CODE YELLOW: IS THE DHS ACQUISITION BUREAUCRACY A FORMULA FOR DISASTER?

HEARING

BEFORE THE

COMMITTEE ON
GOVERNMENT REFORM

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Chairman Tom Davis. Good morning. The committee will come to order.

No one thought that merging 22 disparate functions, personnel systems and cultures into the new Department of Homeland Security would be quick or easy. But we did expect that by now critical acquisition functions would be well integrated and well managed—an efficient engine driving the Department’s evolving mission. Instead, through aggressive oversight, we have uncovered clear evidence of huge cost overruns, chronically lax contract management and preventable vulnerability to waste, abuse and mismanagement.

In a very bipartisan effort here, the staff report provided to our committee today documented large-scale systematic flaws in the Department of Homeland Security’s acquisition management. A fractured purchasing system is hobbling the Department’s ability to meet core missions in border security, emergency management, information sharing and other key issues.

Now, in reaching these conclusions, we reviewed over 6,000 pages of documentation. Through a formal document request, the committee obtained copies of audits, reports and other assessments that cast doubts on contractor cost estimates, billings, accounting and estimating systems in contract performance. In five separate productions, DHS provided 196 unique oversight documents, 149 of

(1)
which were prepared by DCAA, the Defense Contract Audit Agency.

Throughout this effort, we worked with the ranking member and his staff, and I want to commend my good friend and colleague, Henry Waxman, for his persistence and constructive approach. This is a textbook example of bipartisan oversight that gets results.

This committee has been concerned about DHS acquisition challenges for quite some time, initiating a GAO study as early as December 2003. The subsequent report, released in April 2005, confirmed many of our initial fears about acquisition dysfunction at DHS. GAO found procurement responsibilities scattered throughout the Department, with no clear lines of authority, decision-making or accountability. The lack of trained and skilled acquisition professionals compounded DHS acquisition ills.

An alphabet soup of DHS elements: TSA, the Transportation Security Administration; CBP, the Customs and Border Protection Bureau; ICE, the Immigration and Customs Enforcement Bureau; FPS, the Federal Protective Service; FEMA, the Federal Emergency Management Association; and NDPO, the National Domestic Preparedness Office, and others, must be supported by an enormous array of goods and services provided under contracts valued at almost $10 billion a year. DHS buys everything from major information systems, cutting edge technologies and sophisticated technical support services to mundane commodities like bottled water and blue roof tarps.

These diverse and complex procurements are supported by a disjointed management structure that does not integrate the acquisition function across the Department under a single official with responsibility to manage and oversee the multi-million dollar enterprise.

That lack of overall accountability and control has spawned a sad succession of disastrous acquisitions. A $104 million TSA contract for training airport screeners tumbled out of control, eventually costing over $700 million. Poorly defined requirements resulted in airport bomb detection machines that continually produce false alarms. Billion dollar technology contracts have yet to deliver basic telecommunications infrastructure to many of our Nation’s airports. And as the Katrina Select Committee found, FEMA lacked the scalable contracting and logistics capacity needed in the wake of catastrophic loss.

Just last week, GAO concluded a weak control environment exposed the Department to rampant abuse in the use of purchase cards. For want of final purchase card, up to 45 percent of purchase cards transactions during last year’s hurricane relief efforts lacked proper authorization.

This morning, we are going to focus on several troubled DHS acquisitions as cautionary tales and guideposts for reforms. What lessons should be gleaned from troubled TSA contracts to assess and hire airport passengers screeners, screen luggage at commercial terminals and upgrade airport computer networks? What would have improved Customs and Border contracts for radiation detection equipment, for the Integrated Surveillance Intelligence Systems or the America’s Shield Initiative? We will ask what needs to be done to create a coherent organization within DHS that will fa-
cilitate successful management of the successful acquisition function.

DHS has been tasked with critical missions subject to hard deadlines. Addressing our myriad vulnerabilities requires the Department to acquire complex, high-risk state-of-the-art solutions likely to have problems even under an ideal management structure. But with so much at stake, and so little room for error, the size or the difficulty of the challenge can be no excuse for a failure to put an effective management structure in place.

[The prepared statement of Chairman Tom Davis follows:]
Opening Statement of Chairman Tom Davis  
Government Reform Committee Hearing 
“Code Yellow: Is the DHS Acquisition Bureaucracy a Formula for Disaster?”  
July 27, 2006, 10 a.m.

No one thought merging twenty-two disparate functions, personnel systems and cultures into the new Department of Homeland Security (DHS) would be quick or easy. But we did expect that by now critical acquisition functions would be well-integrated and well-managed – an efficient engine driving the Department’s evolving mission. Instead, through aggressive oversight, we have uncovered clear evidence of huge cost overruns, chronically lax contract management and preventable vulnerability to waste, abuse and mismanagement.

In a bipartisan staff report provided to Committee Members today, we document large-scale systemic flaws in DHS acquisition management. A fractured purchasing system is hobbling the Department’s ability to meet core missions in border security, emergency management, information sharing and other key areas. In reaching these conclusions, we reviewed over six thousand pages of documentation. Through a formal document request, the Committee obtained copies of audits, reports, and other assessments that cast doubts on contractor cost estimates, billings, accounting and estimating systems, and contract performance. In five separate productions, DHS provided 196 unique oversight documents – 149 of which were prepared by the Defense Contract Audit Agency (DCAA).

Throughout this effort, we worked with the Ranking Member and his staff, and I want to commend my good friend and colleague Mr. Waxman for his persistence and constructive approach. This is a textbook example of bipartisan oversight that gets results.

This Committee has been concerned about DHS acquisition challenges for quite some time, initiating a GAO study as early as December 2003. The subsequent report, released in April 2005, confirmed many of our initial fears about acquisition dysfunction at DHS. GAO found procurement responsibilities scattered throughout the Department, with no clear lines of authority, decision-making or accountability. The lack of trained and skilled acquisition professionals compounded DHS acquisition ills.

