

**ONE DHS, ONE MISSION: EFFORTS TO IMPROVE
MANAGEMENT INTEGRATION AT THE DEPART-
MENT OF HOMELAND SECURITY**

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
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TUESDAY, DECEMBER 15, 2009

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 10 a.m., in room SD-342, Dirksen Senate Office Building, Hon. Daniel K. Akaka, Chairman of the Subcommittee, presiding.

Present: Senators Akaka, McCaskill, and Voinovich.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. I call this hearing of the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia to order.

Aloha and good morning to our witnesses and attendees. Today's hearing is focused on the ongoing need to improve management integration in the Department of Homeland Security (DHS) and the Government Accountability Office (GAO) report on that issue released today.

The Federal Government embarked on one of the most sweeping reorganizations in its history by establishing the Department of Homeland Security. While I believe that DHS has improved the coordination of security efforts between the 22 agencies and offices that now form the Department, it has not yet developed as an integrated and well-managed Department. This hinders its ability to achieve its mission.

The GAO placed the transformation of DHS on its High-Risk List in 2003 when it was created. It was clear early on that such a large reorganization of government warranted close oversight. Unfortunately, the Management Directorate and component management chiefs remain unable to effectively support the Department's day-to-day operations. The Inspector General's most recent yearly assessment shows continuing problems in the functional management areas of acquisitions, information technology, grants, and financial management.

As highlighted by the GAO report released here today, one cause of these management problems is the lagging integration of departmental management. GAO has noted that the successful transformation of an organization, even one less complex than DHS, could take from 5 to 7 years. We are quickly approaching that 7-year mark, which will be this March.

To be successful, the Department will need to set clear department-wide goals and create performance measures to analyze its progress. DHS, like other agencies, needs a comprehensive strategic plan for management integration. It is also important that DHS require clear accountability from its leaders.

In 2007, the Department implemented dual accountability, which means that component management chiefs are required to report both to headquarters and component leadership. At a previous hearing, this Subcommittee examined dual accountability in the area of acquisition management. I am still concerned that this model does not create clear accountability for management and integration. I do, however, want to commend the leadership of the Under Secretary for Management (USM), Elaine Duke, who joins us today, for her work in making management a priority at the Department and for staying on until a successor is confirmed.

As GAO found, the USM and her chiefs have taken steps to ensure better coordination, for example, making coordination a component of performance reviews. I believe that the USM, who is the Department's chief management officer, is critical in implementing management integration across the Department. That is why I am working with Senator Voinovich on the Effective Homeland Security Management Act, which would elevate this position to the level of Deputy Secretary with a fixed term. This will help ensure that DHS places sustained eye-level attention on effective management.

Able and integrated management will have an enormous and overarching impact on the future success of the Department. Additional progress in these areas will increase the effectiveness and confidence in DHS's ability to achieve its mission.

Again, I want to thank all of our witnesses for appearing today and I look forward to your testimony.

Now, I would like to recognize Senator Voinovich for his statement. Senator Voinovich?

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. Thank you, Senator Akaka, for holding this hearing. I really want to publicly express my appreciation to you for the work that we are doing together to try and get DHS off the High-Risk List, understanding that it was a major reorganization that probably shouldn't have been undertaken in the first place, but it happened.

In addition, I would like to publicly state that I have a hold on Rafael Borrás, who is supposed to take Ms. Duke's job, and the reason I do, Senator Akaka, and I expressed it to the Secretary and also to the Administration, is that I do not believe that he is qualified to take this very important position that is now being held by Ms. Duke. What is your title, you are Acting—

Ms. DUKE. No, I am still the Under Secretary.

Senator VOINOVICH. She is doing it, and as far as I am concerned, she can keep doing it. [Laughter.]

I regularly remind my colleagues that when we established the Department, we initiated the Federal Government's largest restructuring since the Department of Defense (DOD), and we are all familiar with it—22 agencies, 170,000 people. We knew that it would take time, and as you mentioned, Senator Akaka, 5 to 7 years. And I feel the same way, we are in the 6th year and next year is the end of it. I am not going to be around after that. I would like to be able to, when I tip my hat, know that you are off the High-Risk List.

Ms. Steinhardt, I thought that meeting that we had in my office was great, GAO and the Department and talking about what you have been doing to try and work together in terms of meeting the metrics so that when we have a hearing later on, GAO and the Department will at least agree on the metrics. They may not agree on the report, but they will at least agree on how they are going to be judged in terms of whether they are getting the job done.

In addition to the challenges GAO and the Inspector General will tell us about today, the DHS Chief Financial Officer and Homeland Security Advisory Council's Cultural Task Force have both articulated concerns about management.

While all these entities acknowledge the progress, let us make sure we understand, there has been substantial progress. I don't want anybody to think there hasn't been, we still need to get the job done. Today, we have an agency with a \$50 billion budget—the third-largest now in the Federal Government, 220,000 employees—so it is really important that the Department put the utmost priority on addressing GAO's recommendations.

I want to thank all of you for being here today. I think that in order, as I mentioned, for us to achieve what we would like to achieve, it has got to be the highest priority.

Ms. Duke, I want to say you have done a really good job. We really appreciate it.

Senator Akaka, sometimes when I give my statement, it is just redundant, so I am leaving out a whole lot of it because you have already handled it. But we are just glad to have you here, and by working together, I think that we can really get some of these things out of the way, and maybe by the end of the next year, I probably won't be around for the GAO report, but make substantial progress on it.

Thank you for being here.

Senator AKAKA. Thank you very much, Senator.

It is my pleasure again to welcome back to this panel, the Hon. Elaine Duke, who we thank for continuing her service as Under Secretary for Management at the Department of Homeland Security; Anne Richards, Assistant Inspector General for Audits at the Department of Homeland Security; and Bernice Steinhardt, Director of Strategic Issues at the Government Accountability Office.

It is the custom, as you know, of this Subcommittee to swear in all witnesses. Will you please stand and raise your right hand.

Do you solemnly 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?

Ms. DUKE. I do.

Ms. RICHARDS. I do.

Ms. STEINHARDT. I do.

Senator AKAKA. Thank you. Let the record show that affirmative answers were given by our panelists.

Although statements are limited to 5 minutes, I want all of our witnesses to know that their entire statement will be included in the record.

Under Secretary Duke, again, welcome back and please proceed with your statement.

TESTIMONY OF HON. ELAINE C. DUKE,¹ UNDER SECRETARY FOR MANAGEMENT, U.S. DEPARTMENT OF HOMELAND SECURITY

Ms. DUKE. Good morning, Chairman Akaka, and Ranking Member Voinovich. First of all, I would like to say that the redundancy of your opening statement is encouraging. The way this Subcommittee has attacked management and integration at DHS in a unified approach has really helped us push forward on our objectives and I really do appreciate the unified approach this Committee has taken to the Department.

We have made significant improvements and accomplished a lot of initiatives in the first 6 years of the Department. What the Inspector General and especially the GAO in the High-Risk List is looking for now is an integrated sustained approach, a unified approach to looking at our integration.

I just wanted to take a moment to talk about some of the accomplishments we have made in every area of management. We recently implemented the efficiency review under Secretary Napolitano to look at reducing our overhead and our spending. This is going to be especially important as we get into tighter and tighter budget years for the Federal Government and the Department as a whole.

We are completing our first Quadrennial Homeland Security Review, QHSR, and that will be delivered to Congress on time, by the end of this calendar year.

We have made significant improvements in our acquisition workforce, both in terms of numbers—we have been able to double the number of contracting officers. That is a net gain, even with the attrition. And we have really attacked the root cause of some of our acquisition problems by expanding from procurement to acquisition and building our program management and our test and evaluation systems engineers and cost estimating workforces.

We have completed acquisition reviews of over 90 percent of our programs, and on all of our 79 major information technology acquisition programs. And we have developed and implemented an online reporting system called Next Generation Reporting System that provides valuable information to our senior leadership on cost schedule and performance for all our major acquisition programs, and that was done in May of this year.

¹The prepared statement of Ms. Duke appears in the Appendix on page 23.

We have our intern program, our acquisition career program, in which we are up to 100 now, and received funding to double that workforce this year.

We have finished our Human Capital Strategic Plan. Some of the key elements of interest to this Subcommittee, improving our diversity numbers throughout the Department, but especially at senior leadership levels, and better balancing our workforce, our ratio between Federal employees and contractors. And we are actually meeting with your staff on Thursday to give you an update on that effort to better balance our workforce.

We have a lot of initiatives going on in financial report and are continually decreasing our number of material weaknesses, down from 30 in 2005 to 12 this year, and we have to do more work in that area.

We have done a lot of initiatives in information technology (IT), specifically with data center consolidation and cyber operations, really working on improving how we handle attacks to our IT systems. We have our enterprise architecture in place that guides our IT investments that is consistent with the Federal architecture. And we have over 96 percent of our IT systems certified properly under the Federal Information Security Management Act (FISMA) standards.

We are on schedule and below budget for our DHS headquarters consolidation at St. Elizabeths, thanks in part to some Recovery Act funding and the cooperation of General Services Administration (GSA).

And we are in the process, as I reported to you, Senator Voinovich, in my recent response to your letter, for upgrading and improving our DHS integrated strategy for high risk, addressing GAO's criticisms of it, including making sure we have more detailed and measurable actions with milestones and sustained leadership attention towards accomplishing what we put in our plan.

The GAO and Inspector General (IG) are correct in their assessment. We have made moderate progress and there is still a lot more to do. I think it is important to remember that DHS didn't start with a clean slate or a whole cloth, if you will. It started in many management areas with really the tattered remains of legacy functions. In most simplistic terms, we have really spent some time digging ourselves out of a hole in the management area. So I think even making moderate progress in terms of outcomes is something that, while I am not content that we are finished, we are proud of how far we have come.

It is also important to note that we do this while still delivering services. The chiefs are service providers to over 3,500 headquarters personnel, a function that was never envisioned in the start-up of DHS. So in addition to having the traditional roles of policy and oversight, the concerns of this Subcommittee, we also have the extreme burden of providing service to a huge constituency.

I appreciate the way the colleagues at GAO and the IG have approached this with us. I also thank you, Mr. Chairman and Ranking Voinovich, for your continued support and I look forward to answering your questions this morning.

Senator AKAKA. Thank you very much, Ms. Duke.

And now, Ms. Richards, will you please proceed with your statement.

**TESTIMONY OF ANNE L. RICHARDS,¹ ASSISTANT INSPECTOR
GENERAL FOR AUDITS, U.S. DEPARTMENT OF HOMELAND
SECURITY**

Ms. RICHARDS. Good morning, Mr. Chairman and Members of the Subcommittee. I am Anne Richards, Assistant Inspector General for Audits at the Department of Homeland Security. I appreciate this opportunity to discuss the management challenges facing the Department.

Since its creation in 2003, DHS has been working towards accomplishing the largest reorganization of the Federal Government in more than half a century. While DHS has made progress, it still has much to do to establish a cohesive, efficient, and effective organization.

Our latest major management challenges report identified a broad range of issues. Today, I will highlight four key areas where significant challenges still exist: Acquisition management, information technology management, grants management, and financial management. These areas are the backbone of the Department and provide the structure and information to support the accomplishment of DHS's missions.

Since these challenge areas have tended to remain the same from year to year, we developed a scorecard approach to measure the Department's progress in these areas. We based our scorecard ratings on a four-tiered scale: Limited, modest, moderate, or substantial progress. Our most recent assessment shows that the Department has made moderate progress in acquisition management and information technology management and modest progress in the grants management and financial management areas.

We rated the overall score of the acquisition management area as achieving moderate progress this year because of the Department's improvements in recruiting and retaining an acquisition workforce and progress in developing and strengthening acquisition management policies and procedures. Two subcomponents of this area, organizational alignment and leadership, and knowledge management and information systems, have shown only modest progress to date.

Regarding organizational alignment and leadership, DHS has not yet effectively implemented or adhered to its investment review processes. Federal Emergency Management Agency (FEMA) program offices have not adequately integrated the acquisition function into their decision making activities. In the area of knowledge management and information systems, DHS has not fully deployed a department-wide contract management system that is interfaced with the financial system.

The next challenge area I would like to discuss is information technology management. Based on our analysis of six IT management capability areas, DHS has made moderate progress in IT management overall, with IT strategic planning, enterprise architecture, capital planning and investment control, and IT security

¹The prepared statement of Ms. Richards appears in the Appendix on page 31.

receiving scores of moderate progress. However, two areas received scores of modest progress, IT budget oversight and IT portfolio management. We scored IT budget oversight as modest because of the difficulty still in gaining a department-wide view of IT spending due to component Chief Information Officers (CIOs) not having sufficient budget control and oversight within their components.

In the category of grants management, DHS has made modest progress. For example, in the disaster grants area, we issued over 40 reports this year on sub-grantees with more than \$80 million in questioned costs. FEMA needs to make certain that States as grantees understand the rules and regulations that govern disaster grants and take steps to ensure that sub-grantees adhere to these rules and regulations.

The last challenge I would like to discuss is financial management. As in previous years, we were unable to render an opinion on the Department's financial statements. Material weaknesses were also so pervasive that we could not verify the sufficiency of internal controls over financial reporting. Some of the specific problems include: The Department lacks a sufficient number of accounting and financial management personnel with core technical competencies; DHS's accounting and financial reporting policies, procedures, processes, and internal controls have not received investments in proportion to the Department's rapid growth in other programs and operations; field and operational personnel do not always share responsibilities for, or are not held accountable for, matters that affect financial management; and the Department's financial information technology system infrastructure is aging and has limited functionality.

Having identified some of the specific problems in financial management, I also want to take the time to acknowledge the progress being achieved by the Department. For example, DHS issued its Financial Management Policy Manual to help ensure efficient and transparent operations. At the component levels, both the Coast Guard and FEMA are continuing to make control environment progress and to implement corrective actions.

In summary, it must be acknowledged that some aspects of these challenges were inherited by the Department from its legacy agencies, and it should also be acknowledged that creating a unified organizational culture from many separate and proud legacy agencies is simply a daunting task. The Department's senior officials are well aware of these challenges and have reiterated their commitment to resolve them. The Office of Inspector General is also committed to helping the Department improve their core business processes and procedures in order to improve the Department's ability to carry out its missions.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions you or the Members of the Subcommittee may have.

Senator AKAKA. Thank you very much, Ms. Richards.

And now we will receive the statement of Ms. Steinhardt.

TESTIMONY OF BERNICE STEINHARDT,¹ DIRECTOR FOR STRATEGIC ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Ms. STEINHARDT. Thank you very much, Senator Akaka and Senator Voinovich. Of course, we appreciate the opportunity once again to be here to share the results of our latest report with you.

You have talked about the enormity of the undertaking in the creation of the Department of Homeland Security. I was recalling some remarks made by Janet Hale, the first Under Secretary for Management at DHS, who pointed out that the creation of the Department was at one time a large-scale divestiture, acquisition, merger, and start-up all at once. It has, in fact, been quite an amazing change.

And, of course, at the heart of this transformation effort is the creation of a well-integrated management infrastructure, essentially the underpinning that allows the Department to fulfill its various missions. In 2005, we reported that the Department lacked a strategy for management integration, and at your request, we recently followed up to see what has occurred since that earlier report.

Generally speaking, we found that the Department has moved ahead in integrating its management functions. The Management Directorate of the Office of the Under Secretary for Management, has developed common policies and systems within individual management functions like human capital and IT that have helped to vertically integrate its component agencies. And one example of this which Ms. Richards just pointed out is the Financial Management Policy Manual which serves as the single authoritative guide on financial management for DHS. The Department has also set up a system of Management Councils for each of the functional areas headed by the Department chief in that area, and these councils provide forums for coordinating between component management offices.

But while there has been progress in vertical integration within each management function, there has been much less done with horizontal integration, bringing together multiple management functions across the Department. So here, for example, one might expect to see the integration of human capital activities with financial management in areas related to payroll. The Transformation and Systems Consolidation (TASC) initiative, is a step in this direction. It is an effort to consolidate the Department's financial management, acquisition, and asset management systems. But there aren't very many like this.

The Under Secretary chairs a Management Council made up of the DHS management chiefs and a representative from each of the component agencies, and this council has the potential to help bring a greater horizontal perspective to the Department's management, but it hasn't really played this role.

When we first reported on this subject back in 2005, we pointed out that the Department would benefit from a comprehensive strategy for management integration. Subsequent to our report, as I am sure you are aware, the 9/11 Commission Act also required DHS to develop such a strategy. But that hasn't happened yet, and given

¹The prepared statement of Ms. Steinhardt appears in the Appendix on page 55.

the effort needed to make further progress on management integration, we believe it would still be valuable for the Department to develop such a strategy.

The Department indicated a number of different planning documents that they believe collectively make up the strategy, but our review found that a number of critical elements of an integration strategy, which we outlined in 2005, are still missing. None of the planning documents conveys a sense of the critical links, both within and across management functions, as well as the priorities, trade-offs, and efficiencies to be achieved. And there are no goals and time lines for monitoring the progress of the initiatives to ensure that critical links occur when they are needed.

As the Department develops its strategy and clearly articulates what it hopes to achieve in management integration, it will also need to develop performance measures that will help it track its progress against the strategy.

Finally, I want to turn to the issue of accountability for management integration in the Department. I know one of your concerns over the years has been with the dual accountability structure in which, among other things, the management chiefs within the component agencies are accountable both to the heads of their agencies as well as to the Department management chiefs. So, for example, the Chief Financial Officer (CFO) at FEMA reports directly to the Administrator of FEMA but has a so-called dotted line reporting relationship to the Department's CFO.

In operational terms, the Department chiefs are supposed to provide input into the performance plans and the performance evaluations of the agency chiefs, but this has not happened consistently across the management functional areas. Some of the Department chiefs have been providing written expectations for the component chiefs. Some haven't. Some have been providing input into end-of-year performance appraisals and others have not. The Under Secretary assured us that changing this situation would be one of her priorities, and this will become particularly important once the Department has a management integration strategy that will involve decisions and trade-offs that the components will have to support and carry out.

So with that, Mr. Chairman, I will conclude my remarks and look forward to your questions. Thank you.

Senator AKAKA. Thank you very much, Ms. Steinhardt.

Ms. Duke, as GAO reports, the Department has yet to issue a comprehensive strategy for management integration, as mentioned here. In response to the GAO report, you stated that you are leading the process for developing this strategy. Which DHS officials are supporting you in this effort and when will this plan be finalized?

Ms. DUKE. The DHS principal that is principally supporting right now is the Deputy Secretary, Jane Holl Lute. We just had a meeting with GAO at the Office of Management and Budget (OMB), and Jeff Zients, the management side, and Xavier de Souza Briggs, our lead budget person, were both there. And so the Deputy Secretary committed that we are going back in mid-February with GAO for an update on our integrated strategy.

I think there are two pieces. One is the overall strategy, which, as you know, has the DHS issues, one of which is management integration, and then it also has the other high-risk items like flood map insurance, human capital strategy, and real property. So our plan for having the integrated strategy on the entire High-Risk List, we will have the outline by the meeting with Office of Management and Budget in mid-February.

In terms of the management integration strategy, we have identified six items in management that are going to drive the horizontal integration that Ms. Steinhardt just talked about, and that piece of the plan, I have committed to Senator Voinovich and this Subcommittee to have by the end of this month in terms of identifying the six areas and the plan supporting it. That will be an iterative process. We are going to continue to have to develop good metrics, but we will have those identified by the end of this calendar year.

Senator AKAKA. Ms. Steinhardt and Ms. Duke, as you know, GAO estimated that comprehensive reorganization takes between 5 to 7 years to implement. It has been nearly 7 years now since DHS was created and it is only now undertaking a comprehensive management integration plan, as you were pointing out. Given the amount of progress DHS has made to date, how long do you each expect it will take to complete the transformation? Ms. Steinhardt.

Ms. STEINHARDT. Well, it depends on the Department's plans, I think, to address some of the challenges that we have pointed out that have put them on the High-Risk List. Obviously, management integration, being able to successfully integrate both vertically and horizontally, is a key element of that and we look forward to seeing Ms. Duke's plan and how far that takes us.

And then, of course, the other dimensions of the Department's transformation challenges and how they plan to respond to that, we will see in February when they have their plan, and we have committed to working with them and supporting them in addressing some of those challenges.

But I would just say that estimate of 5 to 7 years is based on organizations that have historically gone through a major transformation. I don't know that any of them have been quite on the scale of DHS, though. And so they have taken a number—they have had a number of missteps, but they have had just an enormous challenge. So far, we are encouraged by the progress they have made, but there is still quite a lot ahead.

Senator AKAKA. Further comments, Ms. Duke?

Ms. DUKE. I would just say, in addition to Ms. Steinhardt's comments, what GAO is looking for us is not only to have the plan, but to come off the High-Risk List to show sustained progress against the plan. So if we have an acceptable plan within the next couple of months, they are going to be looking at our progress over a period of time before they would be considering taking us off the High-Risk List.

