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The Department of Homeland Security: An Assessment of the
Department and a Roadmap for its Future

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Good afternoon, Chairman Rogers, Ranking Member Thompson, and Members of the Committee. It is truly an honor to be here today to discuss what the Department of Homeland Security needs to do in the years ahead to become a more efficient organization. I thank you for this opportunity.

Since its inception in 2003, the department 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. While the department has made progress over the past 9 years, it still has much to do to establish a cohesive, efficient, and effective organization.

The OIG's latest major management challenges report, dated November 10, 2011, continues to address a broad range of issues, including both program and administrative challenges. In total, the OIG identified nine categories of challenges: Financial Management, Information Technology Management, Acquisition Management, Grants Management, Emergency Management, Infrastructure Protection, Border Security, Transportation Security, and Trade Operations and Security. These are essentially the same management challenges that the OIG reported as early as 2005. Today, I would like to talk about four of those management challenges:

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

These management support functions constitute the platform upon which the department's programs must operate and are critical to the successful accomplishment of the department's mission. Some of these challenges were inherited by the department from the legacy agencies. Nevertheless, the complexity and urgency of the department's mission have hampered its efforts to make sustainable progress in implementing corrective actions.

Senior officials at the department recognize the significance of these challenges and understand that addressing them will take a sustained and focused effort. They have, in fact, taken actions over the past several years to implement, transform, and strengthen the department's management support functions; albeit, in my opinion, at a snails pace.

FINANCIAL MANAGEMENT

Financial management has been and continues to be a major management challenge for the department since its creation in 2003. In FY 2011, the department was again unable to obtain an opinion on its financial statements, and numerous material internal control weaknesses were again reported. These weaknesses, due to their materiality, are impediments to obtaining a clean opinion and providing positive assurance over internal controls at the department level. The department has made progress from its early days, however. It has reduced the number of material weaknesses in internal controls from 18 to 5. It also received a qualified audit opinion on its consolidated balance sheet and custodial activity for the first time in fiscal year 2011. Unfortunately, unless the department modernizes its financial systems, it is unlikely this progress will continue.

The department twice unsuccessfully attempted to implement an integrated department-wide financial management system, wasting millions of dollars. In 2007, the department ended its first attempt, the Electronically Managing Enterprise Resources for Government Effectiveness and Efficiency system after determining it would not provide the expected functionality and performance. In 2011, the department decided to change its strategy for financial system modernization. Rather than implement a department-wide integrated financial management system solution, the department decided to take a decentralized approach to financial management systems modernization at the component level. Specifically, the department reported in its December 2011 strategy that it plans to replace financial management systems at three components it has identified as most in need, e.g., FEMA, USCG, and ICE. However, due to FY 2012 budget reductions, these initiatives have been put on hold indefinitely. It is now not clear when the department will resume its modernization strategy, nor is it clear whether this new, decentralized approach, if and whenever it is implemented, will ensure that components' financial management systems can generate reliable, useful, timely information for day-to-day decision making; enhance the department's ability to comprehensively view financial information across the department; and comply with related federal requirements at the department and its components. In the interim, the department must continue to use archaic, unreliable systems to manage its financial resources, which is unfortunate, particularly in this day and age of budget austerity and the public demand for increased fiscal transparency and accountability.

INFORMATION TECHNOLOGY MANAGEMENT

According to recent OIG and GAO reports, DHS and its components are still struggling to upgrade or transition their respective IT infrastructures, both locally and enterprise-wide.

Integrating the IT systems, networks, and capabilities of the various legacy agencies to form a single infrastructure for effective communications and information exchange remains one of the department's biggest challenges.

For example, on October 20, 2011, the Assistant IG for Emergency Management Oversight, Matt Jadacki, testified that FEMA's existing information technology systems do not effectively support disaster response activities . FEMA has not completed its efforts to establish an enterprise architecture, and its IT strategic plan was not comprehensive enough to coordinate and prioritize its modernization initiatives and IT projects. The plan did not include clearly defined goals and objectives, nor did it address program office IT strategic goals. Without these critical elements, FEMA is challenged to establish an effective approach to modernize its information technology infrastructure and systems.