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- TSA (the Transportation Security Administration),
- CBP (the Customs and Border Protection Bureau),
- ICE (the Immigration and Customs Enforcement Bureau),
- FPS (the Federal Protective Service),
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- NDPO (the National Domestic Preparedness Office),
and others - must be supported by an enormous array of goods and services provided under contracts valued at almost $10 billion per year. DHS buys everything from major information systems, cutting edge technologies, and sophisticated technical support services, to mundane commodities like bottled water and blue roof tarps.

These diverse and complex procurements are supported by a disjointed management structure that does not integrate the acquisition function across the Department under a single official with the responsibility to manage and oversee that multi-billion dollar enterprise.

That lack of overall accountability and control has spawned a sad succession of disastrous acquisitions. A $104 million TSA contract for training airport screeners tumbled out of control, eventually costing more than $700 million. Poorly defined requirements resulted in airport bomb-detection machines that continually produce false alarms. Billion dollar technology contracts have yet to deliver basic telecommunications infrastructure to many of our nation’s airports. And, as the Katrina Select Committee found, FEMA lacked the scalable contracting and logistics capacity needed in the wake of catastrophic loss. Just last week, GAO concluded a weak control environment exposed the Department to rampant abuse in the use of purchase cards. For want of a final purchase card manual, up to forty-five percent of purchase card transactions during last year’s hurricane relief efforts lacked proper authorization.

This morning we will focus on several troubled DHS acquisitions as cautionary tales and guideposts for reforms. What lessons should be gleaned from troubled TSA contracts to assess and hire airport passenger screeners, screen luggage at commercial terminals, and upgrade airport computer networks? What would have improved Customs & Border Patrol contracts for radiation detection equipment, for the Integrated Surveillance Intelligence System (ISIS), or the America’s Shield Initiative? We will ask what needs to be done to create a coherent organization within DHS that will facilitate successful management of the essential acquisition function.

DHS has been tasked with critical missions subject to hard deadlines. Addressing our myriad vulnerabilities requires the Department to acquire complex, high-risk, state-of-the-art solutions likely to have problems even under an ideal management structure. With so much at stake, and so little room for error, the size or difficulty of the challenge can be no excuse for a failure to put an effective management structure in place.
Chairman Tom Davis. At this time, I would ask unanimous consent to submit into the record a bipartisan staff report entitled Waste, Abuse and Mismanagement in Department of Homeland Security Contracts, and a summary of the DCAA audits prepared by staff.

Without objection, so ordered.

[The information referred follows:]
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM
JULY 2006

WASTE, ABUSE, AND MISMANAGEMENT IN
DEPARTMENT OF HOMELAND SECURITY CONTRACTS

PREPARED FOR REPS. TOM DAVIS AND HENRY A. WAXMAN
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EXECUTIVE SUMMARY

At the request of Reps. Tom Davis and Henry A. Waxman, this report examines procurement spending at the Department of Homeland Security. The report identifies 32 DHS contracts, collectively worth $34.3 billion, that have experienced significant overcharges, wasteful spending, or mismanagement.

Key findings in the report include the following:

- **Contract Spending is Growing Rapidly.** Procurement spending at DHS has surged 189% since the creation of the new Department, rising from $3.5 billion in 2003 to $10 billion in 2005. During this period, procurement spending at DHS has grown 11 times faster than the remainder of the discretionary federal budget.

- **Noncompetitive Contracts Have Soared.** Sole-source and limited-competition contracts have grown even faster than overall DHS procurement spending. In 2003, DHS awarded $655 million in contracts without full and open competition. By 2005, this figure had ballooned to $5.5 billion, an increase of 739%. In 2005, over 50% of the dollar value of DHS contracts was awarded without full and open competition.

- **Contract Mismanagement Is Widespread.** The growth in DHS contracts has been accompanied by pervasive mismanagement. DHS has repeatedly failed to engage in responsible contract planning, including the determination of government needs and program requirements. Compounding this problem, the Department lacks both adequate trained contract officials to oversee its burgeoning spending on contracts and a coherent organization for acquisition management across the Department.

- **The Costs to the Taxpayer Are Enormous.** This report identifies 32 DHS contracts collectively worth $34.3 billion that have been plagued by waste, abuse, or mismanagement. In the case of each of these 32 contracts, reports from GAO, Pentagon auditors, agency inspectors general, or other government investigators have linked the contracts to major problems in administration or performance.
I. PURPOSE AND METHODOLOGY

At the request of Reps. Tom Davis and Henry A. Waxman, the Chairman and Ranking Member of the Government Reform Committee, this report examines contracting at the Department of Homeland Security. The report is based in large part on a review of over 350 reports from government auditors and investigators, many of which have not been publicly released. The audit reports reviewed by Committee staff include:

- 149 reports prepared by the Defense Contract Audit Agency, the agency responsible for performing contract audits for the Department of Defense and other government agencies;
- 112 reports prepared by the Government Accountability Office, the independent, nonpartisan auditors and investigators working for Congress; and
- 71 reports prepared by several agency inspectors general, who are charged by law with oversight of agency management and administration.

This report also reflects interviews with outside experts, as well as investigations into contract abuses conducted by Committee staff and investigative reporters.

The report relies on the Eagle Eye Federal Prime Contracts (FPC) Database, a federal procurement database application published by Eagle Eye, Inc., for data on trends in DHS contract spending. The FPC database contains data from 1999 to 2005 that is compiled from the Federal Procurement Data System (FPDS), the federal contract tracking system established by the General Services Administration.\(^1\) GAO has identified problems with the completeness and accuracy of the FPDS, but according to GAO, the FPDS is "currently the only system providing information on over $300 billion in annual government spending" and is the best available data set for assessing "the impact that governmentwide acquisition policies and processes are having with respect to specific geographic areas, markets, and socio-economic goals."\(^2\)

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\(^{1}\) Unless noted otherwise, data is given for the fiscal year, not the calendar year.