The other thing I would like to say is a lot of our progress is going to be contingent on the budget in the coming years. It is going to be challenging as we go to a flat, in real terms, declining budget of how much we are going to be willing to fund some of these efforts. A lot of them take money up front for savings and

efficiencies in the future, and whether these efforts are funded in the management budget, whether they are funded in the component budgets and we have to find a way to tax and gather that money, or whether they are not funded and DHS is told to find the money is really going to directly affect the speed of implementation.

Senator AKAKA. Ms. Duke, I have some concerns about accountability with dotted line or dual reporting authority. In what management functions is DHS using dual reporting authority? And what steps have been taken to hold component management chiefs accountable for following departmental standards?

Ms. DUKE. All the chiefs use dotted line functional authority, so all six of them. Additionally, we are appointing component acquisition executives in each of the components to have an accountability there. About half the components have someone there.

The main areas we have are inputting to performance appraisals, which, as Ms. Steinhardt said last year, principally due to transition and all the turnover, we only did in a couple of the chiefs' lines but are doing it this year. And it is really just the Secretary and the Deputy Secretary along with my commitment.

One of the challenges is we don't have one-for-one correspondence. For instance, there is not an equivalent Under Secretary for Management in each of the components. So it isn't holding individual components. It really rises to the level the component had. I have seen with Secretary Napolitano and Deputy Secretary Lute a real commitment to good management built in, and I have a lot of confidence we are going to continue forward.

The other things that have helped the functional integration model are strengthening of the chiefs' delegations and their authorities through the functional integration management directives. For instance, now the Chief Information Officer reviews all purchases over \$2.5 million to make sure they are consistent.

But I do think one of our next steps, as Ms. Steinhardt said, was getting better visibility. For instance, even though the CIO has authority over the CIOs in the components, those CIOs really don't have all the IT dollars in there. So it is getting those direct-line within our current model, I think, is our next steps in integration.

Senator AKAKA. Ms. Steinhardt, I would like to hear from you on this issue, as well. GAO's report released today discusses dual accountability and dotted line authority. However, the report does not address whether this framework is effective. In your view, is this approach sufficient to ensure accountability or would you recommend changes to this structure?

Ms. STEINHARDT. Well, I think the key is having the right people at the table when decisions are made. That is a big piece of it. As Ms. Duke just mentioned, this isn't the case necessarily across all of the management functions. I think, certainly from the work that we did, it is clear that in some cases, the management chiefs are using their authority to provide input into performance plans and to set performance expectations and to provide input on actual performance. But this is not consistent. So as a start, it would be helpful to make sure that, even as envisioned, that it is implemented consistently across the Department.

Senator AKAKA. Ms. Duke, in that light, let me ask, are the positions in DHS filled, or are there open positions so as a result you don't have the people to deal with whatever the issue is?

Ms. DUKE. Out of the six business line chiefs, four are filled. Two of those are career and two are political appointees. One is an acting. That is the Chief Procurement Officer. Rick Gunderson is acting. And the final one is the Chief Financial Officer, which, as you know, is Senate confirmed, and we do not have a nominee for the CFO position at this time. So one is vacant with Peggy Sherry acting. One is acting, and four are filled.

Ms. STEINHARDT. Senator Akaka, if I may just return to an issue that Ms. Duke brought up about having a counterpart to the Under Secretary for Management at the component levels. You might think of this as having a chief management officer in each of the component agencies, somebody at that higher level who can oversee all of the management functions. Two of the components now have such positions, but it might be worthwhile, and certainly work we have done for you, Senator Akaka and Senator Voinovich, in the past on the Chief Management Officer (CMO) concept more broadly, I think, suggests that this might be useful and helpful within the Department as a whole at the component level.

Senator AKAKA. Thank you. Let me call on Senator Voinovich for his questions.

Senator VOINOVICH. Thank you. You indicated that you were concerned about having the budget to do the things that you need to do. Did you know I am Ranking Member on the Homeland Security Appropriations Subcommittee and am very interested in making sure that you have the money that you need to get the job done?

One of the things that has been a little disturbing to me is that you have various responsibilities. I wonder sometimes, does anybody sit down and look at the big picture of how much we are spending on this and how much we are spending on that, and think about the fact that if we didn't spend money on some items, what we could really do with those dollars to help in terms of management functions that you would like to put in place. This should result in DHS working harder and smarter, doing more with less and becoming more efficient.

I imagine that you are already putting your budget together or have for the next time around. I would be very interested in helping with that so that you have the dollars that you need to get the job done.

Second, Ms. Steinhardt, do you folks ever as part of your evaluation look at the vacancies and at the dollars that it would take in order to get the job done? In other words, when you are reviewing an agency, is one of the questions you ask whether they have the right people there to get the job done? And then what is the budget that they need? Do you ever do that kind of work in terms of your oversight and review?

Ms. STEINHARDT. I would imagine that—I am just at a loss now for a specific example, but yes, we would take that kind of overview into account in looking at the management of an agency.

But in this case, I would say that is why—I think this kind of underscores the need for management integration and thinking about a strategy for how to integrate across the Department, be-

cause when you are putting together a budget, say, for major acquisitions, has the human capital component of that—I think probably here, this might be an example where that has occurred more laterally—but thinking about at the right time whether you have the people in place who are going to support these major acquisitions, whether you have the right workforce—

Senator VOINOVICH. Well, the point is that you have got to have the budget to do that. Now, Ms. Duke talked about acquisitions and bringing on a lot more people in acquisitions than DHS had before. That is an area, by the way, where we need more people throughout the Federal Government. Congratulations for what you are doing, Ms. Duke. But the issue now is, does DHS have the money to do it?

If I came to GAO, and we sat down and looked at the budget of the Department, particularly that portion of it that we are talking about today, would you be able to recommend to me some of your observations as to where something could maybe be done a little differently and might help them out?

Ms. STEINHARDT. We would certainly take a look at it, absolutely.

Senator VOINOVICH. Because what happens is—I know about this because I was a governor—they come in and you tell them, this is what you have got to give me. So they go ahead and do the best they can, and then the question is, do you give them—I always say, if you don't give them the money and the budget and the tools to get the job done, then you are basically telling them that you don't think very much of the job that you are asking them to do.

Ms. STEINHARDT. But what are the priorities, also. That is another thing that we would want to look at, how the Department has identified its priorities. If they are asking for money here and their budget allows them only this, then what is going to go? And it is looking at the big picture, not just in the components.

Senator VOINOVICH. Well, part of the problem is that Congress comes in and sets your priorities and juggles the money around.

Ms. STEINHARDT. Complicated.

Senator VOINOVICH. I am really going to dig into it because, as I say, I have got one more shot.

Ms. STEINHARDT. Well, we would absolutely want to support you there, Senator Voinovich.

Senator VOINOVICH. Yes. In terms of this management integration, Ms. Duke, I wrote to you and you sent me back a letter and said that you were going to have a plan to get it done before the end of the year. I am a little confused about the six things that you are going to need to drive it down, and then you also mentioned, I think, that you are going to have metrics to measure performance. Tell me more about that. What is it that you are going to be able to give us in the next several months that is going to get us down the road on this integration?

Ms. DUKE. Well, we are on the High-Risk List for several reasons, including management integration. So some of the other reasons we are on the High-Risk List are flood map modernization program, information sharing, many other very big, kind of DHS-wide reasons, if you will. So what we are working with OMB on is addressing each one of the reasons we are on the High-Risk List. And I have overall coordination of that with the Deputy Secretary,

for making sure that we are addressing all the reasons we are on the High-Risk List, the four DHS ones plus the two Federal-wide ones.

On the management integration one, that one squarely falls on my lap completely and that is where we have a strategy, but when GAO reviewed it, there were some concerns with the strategy, that it wasn't specific enough. It didn't have milestones so that they could measure our progress against. And it didn't have outcome goals. And it didn't have a sustained regular look at the progress. It was kind of putting out fires. And it also didn't have the horizontal integration that Ms. Steinhardt talked about.

So what we have done is we have said, OK, we can't do everything at once. We are picking out six key areas that are horizontally integrated that will be significant in moving the Department forward. For instance, one of them is St. Elizabeths. Having a DHS headquarters is important. So that is going to be one where we will have an actual measurable action plan with dates and outcomes. And so we are going to propose that these six things are near-term efforts that can be measured, that we are committed to, that will substantially drive the horizontal and the vertical integration that we need to do as a Department at this point in time.

Senator VOINOVICH. OK. I will get back to that. Senator Akaka has two more questions and he has somewhere to go, so why don't you ask your two and then I will finish up with mine.

Senator AKAKA. Thank you so much, Senator Voinovich.

In the most recent Partnership for Public Service Employee Satisfaction and Commitment Survey, DHS ranked 28th out of 30, which is a slight improvement from the last survey. Why do you think morale continues to be so low?

Ms. DUKE. When you look at the data from the employee survey, it was very eclectic, if you will. There was wide variances in the different components over what was causing dissatisfaction of the employees. But there were a couple that were systemic and that was having to do with performance and specifically rewarding the good performers and dealing with the performers that aren't meeting objectives. And so that is what we are principally looking at through our new Chief Human Capital Officer (CHCO), Jeff Neal, is how do we make sure our supervisors have the skills and actually have the responsibility for dealing with that. But that is the one area throughout the Department that was low for our employees.

Senator AKAKA. Finally, Ms. Duke, this may be your final time appearing before this Subcommittee. Again, I want to thank you for agreeing to stay on at DHS through the transition. Since your arrival at DHS, what are your biggest accomplishments and what key challenges remain for you?

Ms. DUKE. I think the biggest accomplishments are in building the acquisition program, building up the workforce, building up the accountability of the major acquisition programs, the over 100 in DHS, because that isn't just a CPO, Chief Procurement Officer, issue. That is an IT issue, it is a finance issue. And that is probably the biggest area.

I think in terms of challenges, that information technology, and the systems issue. If you read best practices when you have a

merger, you first consolidate and then you delegate. DHS was handed a position where we were kind of delegated and are seeking to consolidate, taking eight grand systems and making one, and we have got to get that IT systems issue right to really mature, and that is going to be hard because it is change and it is dollars initially to save money. That is one of the areas we have to spend money to save money.

The other area, I think, is our budget. We are working on a huge effort to get standardization and visibility in our budget. After 6 years, it is very difficult to look at our budget across components and have the clarity of data and the parity to make the tradeoffs on what is important. And so we are really focusing on getting our budget right so that leadership can make the tradeoff decisions and mission.

Senator AKAKA. Thank you very much, Ms. Duke.

Senator Voinovich, as you mentioned, I will be leaving, so I will be turning the gavel over to you.

Senator VOINOVICH [presiding]. Back to the question. So I would like to know in writing just what exactly it is that you are going to be doing, and is it possible that you could get a hold of Ms. Steinhardt and talk to her a little bit about it? Because I am really interested in trying to make sure that there is a meeting of the minds about what it is that needs to be done. I promise you that if we get that and the need is dollars and cents, I would like to work with you and the Secretary to see if we can't make sure that you have the resources that you need to get the job done.

Ms. DUKE. OK. And I will give it to you in writing. But the deliverables will be the six major initiatives with action plans, with milestones for each of the major initiatives. The other deliverable will be the letters to each of the components consistent across the chiefs to set forth the performance standards in management for the fiscal year. Those are the two major deliverables.

Senator VOINOVICH. OK. And what I would like to know is what are the resources necessary for you to produce those deliverables.

Ms. STEINHARDT. And we would be very happy, of course, to work with Ms. Duke and her staff on that.

Senator VOINOVICH. Great. Senator McCaskill.

OPENING STATEMENT OF SENATOR MCCASKILL

Senator MCCASKILL. Thank you. I did get a spreadsheet and I have been trying to figure out how many contractors there are in DHS. It was always one of those, "you have got to be kidding me," moments. Previously, no one knew and there wasn't a number available, which is always a bad sign. That means you are hiring so many contractors at once that nobody is bothering to keep track of how many contractors there were.

I am pleased that we got a spreadsheet from you recently where clearly there has been an attempt to try to do the best job possible counting the number of contractors. The spreadsheet that we got from your office, Ms. Duke, indicates that there are 10,520 contractors in the Washington, DC area working for the Department of Homeland Security. Of that 961 work for you. Do you believe these are accurate figures? Can we rely on these figures?

Ms. DUKE. The figures are based on algorithms, taking the cost of the contract and using some very valid formulas. So they are as accurate as we can get under the current conditions.

Senator MCCASKILL. OK. So this was a statistical analysis as opposed to asking the contractors to tell you how many people they have working for them?

Ms. DUKE. Yes.

Senator MCCASKILL. Why can't we do the latter?

Ms. DUKE. There actually is a long history, and that is something we are working with Office of Federal Procurement Policy (OFPP) on right now. There was an attempt about 6 years ago to start counting contractors and asking contractors and actually it was put out in the *Federal Register* as a public notice. The comment from industry was so strong that the Federal notice was withdrawn and the Federal Government did not go forward with that policy.

Under this Administration, we are looking at that again across the Federal Government in terms of how should we be counting contractors, how should we be accountable, and what these levels of professional services are, and also relooking at the definition of inherently governmental and what contractors should be doing and what contractors should be doing.

Senator MCCASKILL. Well, I know that the Secretary's efficiency review, you are looking at inherent governmental functions, but let me go back and make sure I understand. There was an attempt 6 years ago to ask the people that we have hired in the Federal Government to tell us how many people they have working for them and they said it is too hard for us to do that, so we said, never mind?

Ms. DUKE. The promise was that we are asking for a service. We are asking them to provide a service, and that it was their privileged information in terms of how many people they have working on it. So we should ensure we are paying a fair and reasonable price for the service we are asking for and how many people they use in managing their workforce was really a matter that wasn't—that didn't count—

Senator MCCASKILL. Concern you?

Ms. DUKE. The attitude of the industry was, it is none of your business. The attitude was, you are not buying people, you are buying a service, and so buying the number of people is irrelevant to the—

Senator MCCASKILL. But isn't it true that we are, in fact, buying people? Isn't that why we had turned to contractors, because we couldn't hire enough people quickly enough because of the inherent problems at the Office of Personnel Management (OPM), that we turned to contractors to hire people? We didn't hire—I mean, these are people sitting side by side—would we ever dream of having—aren't most of these contractors sitting in your offices working alongside Federal employees?

Ms. DUKE. Yes. Quite a few of them are.

Senator MCCASKILL. What percentage, would you say?

Ms. DUKE. We just did—I can submit that for the record, but we actually did do a data call on that, of how many contractors we have, what I will call the attributes of Federal service. They sit in government space. They have been there for a long period of time

using government computers, those type of things, and I can submit that to you, Senator McCaskill.

Senator MCCASKILL. Well, the more I can understand how—I mean, having done government auditing for a long time and having done government budgeting for a long time, in order to compare efficiency and effectiveness, you look at the number of full-time employees that are providing various services and then you can compare them and determine whether or not you are getting the efficiencies you should get. I am trying to get my arms around this concept that we give a contractor a set amount of money, and then if they want to hire two people to do what it is taking us to have five people do, it is OK, or if they are hiring 10 people—I mean, I think that is something we need to know if we are contracting for essentially—and I don't think anybody would argue, would they, that we hired a lot of people at the Department of Homeland Security that were doing inherently governmental functions. Is that an unfair statement?

Ms. DUKE. I think that, at a minimum, they were doing core services, items that, really, Federal employees should have the inherent knowledge to do our core functions, and we have identified about 3,500 positions in our first go-around that we are in the process of making Federal because they fit that category.

Senator MCCASKILL. Yes. It just worries me that as we—and I am not—and people may have misinterpreted my interest in this area as being against contractors or privatization. I am not. But what I am against is doing it in a way that we can never, ever, ever know whether we are getting a bang for our buck, and that is the way we have been contracting, particularly in DHS. I don't think we were ever in a position to know if we were getting value as it relates to a government employee versus a contract employee.

So I am glad that we have at least an attempt to begin counting noses and I would be disappointed if this Administration didn't go further down this path of effectiveness. I have a lot of confidence in the Secretary. She gets this, and you guys have probably noticed that she is pretty strong about making things happen and changing things when she sees that they are not being done right.

Let me talk a minute about TASC. After the failure of Emerge, we are now, according to the DHS IG, a project that is close to \$1 billion. If we have another meltdown like we had with Emerge, who should be sitting at that table to answer questions about it?

Ms. DUKE. Well, I think that starting from the top, TASC is part of the future of DHS. So I think it is me, I think it is the Deputy Secretary, I think it is the Secretary. The CFO currently runs the Program Office and our CIO is heavily involved. I mean, we all understand the importance of TASC and the success in doing it right.

Senator MCCASKILL. Would you consider the CFO the functional top of that organizational chart as it relates to TASC? Who is the functional—

Ms. DUKE. Yes.

Senator MCCASKILL [continuing]. Responsible person, the CFO?

Ms. DUKE. The CFO, yes.

Senator MCCASKILL. Let me ask, Ms. Richards, in your testimony, you said that your professional service contracts over \$1 million are going to go through a review before award or renewal,

which is terrific. How many of those contract awards under this review have been found, in the review that you mention, that they include inherent governmental functions and what has happened as a result of those reviews?

Ms. RICHARDS. Ma'am, I am going to have to get back to you for the record with the exact numbers on the contracts that have gone through that review. I will say that we do have reports that came out this year that did find some contractors doing inherently governmental functions, in our opinion, in the SBINet area. We also are currently looking at contractors that are providing core support to the Transportation Security Administration (TSA) in their logistics area, and that report should be out shortly. But I will have to get back to you with the exact figures.

Senator MCCASKILL. Yes. I see it with TSA—it is really interesting to me that—I go through a lot of airports, and I especially spend a lot of time in the Kansas City and St. Louis airports. In Kansas City, all the screeners are contract. Of course, they are TSA in St. Louis. I can't figure out the rhyme or reason on that. I mean, why would you have contractors in some locations—I don't know how many there are. Kansas City are the only ones I have noticed.

And the reason I notice it is because they do things much differently. I have a bad knee, so I get wanded every time I go through, so I know the drill. I could actually—if you needed me, I could step in and be a TSA screener. And so I know about where the shoes go on the belt or they don't or if they go in a bin. I know all that stuff. They are very different in Kansas City—not that they aren't doing a good job, it is just different, so I notice it. Is there some reason why we are doing contractors in some places and government employees in others?

Ms. DUKE. Senator McCaskill, under the original Act that stood up TSA, ATSA, it was required to have, I believe it was four or five airports that stayed contractor, and they were directed to convert all the others to Federal by the end of 2002, and the reason for that in the statute was to allow comparison to see, was the federalization really more effective, and TSA was directed within a period of time to do a comparison of the four that remained Federal—excuse me, remained contractor.

Later, the statute was modified and airports are now allowed to opt out. And so if an airport believes it can perform more effectively with contractors, they can submit an application to TSA to go back to contractor. I believe there has only been a couple airports that have actually asked to convert. So that is why you see so very few. A couple of the other ones that stayed contractor was a small airport in Wyoming. There was one in each category of airport.

Senator MCCASKILL. I am curious. Before we changed that statute, did we look at the value—I mean, if the reason was because we wanted to compare, right, did we compare?

Ms. DUKE. There was a comparison done—

Senator MCCASKILL. And the result was?

Ms. DUKE. I honestly don't know the exact results, but that study does exist and it looked at both levels of security and cost.

Senator McCASKILL. OK. I will follow up on that and get that, because that is interesting to me. It is just typical that we do a study to see which is better, and then without really clearly knowing what the study said, we decide everybody can opt out if they want. I mean, it is interesting that no one has. And I don't want the word to get out that I am trying to move people out of their jobs screening in Kansas City. I am really going to slow down on my wandering if that gets out in the Kansas City airport, I am sure. [Laughter.]

Ms. RICHARDS. And ma'am, if I could add, when we do our penetration testing and other testing on the effectiveness of TSA, we design our tests to specifically test for the differences between the contracted screeners and the TSA screeners, and our results have not shown an appreciable difference between the two.

Senator McCASKILL. I think they are both doing a fine job. I just think there is just a little—there is some quirkiness and differences in the way they do it. You can tell that there is a certain culture, maybe, which is fine. It is the difference between an apple and an orange. They are different. They are both good.

Senator VOINOVICH. Senator, could you—

Senator McCASKILL. Yes.

Senator VOINOVICH [continuing]. Give me a shot, and then I will get back—

Senator McCASKILL. I thought you were done.

Senator VOINOVICH. No, I am not.

Senator McCASKILL. I thought you were handing out the gavel.

Senator VOINOVICH. No. [Laughter.]

First of all, I understand what you go through, because I have a pacemaker.

Senator McCASKILL. They do the same thing.

Senator VOINOVICH. Yes, I see the whole deal. I continually try to find out whether the Professional Aviation Security Specialists (PASS) program is working like we hoped it would work.

First of all, I am pleased that you are getting back to looking at the inherently core governmental functions. I assume that you are looking at first of all, can we find these folks and bring them in, and then whether or not you have got the budget issue—is it an even-steven or maybe can you save money bringing them in rather than continuing to have them farmed out.

I think you need to continue to do that, because the previous Administration really was into farming stuff out. The interesting thing is that when they had these, what is it, 76, it is a procedure—

Ms. DUKE. A-76.

Senator VOINOVICH [continuing]. A-76—and Senator, you would be interested in this—when they have an A-76, they get the people who work for the government to compete with the private sector to see whether or not you should stay with your people—

Senator McCASKILL. Right.