According to Mr. Jadacki, there is not an adequate understanding of existing information technology resources and needs throughout the agency. Specifically, FEMA's Office of the Chief Information Officer (CIO) does not have a complete, documented inventory of systems to support disasters. Further, program and field offices continue to develop information technology systems independently of the CIO and have been slow to adopt the agency's standard information technology development approach. As a result, systems are not integrated, do not meet user requirements, and do not provide the information technology capabilities agency personnel and its external partners need to carry out disaster response and recovery operations in a timely, effective, and efficient manner.

Furthermore, according to a report issued recently by GAO, FEMA does not have an effective system to manage flood insurance and claims data, although it invested roughly 7 years and \$40 million on a new system whose development has been halted because it did not meet users' needs.

Most recently, on June 29, 2012, the Assistant IG for Information Technology Audits, Frank Deffer, reported that the information technology environment and the aging IT infrastructure within CBP does not fully support CBP's mission needs. According to Mr. Deffer, interoperability and functionality of the technology infrastructure have not been sufficient to support CBP mission activities fully. As a result, CBP employees have created workarounds or employed alternative solutions, which may hinder CBP's ability to accomplish its mission and ensure officer safety.

Similar problems also have been reported at the Coast Guard, Citizen and Immigration Services, Immigration and Customs Enforcement, and Secret Service. Technical and cost barriers, aging infrastructure that is difficult to support, outdated IT strategic plans to guide investment decisions, and stove-piped system development have impeded the department's efforts to modernize and integrate its IT systems, networks, and capabilities.

Information Sharing

The Homeland Security Act of 2002 makes coordination of homeland security communication with state and local government authorities, the private sector, and the public a key department responsibility. However, due to time pressures, the department did not complete a number of the steps essential to effective planning and implementation of the Homeland Security Information

Network (HSIN)—the “sensitive but unclassified” system it instituted to help carry out this mission. For example, the HSIN and the Homeland Security State and Local Community of Interest systems, both developed by DHS, are not integrated. As a result, users must maintain separate accounts, and information cannot easily be shared across the systems. State and local fusion center personnel expressed concern that there were too many federal information sharing systems that were not integrated. As such, effective sharing of the counter-terrorist and emergency management information critical to ensuring homeland security remains an ongoing challenge for the department. Resources, legislative constraints, privacy, and cultural challenges—often beyond the control of the department—pose obstacles to the success of the department’s information sharing initiatives.

On a broader scale, the department is also challenged with incorporating data mining into its overall strategy for sharing information to help detect and prevent terrorism. Data mining aids agents, investigators, and analysts in the discovery of patterns and relationships from vast quantities of data. The Homeland Security Act authorizes the department to use data mining and tools to access, receive, and analyze information. However, the department’s data mining activities consist of various stove-piped activities that use limited data mining features. For example, CBP performs matching to target high-risk cargo. The Secret Service automates the evaluation of counterfeit documents. TSA collects tactical information on suspicious activities. ICE detects and links anomalies indicative of criminal activity to discover relationships. Without department-wide planning, coordination, and direction, the potential for integrating advanced data mining functionality and capabilities to address homeland security issues remains untapped.

ACQUISITION MANAGEMENT

DHS has taken notable action to implement, transform, and strengthen its acquisition management capabilities. During my tenure as the IG of the department, the Secretary and Deputy Secretary of Homeland Security, and other senior officials demonstrated a genuine commitment to improve the department’s acquisition management function. In its December 2011 strategy for high risk management, the department presented detailed plans to address a number of acquisition management challenges. However, much work remains to fully implement these plans and address these challenges. Most notably, the department needs to identify and acquire the resources needed to implement its acquisition policies.

OIG and GAO audits over the past 9 years have identified problems related to acquisition oversight, cost growth, and schedule delays, resulting in performance problems and mission delays, as illustrated by the problems the department experienced with the Coast Guard’s Deepwater program, CBP’s SBINet program, FEMA’s flood map modernization program, and the CFO’s financial systems consolidation initiatives. Each of these efforts failed to meet capability, benefit, cost, and schedule expectations. For example, in June 2010 my former office reported that over half of the programs we reviewed awarded contracts to initiate acquisition activities without component or department approval of documents essential to planning acquisitions, such as mission need statements outlining the specific functional capabilities

required to accomplish DHS' mission and objectives; operational requirements; and acquisition program baselines. Additionally, the OIG reported that only a small number of DHS' major acquisitions had validated cost estimates.