II. DHS CONTRACTING TRENDS

A. Growth in Contract Spending

The Department of Homeland Security was established in 2003 by combining 22 different federal agencies and agency components into one new Department. In the three years since the Department’s creation, procurement spending has surged. Spending on federal contracts at DHS increased from $3.5 billion in 2003 to $10 billion in 2005, an increase of $6.5 billion.3 The total number of contracts entered into by DHS during this period grew from 14,000 in 2003 to 63,000 in 2005.

In percentage terms, DHS procurement spending increased by 189% between 2003 and 2005. In comparison, inflation increased by just 6% during this period.4 The increase in DHS procurement spending also grew 11 times faster than the growth of the rest of the government. Between 2003 and 2005, other federal discretionary spending rose by 17%.5

B. Growth in Noncompetitive Contracts

Competition in federal contracting protects the interests of taxpayers by ensuring that the government gets the best value for the goods and services it buys. Competition also discourages favoritism by leveling the playing field for competitors while curtailing opportunities for fraud and abuse.

Federal law recognizes that there are occasions when full and open competition is not feasible. Under the Competition in Contracting Act, agencies can award sole-source contracts in cases in which only one source can provide the needed goods or services. Agencies can also limit competition when emergency circumstances require immediate contract awards.6 But these and the other permissible exceptions are intended to be limited. The Federal Acquisition Regulation provides that “contracting officers shall promote and provide for full and open competition in

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4 Unless otherwise noted, data in this report comes from the Eagle Eye Federal Prime Contracts (FFC) Database, a federal procurement database application published by Eagle Eye, Inc.
soliciting offers and awarding Government contracts.\textsuperscript{79} Contracting officers using one of the exceptions must submit a written justification and, for procurements over $500,000, gain the approval of a more senior official.\textsuperscript{31}

Despite the advantages to the taxpayer of full and open competition, contracts awarded without full and open competition have grown rapidly at the Department of Homeland Security. In 2003, DHS spent $655 million on these contracts.\textsuperscript{63} By 2005, spending on contracts awarded without full and open competition had grown by $4.8 billion to $5.5 billion, an increase of 73%. By comparison, overall federal spending on contracts awarded without full and open competition increased 36% during the same time period.

This growth in sole-source and limited-competition contract spending significantly outstripped the growth in overall procurement spending at DHS, causing noncompetitive contract dollars to represent a rising share of contract dollars. In 2003, 19% of DHS contract dollars ($655 million) was awarded without full and open competition. In 2005, 55% ($5.5 billion) was awarded without full and open competition. See Figure 1.

\textbf{FIGURE 1: Percentage of DHS Noncompetitive Contract Spending Has Increased}

![Graph showing percentage of DHS noncompetitive contract spending over 2003 to 2005.]

Of the $5.5 billion in contracts awarded by DHS without full and open competition in 2005, $2.1 billion was awarded as sole-source contracts, without any competition. The remaining $3.4

\textsuperscript{79} 48 C.F.R. § 6.101. Unlike the rest of DHS, the Transportation Security Administration (TSA) is exempt from the requirements of the f.a.r. (P.L. 101-511 § 103).

\textsuperscript{63} 48 C.F.R. § 6.302-6.304.

\textsuperscript{31} For the purposes of this report, a "noncompetitive" contract is defined as a contract awarded without full and open competition.
billion was awarded under conditions of limited competition, under which only a small number of contractors were permitted to submit proposals.

III. CONTRACT MISMANAGEMENT

The surge in contract spending at DHS has not been accompanied by responsible, competent contract management. To the contrary, government reports and audits have documented failures in many aspects of the Department’s contract management.

A. Poor Contract Planning

Responsible procurement spending should begin with sound planning. But this has rarely occurred at DHS. The DHS Inspector General recently reported that DHS procurements have suffered because contract technical and performance requirements were not adequately defined. The Inspector General warned that “[b]y approving programs without adequately defined technical requirements, DHS risks likely adverse cost and schedule consequences.”

The former Chief Procurement Officer of the Department of Homeland Security made similar comments when he met with Committee staff in September 2005. He was asked to explain a series of wasteful homeland security contracts, including the Transportation Security Administration contract to hire passenger screeners at airports. He said that in many cases, the primary problem lay in poor contract planning. Because Department officials did not properly define what they wanted to purchase, enormous sums were misspent on technologies and services that never achieved their objectives.

Rather than learn from these mistakes, DHS officials are poised to repeat them. In March 2006, DHS issued a Request for Proposal (RFP) for SBInet, a new $2 billion federal contract to design, build, test, and operate a massive border security system as part of the Secure Border Initiative. According to the RFP, the system’s main substantive requirements are to be “highly reliable, available, maintainable, and cost effective solution(s) to manage, control, and secure the border using the optimal mix of proven current and next generation technology, infrastructure, personnel, response capabilities and processes.”

In its RFP for SBInet, DHS makes exactly the same mistakes that expert auditors have cautioned against: the agency is launching a multi-billion dollar procurement program with only a vague


\[\text{Briefing by Gregory D. Rothwell, Chief Procurement Officer, Department of Homeland Security, to House Government Reform Committee Staff (Sept. 19, 2005).}\]

\[\text{SBN Request for Proposal.}\]
idea of its requirements. As DHS Deputy Secretary Michael Jackson told potential competitors for SBInet in January 2006: "We're asking you to come back and tell us how to do our business. ... This is an invitation to be a little bit, a little bit aggressive and thinking as if you owned and you were partners with the CBP."13

The DHS Inspector General recently warned that the SBInet contract is a high-risk acquisition strategy. In July 2006, Chief Inspector Carlton Mann identified "loose contract requirements" and "unstable operational requirements" as two of the "tremendous challenges and risks" facing the implementation of SBInet. Mr. Mann added that the RFP's "broadly defined Statement of Objectives approach coupled with undefined requirements leaves programs vulnerable to failure and cost overruns."14

In an interview with Committee staff, former DHS Inspector General Clark Kent Ervin was astonished by the approach DHS is taking to SBInet and said:

Einstein said insanity is doing the same thing over and over again and expecting a different result. They never learn anything. It's just crazy. It's turning logic on its head. No wonder costs are out of control.15

B. Inadequate Contract Oversight

Another persistent problem at DHS is the lack of a sufficient number of contract officials to oversee the surging spending on federal contracts, as well as the lack of a coherent organization for acquisition management across the Department. While spending on contracts has grown by 189% since 2003, the size of the acquisition workforce at DHS has increased by less than 20%, from 911 contracting officials at DHS in 2003 to 1,068 in 2005.16 As a result, the average value of the contracts overseen by each official more than doubled during this time period.