Senator VOINOVICH [continuing]. And about 80 percent or 85 percent of the time, the people that are working for the Federal Government win those. But the thing that bothers me is why do you have to have the A-76 procedure before you give employees that

work for the Federal Government the opportunity to come back and let you know how they can become more efficient?

In other words, one of the things I wanted to do when I came to Washington was based on my work as governor. I instituted Total Quality Management for 56,000 workers in the State of Ohio. It was one of the best things I ever did, as I look back on it. It just seems that we don't have enough of that going on today in the Federal Government.

In your particular case, since you merged all these people, different cultures and all the rest of it, I suspect that you couldn't do that in the beginning, but I would suggest that you look at that situation to see if we couldn't be getting more out of the people that we now have by empowering them to come back and say, what, Elaine? We could do this a whole lot better if you would just let us do it.

The other thing, the issue of the competency of the people that you hire, and again, following up on Senator McCaskill, do you have people there that make sure that you are not being ripped off and that they are doing the job that they should be doing? And it is the same thing, and the question is that you award \$4 billion in grants each year and the IG finds that FEMA does not consistently and comprehensively execute its oversight to make sure that what is happening in terms of those grants. What can you do to improve that program in terms of monitoring the grants that are going out there and that we are getting what we are supposed to be getting from them.

Ms. DUKE. Several things. One is we are—on the idea of employee involvement, TSA had started an idea factory. That is opening up DHS-wide in January. We are working with the labor units, with DHS on some fine-tuning, but that is going to allow that employee engagement DHS-wide, and that is a big effort for us. And hopefully we will get those improvements from the grassroots efforts.

In terms of service employees, one thing that would probably be of interest to you, Senator, and this Subcommittee, is the OFPP is working on revisions to the circular, but more specifically the definition of inherently governmental, and if you look at the current definition, it says, for instance, signing the budget or approving the budget is inherently governmental, but supporting the budget is commercial. So it argues, or could be interpreted, you need one budget person and all the rest could be contractors, or at some point does the ratio skew to that budget person, is really tantamount to an autopen. And so that is where I think the Administration, in introducing the concept of core functions, is how many real Federal budget people do you need so they are really making the decisions, not just approving contractors' work, if you will, and really have that core knowledge.

So that is being done at the Federal level. The OFPP Administrator, Dan Gordon, just got confirmed. He is actually from GAO and really understands the importance of this.

On grants, you are absolutely right. That is probably one of our biggest workforce shortages in DHS. So what happens in the workforce shortage on the business side is we focus all our efforts on getting the grants awarded, and then the grants administration,

making sure the State and local governments and other recipients execute the grants properly. We received funding last year for the first time to have a DHS Grants Oversight Office in the Office of the CFO, and FEMA, who is our principal granting agency within the Department, is working on building up their staffing on the business side. But I agree with you on all your points.

Senator VOINOVICH. Thank you. Senator McCaskill.

Senator MCCASKILL. The only other question I had that I didn't get a chance to ask, when I ran so far over my time before I got carried away, was about award fees. We had a Subcommittee on Federal Financial Management, we had a meeting on wasteful contractor bonuses and your Acquisition Management Scorecard showed that there hadn't been a lot of change and not a lot of consistency. Would anyone want to give me good news about contractor bonuses that are wasteful and not deserved?

Ms. DUKE. Yes, Senator. We have issued new policy on award fee. The problem with award fee is they are qualitative. They reward kind of just general satisfaction, and so under the Chief Procurement Officer, we issued guidance that is consistent with the Federal guidance that will severely limit the use. Additionally, we are giving training and incentives so that if we are going to pay fees for performances tied to a specific quantitative objective, which is the difference between incentive and award fee. So, yes, we do have the new policy and are enforcing it in DHS.

Senator MCCASKILL. That is great. That is all I had.

Senator VOINOVICH. I will just ask one more question, and that is on performance management and setting objectives. I understand that is not being done in all cases. Are you going to be able to get that done this year, the coming year?

Ms. DUKE. We are working on our performance management system and improving it. I believe all employees are under a performance plan. But in terms of having a centralized approach to performance management in DHS, that is what we are working on in the coming year.

Senator VOINOVICH. Because I understand that for fiscal year 2009, only two of your six management chiefs complied with this directive. Why didn't all of your chiefs provide these written objectives?

Ms. DUKE. It was a matter of transition and turnover and the chiefs. It was just our mistake. There was no excuse.

Senator VOINOVICH. And then it is the same thing about them giving you the feedback regarding their accomplishments. You know what it is. Sit down and say, here is what we want to do. Periodically meet with them and come back and—

Ms. DUKE. Right.

Senator VOINOVICH [continuing]. So they know whether they are doing good or bad.

Ms. DUKE. And we did it within management. What we failed to do was do it to the components. So we failed to issue the objectives, say, to the CIOs in the components, and that is what we refocused on. And I agree with you, Senator, that is important.

Senator VOINOVICH. Thank you. This has been a great hearing. I am pleased with it. This is a nice team, and if you are all working together, we are going to continue to make some real progress.

Ms. Duke, again, thank you so much for the good work that you are doing. I hope this isn't the last time that you come before us. Thank you.

The Subcommittee hearing is adjourned.

[Whereupon, at 11:13 a.m., the Subcommittee was adjourned.]

A P P E N D I X

TESTIMONY OF ELAINE C. DUKE, UNDER SECRETARY FOR MANAGEMENT, U.S. DEPARTMENT OF HOMELAND SECURITY

Chairman Akaka, Ranking Member Voinovich, and members of the subcommittee, thank you for this opportunity to discuss DHS, our mission, and the efforts to improve management integration. Significant management challenges exist as the Department of Homeland Security (DHS) continues to integrate its varied management processes, policies, and systems in areas such as financial management, human capital investments, and information technology consolidation. However, we have made significant progress and have put important plans in place.

The work done by the Management Directorate enables the Department to achieve its mission by ensuring that Offices and Components perform as an integrated, cohesive unit that guards against terrorism; secures our borders; enforces our immigration laws; improves our readiness for, response to, and recovery from disasters; and unifies the Department so that we can even more effectively carry out our mission.

Our directorate has four strategic objectives:

- **Provide Structure** – Strengthen unified organizational governance to enhance department-wide communication, decision making and oversight.
- **Optimize Processes and Systems** – Integrate functional operations to facilitate cross-Component synergies and streamline coordination ensuring reliable and efficient support of mission objectives.
- **Foster Leadership** – Adhere to the core values and guiding principles of DHS in performing duties, effecting progress and leading with commitment for the mission.
- **Leverage Culture** – Leverage the benefits of commonalities and differences across Components to promote cooperative intra- and inter-agency networks and implement best practices.

Six years since the Department's creation, our goal is simple: one DHS, one enterprise, a shared vision, with integrated results-based operations. Under Secretary Napolitano's leadership, the Department has taken numerous actions to achieve this goal.

- To trim costs, streamline operations, eliminate duplication, and better manage resources across the Department, Secretary Napolitano launched a Department-wide efficiency review. This effort includes more than two dozen initiatives that will increase efficiency and save taxpayers millions of dollars.
- To ensure that all Department employees operate with the highest ethical standards, Secretary Napolitano directed every incoming employee to receive a personal and comprehensive ethics briefing by the chief ethics officer.
- To increase the capacity of the Department's workforce, Secretary Napolitano issued an action directive requiring cross-component employee rotation and mentoring opportunities.
- To develop strategies to unify the Department's policymaking, enhance inter-component communication and analysis, the Department launched the first-ever Quadrennial Homeland Security Review.

Over the past six years, DHS has made significant progress in management integration with many milestones planned for the months ahead.

Acquisition and Procurement

In March 2003 when the Department was stood up, there were seven contracting activities supporting legacy components. As the quantity and complexity of programs supporting DHS missions continued to increase, the need to evolve and establish additional functions within the Office of the Chief Procurement Officer (OCPO) became necessary. In FY 2008, we established two new divisions to support critical acquisition functions; the Acquisition Program Management Directorate (APMD) and the Cost Analysis Division (CAD). APMD and CAD provide essential competencies that are core to the infrastructure of the Department's acquisition program.

In November 2008, we released an interim acquisition management directive and associated guidebook, Directive 102-01. The interim directive established a revised acquisition review process, including roles and responsibilities of DHS-approving authorities, threshold levels for acquisition, acquisition decision events, and required supporting documentation. The directive established the Acquisition Review Board (ARB) as the Department's highest review body charged with reviewing and approving all programs at key acquisition decision events that are greater than \$300 million in life cycle costs.

In FY 2009, the Deputy Secretary chaired 16 major ARBs; the USM chaired 4 major ARBs as well as 8 smaller ARBs including oversight of *American Recovery and Reinvestment Act (ARRA) of 2009* initiatives; and the CPO chaired 2 service contract ARBs. The Department also completed seven portfolio reviews, which augment the ARB process by providing executive-level governance support to Component and Departmental leadership.

I approved the implementation phase for the next Generation Periodic Reporting System (nPRS) on May 6, 2009. After a rigorous data cleansing effort, nPRS successfully met the requirements established under the implementation phase.

We recognize that a successful acquisition program is more than policy and oversight—it requires a talented workforce. We are focused on improving our ability to attract and retain needed resources.

In FY 2009, we successfully hired and placed 52 individuals in the Acquisition Professional Career Program, for a total of 100 participants. The Department increased the size of the contracting and procurement workforce, experiencing a net gain of 129 contracting professionals from 1,152 in FY 2008 to 1,281 in FY 2009. We increased the number of Program Manager certifications issued by 694 from 1,083 through FY 2008 to 1,777 through FY 2009. We also increased the number of Contracting Officers Technical Representative (COTR) certifications issued by 2,116 (from 6,243 to 8,359).

Human Capital

We have also developed a results-oriented strategic human capital plan.

Representatives from across the Department are actively engaged to foster integrated and collaborative Department-wide human capital planning and execution to achieve desired results. Our human capital governance bodies include:

The Executive Steering Committee (ESC) is a committee of Headquarters and Component senior leadership engaged in developing and executing HR strategic direction and business objectives to optimize support for mission priorities. I serve as the committee Chair of the ESC, which meets two times a year.

The Human Capital Leadership Council (HCLC) is a Department-wide council of human capital and development executives that collaborate to meet the Department-wide human capital program priorities and strategic direction established by the ESC. Meeting at least quarterly, and chaired by the Chief Human Capital Officer (CHCO), the HCLC provides direction and resources to the Sub Councils and monitors progress made on the Implementation Plan.

There are three HCLC Sub Councils—the Human Resources Council, the Training Leaders Council, and the Service Excellence Council—which develop policy and programs and optimize structure, processes, and systems to support HCLC strategic and business direction. These Sub Councils are inclusive of the Department’s senior leadership and subject matter experts in the functional areas of human capital, learning and development, and service excellence. Each Sub Council is chaired by the corresponding OCHCO executive and meets monthly. The HCLC and Sub Councils contribute to implementing near-term actions outlined in the Implementation Plan and share information, performance indices, and leading practices to serve all DHS. .

Financial Management

To improve our financial management processes, the Department is working to make measurable, demonstrable progress in the development and implementation of long-term plans.

Our Financial Management Community has many initiatives underway to continue to build the 'One DHS' culture, including our commitment to strengthening internal controls and realigning business processes for improved efficiencies and effectiveness.

DHS established financial reporting working groups to uniformly address financial management and business process challenges. In addition, DHS improved a "Component Requirements Guide" that contains approximately 40 standard financial reporting processes.

We are moving forward with a financial system modernization effort to improve the quality of and control over DHS financial data, make the financial accounting process more efficient throughout DHS, and reinforce standard business and financial management practices.

We issued the Financial Management Policy Manual this year, which is designed to ensure DHS maintains efficient and transparent operations and our resources are not vulnerable to waste, fraud, and mismanagement.

Components completed the Department's multi-year plan to implement OMB Circular No. A-123, Managements Responsibility for Internal Control, reducing the number of Component conditions that contributed to our material weaknesses in internal controls over financial reporting by more than half. In addition, we completed an assessment of processes that provide internal control over the Balance Sheet and Statement of Custodial Activity.

Information Technology

In March 2003, the IT infrastructure included multiple Wide Area Networks, each with its own Network Operations Center (NOC) and Security Operations Centers (SOC), that had overlapping and redundant system circuitry. We have made progress in consolidating data centers, reducing

the number of independently operated e-mail systems and address lists, and streamlining help desk services; we have achieved a more unified network structure and information exchange across the Department, decreasing costs and improving our ability to operate. We are unifying, consolidating and modernizing. However, we recognize that a successful information technology program is more than connecting servers and running cables – it's also good program management and oversight.

To strengthen acquisition and IT investment management, DHS established the Acquisition Program Management Division (APMD) within the Office of the Chief Procurement Officer and assigned it responsibility for developing and maintaining the Department's acquisition policy.

We also ensure our IT programs are developed in accordance with OMB Federal Enterprise Architecture guidelines through our Enterprise Architecture Board (EAB), which assesses the alignment of IT programs to the Homeland Security mission

In a continuing effort to improve overall IT investment management, the Office of the Chief Information Officer (OCIO) has successfully implemented several key governance processes over the past year. These include the IT Acquisition Review (ITAR), IT Budget Review, and IT portfolio management.

DHS achieved 96 percent Federal Information Security Management Act (FISMA) compliance at the Department level for FY 2009. This includes 93 percent compliance for Certification and Accreditation and tracking and managing the closure of approximately 10,000 security weaknesses. Near real-time visibility was implemented for Security Metrics, as well as daily delivery of Information Security FISMA Reports to Components, resulting in more effective and timely management of more than 9,700 information security weaknesses.

Headquarters Consolidation

The DHS Consolidated Headquarters at St. Elizabeths will serve as the center for leadership activities, operations coordination, policy, and program management in support of the

department's mission execution functions and strategic goals. Consolidating the DHS headquarters will increase effectiveness and efficiency, enhance communication, and foster a "One-DHS" culture that will optimize department-wide prevention, response and recovery capabilities. St. Elizabeths will be a model for economic development and coordination between the federal government, the district government, private industry and the community.

Secretary Napolitano and General Services Administration (GSA) Acting Administrator Paul Prouty held a ceremonial groundbreaking in September to commence consolidation of a new DHS headquarters at the St. Elizabeths Campus. DHS currently operates in more than 46 locations around the National Capital Region. The headquarters consolidation initiative expects to realize more than \$700 million in net present value savings over 30 years as compared to renewing leases individually.

INTEGRATION STRATEGY

Working with the Office of Management and Budget (OMB) and the Government Accountability Office (GAO), we created a DHS Integrated Strategy for High Risk Management. The strategy contains a corrective action plan that acknowledges the risks identified by the GAO and outlines a transformation framework and introduces the methods by which the Department will continue to seek improved performance across functional operations and administration.

Each high risk area has an assigned Department-level lead executive responsible for overseeing the initiatives cited in the plan and for ensuring cross-organizational integration, required periodic reporting, measurements, and measures. Many of the initiatives also identify supporting organizations which will participate in the necessary cross-functional activities encompassed in the initiatives.

In addition to updating the Integrated Strategy, we are in the process of developing a detailed, measurable management integration plan similar to that which GAO recommends in its latest draft report "Actions Taken Toward DHS Management Integration, But a Comprehensive Strategy is Still Needed." The plan will further develop the actions and milestones necessary to

accomplish the DHS management integration. We expect to complete this plan by the end of the calendar year and provide a copy to you.

Thank you, Mr. Chairman and members of the subcommittee for your interest in and continued support of DHS management programs. Thank you for the opportunity to testify before the subcommittee about the DHS acquisition program. I am glad to answer any questions you or the members of the subcommittee may have.

STATEMENT OF ANNE L. RICHARDS

ASSISTANT INSPECTOR GENERAL FOR AUDIT

U.S. DEPARTMENT OF HOMELAND SECURITY

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

DECEMBER 15, 2009



Good morning, Mr. Chairman and Members of the Subcommittee. I am Anne L. Richards, Assistant Inspector General for Audit for the Department of Homeland Security (DHS). Thank you for the opportunity to discuss the major management challenges facing DHS.

Since its inception in 2003, DHS has worked to accomplish the largest reorganization of the federal government in more than half a century. This task, creating the third largest Cabinet agency with the missions of protecting the country against another terrorist attack, responding to threats and hazards, ensuring safe and secure borders, welcoming lawful immigrants and visitors, and promoting the free flow of commerce, has presented many challenges to its managers and employees. While DHS has made progress, it still has much to do to establish a cohesive, efficient, and effective organization.

The major management challenges that we identify facing DHS represent risk areas that we use in setting our priorities for audits, inspections, and evaluations of DHS programs and operations. These challenges are included in the department's *Annual Financial Report*, which was issued on November 16, 2009. As required by the Reports Consolidation Act of 2000, we update our assessment of management challenges annually. Our latest major management challenges report covers a broad range of issues, including both program and administrative challenges. In total, we identified nine categories of challenges including Acquisition Management, Information Technology Management, Emergency Management, Grants Management, Financial Management, Infrastructure Protection, Border Security, Transportation Security, and Trade Operations and Security. A copy of that report is provided for the record. I believe the department recognizes the significance of these challenges and understands that addressing them will take a sustained and focused effort.

Today, I would like to highlight four specific management challenges facing the department:

- Acquisition management,
- Information technology management,
- Grants management, and
- Financial management.

These areas are the backbone of the department and provide the structure and information to support the accomplishment of DHS' mission. Some aspects of these challenges were inherited by the department from their legacy agencies. However, the complexity and urgency of DHS' mission have exacerbated the challenge in many areas.

These management challenges significantly affect the department's ability to carry out its operational programs and provide the services necessary to protect the homeland. The department's senior officials are well aware of these issues and are making progress in resolving them. Our oversight in these areas is intended to facilitate solutions. For example, our audits in the area of acquisition management have identified past trends and future risk areas. Also, during the past year, we issued a series of audits assessing the department's corrective action plans related to financial management improvements. We

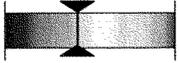
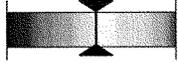
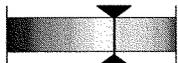
will continue our intense oversight of these management areas to ensure that solutions and corrective measures are identified and acted upon.

Since the major management challenges have tended to remain the same from year to year, we developed scorecards to distinguish the department's progress in selected areas. We based our scorecard ratings on a four-tiered scale ranging from limited to substantial progress¹:

- **Limited:** While there may be plans to address critical success factors, few if any have been implemented;
- **Modest:** While some improvements have been made, many of the critical success factors have not yet been achieved;
- **Moderate:** Many of the critical success factors have been achieved; and
- **Substantial:** Most or all of the critical success factors have been achieved.

Our overall scorecard ratings for acquisition management, information technology management, grants management, and financial management are presented in Figure 1.

Figure 1.

DHS' OVERALL PROGRESS IN SELECTED AREAS		
Ratings are based on a four-tiered scale: Limited, Modest, Moderate, and Substantial.		
	FY 2008	FY 2009
Acquisition Management	Modest Progress 	Moderate Progress 
Information Technology Management	Moderate Progress 	Moderate Progress 
Grants Management	<i>N/A</i>	Modest Progress 
Financial Management	Modest Progress 	Modest Progress 

¹ Financial Management Scorecard uses different criteria to assess limited to substantial progress, and is discussed in the Financial Management section of this statement.

ACQUISITION MANAGEMENT

DHS relies on goods and services contractors to help fulfill many of its critical mission areas. As such, effective acquisition management is vital to achieving DHS’ overall mission. Acquisition management is much more than simply awarding a contract. It requires a sound management infrastructure to identify mission needs; develop strategies to fulfill those needs while balancing cost, schedule, and performance; and ensure that contract terms are satisfactorily met. A successful acquisition process depends on the following key factors:

- Organizational Alignment and Leadership—ensures appropriate placement of the acquisition function, defines and integrates roles and responsibilities, and maintains clear, strong executive leadership;
- Policies and Processes—partnering with internal organizations, effective use of project management approaches, and establishment of effective internal controls;
- Acquisition Workforce—commitment to human capital management, integration and alignment of human capital approaches with organizational goals, and investment in people; and
- Knowledge Management and Information Systems—tracking of key acquisition data, analysis of supplies and services spending, and data stewardship.

Acquisition Management Scorecard

The following scorecard illustrates areas where DHS improved its acquisition management practices, as well as areas where it continues to face challenges. We based our assessment on our recent audit reports, Government Accountability Office (GAO) reports, congressional testimony, and our broader knowledge of the acquisition function.

Based on the consolidated result of the four acquisition management capability areas, DHS made “moderate” overall progress in the area of Acquisition Management.

