guard did not have the range and depth of personnel to manage complex acquisitions like Deepwater.
- The Deepwater concept though innovative in theory was probably not practical given the nature of the Coast Guard mission and the hands-on nature of the service.
- The program did not execute the originally envisioned plan and while some of the reasons could be attributed to 9/11 requirements changes, this alone was not the cause.

- The program was operated as a stand alone effort in the Coast Guard, yet many of the key elements like Logistics and C4ISR were in fact structured to be the future basis for the Coast Guard infrastructure in these key areas.

As a result of this overview, the U.S. Coast Guard Deepwater Program has been restructured. We have formalized a collaborative partnership with the Navy in order to identify best practices, common systems, technologies and processes for improved interoperability. The role of the Coast Guard in managing this large scale effort has changed to one of more hands-on control.

As a result of increased Coast Guard control, examples of acquisition related Deepwater Program improvements include:

- Competition is being injected across the product lines;
- A uniform Coast Guard approach to logistics support is being implemented to ensure better operational logistics performance;
- A service-wide C4I architecture is being pursued that is directed by the Coast Guard that focuses on fielding infrastructure and then adding functionality on a spiral basis;
- Contracts for National Security Cutters 1 and 2 are being updated and outstanding contractual issues are being addressed to establish a clear baseline for the remainder of the ships in the class;
- Current resources are being augmented with hiring at all levels to increase the professional talent of the acquisition workforce; and
- The Commandant is implementing his "Blueprint for Acquisition" which addresses major organizational and process changes to significantly improve the performance of Coast Guard Acquisition.

The major challenge the Coast Guard now faces in executing the "Blueprint for Acquisition" is hiring the experienced talent that it needs to manage complex acquisitions and to establish Acquisition as a valued career field with appropriate career paths for both military and civilians. This will require several years to fully mature.

#### **SBI<sup>net</sup>**

I am frequently asked if SBI<sup>net</sup> will turn into a "Deepwater problem". The answer is unequivocally no.

This program is managed by one of the most experienced Program Managers in government. SBI<sup>net</sup>, the Department's multi-year plan is to secure our borders and reduce illegal immigration by upgrading technology used in controlling the border,

including improved communications assets, expanded use of manned and unmanned aerial vehicles and state of the art detection technology.

The program's approach to securing our borders is comprehensive and includes risk mitigation factors. For example, the contract that was awarded to Boeing in September of 2006 has a base period of three years with three one-year option periods.

As such, there are two risk-mitigating factors to consider with regard to the Boeing contract. First, it allows DHS to execute the acquisition into discrete, workable phases, implemented through task and delivery orders. This approach provides the greatest amount of flexibility to respond to evolving requirements.

Second, the contract with Boeing is not exclusive, which means DHS reserves the right to compete and use other contract vehicles for the goods and services required for the *SBlnet* Program. Through this practice we are ensuring that tax dollars are spent wisely.

This phased, modular and scaleable methodology has been successful and a major accomplishment for DHS. Project 28 will demonstrate *SBlnet* system capabilities by deploying sensor towers, unattended ground systems and upgrades to existing Border Patrol vehicles and communication systems. Upon completion of Project 28, which is set for June 2007, the Army will conduct an independent test and evaluation and provide an independent assessment of *SBlnet*'s interim operating capabilities. Because this is a modular and scalable architecture, we will be in a position to make important tradeoffs on performance, risk and total system costs very early – all in less than one year after the contract was awarded. In my opinion, this is a model for spiral acquisition and risk reduction.

#### **The Use of Contractors**

The Government Accountability Office (GAO) and the Congress have indicated concerns that DHS relies extensively on outside agencies for contracting support. To date, our model for using contractors on projects such as Deepwater and *SBlnet* has been to address immediate staffing shortfalls. Because the Department has launched a number of new large scale initiatives, our acquisition workforce requires skill sets and experience that are very different from an ordinary acquisition program.

Prior to DHS' establishment in 2003, the Department's components did not have major acquisitions like the Coast Guard's Deepwater Program, i.e. programs that require large, mature and experienced acquisition support services such as those that exist in the Department of Defense for major weapons systems and ship-building.

However, through the Department's strategy, human resource recruitment efforts, employee training, and improved acquisition management, we will reduce our reliance on contractors. We will develop a mature acquisition workforce that will enable us to build our own "pipeline" of people, create a career-path from within the Department, and

reduce our inefficiencies in areas of oversight and project management. This will not happen overnight, but will require several years to fully mature.

#### **Acquisition Workforce**

Best practice acquisition management is executed by an integrated team of acquisition professionals who manage the entire life-cycle of a major program effort. However, because major acquisitions are somewhat new to the Department, DHS currently has a serious shortage of people who are experienced in program management, including its related functional areas such as acquisition logistics, earned value management, test and evaluation, cost estimating and systems engineering.

Although the Department received funding in the FY 2007 budget to hire additional acquisition personnel, obtaining qualified acquisition specialists in a timely manner is challenging. Competition for qualified and seasoned procurement personnel is intense across the Federal Government and the private sector. To date, DHS has initiated aggressive staffing solutions to resolve these personnel shortages and has centralized recruiting activities to better manage similar needs across the Department. Recent Washington, DC newspaper ads resulted in over 1,000 responses. A May career exposition at the Ronald Reagan Building resulted in over 300 job-seekers inquiring about career opportunities throughout the Department.

As part of the President's FY 2008 budget, we plan to initiate our Acquisition Intern Program. We will start with 66 new entry level positions in the contracting field, expand to the other career fields in FY 2009 and grow to 300 positions by FY 2010. This program is modeled after highly successful Department of Defense (DOD) programs and is especially critical for contracting. Unlike engineering, IT or finance, contracting is a field that is essentially learned. That is why the DOD and others have relied on intern programs to develop the leadership pipeline for this profession and why it is perhaps the most critical of our programs for strengthening the acquisition workforce.

Two weeks ago, I signed a partnership agreement with the Under Secretary of Defense (Acquisition, Technology and Logistics) and the President of Defense Acquisition University to leverage existing DOD training and development opportunities and use their capabilities and talent pool to help develop our workforce on a long term partnership basis. This partnership, in conjunction with our existing relationship with the Federal Acquisition Institute will improve our human capital management.

#### **Acquisition Organization**

Given how DHS was formed and its current maturity, it is not surprising that we do not have a consistent organization structure throughout the Department for example:

- The U.S. Coast Guard's "Blueprint for Acquisition Reform" will ultimately centralize all acquisitions similar to that of a DOD "Systems Command" like structure.

- SBI net comes under the SBI Program Director who is a direct report to the head of Customs and Border Protection (CBP). All other CBP programs are dispersed throughout the organization and report up through different levels.
- The Domestic Nuclear Detection Office (DNDO) is a stand alone program office that has 'cradle to grave' life cycle management responsibility for efforts under its purview and reports directly to the Secretary.
- Transportation Security Administration (TSA) programs are executed throughout the organization and report to different levels up to and including the Agency Head.

While this varied structure may not be the best one for the long term, I think it is more important to focus on acquisition processes and the individual program efforts rather than trying to develop a more perfect organizational structure at this time.

#### **Acquisition Authorities**

The two positions with authorities related to procurement and acquisition are the Chief Procurement Officer and the Under Secretary for Management. In accordance with the Services Acquisition Reform Act which was enacted as part of Title XIV of the National Defense Authorization Act for Fiscal Year 2004 (Pub. L. 108-136, Nov. 24, 2003) (41 U.S.C. 414(a)), I am the Chief Acquisition Officer (CAO) of DHS, as that law requires the CAO to be a non-career employee. The Chief Procurement Officer, Ms. Elaine Duke, who is here with me today is a career civil servant and serves as the Chief Procurement Officer and Senior Procurement Executive of the Department.

The Chief Procurement Officer has authority to exercise whatever oversight she determines to be proper over the execution of the procurement and contracting functions across the Department which includes: management, administration, and oversight of Department-wide acquisition, financial assistance, strategic sourcing, and competitive sourcing programs.

As the CAO, my authorities include in part:

- Monitoring the performance of acquisition activities and acquisition programs of the Department, evaluating the performance of those programs on the basis of applicable performance measurements and advising the Secretary regarding the appropriate business strategy to achieve the mission of the Department.
- Making acquisitions consistent with applicable laws and establishing clear lines of authority, accountability and responsibility for acquisition decision making within the Department.

- Managing the direction of acquisition policy for the Department including implementation of the unique acquisition policies, regulation and standards of the Department.

There have been several recommendations made by the Office of the Inspector General and the GAO to strengthen these authorities.

In my early assessment of the Office of Management, I recognized that our Chief Information Officer, Scott Charbo, did not have the requisite authority over each of the DHS IT components and that the documented concerns of the GAO with respect to authority of the business chiefs was valid in this case. The Secretary agreed with my assessment and shortly thereafter issued a Management Directive to provide the CIO with such authority. I am currently examining the authorities of the Chief Procurement Officer and if I determine similar action to that which I took for the CIO is required, I will ask the Secretary for such authority.

In the case of the CAO authorities, the major difference between the responsibility of the DHS CAO and the Under Secretary of Defense (Acquisition, Technology and Logistics), is that the Defense Acquisition Executive has specific authority granted by Title 10 USC Section 133 to direct the Service Secretaries in Acquisition matters. I think it is important to recognize that this major change took place as a result of the Goldwater – Nichols legislation. It was inculcated several years later by the reorganization of the Department of Defense. The Defense Management Review established a top down organization structure to enable the reassignment of authorities to be successfully executed.

I think the Department is still in its developing stages and I strongly agree with the Secretary that as a result of his second stage review there would be no more major reorganizations during his administration. If I think I need any additional authorities, I will ask him.