In 2004, when the Office of Procurement Operations at the Department of Homeland Security handled approximately $2 billion in federal contracts, each procurement officer in the office was

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15 Telephone interview between former DHS Inspector General Clark Kent Ervin and House Government Reform Committee Minority Staff (May 22, 2004).
16 Office of Personnel Management, Control Personnel Data File: Status File (Sept. 2005). There is no clear definition for the acquisition workforce that is recognized by all agencies. This report defines the acquisition workforce as the following occupations: General Business: Contracting Specialists; Purchasing Officer; Procurement Clerical Support; and Industrial Specialists.

WASTE, ABUSE, AND MISMANAGEMENT IN DHS CONTRACTS
responsible for overseeing over $100 million in federal procurement spending. In an interview with staff, Clark Kent Ervin, the former Inspector General at DHS, said that taxpayers were "taken to the cleaners" because of the lack of sufficient experienced acquisition personnel. Today, the office still remains understaffed, with only 58% of the contracting officers it is authorized to have.

The lack of sufficient personnel has been aggravated by a lack of adequate training for many of the existing contract officials. The DHS Inspector General reported that the Department suffers from an acute lack of qualified program managers. The IG found that only half of the Department’s program managers are certified as having received the training in contract management required for their level of responsibility. In many of the Department’s constituent agencies, the lack of training is even more pronounced. The IG reported that only 3 out of 23 program managers at the Customs and Border Patrol are certified, as are only 6 out of 37 program managers in the Office of Procurement Operations. According to the Inspector General, "the need for effective department-wide standards for program management processes should not be underestimated."

The DHS IG also found that DHS contracting officers do not receive sufficient training in ethics. The IG raised concerns that the “close relationship” between procurement officials and the private sector rendered insufficient even the “minimal” ethical training received by DHS employees, and he recommended that program and procurement officials receive “expanded training and guidance on their procurement ethics responsibilities.”

These deficiencies are magnified by the fact that DHS lacks a unified contract management structure. Despite a 2004 management directive delegating the management, administration, and oversight of acquisition across the Department to the Chief Procurement Officer, DHS still has no single official with responsibility for these functions. Instead, according to GAO, these responsibilities are spread throughout the Department’s disparate organizations, without centralized oversight or accountability. GAO also found that the various acquisition organizations within DHS lack guidance on department-wide policies and procedures.

The consequences of the lack of trained contract officials and the lack of a coherent management structure that integrates the acquisition function across DHS under a single responsible official

20 Telephone interview between former DHS Inspector General Clark Kent Ervin and House Government Reform Committee Minority Staff (May 22, 2006).
23 Id.
became particularly apparent during the response to Hurricane Katrina. At the time the hurricane hit, the Federal Emergency Management Agency had only 36 acquisition officials, far short of the minimum of 172 procurement officials that experts have recommended for the agency.20 According to GAO, FEMA lacked sufficient personnel to perform adequate oversight on the contracts reviewed.21 This lack of oversight put the agencies “at risk of being unable to identify and correct poor contractor performance ... [and] paying contractors more than the value of the services performed.”22 The DHS Inspector General agreed, saying, “inadequate contracting staff and a shortage of Contracting Officer Technical Representatives (COTRs) hampered FEMA’s ability to effectively monitor Katrina response contracts.”23

C. Credit Card Abuse

In 1994, Congress passed legislation providing the basic authority for federal employees to use credit cards to buy small amounts of goods or services directly from vendors.24 These charge card programs are designed to provide an easy, efficient means for government agencies to make small, routine purchases while avoiding the requirements of the contracting regulations.25

While the use of purchase cards can increase flexibility and streamline acquisition procedures, careful supervision to prevent abuse has been lacking at the Department of Homeland Security. A series of audits and investigations has found that the DHS’s failure to properly manage and oversee the use of the cards has resulted in the waste of millions of dollars.26

GAO has documented numerous instances of waste, abuse, and mismanagement with purchase cards. Examples include the unnecessary purchase of 2,000 sets of canine booties at a cost of more than $68,000, the expenditure of $7,000 for Apple iPods, tens of thousands of dollars for training at golf and tennis resorts, and the purchase of beer, brewing equipment and ingredients for Coast Guard Academy parties. According to GAO, “fundamental breakdowns” in controls over purchase card transactions left DHS vulnerable to waste, fraud, and abuse. GAO also found

20 Select Bipartisan Committee to Investigate the Preparation for and Response to Hurricane Katrina, A Failure of Initiative: The Final Report of the Select Bipartisan Committee to Investigate the Preparation for and Response to Hurricane Katrina (Feb. 15, 2006).
22 Id.
23 Senate Committee on Homeland Security and Governmental Affairs, Testimony of Matt Joreski, Special Inspector General Gulf Coast Hurricane Recovery, Hearings on Katrina and Contracting (Apr. 10, 2006).
26 U.S. General Accounting Office, Purchase Cards: Control Weaknesses Leave DHS Highly Vulnerable to Fraudulent, Improper, and Abusive Activity (July 19, 2004).
that DHS lacks adequate staffing, sufficient training, and effective monitoring of its purchase card program.\textsuperscript{20}

**IV. WASTEFUL DHS CONTRACTS**

Contract mismanagement at DHS has a steep cost for the taxpayer. Waste, abuse, and mismanagement have squandered hundreds of millions, if not billions, of dollars. The discussion below provides a summary of 32 wasteful contract programs at DHS and its predecessor agencies. An appendix to the report identifies 32 contracts that have been examined by government auditors and investigators and found to contain significant waste or abuse or to have been poorly managed. The total value of the costs incurred or projected to be incurred under the 32 problem contracts is $34.3 billion.