ACQUISITION MANAGEMENT SCORECARD	
Organizational Alignment and Leadership	<p>Modest Progress</p> 
<p>DHS made “modest” progress in improving the acquisition program’s organizational alignment and defining roles and responsibilities. The department continues to depend on a system of dual accountability and collaboration between the chief procurement officer and the component heads, which may sometimes create ambiguity about who is accountable for acquisition decisions. However, DHS maintains that the dual authority model works because the Office of the Chief Procurement Officer (OCPO) retains central</p>	

ACQUISITION MANAGEMENT SCORECARD

authority over all contracting through its contracting officer warrant program and Federal Acquisition Certification - Contracting program. According to the department, the heads of contracting activities and contracting officers function independently of component influence as their authority flows from OCPO rather than the component. DHS also expects its proposed Acquisition Line of Business Integration and Management Directive to clarify existing authorities and relationships within individual components and the department's Chief Procurement Officer.

According to the Government Accountability Office (GAO),² DHS has not effectively implemented or adhered to its investment review process, which requires executive decision making at key points in an investment's life cycle. DHS has not provided the oversight needed to identify and address cost, schedule, and performance problems in its major investments due to a lack of involvement by senior management officials as well as limited monitoring and resources.

Although FEMA has reorganized its acquisition function to operate strategically,³ FEMA program offices have not adequately integrated the acquisition function into their decision-making activities. Planning strategically requires that the Acquisition Management Division partner with other FEMA components and assist them in assessing internal requirements and the impact of external events. FEMA's Acquisition Management Division has begun to work more closely with program offices to better manage the acquisition process, monitor and provide oversight to achieve desired outcomes, and employ knowledge-based acquisition approaches.

<p>Policies and Processes</p>	<p>Moderate Progress</p> 
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DHS made "moderate" progress in developing and strengthening its policies and processes related to acquisition management. Although the department has put a great deal of effort into improving its processes and controls over awarding, managing, and monitoring contract funds, it still needs to do more.

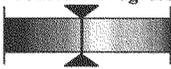
According to a May 2009 report by the GAO,⁴ DHS provided guidance on award fees⁵ in its acquisition manual, but individual contracting offices developed their own approaches to executing award fee contracts that were not always consistent with the principles in the Office of Management and Budget's guidance on award fees or among offices within

² GAO-09-29, *Department of Homeland Security: Billions Invested in Major Programs Lack Appropriate Oversight*, November 2008.

³ DHS-OIG, *FEMA's Implementation of Best Practices in the Acquisition Process*, (OIG-09-31, February 2009).

⁴ GAO-09-630, *Federal Contracting: Guidance on Award Fees Has Led to Better Practices but is Not Consistently Applied*, May 2009.

⁵ An award fee is an amount of money that a contractor may earn in whole or in part by meeting or exceeding subjective criteria stated in an award fee plan.

ACQUISITION MANAGEMENT SCORECARD	
<p>DHS. In addition, DHS has not developed methods for evaluating the effectiveness of an award fee as a tool for improving contractor performance. FEMA also needs to accelerate its planned acquisition process improvements for awarding, managing, monitoring, tracking, and closing-out contracts.⁶</p> <p>DHS is making progress in the oversight of its services contracts. As of March 2009, all DHS professional services contracts greater than \$1 million will undergo a mandatory review before a new contract is awarded or an existing contract is renewed to ensure that proposed contract awards do not include inherently governmental functions or impact core functions that must be performed by federal employees. DHS expects this additional review to add a new level of rigor to the DHS contracting process.</p>	
<p>Acquisition Workforce</p>	<p>Moderate Progress</p> 
<p>DHS made “moderate” progress in recruiting and retaining a workforce capable of managing a complex acquisition program, but continues to face workforce challenges across the department. An April 2009 report by the GAO indicated that the Coast Guard filled 717 of its 855 military and civilian personnel positions in the acquisition branch⁷ and planned to expand its acquisition workforce in FY 2011. However, some of its unfilled positions are core acquisition positions such as contracting officers and specialists, program management support staff, and engineering and technical specialists. Although FEMA has improved acquisition training and greatly increased the number of acquisition staff, it still needs to better prepare its acquisition workforce for catastrophic disasters.⁸</p> <p>In its response to our November 2008 management challenges report, DHS highlighted headquarters-level initiatives for building and retaining its acquisition workforce⁹. For example, DHS centralized recruitment and hiring of acquisition personnel, established the Acquisition Professional Career Program to hire and mentor procurement interns, created a tuition assistance program, and structured rotational and development work assignments. However, DHS needs time to complete all of these new initiatives. In the interim, personnel shortages will continue to hamper the department’s ability to manage its contracts and workload in an effective and efficient manner.</p>	

⁶ DHS-OIG, *Internal Controls in the FEMA Disaster Acquisition Process*, (OIG-09-32, February 2009); DHS-OIG, *Challenges Facing FEMA's Disaster Contract Management*, (OIG-09-70, May 2009); DHS-OIG, *FEMA's Acquisition of Two Warehouses to Support Hurricane Katrina Response Operations*, (OIG-09-77, June 2009); DHS-OIG, *FEMA's Temporary Housing Unit Program and Storage Site Management*, (OIG-09-85, June 2009).

⁷ GAO-09-620T, *Coast Guard: Update on Deepwater Program Management, Cost, and Acquisition Workforce*, April 2009.

⁸ DHS-OIG, *Challenges Facing FEMA's Acquisition Workforce*, (OIG-09-11, November 2008).

⁹ *Department of Homeland Security FY 2008 Annual Financial Report*.

ACQUISITION MANAGEMENT SCORECARD	
Knowledge Management and Information Systems	Modest Progress 
<p>DHS made “modest” progress in deploying an enterprise acquisition information system and tracking key acquisition data. DHS has not yet fully deployed a department-wide (enterprise) contract management system that is interfaced with the financial system. Many procurement offices continue to operate using legacy systems that do not interface with financial systems. With ten procurement offices and more than \$17 billion in annual acquisitions and procurement, DHS needs a consolidated acquisition system to improve data integrity, reporting, performance measurement, and financial accountability.</p> <p>In recent years, DHS did not ensure contract data was complete and accurate in the Federal Procurement Data System-Next Generation (FPDS-NG).¹⁰ This system is the only consolidated information source for analyzing competition on procurements and is relied on for reporting to the public and Congress. DHS has taken steps to comply with May 2008 guidance, issued by the Office of the Federal Procurement Policy, that requires government agencies to develop a plan for improving the quality of acquisition data entered into FPDS-NG. For example, DHS developed a standard report format and data quality review plans.</p>	

INFORMATION TECHNOLOGY MANAGEMENT

Creating a unified information technology (IT) infrastructure for effective integration and agency-wide management of IT assets and programs remains a challenge for the DHS Chief Information Officer (CIO). The CIO’s successful management of IT across the department will require the implementation of strong IT security controls, coordination of planning and investment activities across DHS components, and a commitment to ensuring privacy.

Security of IT Infrastructure

During our FY 2008 *Federal Information Security Management Act*¹¹ (FISMA) evaluation, we reported that the department continued to improve and strengthen its security program. Specifically, the department implemented a performance plan to improve on four key areas: Plan of Action and Milestones weaknesses remediation, quality of certification and accreditation, annual testing and validation, and security program oversight. The department also finalized its Sensitive Compartmented Information Systems Information Assurance Handbook, which provides department

¹⁰ DHS-OIG, *DHS Contracts Awarded Through Other Than Full and Open Competition during Fiscal Year 2007*, (OIG-09-94, August 2009).

¹¹ Title III of the E-Government Act of 2002, Public Law 107-347.

intelligence personnel with security procedures and requirements to administer its intelligence systems and the information processed.

Although the department's efforts have resulted in some improvements, components are still not executing all of the department's policies, procedures, and practices. Management oversight of the components' implementation of the department's policies and procedures needs improvement in order for the department to ensure that all information security weaknesses are tracked and remediated, and to enhance the quality of system certification and accreditation.

Additional information security program areas that need improvement include configuration management, incident detection and analysis, specialized training, and privacy. In 2009, we reported¹² that DHS had implemented effective system controls to protect the information stored and processed by the department's unclassified network, LAN-A. DHS ensures that network patch management and vulnerability assessments are performed periodically. However, DHS did not have an effective process to manage its LAN-A privileged accounts or ensure that security patches were deployed on all applications. The lack of sufficient processes increased the risk that LAN-A security controls could be circumvented.

IT Management

The department faces significant challenges as it attempts to create a unified IT infrastructure for effective integration and agency-wide management of IT assets and programs. Toward that end, DHS has several initiatives underway to improve IT operations and reduce costs. One such program is the development of an enterprise-wide IT disaster recovery program to ensure that the department's operations can continue uninterrupted should its IT systems fail. We reported in April 2009 that DHS had made progress in implementing a disaster recovery program by allocating funds to establish two new data centers.¹³ However, we noted that more work was needed to ensure the new data centers were fully capable of meeting the department's significant IT disaster recovery needs.

Another major IT challenge for the DHS CIO is OneNet, an initiative aimed at consolidating existing IT infrastructures into a wide area network. DHS began work on OneNet in 2005, and envisions it will provide the components with secure data, voice, video, tactical radio, and satellite communications between internal and external DHS resources. We reported in September 2009 that DHS has taken various steps to consolidate existing infrastructures into OneNet, but faces challenges in completing its OneNet implementation.¹⁴ Specifically, we reported that DHS is experiencing delays in

¹² DHS-OIG, *Better Monitoring and Enhanced Technical Controls Are Needed to Effectively Manage LAN-A*, (OIG-09-55, April 2009).

¹³ DHS-OIG, *DHS' Progress In Disaster Recovery Planning for Information Systems* (OIG-09-60, April 2009).

¹⁴ DHS-OIG, *Improved Management and Stronger Leadership are Essential to Complete the OneNet Implementation* (OIG-09-98, September 2009).

meeting its scheduled completion date and that components are reluctant to participate and are not subscribing to the implementation of OneNet. As a result, DHS may not be able to reach its ultimate goal of consolidating and modernizing its existing infrastructures and achieve cost savings.

Component CIOs also face significant challenges in their efforts to improve IT management, budgeting, planning, and investment. In July 2009, we reported¹⁵ that U.S. Citizenship and Immigration Services (USCIS) strengthened overall IT management by restructuring its Office of Information Technology and realigning its field IT staff. However, the department's efforts to enforce overall IT budget authority and improve agency-wide IT infrastructure have been difficult, due to insufficient staffing and funding. The department finalized its Office of the Chief Information Officer (OCIO) Staffing Plan in April 2009, in which it has identified the need to ensure sufficient staff with the right skills, security clearances and experience.

Our April 2008 audit of the Federal Emergency Management Agency's (FEMA) efforts to upgrade its disaster logistics management systems¹⁶ showed that existing systems did not provide complete asset visibility, comprehensive asset management, or integrated logistics information. Since this report, FEMA has yet to finalize its logistic, strategic, and operational plans to guide logistics activities. In addition, FEMA has not developed processes and procedures to standardize logistics activities. Without such plans, processes, and procedures, selection of IT systems to support logistics activities will remain difficult.

Privacy

DHS continues to face challenges in ensuring that privacy concerns are properly addressed throughout the lifecycle of each program and information system. For example, our September 2009 report¹⁷ identified a need for automated privacy tools to monitor the Transportation Security Administration's (TSA) file servers containing personally identifiable information. Without such tools, TSA's OCIO manually checked for personally identifiable information leaks on file servers. However, these manual checks did not prevent regularly occurring classified data spills and unprotected e-mails containing personnel information.

We also reported that TSA made progress in implementing a framework that promotes a privacy culture and complies with federal privacy laws and regulations. Specifically, TSA designated the Office of Privacy Policy and Compliance to oversee its privacy functions. This office strengthened TSA's culture of privacy through coordination with managers of programs and systems that contain personally identifiable information to meet reporting requirements, performing Privacy Impact Assessments, preparing public

¹⁵ DHS-OIG, *U.S. Citizenship and Immigration Services' Progress in Modernizing Information Technology* (OIG-09-90, July 2009).

¹⁶ DHS-OIG, *Logistics Information Systems Need to be Strengthened at the Federal Emergency Management Agency*, (OIG-08-60, May 2008).

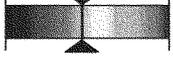
¹⁷ DHS-OIG, *Transportation Security Administration Privacy Stewardship* (OIG-09-97, August 2009).

notifications of systems of records, and enforcing privacy rules of conduct. The office also established processes for reviewing and reporting privacy incidents, issuing public notices, addressing complaints and redress for individuals, and implementing and monitoring privacy training for employees.

IT Management Scorecard

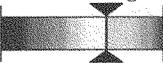
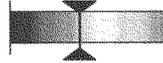
The following scorecard demonstrates where DHS’ IT management functions have been strengthened. This high-level assessment identifies progress in six IT management capability areas: IT budget oversight, IT strategic planning, enterprise architecture, portfolio management, capital planning and investment control, and IT security. These six elements were selected based on IT management capabilities required by federal and DHS guidelines for enabling CIOs to manage IT department-wide.

Based on the consolidated result of the six IT management capability areas, DHS has made “moderate” progress in IT Management overall.

IT MANAGEMENT SCORECARD	
<p>IT Budget Oversight: ensures visibility into IT spending and alignment with the strategic IT direction.</p>	<p>Modest Progress</p> 
<p>The DHS CIO has made improvements in managing department-wide IT budgets in accordance with the <i>Clinger-Cohen Act</i>¹⁸ and the department’s mission and policy guidance. The DHS 2009-2013 IT Strategic Plan emphasizes the importance of Component IT spending approval by either the Component-level CIO or the DHS CIO. However, gaining a department-wide view of IT spending was difficult due to some Component CIOs not having sufficient budget control and insight. For example, our 2009 report¹⁹ on U.S. Citizenship and Immigration Services (USCIS) found that it was difficult for the USCIS CIO to perform IT budgeting because business units had direct fee revenue or appropriated funds and have not complied with IT budgetary control processes. Due to the limited benefits realized, IT Budget Oversight has made “modest” progress.</p>	
<p>IT Strategic Planning: helps align the IT organization to support mission and business priorities.</p>	<p>Moderate Progress</p> 
<p>An effective IT strategic plan establishes an approach to align resources and provides a basis for articulating how the IT organization will develop and deliver capabilities to support mission and business priorities. In January 2009, the department finalized its IT</p>	

¹⁸ *Clinger-Cohen Act of 1996*, Public Law 104-106, Division E, Subtitle C, February 10, 1996.

¹⁹ DHS-OIG, *U.S. Citizenship and Immigration Services’ Progress in Modernizing Information Technology*, (OIG-09-90, July 2009).

IT MANAGEMENT SCORECARD	
<p>Strategic Plan, which aligns IT goals with overall DHS strategic goals. The plan also identifies technology strengths, weaknesses, opportunities, and threats. Due to the finalization and communication of the DHS IT Strategic Plan and plans to align IT with the department's goals, this area has made "moderate" progress.</p>	
<p>Enterprise Architecture: functions as a blueprint to guide IT investments for the organization.</p>	<p>Moderate Progress</p> 
<p>The <i>Clinger-Cohen Act</i> requires that CIOs develop and implement an integrated IT architecture for the agency to avoid the risk that systems will be duplicative, not well integrated, and limited in optimizing mission performance. DHS has shown continued support of its enterprise architecture program, and has requested over \$100 million of funding for fiscal year 2010. In addition, the DHS IT Strategic Plan identifies a performance measure for the percentage of IT investments reviewed and approved through the Enterprise Architecture Board. This should further promote and enforce alignment of IT investments across the department. The department has shown "moderate" progress in implementing its enterprise architecture.</p>	
<p>Portfolio Management: improves leadership's ability to understand interrelationships between IT investments and department priorities and goals.</p>	<p>Modest Progress</p> 
<p>The DHS OCIO has made "Modest" progress in establishing the department's portfolio management capabilities as instructed by OMB Circular A-130.²⁰ The DHS portfolio management program aims to group related IT investments into defined capability areas to support strategic goals and missions. Portfolio management improves leadership's visibility into relationships among IT assets and department mission and goals across organizational boundaries.</p> <p>The DHS IT Strategic Plan identifies a goal to effectively manage IT capabilities and implement cross-departmental IT portfolios that enhance mission and business performance. Although progress is being made, the department has not identified fully opportunities to standardize, consolidate, and optimize the IT infrastructure. Based on the limited benefits realized, the department has shown "modest" progress in implementing department-wide portfolio management.</p>	
<p>Capital Planning and Investment Control: improves the allocation of resources to benefit the strategic needs of the department.</p>	<p>Moderate Progress</p> 

²⁰ Office of Management and Budget Circular A-130, Transmittal 4, *Management of Federal Information Resources*, November 2000.

IT MANAGEMENT SCORECARD	
<p>The <i>Clinger-Cohen Act</i> requires that departments and agencies create a capital planning and investment control (CPIC) process to manage the risk and maximize the value of IT acquisitions. The CPIC process is intended to improve the allocation of resources to benefit the strategic needs of the department. As part of the CPIC process, agencies are required to submit business plans for IT investments to OMB demonstrating adequate planning.</p> <p>To address this requirement, DHS' IT Strategic Plan communicated the importance of following the IT investment guidance provided by DHS management directive 0007.1.²¹ This directive supports and expands on the Act's requirement for technology, budget, financial, and program management decisions. The department has made "moderate" progress with respect to allocation of resources to benefit its strategic needs.</p>	
<p>IT Security: ensures protection that is commensurate with the harm that would result from unauthorized access to information.</p>	<p>Moderate Progress</p> 
<p>DHS IT security is rated at "moderate," for progress made during the last 3 years in compliance with FISMA. OMB Circular A-130 requires agencies to provide protection that is commensurate with the risk and magnitude of the harm that would result from unauthorized access to information and systems assets or their loss, misuse, or modification. Regarding intelligence systems, information security procedures have been documented and controls have been implemented, providing an effective level of systems security.</p>	

GRANTS MANAGEMENT

FEMA provides disaster assistance to communities through the Public Assistance Grant Program, the Hazard Mitigation Grant Program, and the Fire Management Assistance Grant Program. Under each of these grant programs, the affected State is the grantee, and the State disburses funds to eligible subgrantees. FEMA also awards grants to state and local governments; territories; tribal governments; and private, public, profit, and nonprofit organizations to enhance preparedness, protection, response, recovery, and mitigation capabilities throughout the Nation. However, improvements are needed in FEMA's grants management and oversight infrastructure to ensure effective monitoring of grantees.

²¹ DHS Management Directive 0007.1: *Information Technology Integration and Management* March 2007.

Given the billions of dollars appropriated annually for preparedness, disaster, and non-disaster grant programs, DHS needs to ensure that internal controls are in place and adhered to, and that grant recipients are sufficiently monitored to achieve successful outcomes. DHS should continue refining its risk-based approach to awarding preparedness grants to ensure that the most vulnerable areas and assets are as secure as possible. Sound risk management principles and methodologies will help DHS prepare for, respond to, recover from, and mitigate acts of terrorism and natural disasters.

Grants Management

The following scorecard highlights the department’s progress in two key areas: disaster and non-disaster grants management. FEMA is taking steps to improve its grant policies, procedures, systems, and processes which when developed and implemented should strengthen its grants management and oversight infrastructure.

Based on the consolidated result of the two areas presented here, FEMA has made “modest” progress in the area of Grants Management.

GRANTS MANAGEMENT SCORECARD	
<p>Disaster Grants Management</p>	<p>Moderate Progress</p>
<p>In FY 2008, we issued 25 financial assistance (subgrant) audit reports, identifying more than \$23 million in questioned costs. As of August 2009, we had issued 41 subgrant audit reports in FY 2009, with more than \$80 million in questioned costs.</p> <p>While FEMA does not directly manage subgrants, it is incumbent on FEMA to make certain that States, as grantees, understand the rules and regulations that govern disaster grants and ensure that subgrantees adhere to these. We plan to issue a report in early FY 2010 that presents some of the most common problems that lead to questioned costs, including inconsistent interpretation of policies by FEMA personnel and, in the case of fire assistance, problems with unsupported charges billed to subgrantees by other federal agencies that provided services.</p>	
<p>Non - Disaster Grants Management</p>	<p>Modest Progress</p>
<p>Monitoring and documenting the effectiveness of DHS’ multitude of grant programs continue to pose significant challenges for the department. DHS manages more than 80 disaster and non-disaster grant programs. This challenge is compounded by other federal agencies’ grant programs that assist state and local governments in improving their abilities to prepare for, respond to, and recover from acts of terrorism or natural</p>	

GRANTS MANAGEMENT SCORECARD

disasters.

Improvements are needed in FEMA's grants management and oversight infrastructure to ensure effective monitoring of grantees. Specifically, FEMA does not consistently and comprehensively execute its two major oversight activities, financial and program monitoring. This occurs, in part, because FEMA does not have sufficient grants management staff. FEMA has not conducted the analyses and developed the plan of action required by Public Law 109-295 Title VI, the *Post Katrina Emergency Management Reform Act of 2006* as part of its strategic human capital plan. In addition, financial and programmatic monitoring policies, procedures, and plans are not comprehensive.

FEMA has formed an Intra-Agency Grants Program Task Force that has developed a FEMA Grants Strategy to drive future enhancements in grants policies, procedures, systems, and processes. The task force has identified projects including the development of comprehensive grant management monitoring policies and procedures for the FEMA directorates with program management and oversight responsibilities.