The urgency and complexity of the department's mission will continue to demand rapid pursuit of major investment programs. Between fiscal years 2003 and 2010, the department spent about 40 percent of its budget through contracts. Although that figure may have decreased over the past 2 years, the department will continue to rely heavily on contractors to accomplish its multi-faceted mission and will continue to pursue high-risk, complex acquisition programs.

The department must have an infrastructure in place that enables it to effectively oversee the complex and large dollar procurements critically important to achieving its mission.

Both the OIG and the GAO have reported that the Office of the Chief Procurement Officer needs more staff and authority to carry out its general oversight responsibilities. The GAO recommended that the department provide the Office of the Chief Procurement Officer sufficient resources and enforcement authority to enable effective, department-wide oversight of acquisition policies and procedures. The OIG made a similar recommendation.

Common Themes in Audits of Department Contracts

Over the past several years, the OIG and GAO conducted numerous audits of individual department contracts, such as TSA's information technology services, CBP's SBInet program, the Coast Guard's Deepwater program, and FEMA contracting. Common themes and risks emerged from these audits, primarily poor planning, the dominant influence of expediency, poorly defined requirements, and inadequate oversight that contributed to ineffective or inefficient results and increased costs. To ensure that its acquisition programs are successful, the department must lay the foundation to oversee and assess contractor performance, and control costs and schedules. This requires a sustained commitment, increased resources, and smarter processes to administer and oversee the contractors' work.

FEMA Procurements

The Assistant IG for Emergency Management Oversight, Matt Jadacki, testified on October 20, 2011 that FEMA has developed and strengthened acquisition management policies and processes, but it continues to face challenges. For example, weak internal controls have resulted in multi-million dollar contracts with vague and questionable requirements and no performance measures. Agency employees responsible for managing and monitoring the contractors do not always receive written guidance or training on how to evaluate contractor performance or certify billing invoices. Continued improvements are needed in FEMA's oversight of contracts.

During my tenure as the IG, my office issued several reports recommending improvements to FEMA's acquisition processes. Those recommendations have resulted in policies and procedures

on contract closeout, transferring contract files from one contracting officer to another, and labeling and organizing contract files so all contract actions are properly documented.

In fiscal year 2010, FEMA deployed Disaster Assistance Employees to accelerate contract closeout efforts for the Disaster Relief Fund, de-obligating \$1.2 billion. These contract closeout efforts continue annually and are in direct response to an OIG recommendation. I was pleased to learn that FEMA has created Disaster Acquisition Response Teams, whose focus on contract administration and oversight of large disaster contracts is much needed. My office also reported FEMA's need for an overarching sourcing strategy. Headquarters, regional, and local FEMA representatives were ordering goods without communicating with their counterparts at other locations. This resulted in goods ordered that were not needed, purchased from the wrong source, or at the wrong time. My former office recommended that FEMA adopt the single-point ordering concept, to coordinate all sourcing decisions through the Logistics Section. As a result of this recommendation, FEMA piloted the single-point ordering concept during its response to Hurricane Irene.

Strategic Sourcing

The department can improve management of its strategic sourcing. In March 2011, the OIG reported that the department did not have a logistics process in place to facilitate strategic sourcing of detection equipment. Strategic sourcing would require that management standardize equipment purchases for explosive, metal, and radiation detection equipment; identify common mission requirements among components; and develop standard data elements for managing the inventory accounts of detection equipment. Improving its management of detection equipment will offer the department opportunities to streamline the acquisition process and improve efficiencies.

Acquisition Workforce

DHS made progress in the recruitment and retention of a workforce capable of managing a complex acquisition program. At the time of my retirement on March 1, 2011 the number of procurement staff had more than doubled since 2005. In addition, participation in the Acquisition Professional Career Program, which seeks to develop acquisition leaders, increased 62 percent from 2008 to 2010. Nevertheless, DHS continues to face workforce challenges across the department. For example, according to GAO, the Coast Guard reduced its acquisition workforce vacancies from approximately 20 percent to 13 percent, and had filled 832 of its 951 acquisition positions as of November 2010. Although acquisition workforce vacancies have decreased, program managers have ongoing concerns about staffing program offices. Also, according to its August 2010 human-capital staffing study, program managers reported concerns with staffing adequacy in program management and technical areas. To make up for shortfalls in hiring systems engineers and other acquisition workforce positions for its major programs, the Coast Guard must use contractors.