**A. The Contracts for Private Airport Screeners**

In February 2002, the Transportation Security Administration (TSA) awarded several contracts to private security firms for passenger and baggage screening at airports throughout the country. These contracts were to remain in place until late 2002, when TSA employees would begin conducting the screening themselves. The contracts ultimately were worth over $788 million.

Federal auditors examining these passenger screening contracts identified substantial questioned and unsupported costs. DCAA audited 17 contracts and challenged significant costs under 11 of those contracts. The total amount of questioned and unsupported costs under the 11 contracts was $127.4 million, or 21% of the total amount billed to TSA.

The auditors detected a variety of problems under these contracts, including overstated labor and overhead costs. When DCAA reviewed a contract with U.S. Airways, DCAA challenged $5.6 million out of $7.1 million in claimed costs, 79% of the total.\textsuperscript{21} The auditors found that a major U.S. Airways subcontractor, Argembright, "already had contracted with U.S. Airways to perform screening services at specified labor rates, [but] charged rates significantly higher on invoices submitted" under the TSA contract.\textsuperscript{22} When DCAA "request[ed] renegotiated screening contracts from U.S. Airways to reflect the higher labor rates, [they] were told that none existed."\textsuperscript{23}

\textsuperscript{20} U.S. Government Accountability Office, Purchase Cards: Control Weaknesses Leave DHS Highly Vulnerable to Fraudulent, Improper, and Abusive Activity (July 19, 2006).


\textsuperscript{22} Id.

\textsuperscript{23} Id.
Similarly, DCAA questioned $331,000 out of $536,000 in costs claimed by Sky Aviation Services under its contract. In addition to challenging 62% of the Sky Aviation’s costs, DCAA found the contractor’s accounting system to be "inadequate."\(^a\)

### B. The Contract to Hire Airport Screeners

In February 2002, TSA also awarded a $104 million contract to NCS Pearson, Inc., to test and hire airport passenger and baggage screeners. In less than one year, the contract ballooned to $741 million.\(^b\) According to press accounts, despite this expenditure, the rate at which screeners fail to detect weapons has remained unchanged for over four years.\(^c\)

Federal auditors examining the Pearson contract have reported multiple problems. According to the DHS Inspector General, TSA’s failure to develop a project management plan, an acquisition plan, or an acquisition baseline meant that the agency began the contract without having finalized the number of screeners, the schedule, or the budget.\(^d\)

An audit by the Defense Contract Audit Agency questioned at least $297 million of the $884 million in costs identified by Pearson under the contract.\(^e\) The DCAA audit called into question spending by Pearson on luxury hotels, long distance phone calls, and noncompetitive subcontracts. Among the disputed charges were $526.95 for one phone call from the Hyatt Regency O’Hare in Chicago to Iowa City and $8,100 for elevator operators at the Marriott Marquis in Manhattan.\(^f\) One of the subcontracts challenged by DCAA paid the chief executive of an "event logistics" company — newly formed by two former travel agency employees — over $5 million for just nine months of work.\(^g\)

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A Pearson employee who supervised Pearson's hiring efforts at 43 sites in the United States admitted in a media interview: "There was abuse of the taxpayers' trust. We didn't get the bang for our buck." 44

In December 2004, TSA agreed to pay Pearson $741 million, withholding only $143 of the $297 million in costs challenged by DCAA. 45

C. The Contract to Screen Airport Luggage

In June 2002, TSA awarded a large cost-plus contract to Boeing for the installation and maintenance of luggage screening equipment at commercial airports. The contract was structured to allow Boeing to function as project manager while subcontracting over 90% of the work, mostly to two companies that made the baggage screening machines. TSA estimated the contract value to be $508 million for an initial period of seven months. But the costs ballooned to at least $1.2 billion and the performance period was extended by an additional 18 months. 46

According to press accounts, the baggage screening equipment installed under the contract has suffered from high false alarm rates. After passengers and airline managers complained of delays due to the false alarms, the machines were calibrated to be less sensitive. Although this has lowered the rate of false alarms, the decreased sensitivity has also made the machines far less effective at detecting bombs. 47

GAO testified that the screening machines also suffer from a variety of other operational "inefficiencies," including the fact that baggage must be moved manually from the conveyor belt to the machine and back again. 48 According to GAO, TSA will have to spend an additional $3 billion to $5 billion to upgrade to more efficient in-line machines that rely on the latest technology. 49

Boeing's award fee evaluations also identified significant performance problems. In a January 2004, award fee memorandum, TSA discussed several Boeing "weaknesses." 50 TSA stated that "some costs were higher than initially estimated" and noted "a slower than expected start by

44 The High Cost of a Rush to Security, Washington Post (June 30, 2005).
51 Transportation Security Administration, Memorandum: Period 1 Award Fee Determination [Jan. 13, 2004].
Boeing and some significant last-minute inefficiencies due to subcontractor work." TSA also stated that "Boeing’s schedule reporting was often late, inaccurate, and subject to frequent change" and criticized Boeing for "late and inconsistent reporting of program status and progress information." Despite these problems, Boeing received a rating of "good" for its first two award fee periods and award fees totaling $54.6 million.90