Many states, as grantees, are not sufficiently monitoring subgrantee compliance with grant terms and cannot clearly document critical improvements in preparedness as a result of grant awards. During FY 2009, we issued audit reports on homeland security grants management by Illinois and California. We are currently reviewing Massachusetts, Maryland, Missouri, South Carolina, West Virginia, and the District of Columbia. These entities generally did an efficient and effective job of administering the grant funds; however, the most prevalent areas needing improvement concerned performance measurement, subgrantee monitoring, financial documentation and reporting, and control of expenditure reimbursement requests.

FINANCIAL MANAGEMENT

DHS continued to improve financial management in FY 2009, but challenges remain. Beginning in FY 2009, our independent auditors performed an integrated financial statement and internal control over financial reporting audit limited to the DHS consolidated balance sheet and statement of custodial activity. As in previous years, our independent auditors were unable to provide an opinion on those statements because the department could not provide sufficient evidence to support its financial statements or represent that financial statement balances were correct. Additionally, the independent auditors were unable to perform procedures necessary to form an opinion on DHS' internal control over financial reporting of the balance sheet and statement of custodial activity due to the pervasiveness of the department's material weaknesses.

Although the department has continued to remediate material weaknesses and has reduced the number of conditions contributing to the disclaimer of opinion on the financial statements, all six material weakness conditions were repeated in FY 2009. Table 1 below presents a summary of the internal control findings, by component, for the Independent Auditor's Report on DHS' fiscal year 2009 Financial Statements. Table 2 provides FY 2008 information and is being included for comparative purposes. We have reported six material weaknesses and two significant deficiencies at the Department level in FY 2009, shown in Table 1.

TABLE 1 - SUMMARIZED DHS FY 2009 INTERNAL CONTROL FINDINGS

Comment / Financial Statement Area	DHS Consol.	CG	CBP	USCIS	FEMA	FLETC	ICE	NPPD	S&T	TSA		
		Military	Civilian									
Material Weaknesses:		Exhibit I		Exhibit II								
A Financial Management and Reporting	MW											
B IT Controls and System Functionality	MW											
C Fund Balance with Treasury	MW											
D PP&E and OM&S	MW											
E Actuarial and Other Liabilities	MW											
F Budgetary Accounting	MW											
Significant Deficiencies:		Exhibit III										
G Other Entity-Level Controls	SD											
H Custodial Revenue and Drawback	SD											

TABLE 2 - SUMMARIZED DHS FY 2008 INTERNAL CONTROL FINDINGS

Comment / Financial Statement Area	DHS Consol.	CG	CBP	USCIS	FEMA	FLETC	ICE	NPPD	S&T	TSA		
		Military	Civilian									
Material Weaknesses:		Exhibit I		Exhibit II								
A Financial Reporting	MW											
B IT General and App. Controls	MW											
C Fund Balance with Treasury	MW											
D Capital Assets and Supplies	MW											
E Actuarial and Other Liabilities	MW											
F Budgetary Accounting	MW											
Significant Deficiencies:		Exhibit III										
G Entity-Level Controls	SD											
H Custodial Revenue and Drawback	SD											
I Deferred Revenue	SD											

Control deficiency findings are more severe
 Control deficiency findings are less severe
 MW Material weakness at the Department level exists when all findings are aggregated
 SD Significant deficiency at the Department level exists when all findings are aggregated

Furthermore, the increase in audit scope related to auditing internal control over financial reporting resulted in our independent auditor identifying significant departmental challenges that have a pervasive impact on the effectiveness of internal controls over consolidated financial reporting. Specifically:

- The department lacks a sufficient number of accounting and financial management personnel with core technical competencies to ensure that its financial statements are presented accurately and in compliance with generally accepted accounting principals;
- DHS' accounting and financial reporting infrastructure, including policies, procedures, processes, and internal controls, have not received investments in proportion to the department's rapid growth in new programs and operations, and changes in mission since the department's inception;
- Field and operational personnel do not always share responsibilities for, or are not held accountable for, matters that affect financial management, including adhering to accounting policies and procedures and performing key internal control functions in support of financial reporting;
- The department's financial Information Technology (IT) system infrastructure is aging and has limited functionality, which is hindering the Department's ability to implement efficient corrective actions and produce reliable financial statements that can be audited.

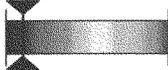
IT controls and systems functionality conditions at FEMA and ICE deteriorated in FY 2009. The remaining significant component level challenges preventing the department from obtaining an opinion on its consolidated balance sheet and statement of custodial activity are primarily at the Coast Guard and TSA. In both FY 2009 and FY 2008, Coast Guard was unable to assert to any of its account balances; and TSA was unable to fully support the accuracy and completeness of the property, plant, and equipment (PP&E) account balance. However, the Coast Guard has made limited progress implementing the *Financial Strategy for Transformation and Audit Readiness* (FSTAR) in FY 2009. As a result, the auditors have been able to perform limited audit procedures over PP&E and actuarial liabilities. Additionally, the FSTAR calls for substantially more progress after FY 2010, especially in areas necessary to assert to the completeness, existence, and accuracy of PP&E, actuarial liabilities, and fund balance with Treasury balances.

Financial Management Scorecard

The following scorecard presents the status of DHS' effort to address internal control weaknesses in financial reporting that were identified in FY 2008. The scorecard is divided into two categories: (1) Military – Coast Guard and (2) Civilian – all other DHS components. The scorecard lists the six material weaknesses identified during the independent audit of the FY 2008 DHS consolidated balance sheet and statement of

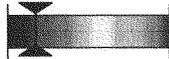
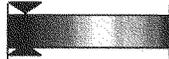
custodial activity. These weaknesses continued to exist throughout FY 2009 and were again noted in the FY 2009 independent auditor’s report. For a complete description of the internal control weaknesses identified in the FY 2008 audit, see OIG-09-09.²² To determine the status, we compared the material weaknesses reported by the independent auditor in FY 2008 with those identified in FY 2009.²³ The scorecard does not include other financial reporting control deficiencies identified in FY 2009 that do not rise to the level of a material weakness, as defined by the American Institute of Certified Public Accountants.

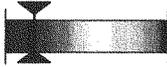
Based on the consolidated result of the seven financial management areas included in the report, DHS has made “modest” progress overall in financial management.

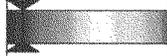
FINANCIAL MANAGEMENT SCORECARD		
<p>Financial Reporting and Management: Financial reporting is the process of presenting financial data about an agency’s financial position, the agency’s operating performance, and its flow of funds for an accounting period. Financial management is the planning, directing, monitoring, organizing, and controlling of financial resources, including program analysis and evaluation, budget formulation, execution, accounting, reporting, internal controls, financial systems, grant oversight, bank cards, travel policy, appropriation-related Congressional issues and reporting, working capital funds, and other related functions.</p>		
Military	Limited Progress	
	<p>The Coast Guard has demonstrated limited progress in remediating the numerous internal control weaknesses identified by the independent auditors during FY 2008. Significant control deficiencies contributing to a material weakness in financial reporting in FY 2008 included: 1) lack of an effective general ledger system; and 2) lack of effective policies, procedures, and controls surrounding the financial reporting process. In FY 2008 the Coast Guard revised its FSTAR; however, most of the actions outlined in the FSTAR were scheduled to occur after FY 2008.</p> <p>During FY 2009, the independent auditors noted that the Coast Guard continued implementation of its FSTAR and made some progress by completing its planned corrective actions over pension liabilities. This allowed management to make assertions on completeness and accuracy on its accrued liabilities, which represents more than 50 percent of the</p>	

²² DHS-OIG, *Independent Auditors' Report on DHS' FY 2008 Financial Statements*, (OIG-09-09, November 2008).

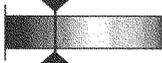
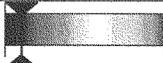
²³ DHS-OIG, *Independent Auditors' Report on DHS' FY 2009 Financial Statements and Internal Control Over Financial Reporting*, (OIG-10-11, November 2009).

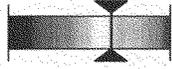
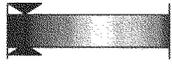
FINANCIAL MANAGEMENT SCORECARD		
	<p>department's total liabilities. However, most corrective actions outlined in the FSTAR are scheduled to occur after FY 2009, and consequently many of the financial reporting weaknesses reported in prior years remained as of the end of FY 2009.</p> <p>Among the conditions at Coast Guard that contribute to a material weakness in this area during FY 2009 is the lack of sufficient financial management personnel to identify and address control weaknesses, and develop and implement effective policies, procedures, and internal controls over financial reporting process.</p>	
Civilian	Limited Progress	
	<p>FY 2008, the independent auditors found several internal control weaknesses in financial reporting at FEMA and TSA. Those conditions contributed to qualifications of the auditors' opinion on the department's consolidated financial statements.</p> <p>Overall, the department has made limited progress in FY 2009 in addressing the internal controls weakness the auditor identified in this financial reporting in FY 2008. FEMA and TSA, which both contributed to a material weakness in this area in FY 2008, have shown only minimal progress in improving the internal control weaknesses. Conditions at CBP have deteriorated in FY 2009, although less severe than at FEMA and TSA. These internal control deficiencies at CBP, FEMA, and TSA have contributed to a material weakness in this area for the department overall in FY 2009.</p> <p>Among the deficiencies noted in the FY 2009 independent auditor's report is that the department lacks a sufficient number of accounting and financial management personnel with core technical competencies to ensure its financial statements are prepared accurately and in compliance with generally accepted accounting principles. This condition was common among CBP, FEMA, and TSA in FY 2009.</p>	
<p>Information Technology Controls and Financial Systems Functionality: IT general and application controls are essential for achieving effective and reliable reporting of financial and performance data.</p>		
Military	Limited Progress	

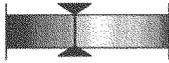
FINANCIAL MANAGEMENT SCORECARD		
	<p>During 2008, the independent auditors identified numerous IT general control deficiencies, of which nearly all were repeat findings from prior years. The most significant IT deficiencies that could affect the reliability of the financials statements related to the development, implementation, and tracking of scripts, and the design and implementation of configuration management policies and procedures. These deficiencies at the Coast Guard contributed to a material weakness for the department in this area in FY 2008.</p> <p>For FY 2009, the Coast Guard has demonstrated limited progress in correcting certain IT general control weaknesses identified in previous years. As a result of the increase in scope of IT testing in FY 2009, the auditors have identified additional weaknesses that were not reported in the prior year. Therefore, although the Coast Guard corrected some deficiencies in IT general controls, the number of IT control weaknesses increased over the prior year. Over 50 percent of the findings the auditors identified in FY 2009 were repeat conditions from the prior year.</p> <p>One key area that remains a challenge for the Coast Guard is its core financial system configuration management process. For 2009, the auditors again noted that the configuration management process is not operating effectively. Financial data in the general ledger may be compromised by automated and manual changes that are not properly controlled. The changes are implemented through the use of IT script process, which was instituted as a solution to address functionality and data quality issues. However, the controls over the script process were not properly designed or implemented effectively from the beginning.</p>	
Civilian	Limited Progress	
	<p>Overall, DHS has made limited progress in correcting the IT general and applications control weaknesses identified in the FY 2008 independent auditor's report. During FY 2008, FEMA and TSA contributed to an overall material weakness in IT general and applications control, while CBP, FLETC, and USCIS all had significant deficiencies in this area.</p> <p>As a result of the increase in scope of the IT testing in FY 2009, the auditors have identified additional weaknesses that were not reported in the prior year. Therefore, although the DHS civilian components corrected some deficiencies in IT general controls, which resulted in the closure of more than 60 percent of the IT general controls findings reported in FY 2008, the number of department-wide IT control</p>	

FINANCIAL MANAGEMENT SCORECARD		
	<p>weaknesses increased over the prior year, with conditions at FEMA and ICE deteriorating.</p> <p>The auditors noted that many of the financial systems in use at DHS components have been inherited from the legacy agencies and have not been substantially updated since DHS' inception. As a result, ongoing financial system functionality limitations are contributing to the department's challenges in addressing systemic internal control weaknesses and strengthening the overall control environment.</p> <p>The FY 2009 independent auditor's report identified the following areas that continue to present risks to the confidentiality, integrity, and availability of DHS' financial data: 1) excessive access to key DHS financial applications, 2) application change control processes that are inappropriate, not fully defined or followed, and are ineffective, and 3) security management practices that do not fully and effectively ensure that financial systems are certified, accredited, and authorized to operation prior to implementation.</p>	
<p>Fund Balance with Treasury (FBwT): FBwT represents accounts held at Treasury from which an agency can make disbursements to pay for its operations. Regular reconciliation of an agency's FBwT records with Treasury is essential to monitoring and safeguarding these funds, improving the integrity of various U.S. Government financial reports, and providing a more accurate measurement of budget resources.</p>		
Military	Limited Progress	
	<p>The Coast Guard has demonstrated limited progress in addressing the material weaknesses noted in this area in previous years. In FY 2008, the independent auditors reported a material weakness in internal control over FBwT at the Coast Guard. During FY 2009, the Coast Guard corrected some of the control deficiencies related to this area and revised its remediation plan (FSTAR) to include additional corrective actions, which are scheduled to occur after FY 2009. Consequently, most of the conditions which existed in FY 2008 continued to exist throughout FY 2009. For example, the auditors reported that the Coast Guard has not developed a comprehensive process, to include effective internal controls, to ensure that all FBwT transactions are recorded in the general ledger timely, completely, and accurately.</p>	

FINANCIAL MANAGEMENT SCORECARD		
Civilian	N/A	
No control deficiencies related to FBwT were identified at the civilian components in FY 2009. Corrective actions implemented in previous years continued to be effective throughout FY 2008 and FY 2009.		
<p>Property, Plant, and Equipment (PP&E) and Operating Materials and Supplies (OM&S): DHS capital assets and supplies consist of items such as property, plant, and equipment, operating materials; and supplies, including boats and vessels at the Coast Guard, passenger and baggage screening equipment at TSA, and stockpiles of inventory to be used for disaster relief at FEMA.</p>		
Military	Limited Progress	
<p>The Coast Guard maintains approximately 52 percent of the department's property, plant, and equipment (PP&E), including a large fleet of boats and vessels. In FY 2008, internal control weaknesses related to PP&E at Coast Guard contributed to a material weaknesses in this area for the department.</p> <p>For FY 2009, the Coast Guard has demonstrated limited progress overall in correcting internal control weaknesses related to PP&E identified in the independent auditor's report in FY 2008.</p> <p>During FY 2009, the Coast Guard continued implementation of its remediation plan (FSTAR) to address the PP&E process and control deficiencies, and began remediation efforts. However, the corrective actions included in the FSTAR are scheduled to occur over a number of years. Consequently, most of the material weakness conditions reported in FY 2008 remained throughout FY 2009. For example, one of the conditions the auditors identified, which is a repeat from prior years, is that the Coast Guard has not established its beginning PP&E balance necessary to prepare the year-end balance sheet.</p> <p>The auditors also identified weaknesses related to operating materials and supplies (OM&S), which the Coast Guard maintains in significant quantities. These consist of tangible personal property to be consumed in normal operation to service marine equipment, aircraft, and other equipment. The auditors reported that the Coast Guard has not implemented policies, procedures, and internal controls to support financial assertions related to OM&S and related balances for FY 2009.</p>		

FINANCIAL MANAGEMENT SCORECARD		
Civilian	Modest Progress	
	<p>DHS has demonstrated modest progress overall in correcting internal control weaknesses related to capital assets and supplies identified in the independent auditor's report in FY 2008. In FY 2008, FEMA, TSA, and CBP contributed to a material weakness in capital assets and supplies. The conditions that existed at TSA and FEMA prevented the auditors from completing their test work in FY 2008 and led to qualifications in the auditors' report.</p> <p>While FEMA has fully remediated its internal control weakness in this area during FY 2009, internal control conditions have deteriorated at CBP, USCIS, ICE, and NPPD. Although conditions at USCIS, ICE, and NPPD appear less severe than at CBP and TSA, when taken together, they contribute to an overall material weakness for the department in this area for FY 2009.</p> <p>Most of the control weakness conditions in this area are related to PP&E. Common among the components that contributed to the material weakness is the lack of adequate accounting policies, procedures, processes, and controls to properly account for its PP&E.</p>	
<p>Actuarial and Other Liabilities: Liabilities represent the probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. The internal control weaknesses reported in this area are related to various types of liabilities, including accounts and grants payable, legal and actuarial, and environmental liabilities.</p>		
Military	Limited Progress	
	<p>The Coast Guard maintains medical and post-employment travel benefit programs that require actuarial computations to record related liabilities for financial reporting purposes. Other liabilities include accounts payable, environmental, and legal liabilities.</p> <p>The Coast Guard was able to make financial statement assertions and present auditable balances in actuarial pension liabilities, demonstrating limited progress toward remediation of the control and reporting deficiencies that existed in this process in FY 2008. Among the conditions that remained throughout FY 2009 is that the Coast Guard has not implemented effective policies, procedures, and controls to ensure</p>	

FINANCIAL MANAGEMENT SCORECARD		
	the completeness and accuracy of medical cost data and post-employment travel claims provided to, and used by, the actuary for the calculation of the medical and post-employment benefit liabilities.	
Civilian	Moderate Progress	
	<p>During FY 2009, the civilian components demonstrated moderate progress overall in remediating internal control weaknesses related to actuarial and other liabilities. Significant internal control weaknesses which the independent auditors identified at FLETC, ICE, and S&T in FY 2008, and which contributed to a material weakness overall for the department, were fully remediated in FY 2009. However internal control deficiencies continue to exist at FEMA and new weaknesses were identified at TSA during FY 2009. These conditions at FEMA and TSA, together with the material weakness conditions at the Coast Guard, resulted in a material weakness for the department overall, in FY 2009.</p> <p>FEMA is recognized as the primary grant-making component of DHS, and the FY 2009 independent auditor's report noted that FEMA does not have sufficient policies and procedures in place to fully comply with the <i>Single Audit Act Amendments of 1996</i> and OMB Circular No. A-133, <i>Audits of States, Local Governments, and Non-profit Organizations</i>. TSA has numerous types of accounts payable and accrued liabilities that affect the balance sheet, including Other Transactions Agreements (OTA). One of the conditions at TSA that contributed to the department's material weakness is that TSA has not developed policies and procedures to accurately estimate OTA accrued liability at year-end.</p>	
<p>Budgetary Accounting: Budgetary accounts are a category of general ledger accounts where transactions related to the receipt, obligation, and disbursement of appropriations and other authorities to obligate and spend agency resources are recorded.</p>		
Military	Limited Progress	
	<p>The Coast Guard has made limited progress in this area. Many of the internal control weaknesses that contributed to a material weakness in budgetary accounting at the Coast Guard in FY 2008 remained throughout FY 2009. For example, the FY 2008 Independent Auditors' Report noted that the policies, procedures, and internal controls over the Coast Guard's process for validation and verification of some account balances are not effective to ensure that recorded amounts are complete, valid, accurate, and that proper approvals and supporting documentation</p>	

FINANCIAL MANAGEMENT SCORECARD		
	is maintained. This weakness continues to exist in FY 2009, and remediation of these conditions is not planned for the Coast Guard until after FY 2009.	
Civilian	Modest Progress	
	<p>During FY 2008, internal control weaknesses at CBP and FEMA contributed to a departmental material weakness in this area; the material weakness continued to exist throughout FY 2009.</p> <p>For FY 2009, the department made modest progress in correcting the deficiencies that were reported in FY 2008. Although CBP implemented policies and procedures related to deobligation of funds when contracts have expired or been completed, management has not been effective in adhering to these policies or monitoring compliance. CBP has not made substantial progress in correcting the deficiencies that were reported in FY 2008. Additionally, although FEMA improved its processes and internal control over the mission assignment obligation and monitoring process, some control deficiencies remain.</p>	

I have highlighted four specific management challenges facing the department—financial management, information technology management, acquisition management, and grants management—that are the backbone of the department and provide the structure and information to support the accomplishment of DHS' mission. While some aspects of these challenges were inherited by the department from their legacy agencies, the complexity and urgency of DHS' mission has exacerbated the challenge in many areas.

While the department's senior officials are well aware of these problems and are making progress in resolving these issues, we must continue to keep the department focused on these challenges. Our continued oversight in these areas is intended to facilitate solutions in order to significantly improve the department's ability to carry out its operational programs.

Mr. Chairman, this concludes my prepared statement. I will be pleased to answer any questions you or the Members may have.

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 10:00 a.m. EST
Tuesday, December 15, 2009

**DEPARTMENT OF
HOMELAND SECURITY**

**A Comprehensive Strategy
Is Still Needed to Achieve
Management Integration
Departmentwide**

Statement of Bernice Steinhardt, Director
Strategic Issues



December 15, 2009



Highlights of GAO-10-318T, 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

Significant management challenges exist for the Department of Homeland Security (DHS) as it continues to integrate its varied management processes, policies, and systems in areas such as financial management and information technology. These activities are primarily led by the Under Secretary for Management (USM), department management chiefs, and management chiefs in DHS's seven components. This testimony summarizes a new GAO report (GAO-10-131) that examined (1) the extent to which DHS has developed a comprehensive strategy for management integration that includes the characteristics recommended in GAO's earlier 2005 report, (2) how DHS is implementing management integration, and (3) the extent to which the USM is holding the department and component management chiefs accountable for implementing management integration through reporting relationships. GAO reviewed DHS plans and interviewed DHS management officials.