#### **Information Technology**

Many of the DHS investment programs have a significant information technology aspect to it which we have strengthened. Our IT efforts are as follows:

- The Department's Enterprise Architecture Board (EAB) reviews investments at various stages in the IRP and CPIC cycles.
- The EAB published the Homeland Security Enterprise Architecture Version 2007 to ensure best business practices and consistency.
- OMB gave an overall rating of "yellow" on the Homeland Security Enterprise Architecture 2007. However, we received a green for Completion and for Use. We are working to improve our reporting of savings.

- The enterprise architecture assists in the creation of DHS strategic plans and alignment of all investments to mission needs.
- Consolidation of major networks and systems continues the reduction of seven wide-area networks and creation of one common e-mail platform.
- The first 24,000 square feet of a Department-wide primary data center has been opened in order to consolidate multiple disparate data centers into a more secure and cost effective environment. An additional 40,000 square feet is under construction and due to open in July.
- The contract for a second data center is currently in the source selection phase.

**Conclusion**

As the Department enters into its next stage of development to transform into an effective, integrated organization, it is important to keep in mind that this process is a marathon, not a sprint. My immediate focus is to ensure the success of our major efforts, that we are properly structured, and have developed and implemented sustainable, long-term processes which will build our capabilities. To do so, we need to get correct systems in place. This takes time, but we are building for the future.

Thank you for your leadership and continued support of the Department of Homeland Security and its management programs. I look forward to working together in shaping the future and success of DHS with energy and enthusiasm.

Thank you for this opportunity to be here today, and I would be pleased to respond to any questions that you may have.

U. S. Department of  
Homeland Security  
United States  
Coast Guard



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**DEPARTMENT OF HOMELAND SECURITY**

**U. S. COAST GUARD**

**STATEMENT OF**

**ADMIRAL JOHN P. CURRIER**

**ON THE**

**DHS ACQUISITION: WHO IS REALLY IN CHARGE**

**BEFORE THE**

**SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT  
MANAGEMENT, THE FEDERAL WORKFORCE  
AND THE DISTRICT OF COLUMBIA**

**COMMITTEE ON HOMELAND SECURITY -  
AND GOVERNMENTAL AFFAIRS**

**U. S. SENATE**

**JUNE 7, 2007**

Good afternoon, Mr. Chairman, Ranking Member Voinovich, and distinguished members of the Subcommittee. I appreciate the opportunity to talk to you today about U.S. Coast Guard acquisition efforts.

I took over as Assistant Commandant for Acquisition in July 2005. The twenty-three months since have been a dynamic time in the world of government acquisition in general, and in USCG and DHS particularly. Our Coast Guard acquisition portfolio is now approximately \$25.8 billion of critical investments in total—or about \$1.4 billion annually—across 16 major acquisitions. Effectively managing this investment and supporting processes is critical to the Service's future to ensure we continue to fulfill our role as the lead federal agency to prevent and respond to safety and security threats in the maritime domain or for maritime homeland security.

Recently, we undertook two significant acquisition-related initiatives with the goal of enhancing mission execution through a responsive, competent and efficient acquisition organization. When Admiral Thad Allen became Commandant in May 2006, his first action order directed consolidation of previously disjointed acquisition activities under a single directorate. What began as consolidation of the Deepwater program office and our existing acquisition directorate has expanded to include the Office of Procurement Management, the Office of Research, Development, and Technical Management, the Research and Development Center and the Head of the Contracting Activity.

Several of these activities migrated to my office between December 2006 and April 2007. A larger stand-up to consolidate the remaining activities is scheduled for July 13<sup>th</sup>. At that time, Rear Admiral Gary Blore, the current Deepwater Program Executive Officer (PEO), will become Assistant Commandant for Acquisitions.

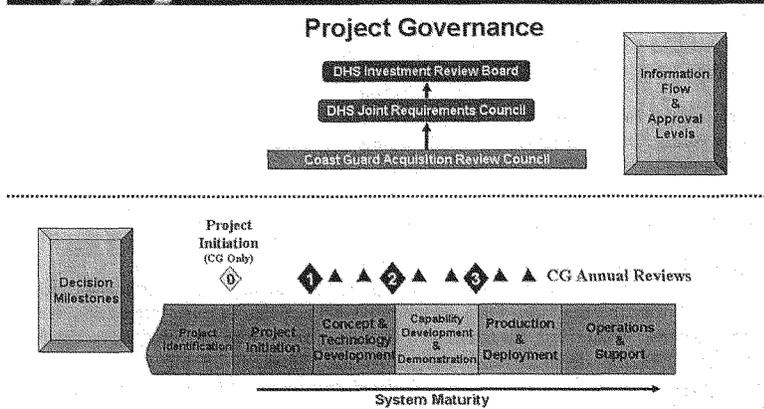
The second initiative is implementation of our *Blueprint for Acquisition Reform*, designed to address our post-9/11 acquisition capability and build upon “lessons learned” from Deepwater and other complex programs. I will discuss the *Blueprint* in more detail elsewhere in this statement, but mention it here to underscore that it is in keeping with forward-looking objectives to standardize and strengthen acquisition processes across the Coast Guard and DHS. As Assistant Commandant, I have had the opportunity to influence, and be influenced by, DHS efforts to develop effective acquisition governance, ably led by the Chief Procurement Officer (CPO), the Chief Financial Officer (CFO), the Chief Information Officer (CIO), and the Under Secretary for Management. The result is increasingly improved alignment of budget, planning, review and approval processes for acquisition activities.

#### ***Effective Acquisition Governance***

Project governance processes have been in place for major acquisitions prior to and since the standup of the Department. These include a formal investment review process that validates requirements, ensures affordability and spending that supports DHS missions, and decision milestones to gain internal and external approvals needed to advance to follow-on phases of the acquisition program. Our internal process is under the purview of the Coast Guard Acquisition Review Council, chaired by our Agency Acquisition Executive (AAE), who is also our Vice Commandant. External review is the responsibility of the DHS Joint Requirements Council and Investment Review Board, chaired by the Deputy Secretary of Homeland Security and of which our AAE is a member. In these venues, we are able to partner with other DHS components to consider cross-functional needs and requirements.



**Blueprint for Acquisition Reform  
in the U. S. Coast Guard**



Within the Acquisition's Directorate, we have established a joint DHS/USCG executive oversight committee for our large Rescue 21 program to help monitor the project's cost and schedule risks. In addition to myself, committee membership includes the Coast Guard CFO, the Rescue 21 project manager, the Chief, Office of Command and Control Capabilities (the project sponsor), the DHS Director of Program Analysis and Evaluation (PA&E), and representatives of the DHS CFO, CPO and CIO. We have been meeting together quarterly since June 2006 and I believe the program has benefited from participation by both the Department and Coast Guard.

***Evidence of Improved Governance***

I'm pleased to bring to your attention some specific examples of changes in Coast Guard business processes resulting directly from more focused governance:

- An update to our Major Systems Acquisition Manual, or MSAM, to institute a more rigorous approach to identify projects, ensure proper execution of acquisition program management functions, and align with DHS investment review policy;
- Aggressive restructuring of the Deepwater program to position the Coast Guard to assume greater system integrator responsibilities, enhance competition; pursue service-wide logistics and network architecture solutions, create depth in the acquisition workforce, improve the existing contract for the new award term, and achieve best value for the American people; and

- Increased use of comprehensive acquisition plans, business case analyses and independent, third-party reviews in decision making and program management. For instance, as part of developing the FRC-B/Replacement Patrol Boat Request for Proposal (RFP), the project manager employed a “red team” of independent subject matter experts to evaluate the draft RFP and aid in making requirements completely clear prior to its release to industry later this month. Also, the Deepwater PEO last fall leveraged the Coast Guard R&D Center to consider the risks and way ahead for unmanned aerial vehicles.

This is just a small sample of our robust acquisition process. We have also established partnerships with the Office of Naval Research, Center for Naval Analysis, Naval Sea Systems Command, Defense Acquisition University, and others.

*A Model for Mid-Sized Federal Agency Acquisition*

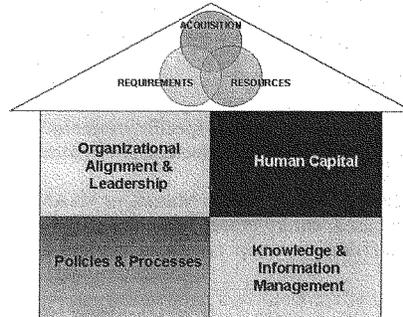
In building the *Blueprint for Acquisition Reform*, we considered numerous studies, inspector general reports, Government Accountability Office (GAO) audits, and internally-generated “lessons learned” from the past five years which cited deficiencies in our systems acquisition process and structure. Additionally, we reviewed features mandated in the Services Acquisition Reform Act (SARA) and department-wide expectations expressed by the CAO and CPO. Ultimately, we settled on the “house” framework developed by GAO for assessing the relative health of acquisition performance in federal agencies.



**Blueprint for Acquisition Reform  
in the U. S. Coast Guard**



**Acquisition Reform Framework for the USCG**



Based on the standard GAO Agency Acquisition Assessment Model

Each cornerstone (room) in the framework required the development of individual plans comprised of specific actions needed to enhance the overall efficiency and functionality of our acquisition enterprise. We have developed plans to address challenges and make improvements in: organizational alignment and leadership (which includes the consolidation of acquisition activities under one directorate); policies and processes; human capital; and knowledge and information management. We are acting upon many aspects of the plans, but know it will take time to comprehensively implement the framework.

The end result of these concerted actions will be the development of an acquisition directorate capable of efficiently and effectively meeting the mission requirements of Coast Guard operational forces in the post-9/11 world—thereby protecting our nation from dangerous people, cargo and conveyances, protecting our critical infrastructure and resources, improving emergency preparedness and response, and ensuring natural maritime safety.