The DHS Inspector General has been critical of the contract too. The IG found that TSA did not follow sound contracting practices in the award and management of the contract with Boeing. Until December 2003, according to the IG, TSA paid all of Boeing’s costs and based Boeing’s profit on a percentage of total costs, creating a prohibited "cost-plus-a-percentage-of-cost" contract.91

In addition, the IG found that TSA paid Boeing $44 million in award fees without evaluating Boeing’s performance, removing any incentive to improve performance that the award fee might have provided. The IG also reported that TSA paid Boeing a disproportionate amount of profit compared to Boeing’s costs and risks. Under the contract, Boeing subcontracted 29% of the work but earned profits on all contract-related costs, including the subcontractors’ costs. In 2003, for example, Boeing itself incurred only $39 million in direct costs, but the company received $82 million in profit based on costs incurred by the subcontractors. The IG found at least $49 million of Boeing’s profit to be "excessive."92

D. The Contract to Upgrade Airport Computer Networks

In August 2002, TSA entered into a $1 billion contract with Unisys Corp. to upgrade airport computer networks. This contract, however, has been marred by significant cost problems.93

According to published accounts, the Defense Contract Audit Agency found that Unisys "overbilled taxpayers for as much as 171,000 hours worth of labor ... by charging up to $131 an hour for employees who were paid less than half that amount." DCAA also found that Unisys had billed for 24,943 hours of overtime that may not have been appropriate under the contract.94

90 Id.; Transportation Security Administration, Memorandum: Period 2 Award Fee Determination (July 20, 2004).
91 In a "cost-plus-a-percentage-of-cost" contract, the contractor receives its profit as a percentage of the contractor’s actual costs. This type of contract is prohibited under federal law. See 10 U.S.C. § 2306.41
92 U.S.C. § 2345(b). The offer from a cost-plus-award-fee contract, in which the contractor's fee may include both a base fee, fixed at the inception of the contract (often as a percentage of the estimated costs), plus an additional fee based on the contractor’s compliance with criteria set forth in the contract. See FAR § 16.3.14.6.
In a report released in February 2006, the DHS Inspector General reported that by September 2005, less than halfway through the contract period, TSA had already spent $614 million on the Unisys contract, over 90% of the contract ceiling. An additional $106 million had been spent by other DHS agencies on the project.53

An additional problem involving the Unisys contract is that it appears that DHS officials misled Congress about the true costs of the contract. According to the IG, contract officials at TSA estimated that the contract costs would reach $3 billion to $5 billion, but decided to set an artificial ceiling of $1 billion.54 According to press accounts, the former chief information officer at TSA said that he was instructed by senior administration officials to cite the $1 billion cost figure to congressional officials, which was “a number out of the air” that “would be more palatable.”55

E. The Contract for Radiation Detectors

In 2003, the Department of Homeland Security awarded an indefinite-delivery/indefinite-quantity contract to Science Applications International Corporation (SAIC) to manufacture radiation detection machines for the nation’s borders and ports. As of December 2005, the Office of Customs and Border Protection had bought 670 of the machines, called radiation portal monitors, at a cost of about $236 million, approximately $427,000 each.56

According to press accounts, the radiation portal monitors supplied by SAIC are so highly sensitive to radiation that they cannot distinguish between weapons-grade nuclear material and items that naturally emit radioactivity, including cat litter, granite, porcelain toilets, and bananas. As a result, the machines set off so many false alarms that customs officials were compelled to decrease the machines’ sensitivity levels.57

The Department of Homeland Security has conceded that the main problem with the radiation portals is their inability to discriminate among nuclear materials. According to Vayl Oxford, the acting director of the Domestic Nuclear Detection Office at the Department of Homeland Security: “today’s equipment lacks a refined capability to rapidly determine the type of radioactive materials it detects.” Moreover, Mr. Oxford testified that increasing the sensitivity

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53 Id.
54 Id.
level would not guarantee that the machines will recognize all potentially harmful materials because high-density shields made from lead or steel successfully block the machine’s ability to detect uranium.47

DHS’s failure to manage the detection system has further limited the machines’ effectiveness. According to GAO, DHS allowed trucks to pass through the monitors in 2005 at speeds too high for accurate screening.48 Moreover, the majority of cargo entering the United States is not screened at all. According to press reports, on an average day at the combined ports of New York and Newark, only 6% to 7% of the shipments are run through the radiation portals.49

According to press accounts, DHS recently awarded contracts valued at $1.2 billion to Canberra Industries, Raytheon, and Thermo Electron to buy and install new radiation screening monitors at a cost of approximately $500,000 each.50 According to GAO, the new machines, called Advanced Spectroscopic Portals, have yielded mixed results in early tests. Although the new monitors were able to identify and dismiss most naturally occurring radioactive material, they were no better than the current monitors at detecting smaller amounts of radiation.51

F. The Contract for Border Surveillance

The Office of Border Patrol has deployed thousands of cameras and sensors to monitor activity on the Mexican and Canadian borders through a program known as the Integrated Surveillance and Intelligence System (ISIS). The ISIS contract was awarded in 1997, but much of the spending under the contract has occurred over the last five years, with over $429 million having been spent to date.52 A typical surveillance site under the ISIS contract consists of a 60-foot pole mounted with seven to ten cameras and costs over $300,000.53 The contract was initially awarded to International Microwave Corporation, but is now held by L-3 Communications, which acquired IMC in 2003.

50 U.S. to Spend $1.2 Billion on Detecting Radiation, New York Times (July 15, 2006).
In December 2003, the GSA Inspector General reported substantial problems with the ISIS contract. The auditors found cameras and other pieces of equipment that did not work and surveillance sites where no equipment had been delivered and no work performed. According to press accounts, the auditors also reported substantial cost overruns, including $13 million in potential overcharges by L-3 Communications. According to press accounts, in one case, the Office of Border Patrol paid $20 million for malfunctioning camera systems at eight border patrol zones and for poles, cameras, and gear that were never installed. The GSA IG reportedly concluded that lack of oversight “placed taxpayers’ dollars and national security at risk.”