What GAO Recommends

In the report, GAO recommended that once a management integration strategy is developed, DHS should establish performance measures for assessing management integration, and implement its performance management policies between the department and component management chiefs. DHS's USM commented that DHS is taking certain actions to address GAO's recommendations.

View GAO-10-318T or key components. For more information, contact Bernice Steinhilber at (202) 512-6543 or steinhilb@gao.gov or David Maurer at (202) 512-9627 or maured@gao.gov.

DEPARTMENT OF HOMELAND SECURITY

A Comprehensive Strategy Is Still Needed to Achieve Management Integration Departmentwide

What GAO Found

DHS has not yet developed a comprehensive strategy for management integration as required by the Implementing Recommendations of the 9/11 Commission Act of 2007 and with the characteristics GAO recommended in a 2005 report. Although DHS stated at that time that it was developing an integration strategy it has not yet done so, in part because it has focused on building operations capacity within functional management areas. In the absence of a comprehensive management integration strategy, DHS officials stated that documents such as strategic plans and management directives address aspects of a management integration strategy and can help the department to manage its integration efforts. However, they do not generally include all of the strategy characteristics GAO identified, such as identifying the critical links that must occur among management initiatives. In addition, DHS has increased the number of performance measures for the Management Directorate, but has not yet established measures for assessing management integration across the department. Without these measures, DHS cannot assess its progress in implementing and achieving management integration.

In the absence of a comprehensive strategy, DHS's Management Directorate has implemented management integration through certain initiatives and mechanisms to communicate and consolidate management policies, processes, and systems. For example, DHS is in the process of consolidating its financial management, acquisition, and asset management systems. The directorate has also instituted a system of management councils and governance boards to communicate information and manage specific activities related to management initiatives.

The USM and department and component management chiefs are held accountable for implementing management integration through reporting relationships at three levels—between the Secretary and the USM, the USM and department chiefs, and the department and component chiefs—in which, among other things, the Secretary of Homeland Security, USM, and department chiefs are required to provide input into performance plans and evaluations. Performance management practices for management integration between DHS's department and component management chiefs are not consistently in place. Department chiefs are not consistently providing the guidance and input required by department management directives and in accordance with performance management leading practices. Without ensuring that the management chiefs provide input into component chiefs' performance plans and evaluations as required, the directorate cannot be sure that component chiefs are fully implementing management integration.

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to appear before the Subcommittee to discuss our report, which is being released today, on the actions that the Department of Homeland Security (DHS) has taken towards integrating its various management processes, systems, and people, both within and across areas such as information technology, financial management, acquisition, and human capital, as well as in its administrative services.¹ These activities are primarily led by the Under Secretary for Management (USM), departmental management chiefs, and management chiefs in DHS's seven components.² It is critically important that DHS work to unify and strengthen its management functions because the effectiveness of these functions will ultimately affect its ability to fulfill its various missions.

After the department was first created, you asked us to assess the status of DHS's management integration. In our 2005 report, we noted that DHS had made progress in addressing its departmentwide management integration through the issuance of guidance and plans to assist the integration of each individual management function within the department.³ However, we observed that DHS had the opportunity to expand upon those efforts by implementing a more comprehensive and sustained approach to management integration departmentwide. In particular, we recommended that DHS develop an overarching strategy for management integration, and, in response, DHS stated that it was developing such a strategy. Subsequently, the Implementing Recommendations of the 9/11 Commission Act of 2007 (9/11 Commission Act) required DHS to develop a strategy for management integration.⁴

¹GAO, *Department of Homeland Security: Actions Taken Toward Management Integration, but A Comprehensive Strategy Is Still Needed*, GAO-10-131 (Washington, D.C.: Nov. 20, 2009).

²DHS's seven component agencies include the Transportation Security Administration (TSA), U.S. Customs and Border Protection (CBP), U.S. Immigration and Customs Enforcement (ICE), U.S. Citizenship and Immigration Services (USCIS), U.S. Secret Service, U.S. Coast Guard, and the Federal Emergency Management Agency (FEMA).

³GAO, *Department of Homeland Security: A Comprehensive and Sustained Approach Needed to Achieve Management Integration*, GAO-05-139 (Washington, D.C.: Mar. 16, 2005).

⁴Section 2405 of Pub. L. No. 110-53, 121 Stat. 266 (Aug. 3, 2007).

Additionally in our 2005 report, we suggested that Congress might want to consider whether DHS's USM has the authority to drive, implement, and ensure accountability for management integration departmentwide. More specifically, we suggested that Congress might want to continue monitoring whether it needed to provide additional leadership authorities to the USM or create a Chief Operating Officer/Chief Management Officer (COO/CMO) position, with provisions for a term appointment and performance agreement, that could help elevate, integrate, and institutionalize DHS's management initiatives. The 9/11 Commission Act designated the USM as the CMO for the department and principal advisor on management-related matters to the Secretary. We have previously suggested that agencies engaged in major transformation efforts and those agencies experiencing particularly significant challenges in integrating disparate organizational cultures, such as DHS, could also be good candidates for having COO/CMO-type positions in place.⁵

In light of these prior recommendations and requirements, you asked us to revisit DHS's progress. This testimony, which summarizes our report to you, discusses:

- the extent to which DHS has developed a comprehensive strategy for management integration that includes the characteristics recommended in our 2005 report,
- how DHS is implementing management integration, and
- the extent to which DHS's USM is holding the department and component management chiefs accountable for implementing management integration through reporting relationships.

In summary, in the more than 6 years since its establishment, DHS has taken actions that could help it transform its organization and integrate its management functions to establish a unified department. In particular, the department has developed common policies, procedures, and systems within individual management functions, such as human capital and information technology, that help to vertically integrate its component agencies. However, DHS has placed less emphasis on integrating horizontally, and bringing together these multiple management functions across the department. Moreover, DHS has not yet fully developed a comprehensive management integration strategy, as we have

⁵GAO, *Organizational Transformation: Implementing Chief Operating Officer/Chief Management Officer Positions in Federal Agencies*, GAO-08-34 (Washington, D.C.: Nov. 1, 2007).

recommended and is required by law. DHS could also improve the extent to which it is measuring its progress on management integration, and holding its management chiefs accountable for implementing management integration.

To conduct the work for our report, we reviewed DHS's strategies and plans and interviewed management officials in DHS's headquarters, seven components, and one directorate—the National Protection and Programs Directorate (NPPD).⁶ To address the extent to which DHS developed a management integration strategy, we assessed whether DHS documents and plans included the characteristics recommended in our 2005 report for a management integration strategy, which required that the strategy:

- look across the initiatives within each of the management functional units;
- clearly identify the critical links that must occur among these initiatives;
- identify trade-offs and set priorities;
- set implementation goals and a time line to monitor the progress of these initiatives to ensure the necessary links occur when needed; and
- identify potential efficiencies, and ensure that they are achieved.

We also reviewed DHS's performance goals and measures for fiscal years 2008 and 2009, and assessed these goals and measures against Government Performance and Results Act of 1993 (GPRA) requirements to determine the extent to which they provided a framework for assessing management integration across the department.⁷ Additionally, we examined DHS performance agreements and performance management activities against requirements set forth in law and in DHS policies. These requirements include the need for input from senior to subordinate officials for performance agreements and evaluations, and the alignment of goals and objectives in a "line of sight" that shows how individual performance contributes to organizational goals.

This statement is based on our performance audit which was conducted from September 2008 through November 2009 in accordance with generally accepted government auditing standards. Those standards

⁶We selected NPPD because it (1) had the largest budget in fiscal year 2008 among all of the DHS directorates and offices, (2) has a structure of management chiefs similar to DHS's component agencies, and (3) has a unique relationship to the Management Directorate because the directorate directly provides management services to NPPD that normally occur within component agencies, such as hiring and acquisition support.

⁷Pub. L. No. 109-62, 107 Stat. 285 (Aug. 3, 1993).

require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

In 2003, we designated the implementation and transformation of DHS as a high-risk area because it represented an enormous undertaking that would require time to achieve in an effective and efficient manner.⁸ The department has remained on our high-risk list since 2003.⁹ Most recently, in our January 2009 high-risk update, we reported that, although DHS had made progress in transforming into a fully functioning department, its transformation remained high risk because it had not yet developed a comprehensive plan to address the transformation, integration, management, and mission challenges we identified since 2003.¹⁰

The Management Directorate, which is led by the USM, includes the Chief Financial Officer (CFO), the Chief Security Officer (CSO), the Chief Human Capital Officer (CHCO), the Chief Administrative Officer (CAO), the Chief Procurement Officer (CPO), and the Chief Information Officer (CIO). They are referred to as the departmental management chiefs. In addition to the department's Management Directorate, each of the seven DHS component agencies has its own component management chief for the procurement, financial, human capital, information technology,

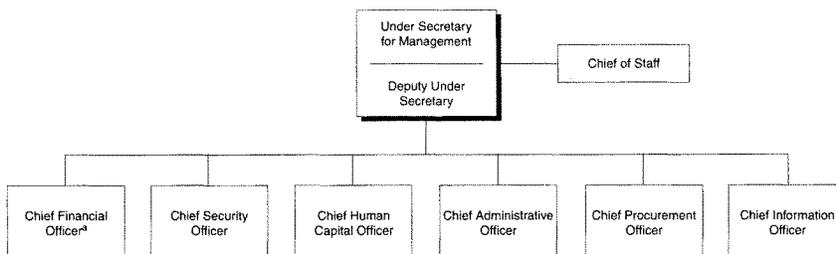
⁸GAO, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003). The high-risk areas we have identified include (1) implementing and transforming DHS, (2) the National Flood Insurance Program, (3) managing federal real property, (4) strategic human capital management, (5) information-sharing mechanisms to improve homeland security, and (6) protecting the federal government's information systems and critical infrastructure.

⁹GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.: January 2005); and GAO, *High-Risk Series: An Update*, GAO-07-310 (Washington, D.C.: January 2007).

¹⁰GAO, *High-Risk Series: An Update*, GAO-09-271 (Washington, D.C.: January 2009).

administrative, and security management areas.¹⁴ Figure 1 shows the DHS Management Directorate's organizational structure.

Figure 1: DHS Management Directorate's Organizational Structure



Source: GAO analysis of DHS documents.

*The Department of Homeland Security Financial Accountability Act (§ 3 of Pub. L. No. 108-330, 118 Stat. 1275, 1276 (Oct. 16, 2004)) made DHS subject to the Chief Financial Officers Act of 1990 (Pub. L. No. 101-576, 104 Stat. 2838, Nov. 15, 1990), which requires the DHS CFO to also report directly to the Secretary of Homeland Security.

¹⁴Management chiefs in the component agencies for the acquisition and procurement function are referred to as Component Acquisition Executives (CAE) and Heads of Contracting Authority (HCA), respectively. The CAE is the senior acquisition official within the component, responsible for management and oversight of all component acquisition functions (excluding contracting). The HCA is the senior contracting official within the component, responsible for management and oversight of all component contracting functions, under the authority delegated by the CPO.

**Departmental Plans
and Documents
Address Aspects of
Management
Integration, but DHS
Has Not Yet
Developed a
Comprehensive
Strategy**

The 9/11 Commission Act requires DHS to develop a strategy for management integration as part of the department's integration and transformation to create a more efficient and orderly consolidation of functions and personnel in the department.¹² In our 2005 report, we recommended that DHS develop an overarching management integration strategy for the department that would, at a minimum, contain such characteristics as identifying the linkages among management initiatives, trade-offs and priorities, and potential efficiencies.¹³ Although DHS stated at that time that it was developing an integration strategy, it has not yet developed a comprehensive strategy for management integration that is consistent with statute and that contains all of the characteristics we identified in 2005. According to DHS's USM, the department has not yet done so because, in part, the Management Directorate has focused on building the management operations capacity within the functional areas, such as financial management and information technology. The Management Directorate has not yet focused on integration across the functional areas and has not clearly or systematically identified trade-offs and linkages among initiatives in different functional areas.

According to DHS's USM, Chief of Staff, and department and component management chiefs, in the absence of a comprehensive management integration strategy, various departmental documents collectively contribute to the department's strategy for implementing and achieving management integration. These documents are discussed in detail in our report. In particular, DHS officials identified (1) departmentwide documents that provide guidance that relate to management integration across the department, such as DHS's Integrated Strategy for High Risk

¹²Pub.L. No. 110-53, § 2405.

¹³As previously mentioned, the characteristics include: (1) look across the initiatives within each of the management functional units; (2) clearly identify the critical links that must occur among these initiatives; (3) identify trade-offs and set priorities; (4) set implementation goals and a time line to monitor the progress of these initiatives to ensure the necessary links occur when needed; and (5) identify potential efficiencies, and ensure that they are achieved.

Management and Management Directorate Strategic Plan;¹⁴ and (2) documents for management of functional areas.

With regard to functional area documents, DHS officials indicated that both management directives and functional area strategic plans contain elements of the department's strategy for achieving management integration. DHS issued management directives for each of the six department management chiefs—the CAO, CFO, CHCO, CIO, and CPO management directives were issued in 2004 (with updates for the CIO and CPO in 2007 and 2008, respectively); the management directive for CSO was issued in 2006. These directives communicate standard definitions of the management chiefs' respective roles and responsibilities; define the concept of "dual accountability" for both mission accomplishment and functional integration as the shared responsibility of the heads of DHS's individual agencies or components and the department management chiefs; and establish the need for the department management chiefs, along with the heads of agencies, to annually recommend and establish integration milestones for the consolidation of the chiefs' functions. Functional area strategic plans generally discuss, among other things, the missions and goals of the department management chiefs and the link between the goals and objectives in each functional area strategic plan and the goals and objectives in DHS's Strategic Plan. Among the six department chiefs, four have issued strategic plans for their functional areas—the CAO, CIO, CHCO, and CSO.¹⁵

While some of the documents DHS officials identified as contributing to the department's strategy for implementing and achieving management integration address some of the characteristics we have previously identified for such a strategy, these documents, either individually or taken together, do not include all of the characteristics we have identified. The documents described by DHS officials as contributing to the

¹⁴DHS Integrated Strategy for High Risk Management is intended to be a corrective action plan outlining the department's framework for its transformation efforts and methods by which the department will seek to improve performance in high-risk areas we have identified since 2003. DHS's Management Directorate Strategic Plan Fiscal Years 2009 through 2014 sets out the Management Directorate's vision, core values, guiding principles, goals and objectives, as well as the organizational structure and responsibilities of the Management Directorate and department management chiefs.

¹⁵The CAO strategic plan is for fiscal years 2008-2012, the CIO strategic plan is for fiscal years 2009-2013, and the CHCO strategic plan is for fiscal years 2009-2013. The CSO strategic plan does not include any dates.

department's strategy for achieving management integration can provide high-level guidance for integration efforts and can help the department to manage those efforts. Moreover, the Management Directorate Strategic Plan and other departmentwide documents, for example, set performance goals, measures, and targets for achieving certain management initiatives. Such elements as goals, objectives, milestones, performance targets, and priorities documented in these plans and strategies can help the department to manage, implement, and monitor the specific initiatives to which these elements apply. They can also help to guide efforts to consolidate policies, processes, and systems within each management functional area. However, among the documents cited by DHS officials as being part of the department's management integration strategy, DHS has not yet looked across the management initiatives within management functional areas to identify the critical links that must occur among these initiatives to integrate the department's management functions both within and across functional areas. Furthermore, the documents generally do not identify the priorities, trade-offs, and potential efficiencies among management initiatives, nor do they set implementation goals and a time line for monitoring the progress of initiatives to ensure the critical links occur when needed. Thus, when considered either individually or together, these documents do not constitute a management integration strategy containing all of the characteristics we have identified.

In addition, although DHS has developed some performance goals and measures to measure management activities, it has *not yet established* measures for assessing management integration across the department. For example, DHS has increased the number of departmentwide performance measures for the Management Directorate in support of Goal 5 of DHS's Strategic Plan.¹⁶ Specifically, since fiscal year 2008, DHS has added 13 new measures and retired 3 others for the Management Directorate in support of its strategic plan, going from 5 performance measures for the Management Directorate in fiscal year 2008 to 15 measures in fiscal year 2009. These measures relate to activities in functional areas but do not help to measure management integration. DHS officials told us that the department's current measures do not allow the department to gauge the status of management integration and that the department has focused on the development of measures for departmental components, offices, and directorates—such as a measure for the attrition

¹⁶DHS, *One Team, One Mission, Securing Our Homeland: U.S. Department of Homeland Security Strategic Plan, Fiscal Years 2008 – 2013* (Washington, D.C.: 2008).

rate for career senior executive service personnel and a measure for the percentage of improper payments collected. However, these performance measures do not allow the department to assess its progress in achieving departmental goals for management integration within and across functional areas. DHS officials stated that the department's goal is to develop a set of measures that will help the department assess its management integration. Without such a set of measures, DHS cannot assess its progress in implementing and achieving management integration both within and across its functional areas. A comprehensive strategy for management integration that clearly sets implementation goals and time lines could help the department establish measures for assessing its management integration. We are continuing to work with DHS to review and provide input on the department's performance measures used to assess the department's progress in its mission and management areas.

DHS's Management Directorate Has Taken Actions to Communicate and Consolidate Management Policies, Processes, and Systems

While DHS does not have a comprehensive management strategy, its Management Directorate is working to consolidate management policies, processes, and systems and it has instituted a system of management councils and governance boards. The Management Directorate has developed and implemented departmentwide policies to replace policies from each of the legacy agencies that make up DHS in all six management functions. For example, the DHS CFO's office launched an online Financial Management Policy Manual tool, which serves as the single authoritative guide on financial management and the foundation for departmentwide financial management knowledge sharing and standardization. According to officials from the DHS CFO's office, the Financial Management Policy Manual is part of its approach to integrate within the financial management function and is critical to enable financial management employees to carry out their duties and responsibilities effectively and efficiently.

The Management Directorate also has other initiatives under way to consolidate its management systems. For example, the Transformation and Systems Consolidation (TASC) initiative is the department's current effort to consolidate its financial management, acquisition, and asset management systems. DHS has been working to consolidate its financial management systems since the department was first created.

Through various management councils, the Management Directorate shares information related to the implementation of management initiatives, solicits feedback from the components, and provides a forum for coordination between component management offices. Each

management chief chairs a functional council to address issues pertaining to that management function. Likewise, the USM chairs a Management Council made up of the DHS management chiefs and a representative from each component that discusses issues of departmentwide importance, such as training and development programs. The Management Directorate has also taken steps toward consolidating some management processes and established governance boards to manage the processes in the areas of acquisition, information technology, financial management, and resource allocation.

**Performance
Management
Practices Could Be
More Consistently
Applied
Departmentwide to
Strengthen Reporting
Relationships
between Department
and Component
Management Chiefs**

The USM and department and component management chiefs are held accountable for implementing management integration through reporting relationships at three levels—between the Secretary and the USM, the USM and department management chiefs, and the department and component management chiefs—in which, among other things, the Secretary of Homeland Security, USM, and department chiefs are required to provide input into performance plans and evaluations. Our prior work has shown that, to be successful, transformation efforts must align individual performance expectations with organizational goals.¹⁷ In the case of transforming and integrating DHS, the USM, department, and component management chiefs must align their goals and activities through performance management practices in support of DHS's management integration goals. In our review, we found that performance management practices for management integration between DHS's department and component management chiefs are not consistently in place. Department chiefs are not consistently providing the guidance and input required by department management directives and in accordance with performance management leading practices. The inconsistent application of such guidance and practices presents challenges to institutionalizing individual accountability and enabling the effective exercise of authority at the department. Without ensuring that the management chiefs provide input into component chiefs' performance plans and evaluations as required, the Management Directorate cannot be sure that component chiefs are fully implementing management integration.

¹⁷GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, GAO-03-669 (Washington, D.C.: July 2, 2003).

For the first level of reporting relationships involving the Secretary and the USM, the 9/11 Commission Act requires the USM to enter into an annual performance agreement with the Secretary and be subject to an annual performance evaluation.¹⁸ We found that the Deputy Secretary provided input into the USM's performance plan in October 2007, and conducted a performance evaluation in 2008 based on this agreement. According to DHS officials, the Deputy Secretary conducted the performance agreement and evaluation—rather than the Secretary—based on delegated responsibilities for the performance of management reform as the department's chief operating officer. Further, the performance objectives in the USM's agreement and evaluation are linked to strategic plans, and include references to several efforts related to management integration.

For the second level of reporting relationships involving the USM and department management chiefs, five department management chiefs report directly to the USM, and the CFO has a dual reporting relationship to the Secretary and the USM.¹⁹ We found that the department management chiefs' performance agreements supported higher level Management Directorate goals and objectives, and included references to management integration-related activities. Fiscal year 2009 was the first year that the USM provided a common objective to department management chiefs related to management support for the expansion of NPPD. In addition, the agreements consistently include objectives related to management integration.