#### ***Acquisition Reform Strategic Intent***

In concert with departmental governance, the *Blueprint* is designed to achieve the specific strategic intent outlined below:

- Enhance mission execution by delivering integrated systems, assets and support necessary to accomplish maritime safety and security tasking;
- Establish adequate balance between requirements origination, acquisition management, and resource functions;
- Equip the Coast Guard to acquire major systems using organic capability or through management of a systems integrator, when appropriate;
- Align Coast Guard acquisition and procurement policies with DHS mandates; and
- Develop organic workforce competencies for both military and civilian employees, including in program management, contracting, and business and financial management.

We desire to become the model for mid-sized federal agency acquisition and procurement in the U.S. Government, and the *Blueprint* charts the course to this end.

#### ***In Summary***

The Coast Guard culture is one geared toward action, with a strong ethos of partnering to accomplish missions. The *Blueprint* fits both our cultural and functional requirements for effective mission support.

By establishing clear governance processes, clarifying agency roles and responsibilities, redefining relationships with industry to ensure proper controls, and leveraging partnerships within DHS and the Department of Defense to spend scarce acquisition dollars wisely, we are ensuring that the Coast Guard of tomorrow can remain “always ready.”

Thank you for the opportunity to appear before you today. I look forward to your questions.

United States Government Accountability Office

**GAO**

Testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

For Release on Delivery  
Expected at 2:30 p.m. EDT  
Thursday, June 7, 2007

**DEPARTMENT OF  
HOMELAND SECURITY**

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

Statement of John P. Hutton, Director  
Acquisition and Sourcing Management



June 7, 2007

## DEPARTMENT OF HOMELAND SECURITY

## Ongoing Challenges in Creating an Effective Acquisition Organization


**Highlights**

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

**Why GAO Did This Study**

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

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

**What GAO Recommends**

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

[www.gao.gov/cgi-bin/getpt?GAO-07-948T](http://www.gao.gov/cgi-bin/getpt?GAO-07-948T).

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

**What GAO Found**

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

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

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

**Department of Homeland Security Missions, Assets**

Border Security Patrol

National Security Cutter

Baggage Screening

Source: DHS.

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Mr. Chairman and Members of the Subcommittee:

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

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

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## Summary

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

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

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

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

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

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### DHS Faces Challenges in Establishing an Integrated Acquisition Function

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

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### Acquisition Function Is Not Integrated

DHS has set a goal of integrating the acquisition function more broadly across the department. Prior GAO work has shown that to implement acquisition effectively across a large federal organization requires an integrated structure with standardized policies and processes, the appropriate placement of the acquisition function within the department, leadership that fosters good acquisition practices, and a general framework that delineates the key phases along the path for a major acquisition. An effective acquisition organization has in place knowledgeable personnel who work together to meet cost, quality, and timeliness goals while adhering to guidelines and standards for federal acquisition. DHS, however, relies on dual accountability and collaboration between the CPO and the heads of DHS's components.

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

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

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

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

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**Efforts to Address  
Acquisition Workforce  
Staffing**

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

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

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<sup>4</sup>DHS Management Directive 1400, *Investment Review Process*, May 2003.

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

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**CPO Has Established an Acquisition Oversight Program**

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

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<sup>5</sup>GAO-05-179

<sup>6</sup>DHS Management Directive 0784, *Acquisition Oversight Program*, December 2005.

**Table 1: DHS Acquisition Oversight Program**

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

Source: GAO analysis of DHS data.

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

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

**DHS Investment Review Process Needs Improvement**

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

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

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

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<sup>7</sup>GAO-05-179.

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

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

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**DHS Reliance on Contracting For Critical Services Requires Enhanced Management Attention**

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

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**Interagency Contracting Needs to be Carefully Managed**

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

Although interagency contracts can provide the advantages of timeliness and efficiency, use of these types of vehicles can also pose risks if they are not properly managed. GAO designated management of interagency contracting a governmentwide high risk area in 2005. A number of factors can make these types of contracts high risk, including their use by some agencies that have limited expertise with this contracting method and their contribution to a much more complex procurement environment in which accountability has not always been clearly established. In an interagency contracting arrangement, both the agency that holds and the agency that makes purchases against the contract share responsibility for properly managing the use of the contract. However, these shared responsibilities often have not been well defined. As a result, our work and that of some

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

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

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

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**Use of System Integrator  
Poses Management  
Challenges**

Government agencies, including DHS components, have turned to a systems integrator in situations such as when they believe they do not have the in-house capability to design, develop, and manage complex acquisitions. This arrangement creates an inherent risk, as the contractor is given more discretion to make certain program decisions. Along with this greater discretion comes the need for more government oversight and an even greater need to develop well-defined outcomes at the outset. Our reviews of the Coast Guard's Deepwater program have found that the Coast Guard had not effectively managed the program or overseen the system integrator.<sup>18</sup> Specifically, we expressed concerns and made a number of recommendations to improve the program in three areas: program management, contractor accountability, and cost control through competition.<sup>19</sup> While the Coast Guard took some actions in response to some of our concerns, they have recently announced a series of additional steps to address problems with the Deepwater program, including taking on more program management responsibilities from the systems integrator.

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**Enhanced Oversight  
Required for Service  
Contracts**

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

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<sup>18</sup>Deepwater is a 25-year, \$24 billion effort to upgrade or replace existing Coast Guard aircraft and vessels in order to carry out its missions along our coastlines and farther out at sea.

<sup>19</sup>GAO, *Coast Guard: Changes to Deepwater Plan Appear Sound, and Program Management Has Improved, but Continued Monitoring Is Warranted*, GAO-06-546 (Washington, D.C.: Apr. 26, 2006); *Contract Management: Coast Guard's Deepwater Program Needs Increased Attention to Management and Contractor Oversight*, GAO-04-380 (Washington, D.C.: Mar. 9, 2004); and *Coast Guard: Preliminary Observations on Deepwater Program Assets and Management Challenges*, GAO-07-446T (Washington, D.C.: Feb. 15, 2007).

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

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## Conclusion

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

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

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## Contacts and Acknowledgments

For further information regarding this testimony, please contact John Hutton at (202) 512-4841 or [huttonj@gao.gov](mailto:huttonj@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this product. Other individuals making key contributions to this testimony were Amelia Shachoy, Assistant Director; Tatiana Winger; William Russell; Heddi Nieuwsma; Karen Sloan; and Sylvia Schatz.

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

**BACKGROUND**  
**DHS'S ACQUISITION ORGANIZATION: WHO IS REALLY IN CHARGE?**  
**JUNE 7, 2007**

**BACKGROUND**

The formation of the Department of Homeland Security, which began operations in March 2003, was the single largest restructuring of the federal government since the creation of the Department of Defense in 1947.

This restructuring brought together 22 federal agencies and offices, many of which were not primarily focused on homeland security missions prior to September 11, 2001. In FY2006, DHS spent over \$15 billion on contracts for goods and services, making them third in line behind the Department of Defense and Department of Energy in the amount of money spent on contracts.

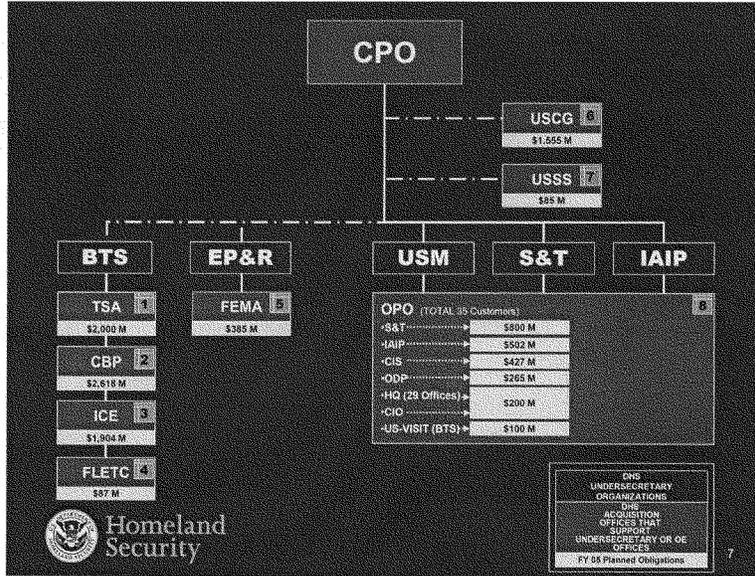
Several of the agencies that were brought together under DHS already had their own acquisition organizations which stayed largely intact. All but two of these organizations – the U.S. Coast Guard and the Secret Service – were brought under partial authority of DHS's Chief Procurement Officer.

**DHS ACQUISITION ORGANIZATION**

The Chief Procurement Officer is under the Directorate for Management, led by Under Secretary Paul Schneider. The current CPO is Elaine Duke, who took over after the retirement of DHS's first CPO, Douglas Rothwell.

When DHS was formed, seven of the twenty-two agencies and offices that came together already had their own acquisition shops. These agencies include the Transportation Security Administration (TSA); Customs and Border Protection (CBP); Immigration and Customs Enforcement (ICE); the Federal Law Enforcement Training Center (FLETC); the Federal Emergency Management Agency (FEMA); the U.S. Secret Service (USSS); and the U.S. Coast Guard (USCG).

These seven components, which fall under several under secretaries, continue to maintain their own acquisition organizations. For DHS components that did not have their own acquisition organization when they came to DHS, a new Office of Procurement Operations (OPO) was formed under the CPO to provide procurement support.