A recent audit by the DHS Inspector General reported that the ISIS system is largely ineffective. Because the remote video surveillance cameras do not have the ability to detect movement automatically, illegal activity goes unnoticed unless border patrol personnel are monitoring the cameras at the time. The cameras are also vulnerable to power outages and many sites do not have back-up power sources. The cameras malfunction when exposed to snow, ice, humidity, and extreme temperatures. Moreover, the remote video surveillance system can cover only 5% of the border. As a result, the IG concluded that the surveillance system has hobbled field operations.

The Office of Border Patrol has acknowledged that the existing system is inadequate. On January 5, 2006, DHS announced its plan to address these deficiencies with new “highly mobile detection systems.” The Office of Border Patrol reportedly described the ISIS system as “too long a state of the market” and several steps behind the current state of technology. As a result, the agency is “significantly challenged by the ever-changing threat environment.”

G. The Contract for US-VISIT

In June 2004, the Department of Homeland Security awarded a ten-year, $10 billion contract to Accenture to implement US-VISIT, a program designed to collect and store personal, travel, and biometric information (fingerprints and photographs) from foreign nationals entering the United States. Although DHS promised to create a “virtual border,” auditors and inspectors general have found serious and ongoing problems with the program.

51 Id.
52 Id.
According to GAO, US-VISIT lacks the “capability to track the entry and exit of persons entering the United States at air, land, and sea ports of entry.” GAO concluded that “the program continues to invest hundreds of millions of dollars for a mission-critical capability under circumstances that introduce considerable risk that cost-effective mission outcomes will not be realized.”

One cause of these repeated problems is US-VISIT’s reliance on out-of-date and ineffective technologies. For example, US-VISIT uses a fingerprint identification system that is not fully integrated with the system used by the FBI. As a result, according to GAO, US-VISIT lacks full access to the FBI’s master criminal database. Moreover, because US-VISIT’s database of travel and biometric information is not linked to other law enforcement systems, border officials must search multiple systems to determine a foreign national’s identity and eligibility for entry. DHS has announced its intention to address this lack of interoperability and integration in the coming months.

A recent review of US-VISIT by the DHS IG found both technological and management issues that could compromise the program’s security and integrity. The IG reported that the system’s security has multiple weaknesses that leave it vulnerable to unauthorized access. The IG also found that the lack of communication and coordination between and among the US-VISIT program and other DHS branches has weakened information security and security management.

Even when US-VISIT functions correctly, it may not prove to be an efficient or effective tool for securing the nation’s borders. According to GAO, the Department of Homeland Security has yet to demonstrate that US-VISIT is the “right solution” for immigration and border management.

GAO also found that DHS still has not approved a strategic plan for how US-VISIT will operate with other border and homeland security initiatives, nor performed cost-benefit analyses that justify the Department’s expenditures on the US-VISIT program.

H. The Contract for the Transportation Security Operations Center

From February to April 2003, TSA entered into contracts to lease and renovate an empty facility to house its crisis management operations unit. The renovation was completed in July 2003, but an audit by the DHS Inspector General found that TSA’s management and oversight of the building’s renovation resulted in waste and abuse.41

The IG found that TSA spent over $19 million to equip the facility lavishly. The building itself has 55 offices, 150 workstations, 12 conference rooms, 7 kitchens, and a fitness center, yet only 80 employees and 60 contract employees are expected to use the space. The project manager and facility operations officer paid $500,000 to a tool company for artwork and decorative items, including $29,032 for an art consultant and her assistant and $30,085 for silk plants. Moreover, an unnecessary decision to accelerate the construction deadline cost TSA between $400,000 and $600,000, not including approximately $575,000 in unjustified “approved construction change orders.”42

In addition, two TSA employees spent over $136,000 on purchase cards for personal convenience items such as leather briefcases without proper authorization. The employees also used the purchase cards to acquire tables, chairs, loveseats, and armoires for the office, despite TSA’s express prohibition against the purchase of furniture with purchase cards.43

I. The Contracts for Manufactured Homes and Trailers

In the aftermath of Hurricane Katrina, FEMA purchased 24,967 manufactured homes and 1,755 modular homes at a cost of $91.5 million to provide housing and temporary office space for hurricane victims and relief workers.44 But according to the DHS Inspector General, as of January 2006, only 4,600 manufactured homes and 100 modular homes had been used for housing or office space. Not one of the homes had been sent to the most ravaged parts of Louisiana and Mississippi because FEMA’s own regulations prohibit the use of the homes in flood plains. More than 2,360 of the manufactured homes cannot be used by FEMA at all.

42. Id.
43. Id.
because they exceed FEMA’s size specifications. Nearly 11,000 homes worth over $301 million are sitting on the runways at one Arkansas airport.65

Similar mismanagement characterized the contracts to buy travel trailers. After Hurricane Katrina, FEMA spent $1.7 billion to purchase 114,000 travel trailers.66 FEMA bought at least 27,000 of those trailers “off the lot,” without negotiating either price or specifications.67 Yet over 23,700 of these travel trailers sit unused. Moreover, because FEMA has not maintained the trailers, they are losing their value as housing for or eventual resale.68

In December, FEMA’s Federal Coordinating Officer in Louisiana for Hurricanes Katrina and Rita testified before the Senate that the entire concept of purchasing trailers for temporary housing was flawed. According to the official, Scott Wells, the cost to house a family for 18 months (the limit for FEMA-financed temporary housing) can reach $90,000 to $100,000 for housing in a mobile home or $30,000 to $40,000 for housing in a travel trailer. Mr. Wells testified that if FEMA had simply given the families $26,000 in cash for housing, which is the maximum entitlement for hurricane victims, this would “allow them to quickly get on with rebuilding their lives and afford them a permanent housing solution” while saving the taxpayer hundreds of thousands of dollars.69