Likewise, according to the OIG's Major Management Challenges report, dated November 2011, acquisition staff turnover in FEMA has exacerbated file maintenance problems and resulted in multimillion-dollar contracts not being managed effectively or consistently. One of FEMA's challenges is hiring experienced contracting officers to work disaster operations. The majority of FEMA staff at a disaster site work on an on-call, intermittent basis, and, oftentimes, they lack the training and experience to manage large disaster response and recovery contracts.

FEMA also has made great strides in improving its contracting officer's technical representative (COTR) cadre. FEMA has designated staff to oversee the COTR program; developed a tiered system which ties training requirements to dollar values of contracts a COTR can monitor; and established an intranet site containing tools for COTR use. However, many trained COTRs have never been assigned a contract and are unsure of their ability to be effective. And, although they represent the contracting officer, the COTRs' appraisals are completed by their supervisors in the program offices for which they work, rather than the applicable contracting officer, thus leading to divided loyalties.

Finally, the department has not fully planned for or acquired the workforce needed to implement its acquisition oversight policies. According to a GAO report issued in February 2011, the department needs to continue its efforts to (1) identify and acquire resources needed to achieve key actions and outcomes; (2) implement a program to independently monitor and validate corrective measures; and (3) show measurable, sustainable progress in implementing corrective actions and achieving key outcomes. The department needs to demonstrate sustained progress in all of these areas to strengthen and integrate the acquisition management functions throughout the department.

Knowledge Management and Information Systems

According to the OIG's annual Major Management Challenges report, the department has made progress in deploying an enterprise acquisition information system and tracking key acquisition data. The department's acquisition reporting system of record, known as nPRS (next-Generation Periodic Reporting System), tracks components' major acquisition investments. It also has capabilities to store key acquisition documents, earned value management information, and risk identification. Component personnel are responsible for entering and updating information, which includes cost, budget, performance, and schedule data. However, components did not complete and report all key information in nPRS. The OIG reported that only 7 of 17 programs (41%) reported Acquisition Program Baseline required milestones. These milestones establish the acquisition cost, schedule, and performance values. Only 13 (76%) programs reviewed contained required key documentation such as mission needs statements, acquisition plans, operational requirements documents, and integrated logistics support plans.

In addition, the department reported in its December 2011 strategy for high risk management that senior executives are not confident enough in the data to use the department's Decision Support Tool which was developed to help make acquisition decisions, address problems meeting cost or schedule goals, and prepare for program review meetings.

Although the department continues to make progress in improving its acquisition management, it remains a significant challenge, in part because of the magnitude of the number, dollar value, and complexity of its acquisition activity.

GRANTS MANAGEMENT

Disaster Grants Management

FEMA oversees billions of dollars in disaster grant funds each year, and, due to the environment under which these funds are administered, they are highly vulnerable to fraud, waste, and abuse. To illustrate, during FYs 2010 and 2011, the OIG's audits of 105 disaster grants identified \$365 million in questionable cost and funds that could be put to better use. The extent of the fraud, waste, and abuse that the OIG uncovers year after year in the disaster relief program, for the past twenty years, is unacceptable, and it needs to be vigorously addressed. Yet FEMA still has not developed a robust program to curtail fraud, waste, and abuse within its disaster relief programs.

Preparedness Grants Management

During fiscal years 2002 through 2011, FEMA distributed over \$18 billion through the Homeland Security Grant Program. According to an OIG report released this past July, FEMA does not have a system in place to determine the extent that Homeland Security Grant Program funds enhanced the states' capabilities to prevent, deter, respond to, and recover from terrorist attacks, major disasters, and other emergencies. Also, FEMA does not require states to report progress in achieving milestones as part of the annual application process. As a result, when annual application investment justifications for individual continuing projects are being reviewed, FEMA does not know whether prior year milestones for the projects have been completed. FEMA also does not know the amount of funding required to achieve needed preparedness and response capabilities.

Furthermore, according to the OIG's annual Major Management Challenges report, dated November 2011, FEMA continues to face challenges in mitigating redundancy and duplication among preparedness grant programs, including barriers at the legislative, departmental, and state levels. The preparedness grant application process is ineffective because FEMA does not compare and coordinate grant applications across preparedness programs. Since grant programs may have overlapping goals or activities, FEMA risks funding potentially duplicative or redundant projects.