Department of Homeland Security Acquisition Program Presentation, January 25, 2005

Under a 2004 DHS management directive (MD 0003)<sup>1</sup>, the CPO and heads of the individual acquisition components must collaborate and standardize acquisition policies, strive to pool purchases, and coordinate on strategies for hiring, training and certifying procurement professionals.

According to DHS, the U.S. Coast Guard and Secret Service are exempt from the directive under the Homeland Security Act of 2002 (HAS, P.L.107-296), which calls for the Coast Guard and Secret Service to remain distinct entities within DHS. In several reports and testimony before House and Senate Committees, GAO has disagreed with this assessment, saying that USCG and USSS can still be distinct and fall under the management directive, and have recommended that DHS apply the directive to them<sup>2</sup>.

**ACQUISITION MANAGEMENT CHALLENGES**

<sup>1</sup> Department of Homeland Security, *Acquisition Line of Business Integration and Management*, October 28, 2004 (Management Directive 0003).

<sup>2</sup> GAO Report, *Department of Homeland Security: Successes and Challenges in DHS's Efforts to Create an Effective Acquisition Organization*, GAO-05-179. March 2005

In January 2007, DHS Management was once again included on the Government Accountability Office 2007 High Risk List.<sup>3</sup> GAO noted in their report that one of the difficulties facing DHS is that “some [acquisition] components remain exempted from the unified acquisition organization, and the chief procurement officer has insufficient staff for departmentwide oversight.” In testimony before the House earlier this year, GAO testified that according to DHS, the CPO only had five staff assigned to acquisition oversight<sup>4</sup>.

A December 2006 report<sup>5</sup> by the DHS Inspector General (DHS IG) identified significant risks in three main areas.

- Adherence to Ethical Conduct. DHS IG recommends increased training and guidance in ethics for senior program managers and procurement officials. The CPO is now working to initiate more online training for acquisition officials and has a pilot program for increased ethics training for senior management.
- Program Management. Increasingly complex and high dollar programs require a broad array of procurement expertise. Many DHS procurements have encountered problems related to ill-defined technical and performance requirements in contracts. DHS IG recommends more program managers; department-wide standards for program management; more independent analysis and review of programs; better defined contract requirements; and more balance among schedule, cost, and performance when expediting contracts.
- Procurement Management. Many DHS procurement offices reported to the IG a lack of proper staffing which limits contractor performance monitoring and impacts contract administration.

DHS Undersecretary for Management Paul Schneider, in testimony before this Subcommittee on May 10, 2007, said that DHS continues to struggle from a lack of an experienced contract workforce. The FY2007 DHS Appropriations Act (P.L.109-295) provided for 400 additional contractor positions. However, recruitment can still be difficult due to the fierce competition for acquisition specialists, especially in the Washington, DC area.

The Department’s FY 2008 budget request includes a plan to initiate an Acquisition Intern Program modeled after similar DOD programs. The program initially hopes to provide 66 new entry level positions, growing to 200 positions by FY 2010.

According to GAO, DHS also faces challenges related to the lack of a unified acquisition organization. The CPO has dual authority over procurement at DHS’s several components, leaving sometimes unclear working relationships between the CPO and the components. In

<sup>3</sup> GAO Report, *High Risk Series: An Update*, January 2007 (GAO-07-310)

<sup>4</sup> GAO Report, *Observations on the Department of Homeland Security’s Acquisition Organization and on the Coast Guard’s Deepwater Program*. February 8, 2007 (GAO-07-453T).

<sup>5</sup> DHS Inspector General, *Major Management Challenges Facing the Department of Homeland Security*. December 2006 (OIG-07-12).

addition since USCG and USSS do not fall under the management directive<sup>6</sup> defining these working relationships, they are largely unaccountable to the CPO.<sup>7</sup>

#### COAST GUARD'S DEEPWATER CONTRACT

The Coast Guard's Deepwater contract is a \$24 billion, 25-year project to replace and modernize the Coast Guard's aging fleet of aircraft and deepwater-capable ships.

The contract has faced serious criticism from the DHS IG, the Defense Acquisition University (DAU), GAO, and many Members of Congress. Contract costs soared in its first few years, and upon delivery of the first cutters, deficiencies were found, including cracks in the hull. Several hearings have been held on the subject, many of which focused on poor management of the contract and the poor performance of the contracted lead system integrator (LSI)<sup>8</sup>.

The Coast Guard has announced a series of actions to reform the management of the Deepwater program. Among other things, the Coast Guard announced it will assume the role of LSI for the program. On May 17, 2007, the Coast Guard announced it was seeking damages from the former LSI, made up of Lockheed Martin and Northrop Grumman.<sup>9</sup> The Justice Department also is reportedly looking into several of the contractors involved in Deepwater.<sup>10</sup>

#### SECURE BORDER INITIATIVE CONTRACT

In 2005, the Administration announced the Secure Border Initiative, or SBInet. This multi-year initiative strives to secure both the Northern and Southern border using a mix of current and future technologies to monitor the border. The contract is an indefinite-cost, indefinite-quantity contract, which will likely run over one billion dollars. Most of the tasks for the contract remain undefined until the Department works with the contractor to determine specific needs.

With past problems in acquisition management at DHS, particular attention is being paid to SBInet. A November 2006 audit by the DHS Inspector General concluded that DHS still lacks the capacity to effectively execute and oversee this contract<sup>11</sup>. Specifically, the IG concluded that DHS "does not have the capacity needed to effectively plan, oversee, and execute the SBInet program; administer its contracts; and control costs and schedule."

<sup>6</sup> Department of Homeland Security, *Acquisition Line of Business Integration and Management*, October 28, 2004 (Management Directive 0003).

<sup>7</sup> GAO Testimony, *Challenges in Creating and Effective Acquisition Organization*, July 27, 2006 (GAO-06-1012T).

<sup>8</sup> Congressional Research Service, *Coast Guard Deepwater Program: Background, Oversight Issues, and Options for Congress*. May 30, 2007 (RL33753).

<sup>9</sup> Washington Post, "Coast Guard Seeks Deepwater Refund" Renae Merle, May 18, 2007.

<sup>10</sup> Defense News, "U.S. Justice Department Investigating Deepwater" Patricia Kime, April 19, 2007.

<sup>11</sup> DHS Inspector General, *Risk Management Advisory for the SBInet Program Initiation*. November 2006 (OIG-07-07).

In his testimony before this Subcommittee in May 2005, Under Secretary Schneider outlined factors that he believes will mitigate risks in the SBInet program. First, the contract allows execution in phases through individual task and delivery orders. Also, the contract with Boeing is not exclusive, so DHS can open the contract back up to competition as needed.<sup>12</sup>

#### **SUGGESTED QUESTIONS**

What steps has the Coast Guard taken to fix the problems that plagued the Deepwater program?

Does DHS believe it is equipped to effectively manage and oversee the SBInet program?

Notwithstanding current statute, would DHS prefer to apply the 2004 acquisition line of business management directive to USCG and USSS?

Is the Department able to recruit and retain the qualified acquisition employees that it needs?

Are reforms to the Deepwater program sufficient to address concerns over past program management?

Does the Chief Procurement Officer have adequate authority to impose unified policies regarding acquisitions across the entire Department?

#### **LEGISLATION**

Homeland Security Act of 2002, Pub. L. No. 107-296, 116 Stat. 2135.

#### **ADDITIONAL INFORMATION/RESOURCES:**

Congressional Research Service Report, *Homeland Security: Department Organization and Management*, Order Code RL31751. January 3, 2005.

Congressional Research Service Report, *Coast Guard Deepwater Program: Background, Oversight Issues, and Options for Congress*, Order Code RL33753. May 30, 2007.

GAO Report, *Department of Homeland Security: A Comprehensive and Sustained Approach Needed to Achieve Management Integration*, GAO-05-139. March 16, 2005

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<sup>12</sup> Statement of Paul Schneider, Under Secretary for Management, U.S. Department of Homeland Security, before the before the Oversight of Government Management Subcommittee of the Homeland Security and Governmental Affairs Committee, U.S. Senate, May 10, 2007.

GAO Report, *Department of Homeland Security: Successes and Challenges in DHS's Efforts to Create an Effective Acquisition Organization*, GAO-05-179. March 2005

GAO Testimony, *Management and Programmatic Challenges Facing the Department of Homeland Security Highlights*. Statement of David M. Walker, Comptroller General, Government Accountability Office before the Committee on Homeland Security, House of Representatives, February 7, 2007.

DHS Office of the Inspector General, *Major Management Challenges Facing the Department of Homeland Security*, OIG-06-14, December 2006.  
[http://www.dhs.gov/xoig/assets/mgmttrpts/OIG\\_07-12\\_Dec06.pdf](http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_07-12_Dec06.pdf).

DHS Office of the Inspector General, *Risk Management Advisory for the SBInet Program Initiation*, OIG-07-07, November 2006.  
[http://www.dhs.gov/xoig/assets/mgmttrpts/OIG\\_07-07\\_Nov06.pdf](http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_07-07_Nov06.pdf).

DHS Office of the Inspector General, *Semiannual Report to the Congress: October 1, 2006 – March 31, 2007*, April 30, 2006.  
[http://www.dhs.gov/xoig/assets/semiannlrpts/OIG\\_SAR\\_Oct06\\_Mar07.pdf](http://www.dhs.gov/xoig/assets/semiannlrpts/OIG_SAR_Oct06_Mar07.pdf).

*An Overview of Issues and Challenges Facing the Department of Homeland Security*. Statement of Richard L. Skinner, Inspector General, U.S. Department of Homeland Security before the Committee on Homeland Security, House of Representatives, February 7, 2007.

Statement of Paul Schneider, Under Secretary for Management, U.S. Department of Homeland Security, before the before the Oversight of Government Management Subcommittee of the Homeland Security and Governmental Affairs Committee, U.S. Senate, May 10, 2007.