For the third level of reporting relationships involving the department and component management chiefs, the component management chiefs report directly to their component agency heads, while also having a "dotted line," or indirect, reporting relationship to their respective department management chief.²⁰ The arrangement of component heads and department chiefs both supporting integration of management functions is referred to as "dual accountability." Under the dual accountability system,

¹⁸Section 2405 of Pub. L. No. 110-53, 6 U.S.C. § 341 (c).

¹⁹Although the USM conducts the DHS CFO's performance evaluation, the CFO reports to both the Secretary of Homeland Security and the USM, as established by the Homeland Security Act of 2002, Pub. L. No. 107-296, 116 Stat. 2135, Nov. 25, 2002 (6 U.S.C. § 342) and the Department of Homeland Security Financial Accountability Act (31 U.S.C. § 901 (b)(1)(G)).

²⁰Responsibilities of the component management chiefs may not correspond directly with responsibilities of the department chiefs in all management functions.

management directives require the department management chiefs to provide written performance objectives to the component management chiefs at the start of each performance cycle and feedback to the component rating official on the component chief's accomplishment of objectives. We found that all the department management chiefs except for the CSO said that they specifically established annual priorities for their function. At an individual level, however, we found that only two department chiefs—the CAO and CPO—said that they provided individual input to their component chiefs at the beginning of their performance cycle. The USM told us the functional councils have improved their development of common management goals for their functions, but have not yet consistently followed through by putting those goals into individual performance plans. She stated the department's management chiefs would be including this information in component chiefs' performance plans for 2010. With regard to the department chiefs providing feedback to the component rating official, the CFO, CSO, and CAO told us that they provided input into component chiefs' performance appraisals, while the CIO and CPO did not provide input. The CHCO said that, due to his limited tenure in the position, he could not state whether input had occurred. The CPO stated that he would be providing input beginning with the fiscal year 2010 performance appraisals. The USM said that departmental chiefs' input into component chiefs' performance appraisals would be a priority in the future.

GAO Recommendations

In our new report, we reiterated our 2005 recommendation, not yet fully implemented, that DHS develop a comprehensive management integration strategy. We recommended that once the strategy is developed, DHS's USM should establish performance measures to assess progress made in achieving departmentwide management integration. We also recommended that the Under Secretary take several actions to implement existing performance management mechanisms—such as having the departmental management chiefs provide written input into component chiefs' performance plans and evaluations, and strengthening linkages between department goals and objectives in individual performance plans for component management chiefs—to ensure that the Management Directorate can exercise its authority and leadership to implement a management integration strategy.

A DHS official said the department concurred with our report. In addition, DHS's USM provided information on steps the department was taking or planning to take to develop a strategy for management integration, as we had recommended in our 2005 report, and to link this strategy to the

Senior Executive Service (SES) performance appraisals for the management chiefs. Specifically, the USM said that she is leading the process for developing a detailed, measurable plan that will include the actions and milestones necessary to accomplish management integration at the department. Additionally, the USM stated that the integration plan will be tied to the SES performance appraisals for each management chief for the fiscal year 2010 performance cycle, and that the plan will also serve as the required annual performance agreement between the Secretary and the USM.

Chairman Akaka, Senator Voinovich, and Members of the Subcommittee, this concludes my prepared statement. I would be happy to respond to any questions you may have.

Contacts and Staff Acknowledgements

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BACKGROUND
ONE DHS, ONE MISSION: EFFORTS TO IMPROVE MANAGEMENT INTEGRATION
AT THE DEPARTMENT OF HOMELAND SECURITY
DECEMBER 15, 2009

Background

The State Department's Bureau of Diplomatic Security is responsible for the protection of people, property, and information at more than 285 State Department missions overseas and 122 domestic facilities. Since the attacks on the U.S. Embassies in Kenya and Tanzania in 1998 and the September 11, 2001, terrorist attacks on the U.S., DS's mission, resources, and personnel have grown significantly.

GAO Report on Diplomatic Security

GAO reviewed how DS's role has changed over the past decade and the challenges it faces today.¹ GAO found that DS's mission, personnel, and financial resources have expanded in reaction to numerous security incidents on embassies, consulates, and U.S. officials. DS's budget increased from \$200 million in 1998, the year of the embassy bombings, to \$1.8 billion in 2008, of which over \$300 million went toward security in Iraq. During that period, DS also added increased security measures to diplomatic facilities, established surveillance detection teams at almost all diplomatic posts, provided each Chief of Mission and Principal Officer with a fully armored vehicle, and performed additional steps to improve security for overseas missions. DS has also upgraded its domestic technical and procedural security programs and counterintelligence program. GAO also found that DS has doubled its direct-hire workforce and has become more reliant on contractors to fill critical needs positions, especially in high-threat environments.

GAO found that DS is facing several challenges. First, the State Department has recently been operating in dangerous environments where it would previously have evacuated personnel. Maintaining missions in hostile environments requires additional DS personnel and resources. Second, staffing shortages have limited the effectiveness of domestic offices and prevented DS personnel from receiving updated security training. Third, operational challenges, such as posts not meeting security standards, foreign language deficiencies, experience gaps, and balancing security needs with the Department's diplomatic mission, make it difficult for DS to fulfill its mission. And fourth, the State Department has failed to use strategic planning to address DS resource needs or management challenges despite expanding DS's budget and personnel.²

GAO recommended that the Secretary of State review DS, either as part of the Quadrennial Diplomacy and Development Review (QDDR) or separately. Specifically, the review should

¹ U.S. Government Accountability Office, *Department of State: Diplomatic Security's Recent Growth Warrants Strategic Review*, Report to the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, U.S. Senate, GAO-10-156, December 2009.

² *Ibid.* at pg. 23.

examine operating with adequate staff, securing facilities that do not meet security standards, staffing foreign missions with personnel who possess the appropriate language skills, operating programs with experienced staff, and balancing security needs with the Department's diplomatic mission. The State Department agreed with GAO's recommendation and stated that the Department's Under Secretary for Management and Assistant Secretary for Diplomatic Security are committed to ensuring that DS will benefit from the QDDR.³

Key Challenges

Language Proficiency

Earlier this year GAO found serious language capability gaps in DS. Most significantly, 53 percent of Regional Security Officers (RSOs), who are the lead security representatives at the State Department's overseas missions, do not speak and read at the level required by their positions. Language training is often cut short because the Department is unwilling to leave security positions vacant. GAO found that language capability shortfalls among RSOs could negatively impact U.S. diplomacy, in part because sensitive information in a language other than English may be improperly handled.⁴

GAO has reported on language proficiency gaps at the State Department three prior times since January 2002. In its first report, GAO found that the Department had a shortage of Foreign Service officers (FSOs) who met the language proficiency requirements of their positions and recommended that the Department adopt a strategic approach to its human capital management and workforce planning.⁵ In 2006, GAO reviewed the State Department's progress in meeting its foreign language capability requirements and found that its recommendation to the Department to take a strategic approach for human capital management was not fully addressed.⁶

GAO's September 2009 report demonstrated that the State Department continues to struggle in meeting its language capability requirements. Despite large remaining language gaps, the Department had not taken a comprehensive, strategic approach to addressing language proficiency. GAO found that the State Department's effort failed to provide a linked, strategic focus, relying on a large number of separate policies and initiatives to address different aspects of this challenge. GAO recommended that the Department develop a strategic plan to link all of its efforts to meet foreign language requirements, including measurable performance goals, a comprehensive process to identify foreign language requirements based on objective criteria, and

³ *Ibid.* at pg. 38.

⁴ GAO-10-156, at pp. 33-34, discussing findings of U.S. Government Accountability Office, *Department of State: Comprehensive Plan Needed to Address Persistent Foreign Language Shortfalls*, Report to 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, GAO-09-955, September 2009.

⁵ U.S. Government Accountability Office, *Foreign Language: Human Capital Approach Need to Correct Staffing and Proficiency Shortfalls*, Report to Congressional Requesters, GAO-02-375, January 2002, at pp. 9-10 and 27.

⁶ U.S. Government Accountability Office, *Department of State: Staffing and Foreign Language Shortfalls Persist Despite Initiatives to Address Gaps*, Report to the Chairman, Committee on Foreign Relations, U.S. Senate, GAO-06-894, August 2006, at pp. 3-5.

a more effective mechanism to gather feedback from FSOs on the effectiveness of their language training.⁷

Staffing Challenges

Staffing shortages and experience gaps are an ongoing problem at DS. In 2008, approximately one-third of DS's domestic offices operated with a 25 percent vacancy rate or higher, and 34 percent of DS positions were filled with officers below the position's grade. State officials attributed the staffing shortages primarily to protection details, the annual staffing cycle, and staffing the Iraq mission. DS draws special agents from field offices, headquarters, and overseas posts for protection details at special events. These details require a great deal of resources and temporarily remove agents from their duty assignments. Normal rotations of officers create a staffing shortage because officers often take annual leave and are required to undergo training before beginning their next assignments, which causes a shortage of agents to fill positions. Staffing the U.S. Embassy in Iraq has drawn personnel from other missions and has left other missions and posts shorthanded.⁸ Although the staffing shortages are most severe in domestic offices, in 2008 three overseas posts (India, Tunisia, and Nigeria) reported staffing shortages of special agents, which may have compromised DS's mission.

DS has taken steps to address the staffing shortages, which include doubling its staff size since 1998; requesting funding to hire over 350 security positions in fiscal year (FY) 2010; creating the security protection specialist position to provide oversight to protection details in Iraq; filling all positions in Iraq and Afghanistan before filling other positions; restricting employees' annual leave on a limited basis; and identifying positions it would not fill in this year's staffing cycle.⁹

Foreign Service officer staffing shortages more generally have been an ongoing problem at the State Department in recent years. In 2006, GAO found that the Diplomatic Readiness Initiative, which was meant to increase the number of FSOs during former Secretary of State Colin Powell's tenure at the Department, helped address some staffing shortages, but the initiative failed to meet its goals and mid-level vacancies at a number of critical posts remained. As a result, mid-level positions were being staffed by junior FSOs, who often had little guidance and experience to handle the full scope of their duties. GAO's top recommendations were for the State Department to consider using directed assignments to fill critical positions, evaluate its incentive programs for hardship post assignments, and consider changing the assignment system to allow for longer tours and more regional specialization.¹⁰

In its September 2009 report on staffing and experience gaps at hardship posts, GAO found that the State Department's diplomatic readiness remained at risk. GAO attributed this to an

⁷ GAO-09-955, at pp. 3-5.

⁸ GAO-10-156, at pp. 29-35

⁹ *Ibid.* at pp. 32-33.

¹⁰ GAO-06-894, at pp. 2-5.

insufficient number of FSOs, an ongoing mid-level experience gap, and assignment system that does not specifically address the continuing experience gaps at hardship posts.¹¹

Balance of Mission and Security

In 2007, the Center for Strategic and International Studies released a report entitled, “*The Embassy of the Future*.” The report made 10 recommendations to modernize and reform the U.S. diplomatic presence abroad. One recommendation suggested that, “the department’s security culture and practices must continue to transition from risk avoidance to risk management... Any security philosophy that is based on zero-risk and that judges security-related decisions only to that standard will fail.”¹² The report emphasized the point that risk can never be eliminated and that managing risk requires a balance between protecting assets and effectively carrying out the mission. The American Academy of Diplomacy likewise endorsed transitioning from risk avoidance to risk management in its report entitled, “*A Foreign Affairs Budget for the Future: Fixing the Crisis in Diplomatic Readiness*,” which was released in 2008.¹³

Embassy Security

In January 2008, GAO provided an updated status of Compound Security Upgrade Program (CSUP) efforts. GAO found that CSUP projects have enhanced posts’ compliance with physical security standards. For example, CSUP projects have constructed compound access control facilities, safe areas for post personnel, and compound walls and barriers. However, at some posts, site conditions prevented adherence to security standards. As a result, many buildings and the staff stationed there remain vulnerable to attack.¹⁴

Relevant Legislation

Department of State, Foreign Operations, and Related Programs Appropriations (S.1434) – This bill was reported out of the Senate Appropriations Committee on July 7, 2009. It recommends \$1.595 billion for the Worldwide Security Program, which funds DS. This is \$53 million less than the Obama Administration’s FY 2010 request. Also, in the accompanying

¹¹ U.S. Government Accountability Office, *Department of State: Additional Steps Needed to Address Continuing Staffing and Experience Gaps at Hardship Posts*, Report to the Chairman and Ranking Member, Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate, GAO-09-874, September 2009, at pp. 28-29.

¹² Center for Strategic and International Studies, *The Embassy of the Future*, 2007, at pg. 50.

¹³ American Academy of Diplomacy, *A Foreign Affairs Budget for the Future: Fixing the Crisis in Diplomatic Readiness*, October 2008, at pp. 16-17.

¹⁴ U.S. Government Accountability Office, *Embassy Security: Upgrades Have Enhanced Security, but Site Conditions Prevent Full Adherence to Standards*, Report to the Ranking Member, Committee on Oversight and Government Reform, U.S. House of Representatives, GAO-08-162, January 2008, at pp. 14-17.

committee report (111-44), the State Department is encouraged to address management challenges within DS that were identified by the Department's Office of Inspector General.¹⁵

Foreign Relations Authorization Act, Fiscal Years 2010 and 2011 (H.R. 2410) – This bill passed the House on June 10, 2009. It set the authorization level for the Worldwide Security Program at \$1.648 billion for FY 2010 and such sums as may be necessary for FY 2011. In Section 213, after taking into account security needs, the Secretary of State is directed to consider placing public diplomacy facilities in areas that are well-trafficked by a cross-section of people in other countries.

Intelligence Reform and Terrorism Prevention Act (Public Law 108-458) – Section 7218 (22 U.S.C 4807) required the establishment of a Visa and Passport Security Program within the Bureau of Diplomatic Security. Required program components include the analysis of methods to alter or falsify travel documents; identification of individuals who facilitate travel by creating altered or false documents; and the identification of countries that need technical assistance to address the use and production of altered or false documents.

Security Embassy Construction and Counterterrorism Act (Public Law 106-113) – Provided authorization of appropriations for strengthening the security of U.S. diplomatic facilities, established security requirements for those facilities, amended the requirements for Accountability Review Boards, and increased antiterrorism training in Africa.

Omnibus Diplomatic Security and Antiterrorism Act (Public Law 99-399) – Created the Bureau of Diplomatic Security, established the Diplomatic Security Service, and put in place the requirement to conduct an Accountability Review Board in the event of serious injury, loss of life, or significant destruction of property at a U.S. overseas mission.

Additional Information

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¹⁵ U.S. Department of State, Office of Inspector General, *Report of Inspection: The Executive Office, Bureau of Diplomatic Security*, ISP-I-09-16, April 2009.

Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate, *A Domestic Crisis with Global Implications: Reviewing the Human Capital Crisis at the State Department*, S. Hrg. 110-684, July 16, 2008.

Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate, *Building a Stronger Diplomatic Presence*, S. Hrg. 110-242, August 1, 2007.

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**Post-Hearing Questions for the Record
Submitted to the Honorable Elaine Duke
From Senator George V. Voinovich**

***“One DHS, One Mission: Efforts to Improve Management Integration at the
Department of Homeland Security”***

December 15, 2009

1. What are the Department’s plans to get off of GAO’s high risk list, and how much will it cost to implement those plans?

Response: The Department has initiated a comprehensive approach to the management of all GAO High Risk areas designated for DHS, currently including:

- Implementing and Transforming DHS
 - Lead: Under Secretary for Management
- Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures
 - Lead: Deputy Under Secretary National Protection and Programs Directorate (NPPD)
- Establishing Effective Mechanisms for Sharing Terrorism-Related Information to Protect the Homeland
 - Lead: Deputy Under Secretary for Intelligence & Analysis
- National Flood Insurance Program
 - Lead: FEMA Insurance and Mitigation Administration Acting Administrator
- Strategic Human Capital Management
 - Lead: DHS Chief Human Capital Officer
- Managing Federal Real Property
 - Lead: DHS Chief Administrative Officer.

In January 2010, Deputy Secretary Lute issued an internal memo to DHS Component leadership assigning the Under Secretary for Management as the executive lead for coordinating and monitoring progress improvements for all GAO High Risk areas on behalf of the Department. The Secretary and Deputy Secretary believe this action continues to demonstrate their commitment toward fostering a culture of integrity, accountability, and transparency throughout the Department by addressing our relations with and responsiveness to GAO. It also demonstrates the priority leadership places on addressing Department challenges that need additional management attention. As a result of this memo, multiple actions to support this comprehensive management strategy are currently underway.

First steps in this effort included identification of the DHS Technical Executive Lead for each high risk initiative, along with assigning critical senior staff to develop action plans for improvements towards removing the high risk status for each of these initiatives. DHS has also been working closely with GAO to assign technical leads and establish collaborative working teams with GAO subject matter experts. Kick-off meetings for these teams have occurred. Meetings allow for shared discussion around clearly scoping these broad, multi-faceted initiatives and assess current strategies to address GAO recommendations.

Meetings will continue resulting in corrective action plans for each high risk area. The corrective action plans will identify root cause(s) for the risk, necessary corrective actions with milestones and performance metrics, as well as cost to implement the corrective actions.

DHS will present its strategy and timeline for completing the corrective action plans in a meeting with GAO, to be hosted by OMB Deputy Director for Management Jeffrey Zients. That meeting is scheduled for March 12, 2010.

**Post-Hearing Questions for the Record
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***“One DHS, One Mission: Efforts to Improve Management Integration at the
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December 15, 2009

2. The Inspector General (IG) reports that individual offices within the Department sometimes develop their own approaches to executing award fee contracts that are not consistent with your guidance or OMB’s principles. Do you and your management chiefs have the authority you need to oversee these contracting offices and ensure that their contracts comply with DHS and OMB guidance?

Response: Yes, the Chief Procurement Officer (CPO) and I have the authority that we need to oversee DHS Component contracting offices, and to ensure that their contracts comply with DHS and OMB guidance. In section 701 of the Homeland Security Act of 2002, the Under Secretary for Management (USM) is given specific responsibilities for Management and Administration across the Department. Procurement is one of the functions specifically delegated in that statute.

Management Directive 0003, Acquisition Line of Business Integration and Management designates the CPO as the Senior Procurement Executive who exercises leadership and authority over all aspects of the DHS acquisition program. Directive 102-01, Acquisition Management, which was issued on January 20, 2010 establishes a programmatic line of authority via “Component Acquisition Executives (CAE) and delineates respective responsibilities of the CAEs. Five CAEs have been designated to date.

DHS acquisition policy and procedures are published primarily in the Homeland Security Acquisition Regulation (HSAR), which is mandatory and applies to DHS, and in the Homeland Security Acquisition Manual (HSAM), which is mandatory internal guidance. The Oversight and Systems Support Division within the Office of the Chief Procurement Officer (OCPO) is responsible for oversight and reviews to help ensure that contracting offices comply with the HSAR, the HSAM, the Federal Acquisition Regulation, and other policy published by the OCPO or OMB.

**Post-Hearing Questions for the Record
Submitted to the Honorable Elaine Duke
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***“One DHS, One Mission: Efforts to Improve Management Integration at the
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December 15, 2009

3. I am sure your acquisition background helped DHS to improve its acquisition management rating from the IG, and I appreciate that effort. However, it concerns me that the IG has reported a lack of involvement by senior DHS officials regarding acquisitions, given that DHS spends \$17 billion each year on acquisition and procurement. What are you doing to ensure that senior officials are involved in and actively overseeing major investments?

Response: DHS has developed a comprehensive approach that establishes acquisition management standards and oversight. Directive 102-1, *Acquisition Management* was finalized January 2010 which established acquisition program processes and formal Acquisition Review Boards (ARBs) that oversee major departmental programs.

The ARB is a senior management cross-component board within the Department that determines whether a proposed acquisition has met the requirements of key phases in the acquisition life cycle framework and is able to proceed to the next phase and eventual full production and deployment. The ARB is comprised of the Acquisition Decision Authority (chair of the ARB), the Under Secretary for Management, the Under Secretary for Science and Technology, the Assistant Secretary for Policy, the General Counsel, the Chief Financial Officer, the Chief Procurement Officer, the Chief Information Officer, the Chief Human Capital Officer, the Chief Administrative Officer, and the Chief Security Officer. The ARB also includes management, technical, contracting, and financial representatives, as appropriate, from Components sponsoring the capability, and other officials within the Department determined to be appropriate to the subject matter by the Acquisition Decision Authority.

ARBs for level one (1) or level two (2) programs are chaired by either the Deputy Secretary or the DHS Chief Acquisition Officer (Under Secretary for Management), who serve as the Acquisition Decision Authority (ADA), depending on the level of the program. Since the revised ARB process was developed in early calendar year (CY) 2008, over 50 ARBs have been held at the Department level. As a result of these meetings, programs have been provided authority to proceed, direction to slow down, actions to further demonstrate readiness, or a combination thereof. The fiscal year (FY)

2010 plan will continue the execution of senior level acquisition oversight over major DHS acquisition programs.

In addition to the ARBs which are scheduled at decision event milestones, the new Management Instruction, Instruction 102-01-001 Acquisition Instruction/Guidebook, also requires senior leadership notifications of breaches (deviations) in cost over 8% from established baselines. After notification, a revised plan with corrective action must be prepared and approved by the ARB.