Public Law 110-53, Implementing Recommendations of the 9/11 Commission Act of 2007, required the OIG to audit individual states' management of State Homeland Security Program and Urban Areas Security Initiatives grants and annually submit to Congress a report summarizing the results of these audits. In the audits completed to date, the OIG concluded that the states have generally done an efficient and effective job of administering the grant management program requirements, distributing grant funds, and ensuring that all the available funds were used.

However, on March 20, 2012, the Assistant Inspector General for Audits testified that FEMA needs to make improvements in strategic management, performance measurement, and oversight. According to Ms. Richards, FEMA needs to improve its guidance on strategic plans for State Homeland Security Grants. While current guidance for state Homeland Security strategic plans encourages revisions every two years, the language is such that it does not require revisions to be made—it is just strongly encouraged. Consequently, many states have outdated strategic plans, and many do not have Homeland Security strategic plans with goals and objectives that are specific, measurable, achievable, results-oriented, and time-limited. Without some form of measurable goal or objective, or a mechanism to objectively gather results-oriented data, states have no assurance of the level of effectiveness of their preparedness and response capabilities. Also, states are less capable of determining progress toward goals and objectives when making funding and management decisions. The OIG reported deficiencies in strategic planning in 15 of the 20 state audits completed as of March 2012.

In regard to performance measurement, Ms. Richards said that FEMA needs to improve its guidance on establishing metrics and measuring performance. The OIG continues to report that many states have not received proper guidance and, consequently, have not adequately documented or tracked their progress and performance. Providing guidance on the appropriate metrics and requiring those metrics to be documented would provide the states with tools to help them understand the effectiveness of each grant program. FEMA also needs to strengthen its guidance on reporting progress in achieving milestones as part of the states' annual program justifications. Because of insufficient information on milestones and program accomplishments, FEMA has been annually awarding Homeland Security Grant Program funds to states for ongoing programs without knowing the accomplishments from prior years' funding or the extent to which additional funds are needed to achieve desired capabilities. Tracking accomplishments and milestones are critical elements in making prudent management decisions because of the evolving, dynamic changes that can occur between years or during a grant's period of performance. OIG audits reported problems with performance measurement in 19 of 20 state audits completed as of March 2012.

Finally, Ms. Richards said that FEMA needs to improve its oversight to ensure the states are meeting their reporting obligations in a timely manner to ensure FEMA has the information it needs to make program decisions and oversee program achievements. Further, FEMA needs to improve its oversight to ensure that states are complying with federal regulations in regard to procurements and safeguarding of assets acquired with federal funds. In its annual audits of the State Homeland Security Program, the OIG repeatedly found weaknesses in the states' oversight of grant activities. Those weaknesses include inaccuracies and untimely submissions of financial status reports; untimely allocation and obligation of grant funds; and not following federal procurement, property, and inventory requirements. Delays in the submission of Financial Status Reports hampers FEMA's ability to effectively and efficiently monitor program expenditures and prevents the State from drawing down funds in a timely manner, ultimately affecting the effectiveness of the program.

Strategic planning, performance measurement, and oversight are important management controls for FEMA to ensure that federal funds are used for their intended purpose and that enhancements in preparedness capabilities are being achieved. Without a bona fide performance measurement system, it is impossible to determine whether annual investments are actually improving our Nation's homeland security posture. Furthermore, without clear, meaningful performance standards, FEMA lacks the tools necessary to make informed funding decisions. In today's economic climate, it is critical that FEMA concentrate its limited resources on those threats that pose the greatest risk to the country.

While some aspects of the department's management support challenges were inherited from the department's legacy agencies, the complexity and urgency of the department's mission has oftentimes exacerbated the department's ability to address them in a disciplined and effective manner.

It is evident that the department's senior officials are well aware of these challenges and are attempting to remedy them, and they have actually made some headway. The question is, however, does the department have the resolve and wherewithal to sustain those efforts. The ability of the department to do so is fragile, not only because of the early stage of development that the initiatives are in, but also because of the government's budget constraints and the current lack of resources to implement planned corrective actions. In today's environment of large government deficits and pending budget cuts, the new challenge will be to sustain the progress already made and at the same time continue to make the necessary improvements that are critical to the success of the department's management functions.

Unless the department and Congress stay focused on these challenges, it will be harder than ever to facilitate solutions to strengthen the department's management support functions and, ultimately, its homeland security mission.

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