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



**Homeland  
Security**

JUL 2 2007

The Honorable Daniel K. Akaka  
Committee on Homeland Security  
and Governmental Affairs  
Subcommittee on Oversight of  
Government Management, the Federal  
Workforce and the District of Columbia  
United States Senate  
Washington, DC 20510

Dear Senator Akaka:

During my June 7, 2007 hearing before the Senate Committee on Homeland Security and Governmental Affairs Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia, you requested that I respond to specific questions regarding the number of new acquisition staff the Department has hired. In Fiscal Year 2006, the Department of Homeland Security (DHS) hired 196 new contracting employees. By June 12, 2007 an additional 68 have been added.

If I can be of more assistance on this or other matters, please contact me at (202) 447-3400.

Sincerely,

A handwritten signature in cursive script that reads "Paul A. Schneider".

Paul A. Schneider  
Under Secretary for Management



## DEPARTMENT OF DEFENSE

DEFENSE ACQUISITION UNIVERSITY  
OFFICE OF THE PRESIDENT  
9920 BELVOIR ROAD  
FORT BELVOIR, VA 22060-3565

Rear Admiral Gary T. Blore  
United States Coast Guard  
Program Executive Officer  
Integrated Deepwater System  
1900 Half Street, SW  
Washington, DC 20593

FEB 5 2007

Dear Admiral Blore,

The Defense Acquisition University "quick look" report on the Deepwater program is attached. You requested that the study address program execution, processes, acquisition organization and workforce. Our study team, led by Mr. David Fitch, addressed those areas.

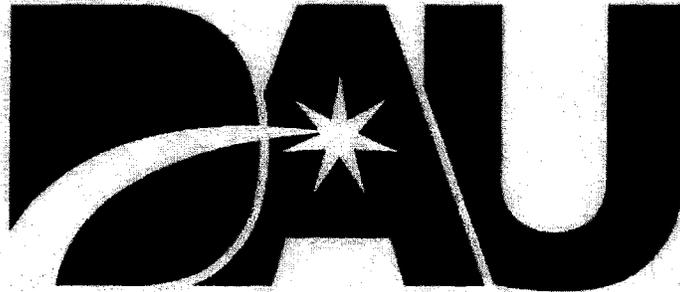
The report reflects the observations and conclusions of the study team. In aggregate, the study team has more than 160 years of major systems acquisition management experience. Many of the study findings and recommendations are focused on broader issues of United States Coast Guard (USCG) management and oversight of acquisition programs and support.

The study team received a high level of cooperation from USCG officials and members of the Deepwater industry team. If you have any questions regarding this report, please call Mr. Fitch at (703) 805-4368.

Sincerely,

  
Frank J. Anderson, Jr.  
President

Attachment



**Defense Acquisition University**

**Quick Look Study**

**United States Coast Guard  
Deepwater Program**

**February 2007**

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**Defense Acquisition University**  
**Quick Look Study**  
**United States Coast Guard Deepwater Program**

**Executive Summary**

The Defense Acquisition University (DAU) conducted a "quick look" study of the United States Coast Guard (USCG) Deepwater Program (DW) in October and November 2006 to provide findings and recommendations to the Program Executive Officer (PEO) Integrated Deepwater System (IDS) for improvement of program performance. The study team reviewed program documentation and conducted interviews with government and industry officials and staff. Preliminary findings and recommendations were developed for the purpose of discussions with the PEO IDS and other USCG officials.

This report is a synthesis of the study team's review and ensuing discussions with USCG officials, including the USCG Agency Acquisition Executive (AAE). The team experienced an extraordinary high level of cooperation and candor throughout the study and during the follow-on discussions. The study team has reviewed a USCG plan titled a *Blue Print for Acquisition Reform* that is comprehensive and responsive to the human capital, organization, process and governance related findings and recommendations in this report. The objective of the "*Blue Print*" is to establish the USCG as a model of acquisition excellence in a mid-sized agency.

The USCG has consistently demonstrated the ability to successfully acquire and sustain systems of moderate complexity and scope. The Integrated Deepwater System is an acquisition program of significantly greater scope and complexity. The need to quickly recapitalize the USCG with a portfolio of new capabilities led to the Systems of Systems (SoS) acquisition strategy. The SoS strategy, however, required increased numbers of acquisition personnel, significantly greater depth of major systems acquisition management experience, and increased integration of USCG resources, oversight and governance.

The significant events of 9/11 and realignment of the USCG under the Department of Homeland Security (DHS) further increased the scope and complexity of USCG maritime security missions. The extent of the changes needed in USCG acquisition competencies, numbers of personnel, organizational structure, management, oversight, governance and decision making are now recognized and addressed in the *Blue Print for Acquisition Reform*. The sustained commitment of the Commandant and other USCG leadership will be required to meet the challenge of a reform of this magnitude, concurrent with the procurement of Deepwater, other new capabilities and sustainment of current capabilities.

**Overarching findings and recommendations:**

- The SoS strategy for recapitalization of the USCG had the potential to optimize the acquisition of capabilities to meet a diverse portfolio of USCG missions and minimize total ownership cost. A rigorous pre-acquisition study phase and full and open competition resulted in award of a contract to Integrated Coast Guard

Systems (ICGS), a joint venture involving operating units of Northrop Grumman (NG) and Lockheed Martin (LM). The significant events of 9/11 and expanded USCG missions arising from alignment under (DHS), challenged execution of the DW acquisition strategy and the results have not been as planned. Primary causes include:

- o Requirements changes that were necessary to accommodate increased missions, many after the completion of key systems engineering milestones
- o Funding at levels below the contract negotiated with ICGS
- o Contract structure that is inappropriate to the environment of changing missions and requirements, and major systems integration
- o Industry emphasis on work sharing among the joint venture partners that has minimized the use of other US industry and existing USCG support infrastructure
- o Insufficient numbers of USCG acquisition personnel and insufficient experience in major systems acquisition
- o Lack of a management model and processes sufficient for the management and oversight of the major systems acquisition environment of DW

These causes have significantly increased the risk of procuring the DW capabilities required for USCG missions within the estimate of \$24 billion. De-scoping of requirements or adjustment to the budget is needed. **The study team recommends changes in acquisition strategy, contract structure and management. In addition, changes in USCG governance, organization, processes and acquisition workforce are recommended (and specifically addressed in the *Blue Print for Acquisition Reform*.**

The USCG does not now possess sufficient numbers of acquisition personnel or the level of major systems acquisition experience needed to manage the DW and other USCG acquisition programs. Major systems acquisition competency areas that are in the greatest need of infusion of experience are program management, contracting, and financial management (including earned value management and cost estimating). A package of interrelated actions including reorganization, additional acquisition personnel, training, and recruitment of acquisition professionals across the spectrum of acquisition competencies is urgently needed. Reorganization, for example, is necessary, but it will not be, of itself, sufficient alone. **The study team recommends a combination of human capital initiatives: recruitment of personnel with significant major systems acquisition experience; training and mentoring of existing personnel; and establishment of policies and processes that place acquisition excellence and the development of business competencies at a level equivalent to the value the USCG places on operational excellence and experience.**

- A combination of factors, including requirements changes, funding at levels inconsistent with the negotiated contract, and insufficient numbers and experience

of acquisition personnel, have resulted in the use of Undefined Contract Actions (UCAs) at an inappropriately high level. At one point, the level exceeded one billion dollars. **The study team recommends expedited negotiation of UCAs to eliminate the backlog and to increase pressure on the contractor to manage costs. A rigorous review and approval process for future UCAs is also recommended.**

- An integrated logistics support strategy that is inclusive of capabilities being procured through DW and other USCG programs is needed. The limited level of integration of DW and the engineering and logistics support infrastructure of USCG has inhibited logistics planning. The level and apportionment of appropriations for DW has required the USCG, at times, to decide between procurement of urgently needed capabilities and the initial support for those capabilities. Flexibility to reallocate funds during execution has been limited by a restrictive below threshold reprogramming authority (as compared to the Department of Defense (DoD)). The roles and responsibilities of ICGS as compared to the existing USCG support infrastructure need to be rationalized, and business case analysis adopted as a practice. **The study team recommends a combination of actions: develop a policy to rationalize the role of systems integrators and USCG organic capabilities; an integrated support strategy reflecting DW and other USCG acquisition programs; a legislative initiative (coordinated with DHS) to provide greater flexibility in the reprogramming of funds during execution; and actions to ensure adequate logistics support of the introduction of the Maritime Patrol Aircraft (MPA) and the first National Security Cutter (NSC).**
- Significant improvements in major systems financial management processes and workforce experience are needed. Factors such as the significant number of requirements changes, funding at levels below those planned, and insufficient numbers and experience of acquisition personnel have made it difficult to maintain an authoritative DW life cycle cost estimate. The study team also noted that independent cost estimates are not routinely developed in the USCG.

Drawing upon its DoD experience, the study team believes that government and industry are incentivized to underestimate the cost of new systems and their support. The business of defense is serious and there are numerous incentives to be optimistic when scoping and estimating the cost of new capabilities. As a balance, major systems acquisition management processes have developed, including independent cost estimates. **The study team recommends immediate action to update the DW cost estimate, an independent cost estimate of the program, and policy to require independent cost estimates of major changes.** Until then, there should be low confidence that the DW program will be acquired and supported within the current budget.