Seven Independent Expert Program Reviews (IEPRs), which are focused looks by subject matter experts on programs of senior leadership interest, have also been conducted. The IEPRs identify and provide recommendations on issues that impact program performance and potentially jeopardize program success. They also identify recurring systemic issues that impact performance across the Department to support DHS-wide acquisition portfolio improvements. The results have been briefed to the Deputy Secretary, Under Secretary of Management as well as to Component senior leaderships.

In the future, DHS will continue to expand the oversight and governance efforts listed above, as well as take actions to strengthen the acquisition enterprise (such as analyzing the adequacy of program staffing for each program in the DHS major program portfolio).

**Post-Hearing Questions for the Record
Submitted to the Honorable Elaine Duke
From Senator George V. Voinovich**

***“One DHS, One Mission: Efforts to Improve Management Integration at the
Department of Homeland Security”***

December 15, 2009

4. What are the Department’s plans to develop a consolidated acquisition system as recommended by the IG?

Response: The Office of the Chief Procurement Officer (OCPO) is currently implementing its plans to acquire and deploy a Department-wide (enterprise) contract management system. As part of the ongoing procurement for the Department’s new financial management system known as Transformation and Systems Consolidation (TASC), a competition is presently underway to select the necessary software and integration services for the new enterprise contract management system, and contract award is anticipated during the third quarter of fiscal year 2010.

Once deployed, the enterprise contract management system will be interfaced with the Department’s new financial management system. The new enterprise contract management system will further the Department’s goal of “One DHS, one Mission” by improving data integrity, reporting, performance measurement, and financial accountability across DHS.

**Post-Hearing Questions for the Record
Submitted to the Honorable Elaine Duke
From Senator George V. Voinovich**

***“One DHS, One Mission: Efforts to Improve Management Integration at the
Department of Homeland Security”***

December 15, 2009

5. What actions is the Department taking to ensure that its grants are properly managed and overseen?

Response: In 2009, DHS requested and was appropriated 20 additional positions for a total of 24 positions in the Division of Financial Assistance Policy & Oversight within the Office of the Chief Financial Officer. A senior executive was selected in fall 2009 to implement the new division and plans to attain full staffing within the next several months. Key activities are focused in the following four areas. One area focuses on establishing operations for centralizing and standardizing DHS financial assistance information to enable increased transparency through public reporting. This set of activities includes activities related to implementing the Open Government Initiative, especially those focused on data quality on such public venues as USAspending.gov. Another area relates to developing centralized management of awardee annual audit resolution, as well as the technical assistance in the way of cost guidance and policy to assist awardees in avoiding audit findings. The third activity area relates to the development of department-wide financial assistance policies supported by standard business models and processes designed to increase effectiveness and efficiencies within DHS and across awardees with multiple DHS awards. The fourth area relates to centralized Component oversight activities which will ensure laws, regulations and DHS policy is being followed, that Components are conducting oversight across their individual awards and award programs, and to provide a forum for the exchange of technical assistance and peer assistance across DHS. The development of this centralized function is critical to DHS stewardship of federal funding.

**Post-Hearing Questions for the Record
Submitted to the Honorable Elaine Duke
From Senator George V. Voinovich**

***“One DHS, One Mission: Efforts to Improve Management Integration at the
Department of Homeland Security”***

December 15, 2009

6. GAO reports that the Department has not established measures for assessing management integration across the Department. Does DHS plan to develop such measures and if so, when will they be developed and used?

Response: Under the direction of the Under Secretary for Management, the department is currently establishing measures for assessing management integration across the Department. Through a series of collaborative sessions including all business line chiefs and key subject matter experts, the Under Secretary for Management identified seven critical initiatives that must be implemented to strengthen the integration of the Department. These seven initiatives include:

- Enterprise Governance
- HSPD-12 Deployment
- Balanced Workforce
- Transformation and Systems Consolidation
- Headquarters Consolidation and St. Elizabeths
- Human Resources Information Technology
- Data Center Migration

The initial draft of the Under Secretary for Management Integration Plan which provides the actions with performance measures, schedule and cost is completed. In the coming weeks, the Department will be collaborating closely with GAO to develop performance measures that will appropriately demonstrate the progress of each of the management integration initiatives. This initial draft will be shared with GAO by the end of February, and provided to this upon their request.

**Post-Hearing Questions for the Record
Submitted to the Honorable Elaine Duke
From Senator George V. Voinovich**

***“One DHS, One Mission: Efforts to Improve Management Integration at the
Department of Homeland Security”***

December 15, 2009

7. I have been continually frustrated with the Senate’s failure to reorganize the oversight jurisdiction of committees in line with the 9/11 Commission recommendation to establish one committee with primary jurisdiction over the Department of Homeland Security. How many various Committee and Subcommittee hearings has the Department been invited to testify at this year?

Response: DHS has testified at 166 hearings; before 52 Committees, Subcommittees and commissions in calendar year 2009.

**Post-Hearing Questions for the Record
Submitted to the Honorable Elaine Duke
From Senator George V. Voinovich**

***“One DHS, One Mission: Efforts to Improve Management Integration at the
Department of Homeland Security”***

December 15, 2009

8. It is my understanding, from data provided by your staff, that there are 10,520 contractors in the national capitol region. I raised this point during the hearing to which you indicated this number was derived from a statistical analysis. However, it was my understanding, that the data were derived from an actual head count of contractors on the floor. For the record, can you please clarify how this number came about?

Response: The 10,520 National Capital Region (NCR) numbers of contract employees is a headcount.

In response to the President’s Memorandum on Government Contracting, dated March 4, 2009, and to begin collecting the information needed to assess DHS’s reliance on service support contractors, the Under Secretary for Management issued a Comprehensive Workforce Data Call on March 30, 2009. Included in that data call was a request that components count the number of contract employees (headcount) sharing federal space with them within the National Capital Region. This resulted in the reported 10,520 number. Note, however, that the NCR data call did not attempt to estimate the number of contractors that may be supporting components in their own contractor owned or leased space within the NCR or beyond the NCR.

Questions for the Record from the Honorable Senator George V. Voinovich to
Ms. Anne L. Richards, Assistant Inspector General for Audits

Subcommittee on Oversight of Government Management, the Federal Workforce, and the
District Of Columbia

**“One DHS, One Mission: Efforts to Improve Management Integration at the Department
of Homeland Security”**

December 15, 2009

Question: In addition to individual approaches regarding award fee contracts, the Inspector General (IG) reported that components are still not executing all of the Department’s information technology policies and procedures. Are there other areas where components are clearly not following Departmental policies or don’t appear to be adequately overseen by the Department?

Answer: Our work has identified a number of areas where oversight and adherence to Departmental policies could be improved. The following paragraphs summarize a few areas which are described in more detail in our report entitled *Major Management Challenges Facing the Department of Homeland Security*, (OIG-10-16, November 2009):

- Federal Emergency Management Agency’s (FEMA) grants management and oversight infrastructure needs improvement to ensure effective monitoring of grantees. In the area of disaster grants management, we reported that while FEMA does not directly manage subgrants, it is incumbent on FEMA to make certain that States, as grantees, understand the rules and regulations that govern disaster grants and ensure that subgrantees adhere to these. As of August 2009, we had issued 41 subgrant audit reports in FY 2009, with more than \$80 million in questioned costs.
- Improvements are also needed in FEMA’s non - disaster grants management and oversight infrastructure to ensure effective monitoring of grantees. Our work disclosed that FEMA did not consistently and comprehensively execute its two major oversight activities, financial and program monitoring. This occurs, in part, because FEMA does not have sufficient grants management staff. We have also reported that many states, as grantees, are not sufficiently monitoring subgrantee compliance with grant terms and cannot clearly document critical improvements in preparedness as a result of grant awards. We made recommendations to improve FEMA’s controls over the grant programs.
- Customs and Border Protection (CBP) has not established adequate controls and effective oversight of contract workers responsible for providing Secure Border Initiative (SBI) program support services. Although CBP has recently taken steps

to improve SBI program management by hiring knowledgeable and experienced program managers, it continues to rely heavily on contract personnel, who comprise more than 50% of the SBI workforce. Also, CBP has not provided an adequate number of contracting officer's technical representatives to oversee support services contractors' performance resulting in contractors performing functions that should be performed by government workers.

- In our recent report on *DHS Controls Over Firearms* (OIG-10-41, February 2010), we reported that DHS, through its components, did not adequately safeguard and control its firearms and the department needed to develop stronger processes, procedures, and oversight of asset management. Components reported 289 firearms as lost during FYs 2006 through 2008. Although some reported losses were beyond the officers' control, most losses occurred because officers did not properly secure firearms.

Question: I was pleased to see DHS improved its acquisition management scorecard in the IG's most recent Major Management Challenges report. Please explain DHS' progress in that area and what critical success factors still need to be achieved.

Answer: In our report on *Major Management Challenges Facing the Department of Homeland Security*, (OIG-10-16; November 2009) we reported that the department made modest or moderate progress in improving the acquisition program's organizational alignment, developing and strengthening policies and processes related to acquisition management, and in recruiting and retaining a workforce capable of managing a complex acquisition program. As discussed in the following paragraphs, additional work is needed in these areas to reach a point where most or all critical success factors have been achieved.

DHS made modest progress in improving the acquisition program's organizational alignment and defining roles and responsibilities. The department continues to depend on a system of dual accountability and collaboration between the chief procurement officer and the component heads, which may sometimes create ambiguity about who is accountable for acquisition decisions. However, DHS maintains that the dual authority model works because the Office of the Chief Procurement Officer (OCPO) retains central authority over all contracting through its contracting officer warrant program and Federal Acquisition Certification - Contracting program. According to the department, the heads of contracting activities and contracting officers' function independently of component influence as their authority flows from OCPO rather than the component. DHS also expects its proposed Acquisition Line of Business Integration and Management Directive to clarify existing authorities and relationships within individual components and the department's Chief Procurement Officer.

DHS made moderate progress in developing and strengthening its policies and processes related to acquisition management. Although the department has put a great deal of effort into improving its processes and controls over awarding, managing, and monitoring contract funds, it still needs to do more. According to a May 2009 report by the GAO, DHS provided guidance on award fees in its acquisition manual, but individual contracting offices developed their own

approaches to executing award fee contracts that were not always consistent with the principles in the Office of Management and Budget's guidance on award fees or among offices within DHS. In addition, DHS has not developed methods for evaluating the effectiveness of an award fee as a tool for improving contractor performance. FEMA also needs to accelerate its planned acquisition process improvements for awarding, managing, monitoring, tracking, and closing-out contracts. DHS is making progress in the oversight of its services contracts. As of March 2009, all DHS professional services contracts greater than \$1 million will undergo a mandatory review before a new contract is awarded or an existing contract is renewed to ensure that proposed contract awards do not include inherently governmental functions or impact core functions that must be performed by federal employees. DHS expects this additional review to add a new level of rigor to the DHS contracting process.

DHS made moderate progress in recruiting and retaining a workforce capable of managing a complex acquisition program, but continues to face workforce challenges across the department. An April 2009 report by the GAO indicated that the Coast Guard filled 717 of its 855 military and civilian personnel positions in the acquisition branch and planned to expand its acquisition workforce in FY 2011. However, some of its unfilled positions are core acquisition positions such as contracting officers and specialists, program management support staff, and engineering and technical specialists. Although FEMA has improved acquisition training and greatly increased the number of acquisition staff, it still needs to better prepare its acquisition workforce for catastrophic disasters. In its response to our November 2008 management challenges report, DHS highlighted headquarters-level initiatives for building and retaining its acquisition workforce. For example, DHS centralized recruitment and hiring of acquisition personnel, established the Acquisition Professional Career Program to hire and mentor procurement interns, created a tuition assistance program, and structured rotational and development work assignments. However, DHS needs time to complete all of these new initiatives. In the interim, personnel shortages will continue to hamper the department's ability to manage its contracts and workload in an effective and efficient manner.

DHS has also made modest progress in deploying an enterprise acquisition information system and tracking key acquisition data. DHS has not yet fully deployed a department-wide (enterprise) contract management system that is interfaced with the financial system. Many procurement offices continue to operate using legacy systems that do not interface with financial systems. With ten procurement offices and more than \$17 billion in annual acquisitions and procurement, DHS needs a consolidated acquisition system to improve data integrity, reporting, performance measurement, and financial accountability. In recent years, DHS did not ensure contract data was complete and accurate in the Federal Procurement Data System-Next Generation (FPDS-NG). This system is the only consolidated information source for analyzing competition on procurements and is relied on for reporting to the public and Congress. DHS has taken steps to comply with May 2008 guidance, issued by the Office of the Federal Procurement Policy, that requires government agencies to develop a plan for improving the quality of acquisition data entered into FPDSNG. For example, DHS developed a standard report format and data quality review plans.

Overall, DHS needs to improve in five critical areas to effectively manage acquisitions. DHS needs to continue to improve its acquisition program's organizational alignment and define

departmental and component roles and responsibilities, effectively implement and adhere to its investment review process, develop and strengthen its acquisition management policies and processes, recruit and retain a capable acquisition workforce, and deploy an enterprise acquisition information system and tracking key acquisition data.

Question: DHS awards billions in grants each year, so the IG's finding that FEMA does not consistently and comprehensively execute its oversight activities concerns me. What can FEMA and the Department do to improve financial and program monitoring relating to grants?

Answer: FEMA needs to address its human capital issues. Not having enough people with the right skill set and experience to oversee grants has affected the amount of financial and programmatic grant monitoring work being conducted both at Headquarters and in the Regions. In the Post-Katrina Emergency Management Reform Act of 2006, Congress required FEMA to develop and submit to Congress a Strategic Human Capital Plan based on a number of analyses mandated by the Act. The analyses were aimed at developing an approach for effectively overseeing grants including having the right staffing levels. The Act also required a risk assessment so resources are directed to those grant areas that may need additional scrutiny.

FEMA submitted the Plan to Congress in June 2008; however, it did not provide either the detailed human capital analyses or plan of action for resolving human capital issues called for in the Act.

In order to improve financial and program monitoring relating to grants, we recommended that FEMA conduct, for all grant management and oversight personnel, the analyses mandated in the *Act* and develop a plan of action with milestones for resolving identified human capital issues. We also recommended that FEMA develop comprehensive grant management and monitoring policies and procedures, including details on conducting financial and programmatic monitoring activities, the number and frequency of site visits, and the need to adequately document the results.

FEMA has created an Intra-Agency Grants Program Task Force to develop projects to carry out the goals and objectives of the FEMA Grants Strategy which FEMA states is a critical component in achieving the goals of the Act. We feel this action is responsive to our recommendation, however, the process of identifying projects is ongoing and the recommendation will remain open until specific projects for addressing human capital issues are identified and implemented.

Many of the goals of the FEMA Grants Strategy focus on comprehensive grant management monitoring policies and procedures. The Intra-Agency Grants Program Task Force is improving grants management policies and monitoring procedures across all of FEMA's grant-making Directorates. We also feel this activity is responsive to the intent of our recommendation, however, this effort is also ongoing and the recommendation will remain open pending completion of planned actions.

**Post-Hearing Get Back / Question for the Record
Submitted to Ms. Anne Richards
From Senator McCaskill**

“One DHS, One Mission: Efforts to Improve Management Integration at the Department of Homeland Security”

December 15, 2009

As an addendum to the QFRs for Ms. Anne Richards, a “Get Back/For the Record” from Senator McCaskill on page 44 of the hearing’s transcript reads:

“The question, which is in reference to the professional service contracts over \$1 million that will be under review before award or renewal, is: “How many of those contract awards under this review have been found, in the review that you mention, that they include inherent governmental functions and what has happened as a result of those reviews”? (McCaskill, pg. 44)

Ms. Richards responds, “Ma’am, I am going to have to get back to you for the record with the exact numbers on the contracts that have gone through that review.” (Richards, pg. 44)

If you would be so kind as to forward me the number of contracts that have gone through the review process so I can include it in the official testimony it would be much appreciated. If possible, would you be able to get me that information before I receive your QFRs scheduled for March 1st?”

DHS-OIG Response to Get-Back:

Two recent audits by DHS-OIG, referenced in my testimony, show that TSA and CBP both have contractors performing inherently governmental functions contrary to the Federal Acquisition Regulations (FAR).

We are currently completing our final report on the *Transportation Security Administration’s Acquisition of Support Services Contracts* to determine whether TSA provides adequate management and oversight in the acquisition of support services for transportation security programs. As soon as my office finalizes this report, I will provide your office with a copy.

In our published report *Better Oversight Needed of Support Services Contractors in Secure Border Initiative Programs* (OIG-09-80), despite the FAR regulations, CBP did not clearly distinguish between roles and responsibilities that were appropriate for contractors and those that must be performed by government workers because of the rush to fill program management positions and get Secure Border Initiative (SBI) started. SBI

progress reports for May and June 2007 showed that the largest support contractor performed activities that should have been the responsibility of government employees, such as drafting a statement for presentation by the Chief of the Border Patrol and the SBI executive director at a Congressional hearing.

Similarly, a May 2007 progress report for the same support contractor showed that it performed functions that are generally not considered to be inherently governmental functions. However, these services and actions may approach that category because of the nature of the function, the manner in which the contractor performed the contract, or the manner in which the Government administered contractor performance. These activities included the following:

- Facilitating the planning and update of the SBI program management task order;
- Preparing an initial draft of the statement of work for command, control, communications, and intelligence design;
- Helping draft the acquisition plan for the command, control, communications, and intelligence common operating picture; and
- Providing coverage in the absence of SBI fencing and common operating picture project managers.

Over three years into the SBI program, CBP still has not reevaluated the mix of contractors and government employees assigned to SBI programs or delineated roles and responsibilities to ensure that contractors are not performing inherently governmental functions. Nor has CBP assigned an adequate number of Contracting Officer's Technical Representatives (COTRs) to oversee support services contractors' performance. Although in the past year CBP has hired a number of knowledgeable and experienced program managers and contracting officers, contractors still comprise more than 50% of the total SBI workforce.

With continued heavy reliance on contractor support services, CBP risks losing control of program decisions while remaining accountable for mission results. According to a Government Accountability Office report, the closer activities performed by contractors come to supporting inherently governmental functions, the greater the risk that contractors can influence decision-making.

As noted in our report *Major Management Challenges Facing the Department of Homeland Security* (OIG-10-16), as of March 2009, all DHS professional services contracts greater than \$1 million are to undergo a mandatory review by the department's acquisition management before any new contract is awarded or an existing contract is renewed. These reviews are to ensure that proposed contract awards do not include inherently governmental functions or impact core functions that must be performed by federal employees. We have not done any work in this area concerning how many of the contract awards reviewed have been found to include inherent governmental functions and what has happened as a result of those reviews.

Questions and Responses for the Record
From Bernice Steinhardt, Director, Strategic Issues
U.S. Department of Homeland Security

You requested that we respond to questions for the official record of the Subcommittee's December 15, 2009 hearing entitled "One DHS, One Mission: Efforts to Improve Management Integration at the Department of Homeland Security." We presented our testimony statement *Department of Homeland Security: A Comprehensive Strategy Is Still Needed to Achieve Management Integration Departmentwide* (GAO-10-318T) at this hearing. Your questions, along with our responses, follow:

1. *As you know, implementing and transforming the Department of Homeland Security remains on the GAO High-Risk List. Has GAO reviewed actions the Department has taken this year to get off of the list, and can you comment about their usefulness or additional actions that are needed?*

DHS has not yet provided us with updated information on its plans for addressing its transformation and management challenges to be removed from the high risk list. In recent weeks, we have met with DHS's Under Secretary for Management, Deputy Under Secretary for Management and other Management Directorate staff. The DHS officials told us that the department is planning to review and refine its high risk strategy and related corrective action plans and will share them with us. We plan to evaluate DHS's action plans and other efforts against GAO's published criteria for removing agencies from the high risk list and will share the results of our analysis with you.¹

In GAO's January 2009 high risk update, we reported that DHS had developed a strategy for, among other things, assessing risks and proposing initiatives to address transformation and management challenges.² However, the strategy lacked details for the transformation of DHS and integration of its management functions, including acquisition, financial, human capital, and information technology management. DHS had

¹ GAO, *Determining Performance and Accountability Challenges and High Risks* (GAO-01-159SP, November 2000).

² GAO, *High Risk Series: An Update* (GAO-09-271, January 2009)

also developed corrective action plans to address management challenges, but these plans did not include all of the elements we have identified for corrective action plans, and DHS had yet to demonstrate progress in implementing key corrective actions.

2. *When DHS's management integration strategy is complete, will you review it and provide Senator Akaka and me with your thoughts on whether it includes the necessary characteristics?*

On February 19, 2010, DHS provided us with its draft Management Integration Plan for our review. Once we have had a chance to review it, we will provide you and Senator Akaka with our assessment of whether it includes the characteristics that we have identified as necessary for a management integration strategy. Since our December 2009 hearing, we have met with DHS's Under Secretary for Management, Deputy Under Secretary for Management, and senior staff from DHS's Management Directorate, to discuss the status of DHS's management integration strategy. During these meetings, the DHS officials have discussed with us seven priority management integration initiatives that they have identified where DHS would focus its efforts in the coming years.