During the study and follow-on discussions with USCG officials, the team noted significant actions being taken to improve the performance of DW and other USCG acquisition programs and support. Actions resulting from the Commandant's written orders are now codified in an integrated plan to reform USCG acquisition. With respect

to Deepwater, actions taken subsequent to the study team's preliminary findings and recommendations include:

- The Commandant and AAE have initiated discussions with the Chief Executive Officers of NG and LM to examine the government/industry relationship with the aim of reframing the contractual relationship in the light of lessons learned over the last five years
- PEO IDS has initiated actions to improve acquisition and logistics planning and execution, including reduction of the backlog of UCAs
- Alternative acquisition plans have been developed and forwarded to the Department of Homeland Security (DHS) to accelerate the acquisition of selected critical operational capabilities
- In collaboration with the Assistant Commandant for Acquisition, the PEO has defined a structure and plan to integrate acquisition functions of DW and other USCG acquisition programs (*consistent with the Blue Print for Acquisition Reform*)
- The PEO has collaborated with the Acquisition Directorate to conduct business case analyses to support DW decisions
- The PEO has identified initial increases in acquisition workforce to DHS
- The PEO has expanded the involvement of CG-4 engineering and logistics professionals involved in DW, in collaboration with the Assistant Commandant, Logistics and Engineering
- The PEO has collaborated with the Assistant Commandant for Command, Control, Communications, Computers and Information Technology (C4-IT) to review and ensure alignment of DW C4ISR to the USCG C4-IT architecture and DW C4ISR affordability

## Introduction

In September 2006, the Program Executive Officer (PEO) Integrated Deepwater System (IDS) requested the Defense Acquisition University (DAU) conduct a “quick look” review of the DW program. A study design was defined to expedite analysis and synthesis of data, observations, conclusions and recommendations to enable a dialog with United States Coast Guard (USCG) leadership that could lead to improved program performance.

The DAU study team was comprised of major systems acquisition subject matter experts. The Dean, Defense System Management College—School of Program Managers (DSMC—SPM), Mr. David Fitch, was the study director. Mr. Paul Schneider (independent industry consultant) was the principal investigator. Associate investigators, Mr. John Higbee, Ms. Roberta Tomasini, Mr. John Pritchard and Mr. Ronald Pontius are members of the DSMC—SPM executive faculty. The team, representing over 160 years of major systems acquisition experience, conducted a review during October and November 2006 involving nearly 800 work hours, excluding travel. The team reviewed program documentation and conducted face-to-face or telephonic interviews with approximately 100 government and industry officials and staff at locations including USCG Headquarters, Washington DC, the System Integration Program Office (SIPO), Arlington, VA, Northrop Grumman Ship Systems, Pascagoula, MS, and Lockheed Martin Maritime Systems and Sensors, Moorestown, NJ. The team experienced an extraordinarily high level of cooperation and candor throughout the study and ensuing discussions with USCG officials.

Beginning in December 2006, the DAU study team briefed their preliminary findings and recommendations to USCG leaders, including the Agency Acquisition Executive (AAE). Members of the study team subsequently met with officials in the DW program and other USCG offices to discuss actions being taken or under consideration to improve DW program performance and USCG acquisition and support.

The extent of the changes needed in USCG acquisition competencies, organization, management, oversight, governance and decision making are addressed in the draft of the *Blue Print for Acquisition Reform* provided to the study team. This report addresses DW and the broader USCG acquisition environment in which DW functions. While presented as separate areas of findings and recommendations, there are areas of overlap of issues and recommended solutions. The recommendations represent a range of possible actions, not a finite set.

## System of Systems Acquisition Strategy

**Findings:** Results of the system of systems (SoS) acquisition strategy and contract have not been as they were envisioned. USCG expectations of the prime contractor, Integrated Coast Guard Systems (ICGS), a joint venture involving Northrop Grumman Ship Systems (NG) and Lockheed Martin Systems and Sensors (LM), have not been consistently met. Causal factors include requirements changes, contract structure, contractor performance, government management, and funding.

Significant changes have occurred since the inception of the concept in the late 1990s to recapitalize USCG operational assets as a system of systems. The USCG planned to use a prime contractor to analyze requirements, and to recommend a portfolio of ships, aviation platforms, and command, control, communications, and sensors to maximize operational capabilities and minimize total ownership cost. Realignment of the USCG under the Department of Homeland Security (DHS) to prosecute the Global War On Terror (GWOT) and defend the homeland has resulted in increased USCG missions and the complexity of DW requirements. An increase in the DW program budget estimate of nearly a third (\$17 billion to \$24 billion) is only one indication of the increase in scope and complexity.

During the pre-acquisition phase of the DW program, very structured interfaces were established for communications with the competing companies to ensure the integrity of the competition. A similar structure was implemented in the acquisition phase for the purpose of disciplined acquisition management. This structure has had the effect of isolating DW from other acquisition and support organizations in the USCG. The organization, process and governance changes identified in the *Blue Print for Acquisition Reform* will integrate DW into the mainstream of USCG acquisition and increase the range of acquisition-related competencies available to DW.

### Recommendation:

- In addition to implementing the *Blue Print for Acquisition Reform*, define and implement a revised acquisition strategy that does not rely on a single industry entity or contract to produce or support all or the majority of USCG capabilities. The strategy should incorporate the use of business case analyses to balance the benefits of robust competition, the USCG organic support infrastructure, and trusted supplier relationships. Elements of such a strategy already exist, such as selected HH-60 updates and the procurement of the Short Range Prosecutor craft.

## Management and Technical

**Findings:** The program is extensively documented and strongly supported by USCG and DHS leaders. Program documentation includes an acquisition strategy, a series of approved Acquisition Program Baselines (APBs) and other appropriate acquisition program documents. Due to the system of systems concept, requirements are defined primarily at a system level, not asset level.

The USCG has consistently demonstrated the ability to successfully acquire and sustain systems of moderate complexity and scope. The Integrated Deepwater System is, however, an acquisition program of significantly greater scope and complexity.

The DW program is using many best practices, such as Integrated Product and Process Development (IPPD) and Integrated Product Teams (IPTs). A structure for integration of DW and other USCG acquisition program decisions and management, however, has not been the prevailing practice. Separate directorates exist for Acquisition, IDS, Logistics and Engineering, and Command, Control, Communications, Computers and Information Technology (C4-IT). There are not well defined processes for the integration of workforce capabilities and decisions. Diversity in technical and business processes has also complicated support planning and implementation, with the risk of higher total ownership costs.

Technical personnel within the DW program appear qualified in their functional areas; however, the numbers are insufficient for the scope and complexity of the program. The study team did not see evidence that technical personnel are consistently involved in the full range of acquisition functions they should support, such as acquisition and life cycle support planning, evaluation of the earned value, or evaluation of the contractor's schedule performance. While a program integrated master schedule exists, it does not have sufficient detail of government and contractor deliverables and milestones for effective program management. The major source of engineering and logistics experience in the USCG resides in CG-4. Positions in CG-4 and elsewhere in the USCG were established to support the DW program, but many of those resources have not been consistently integrated into DW activities. When involved, the roles, responsibilities and authority of those involved has not been consistently well defined.

A robust investment decision process includes the capability to develop concepts of operations (CONOPS), allocate needed mission capabilities to asset and component levels, and assess alternatives, including costs. In its interviews, the study team did not find evidence of an organic capability to develop CONOPS, allocate capabilities to assets/platforms, and assess investment alternatives at the level of a DW system. This may have been a factor in the USCG adopting a system of systems acquisition strategy with those responsibilities assigned to the prime contractor. Having done that, it was a significant challenge to frequently reassess the impacts of requirements changes, including the impacts on on-going acquisitions. The team did observe the recent formation of an Aviation Resource Council to optimize aviation investment and support strategy recommendations. The council membership includes representatives of the USCG Aviation Repair and Supply Center (ARSC). The structure has already facilitated integrated life cycle planning of aviation capabilities. This is an example of an IPT that works.

In the area of C4 and Intelligence, the study team interviewed individuals in the DW program, industry and the office of the Assistant Commandant for C4-IT (CG-6). It is not clear that C4 acquisition efforts within the DW program and elsewhere in the USCG are guided by a common USCG enterprise architecture. Without a common architecture and integrated support planning, interoperability and total ownership costs objectives will be at risk.

In advance of the DAU DW study, a series of Commandant's Intent Action Orders directed actions or assessments to be developed to achieve increased organization and process integration across the USCG. One of the Commandant's Intent Action Orders addressed consolidation of the Acquisition Directorate and the Integrated Deepwater

System. Another directed the preparation of courses of action to develop and implement a mission-focused support structure along the lines of a systems command. Another directed consolidation of C4 and IT planning to achieve a common "e-Coast Guard" that amplifies the Service Oriented Architecture needed to meet all user and USCG program requirements. The *Blue Print for Acquisition Reform* incorporates the results of these actions and other initiatives.

Concurrently, PEO IDS increased collaboration with other USCG Headquarters directorates to expand the range of technical and business competencies and personnel involved in the DW program.

**Recommendations:**

- Complete the design and implement an expanded USCG governance structure to enhance enterprise definition of capability priorities, consideration of tradeoffs, and strategic choice among capability alternatives, including support, within projected resources
- Increase the USCG's organic capability for development of CONOPS, allocation of missions to assets, and independent analysis to support the governance structure
- Expand the integration of the technical resources of CG-4 and IDS, operating under the authority of DW program managers
- Integrate IDS and CG-6/CIO architecture and capabilities planning, including life cycle support
- Implement standard operating procedures that are appropriate for major systems acquisition management and incorporate into the USCG Major Systems Acquisition Manual. Include a doctrine for program management, financial management (including earned value management and cost estimating), engineering and logistics management, contract management, and program documentation, such as a program integrated master schedule and life cycle cost estimate. The procedures should be applied to all USCG acquisition and support programs, irrespective of contract type or scope

### **Workforce and Organizational Structure**

**Findings:** Everyone the team encountered during the study, government and industry, was exceptionally dedicated to the DW program and forthright in their responses to study team questions and requests for data. Frustration with progress of the program was, however, obvious. In addition to factors addressed elsewhere in this report, the study team concluded that the experience and size of the USCG acquisition workforce assigned to (or in support of) the DW program is insufficient in size and major systems acquisition experience. As well, organizational relationships among USCG directorates have inhibited integrated USCG acquisition and life cycle planning, management and oversight.

Areas where the lack of experience in major systems acquisition experience is most apparent are DW program management, financial management and contracting. The

existing organizational structure of separate directorates for Acquisition, IDS, Logistics and Engineering, and C4-IT has inhibited robust integration of workforce.

During the study, the team had meetings with individuals in directorates other than Acquisition and IDS who called themselves project or program managers, including individuals in the directorate responsible for the definition of USCG requirements. In fact, many of these individuals perform traditional acquisition functions, such as the development of requests for proposals (RFPs). Although they are "assisted" by the Acquisition directorate in the development of the RFPs, they are not trained in acquisition. This results in solicitations for capabilities without rigorous consideration of alternative strategies for contracting, incentives or integrated life cycle support. As well, these project managers may not remain involved in the full range of program management functions after award of contracts. Instead, contracting officers are expected to manage the execution of programs as they might manage the procurement of supplies or commodities. This is inconsistent with the principles of major systems acquisition and a burden on the contracting workforce.

The team found a more traditional approach to program management in the Acquisition Directorate; however, many of program managers in DW and the Acquisition Directorate lack experience in major systems acquisition management. The lack of experience is compounded by financial and contract management personnel who are not, generally, experienced in major systems acquisition. As noted later in this report, the team saw little evidence of detailed planning for obligation of DW program funds. PMs and their immediate staffs may provide their contracting officers with a list of contract actions they want completed by dates or quarters, but the detailed planning for development of statements of work, cost estimating, data requirements and other elements of a "procurement package" have not been adequately planned or resourced.

The contracting workforce is insufficient in numbers and experience to execute the broad scope and complexity of DW work. Some individuals possess appropriate major systems acquisition experience. Others, however, apply their experience in the procurement of off-the-shelf equipment or commodities to DW major systems acquisition tasks.

The DW program has established some project resident offices (PROs) to complement program functions at the SIPO in Arlington, VA. The USCG has used PROs in the past (and present) to delegate functions in less complex programs. The study team inferred that there has been little delegation of authority from the SIPO to the PROs, specifically in the area of contracting. This situation contributes to the high workload of the under resourced contracting staff at USCG Headquarters and the SIPO.

The level of engineering and logistics resources that has traditionally supported the DW program has been insufficient. Recently, discussions have occurred between the PEO IDS and the Assistant Commandant, Engineering and Logistics (CG-4) to increase the integration of CG-4 engineering and logistics professionals into DW teams. These are consistent with the Commandant's Intent Action Order #4 that directs alignment of functions and processes to facilitate operation across the USCG along the lines of a systems command.

In addition to improved alignment between the IDS and CG-4, the study team was invited to participate in an offsite chartered by the PEO IDS and the Assistant Commandant for Acquisition for the purpose of integrating the two directorates. The offsite resulted in recommendations to USCG leadership to establish major program managers for ships, aviation and C4I. This structure will be implemented as a part of the *Blue Print for Acquisition Reform*. The PMs would report to the PEO IDS and the Deputy. Assistant program managers and deputies would report to the PMs for management of specific platforms or capabilities under each. Each of the assistant program managers would have a small staff to perform acquisition management and related activities. These offices would operate in accordance with standard operating procedures.

In the area of acquisition workforce development, the study team observed an appreciation for the value of training, but insufficient appreciation for experience. Training and experience are needed for effective acquisition judgment and successful program execution. A systematic approach to human capital planning, recruiting, hiring, mentoring, development, and selection for key acquisition positions is incorporated into the draft plan to implement the *Blue Print for Acquisition Reform*.

#### **Recommendations**

- Consistent with the "*Blue Print*," establish policy and processes to elevate the stature of acquisition and develop business competencies and experience to the level of operational experience
- Across the USCG, complement the strategy to grow program managers with increased emphasis on recruiting and retention of acquisition professionals with major systems program management experience (military and civilian)
- Reassess acquisition workforce size and competency needs, especially in program management, financial management and contracting, and take corrective actions including hiring and training to align with DW scope and the major systems acquisition environment
- Conduct training on the technical elements of procurement packages, including statements of work
- Assign a program official, such as a deputy PM, to manage the preparation and assembly of procurement packages
- Contingent on the size and competencies of individual PRO staffs, increase the delegation of functions and authority
- As defined in the "*Blue Print*," integrate DW and other systems acquisition projects into a single management structure under the PEO. Such a structure should have fewer layers and receive increased "matrix" support from CG-1, CG-4 and CG-6. In the case of an aviation systems program manager, establish "dotted line" relationships with ARSC product managers

- Align the roles, responsibilities and authorities of program management positions with those in the defense industry and DoD practice
- Require detailed acquisition planning to allow timely contracting actions and obligations of funds
- Establish internal review processes with meetings chaired by the respective PM to ensure the execution of internal USCG program management activities
- Create, maintain and use a detailed program integrated master schedule that includes government and industry deliverables and milestones

### **Financial Management and Budget**

**Findings:** The study team identified financial management as a special interest area. Currently, DW financial management is distributed to a number of offices and individuals. No single person is responsible for oversight of financial planning and management spanning all appropriations. Enterprise (USCG) execution metrics, such as percentages of funds obligated and expended, do not exist. Metrics that have been created by different individuals involved in the DW program are not used systematically or continuously to inform funds allocation or reallocation decisions.

An up-to-date, complete, and authoritative life cycle cost estimate does not exist. As well, it is not common practice in the USCG to conduct independent, 3<sup>rd</sup> party cost estimates.

In the area of earned value management, metrics and reports exist. However, the metrics are of little management value as they neglect to show trends or highlight re-baselining. Some metrics that are presented to management, such as estimates at completion, are not based upon accepted practice. DW has an interpretation of procurement funding policy and the term "useable segment" that is not consistent with DoD practice. The USCG interpretation has facilitated program progress when funds were not appropriated to the level that was planned. Without rigorous financial management, the USCG interpretation can present the appearance of sufficient procurement funding when it does not exist. The study team was told that OMB has directed the USCG to change its interpretation to the one used by DoD not later than the FY09-13 Future Years Homeland Security Program (FYHSP)

The study team was surprised at the relative infrequency that reprogramming was used. Investigation revealed that the USCG (DHS in general) has different criteria for below threshold reprogramming that limits the authority of the Assistant Commandant for Planning, Resources and Procurement (CG-8) to respond to changes needed during execution.

The risk of procuring DW within the budget of record (\$24 billion) has increased to an unrealistic level due to: requirements changes (many after critical milestones in the systems engineering process); appropriations below the level planned by the USCG; lack of sufficient major systems acquisition experience; lack of appropriate major systems acquisition management and oversight processes; and other factors, such as Hurricane

**Katrina.** This assessment is based upon the major systems acquisition experience of the study team, not a detailed cost estimate. Interviews and selected reviews of records of work accomplished and costs suggest that a higher budget will be needed to procure the capabilities now required for USCG missions.

#### **Recommendations**

- Assign a single, experienced financial manager the responsibility for managing (and reporting the status) of all DW program funds
- Establish USCG enterprise financial execution metrics and use them as a basis for allocation and reallocation of funds among program activities
- Continue the initiative to expand the USCG's organic cost estimating capability and establish a strategic business relationship with a company that has cost estimating expertise across the spectrum of funds and types of DW work
- Develop and maintain an authoritative life cycle cost estimate that reflects the myriad of changes in DW program requirements, asset acquisition and logistics support decisions, and planned operational tempo and locations
- CG-8 to conduct or manage an independent cost estimate process, including development of independent cost estimates for major changes to on-going acquisition programs
- Transition at the earliest feasible opportunity to the interpretation of "useful segment" and funding practice directed by OMB
- Pursue legislative changes to reprogramming authority

#### **Contracting**

**Findings:** Contracting was another study team special interest area. The study team assessed a range of contract related documents including the contract, the ICGS partnership agreement, the strategic partnership agreement between the USCG and ICGS, industry proposals, and communications among the contracting officer, program management staff and the contractor.

The study team believes that the Indefinite Delivery Indefinite Quantity (IDIQ) contract that was established for DW is inappropriate for the scope and complexity of the program. With few exceptions, the pre-negotiated terms have not been realized. The structure reduces the ability to capture economic quantity savings and it is not conducive, in the opinion of the study team, to government/industry collaboration on the myriad of challenges that face an acquisition of the size and complexity of Deepwater. The study team was told that the IDIQ structure was proposed by a cross section of government organizations, including the Government Accountability Office, the Office of Management and Budget, and the Department of Transportation. The study team believes the complexity of activities, the range of contract line items that have interdependencies, and the level of integration of separately developed systems and sensors is not consistent with the IDIQ structure, which is traditionally used to procure off the shelf equipment and commodities.

The structure of fees and incentives in the ICGS contract is not conducive to the prime exercising authoritative direction to the subcontractors (partners in the ICGS joint venture). During orientation briefings by both government and industry to the study team, it was emphasized that the prime contractor received no fees. It was asserted that the fee arrangement with ICGS would result in substantial savings to the government over the life of the contract, as compared to a structure where the prime would be entitled to a pass through charge/markup of the subcontractors' proposals. The study team considered this characterization to be flawed. Other fee structures could have been implemented, at no additional cost to the government, and with a greater incentive for ICGS to manage the subcontractors to the advantage of the government. The arrangement has had the effect of independently motivating the subcontractors. The arrangement has not achieved the intended result of robust competition for alternative designs, where appropriate, among the partners or other industry that teamed on the pre-acquisition phase of the DW program.

An indication of the lack of major systems acquisition experience has been the processing of contractor proposals. On occasion, the government has awarded what amount to unilateral "delivery task orders (DTOs)" that had changes in quantities, schedule or that used expired cost or price proposals. This practice has resulted in requests for equitable adjustment (REA), which have the effect of increasing the workload—government and industry. With respect to the economic price adjustment (EPA) clause in the ICGS contract, the study team noted that the array of cost elements that can be used as a basis for requests for equitable price adjustments is far broader than those allowed in major systems acquisition contracts in DoD. The study team was not familiar with the term "delivery task order" as Federal Acquisition Regulations makes a distinction between delivery orders and task orders, with different contract clauses for each. The study team was told that term was created to avoid having to distinguish between procurement of supplies or services.

Another practice used extensively in the first few years of the program, apparently to expedite backlogged contract awards, was Unfinalized Contract Action (UCA) authority. UCAs expedite the obligation of funds, but the practice has the inherent risk of reducing pressure on the contractor to manage costs. They also represent a bow wave of additional contracting actions that will compete for the resources needed to make future awards.

**Recommendations:**

- In the event of another award period, the ICGS contract should be restructured, preferably, away from the IDIQ construct; the prime (system integrator) should be directed to consider the products and services of companies other than NG & LM
- When contracting hiring actions are conducted, emphasis should be on hiring individuals with proven performance and major systems acquisition experience
- Training, oriented to the differences in practice between commodity and systems acquisition, is needed for the core of the DW contracting team.
- EPA clause in the ICGS contract should be renegotiated to restrict the elements that may be used for an REA; the H-60 clause should be eliminated

- The use of UCAs should be minimized and a rigorous review and approval process instituted for future use; the backlog of UCAs should be negotiated

### **Logistics**

**Findings:** Logistics was another area of special interest to the study team. The system of systems acquisition strategy was adopted to emphasize acquisition of capabilities that could synergistically meet the array of USCG missions and minimize total ownership costs through, in part, commonality of systems, common support strategies and performance based logistics.

USCG business case analyses have shown that support of some capabilities outside the ICGS contract could be less costly. Another reason has been that funds for acquisition of capabilities, including initial spares and support, were appropriated at lower levels than negotiated with ICGS. As well, it is not clear that use of the organic USCG support infrastructure, such as aviation, was adequately considered when the SoS acquisition strategy was developed. Logistics proposals from ICGS have not been consistently comprehensive, or when comprehensive, they have not consistently incorporated USCG infrastructure capabilities, and frequently, they have been too expensive. The existence of a significant organic support infrastructure, its capabilities, capacity, the number of government civilians employed, and significant improvements in efficiency of elements of that infrastructure have supported decisions not to fund ICGS support to the levels identified in the contract.

In the area of supportability, the study team could not locate a software support strategy for the range of capabilities planned. Another concern is the level of contract awards for initial spares and support for capabilities that will be fielded in the next 12 to 18 months. Levels of funding below budget requests have contributed to the situation.

The issue of segmentation of acquisition related responsibilities and workforce across the USCG enterprise, mentioned earlier, has also complicated logistic support planning and execution. Traditionally, CG-4 manages all aspects of logistics support for the USCG, and CG-4 has the majority of engineering and logistics professionals in the USCG. The plan for a cadre of engineers and logisticians in the DW program who were expected to rely heavily on the prime contractor recommendations for key supportability decisions was inconsistent with USCG practice.

#### **Recommendations**

- Increase CG-4 matrix support to DW program
- Make CG-4 responsible for DW integrated life cycle planning
- Shift resources, as needed, to fully fund support of DW capabilities that will be fielded in the next 12-18 months
- If future funding is insufficient to acquire and support new capabilities, trade off product quantities to adequately fund logistics
- Develop a software life cycle management plan that reflects the DW system that is being procured, as well as legacy systems

- Reassess operating cost estimates for DW in light of the increased complexity of the capabilities

### Execution Status

**Findings:** As noted previously, significant requirement changes have occurred since the award of the DW program contract to ICGS. The magnitude of those changes and the lack of alignment between the negotiated contract and appropriated funds have had significant, negative impact on program schedule and cost. The changes required a level of proposal effort by ICGS that was not anticipated, and ICGS has not been consistently responsive to government proposal requests. The lack of sufficient and experienced government major systems acquisition personnel has been another factor in delays in the exercise of contract awards. The exercise of awards was often beyond the expiration of cost or price proposals, which required additional contractor proposal effort to update, and repetitive government review.

At the beginning of the data collection phase of the study, the PEO IDS met with the study team. The PEO indicated that one of many factors that led to his request for an independent study was excessive carry over of funds from FY06 to FY07. The magnitude of carryover estimated by the PEO, over \$700 million, was confirmed by the study team. Significant changes in processes and personnel resources will be required to avert a significant level of carryover from FY07 to FY08.

The study team also assessed the progress and costs of capabilities now on contract, as well as the status of planning for capabilities that are not yet on contract.

- Two National Security Cutters (NSC) are under contract. Under a cost plus order, the cost of NSC 1 has increased significantly primarily due to changes in requirements (result of 9/11), and Hurricane Katrina damage and associated workforce impacts. NSC 1 and NSC 2 (a fixed price order), is the subject of a sizeable REA under the terms of EPA clause in the contract. As well, the USCG has a concern with elements of the design that could compromise the planned 30-year fatigue life... Structural enhancements will probably be incorporated into hull number 3 and subsequent hulls, increasing the cost of those cutters. Interviews with officials at Northrop Grumman Ship Systems indicated an on-going difference of opinion on the fatigue life of the existing design of NSC, which could impede contracting for follow-on hulls
- Conversion of 110 foot cutters to 123 foot cutters has been suspended due to structural failures and already converted cutters have been laid up. The DW C4I suite in the 123 foot cutters was a significant improvement in communications and interoperability
- An Offshore Patrol Cutter (OPC) is not on contract. The study team interpreted interviews with government and industry officials to say that requirements for OPC have increased to a level far beyond the cost estimate—even approaching the level of capability of the NSC. Funds which might have been used for the OPC have been used for other capabilities
- A Fast Response Cutter (FRC) is not under contract. An ICGS design was proposed to meet a performance specification, but it did not pass USCG

engineering design review. Alternative designs and acquisition strategies are being assessed. Depending on the alternative selected, licensing of a "parent" design with production by a US company may be required

- Deliveries of Maritime Patrol Aircraft (MPA) have commenced. Mission pallets and a minimum level of spares, less than recommended by ICGS, have been funded
- HH-65 re-engine effort is well underway. Modifications to the HH-65 for shipboard compatibility, including avionics, landing gear and flight dynamics, have begun. Modifications to use the NSC recovery assist, secure and traverse system have not been funded
- Modernization of the HH-60 has not begun
- VUAV, a capability in the system of systems CONOPS, has had minimal progress. A defective safety switch in a legacy component caused the crash of a development model. Two VUAVs were planned to be deployed on NSC

**Recommendations:**

- Assess combining orders for NSC 1, 2 and 3 under a single cost reimbursable contract line; this recommendation reflects the uncertainty of the hull configuration and actions that may be taken with respect to the design of all three hulls. A condition for government agreement for this approach would be REA withdrawal by industry
- Hold a technical summit with USCG, ICGS and USN experts to air all opinions about the structural design and fatigue life of NSC
- For economical benefit, put long lead material on a fixed price type contract for NSC numbers 3 through 8
- Continue to validate requirements for the OPC; based upon the results, take a fresh look at alternatives; procure OPC via a government run, full and open competition
- Assess the feasibility of options to procure an interim FRC; use the 123 foot cutter C4I suite as the baseline; if it is determined to proceed with the FRC-B, USCG should run the source selection and dictate the licensing arrangement
- Ensure adequate funding of initial spares and support of NSC 1 and MPA
- Define and fund the remaining element of the NSC/HH-65 compatibility program (modifications to use the NSC recovery assist, secure and traverse system)
- Define scope and fund HH-60 modernization program
- Assess the feasibility of alternative VUAV platforms, including alternative sensor packages; intent would be to leverage DoD or other federal investments in VUAV and sensor technologies; in parallel reassess DW system CONOPS to determine feasibility of alternative capabilities

## Conclusions

The Deepwater program is an unprecedented and complex strategy to recapitalize the USCG. The DW program was a significant departure from the acquisition practices (which parallel the DoD 5000) that had been used successfully by the USCG to acquire and support capabilities of moderate complexity and cost.

A very rigorous and well managed phase of contractor studies and proposals resulted in the selection of a prime contractor and the agreement on a joint venture business relationship among the primary subcontractors. This was followed by the events of 9/11, the formation and alignment of the USCG under the Department of Homeland Security, and the Hurricane Katrina disaster. All of these posed significant additional challenges to the program.

As requested by the PEO IDS, this report focused on areas of concern and opportunities for improvement. Despite problems, significant progress has been made on acquiring DW capabilities by very dedicated government and industry teams. The task of managing a complex, major systems acquisition effort has been complicated by significant changes in requirements, funding that was not aligned with the USCG plan, and shortages in numbers, training and experience of the USCG acquisition workforce. As well, the overall structure for acquiring and supporting capabilities, including the processes needed to optimize USCG investments and oversight did not keep pace the increased complexity and cost of new capabilities.

If implemented, the recommendations contained in this report, many of which are addressed for corrective action in the *Blue Print for Acquisition Reform*, have the potential to fundamentally increase the USCG's acquisition capability and change the culture to value acquisition and business experience at a level equivalent to operational experience.