J. The Contract with Carnival Cruise Lines

In September 2005, the Military Sealift Command, acting on behalf of FEMA, awarded Carnival Cruise Lines three contracts worth a combined $236 million to provide temporary housing to Hurricane Katrina evacuees. These contracts proved wasteful for the federal taxpayer, costing more than $50,000 to house a single person for six months, more than $300 per person for each night’s lodging.70

One reason for the high costs of the Carnival contracts was their terms. Under the contracts, Carnival received the same level of profit from the government contract as it would have received under normal operating conditions. Rather than being paid based on the cost of housing evacuees, this company was compensated for both the revenues the company would have earned

66 Id.
67 Id. President’s Council on Integrity and Efficiency, Executive Council on Integrity and Efficiency, Oversight of Gulf Coast Hurricane Recovery: A Semiannual Report to Congress (Apr. 30, 2006).
68 Id.; see also FEMA’s Inland ‘bonneyard’ blasted, The Sun Herald (Dec. 13, 2005) (online at www.sunherald.com/mid/sunherald/12944571.htm).
69 Senate Homeland Security and Governmental Affairs Committee, Testimony of Scott Wells, Deputy Federal Coordinating Officer, FEMA, Hearings on Hurricane Katrina: Perspectives of FEMA’s Operations Professionals (Dec. 8, 2005).
under normal operations and any additional expenses that Carnival incurred under the contract. As a result, the taxpayer reimbursed the company for both the cost of housing the evacuees and the revenues the ships would have earned from their casino operations, liquor and drink sales, and on-shore excursions if they were operating normally. The $36 million contract value also did not take into account all the cost savings that Carnival realized under the contract, such as avoided entertainment and navigational expenses.\textsuperscript{71}

K. The Contract for Base Camps

In September 2005, FEMA awarded an $80 million contract to Clearbrook LLC to build and supply base camps for emergency workers responding to Hurricane Katrina.\textsuperscript{72} In November, the government reportedly suspended payments on the contract.\textsuperscript{73} The DHS IG reported a “complete lack of documentation supporting price reasonableness” and found that $4.9 million had been paid for work performed before the effective date of the contract.\textsuperscript{74} The IG also found that Clearbrook had billed FEMA for over $3 million in overcharges based on mathematical error.\textsuperscript{75}

V. CONCLUSION

This report examines contracting at the Department of Homeland Security. It finds that contract spending by DHS has surged since 2003, with spending on noncompetitive contracts growing by over 700%; that contract mismanagement has been widespread, due in part to shortages of trained contract officials and the lack of an acquisition management structure that provides for a single responsible acquisition official for all of DHS; and that the cumulative costs to the taxpayer are enormous. The report and its appendix identify 32 DHS contracts worth $34.3 billion that have experienced waste, abuse, or mismanagement.


\textsuperscript{73} Payments on Katrina Contract Halved After Billing Questions, Washington Post (Nov. 17, 2006).


\textsuperscript{75} Ibid.
## APPENDIX A: PROBLEM CONTRACTS

Total Number of Contracts: 32  
Total Estimated Value: $34.3 Billion

This Appendix lists 32 contracts that the U.S. Government Accountability Office, agency inspectors general, the Defense Contract Audit Agency, or other government investigators have found to involve waste, abuse, or mismanagement. In each case listed, auditors found that contract abuses or mismanagement occurred during the last five years.

The cumulative estimated value of these 32 contracts is approximately $34.3 billion. Estimated value is defined as the total program cost or contract ceiling. When contracts have been completed and actual costs are known, or if total program costs or contract ceilings are unknown, value is estimated as the most recent contract costs cited by federal auditors.

In some cases, agency auditors have not publicly released the identity of contractors to which their audit reports refer. In these cases, this Appendix notes that the contractor’s name is “Not Released.” The Appendix provides citations to all listed audit reports, as well as electronic hyperlinks for all listed audit reports that are publicly available on the Internet.

| 1. | Contractor: Accenture (and partners).  
Sub-Department: Border and Transportation Security.  
Estimated Value: $10 billion.  
Contract Description: United States Visitor and Immigrant Status Technology (US-VISIT).  
Problem(s) with Contract: Lack of Defined Requirements; Wasteful Spending; Mismangement. |
<table>
<thead>
<tr>
<th>Contract</th>
<th>Contractor</th>
<th>Sub-Department</th>
<th>Estimated Value</th>
<th>Contract Description</th>
<th>Selected Audit Report(s)</th>
<th>Problem(s) with Contract</th>
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<tbody>
<tr>
<td>2.</td>
<td>Aviation Safeguards</td>
<td>Transportation Security Administration</td>
<td>$41.5 million</td>
<td>Airport screening</td>
<td>DCAA Report on Audit of Definitization of TSA Letter Contract No. D paraphrase text here</td>
<td>Substantial challenged costs</td>
</tr>
</tbody>
</table>
   Sub-Department: FEMA.
   Estimated Value: $12.7 million.
   Contract Description: Cruise Ship Housing for Katrina Evacuees (Eclat).
   Problem(s) with Contract: Wasteful Spending.

7. Contractor: Carnival Cruise Lines.
   Sub-Department: FEMA.
   Estimated Value: $62.2 million.
   Contract Description: Cruise Ship Housing for Katrina Evacuees (Holiday).
   Problem(s) with Contract: Wasteful Spending.

   Sub-Department: FEMA.
   Estimated Value: $91.1 million.
   Contract Description: Cruise Ship Housing for Katrina Evacuees (Sensation).
   Problem(s) with Contract: Wasteful Spending.

   Sub-Department: FEMA.
   Estimated Value: $160 million.
   Contract Description: Manage Temporary Housing for Katrina Evacuees.
   Problem(s) with Contract: Mismanagement; Wasteful Spending.
10. **Contractor:** Clearbrook, LLC.
    **Sub-Department:** FEMA.
    **Estimated Value:** $60 million.
    **Contract Description:** Food and Lodging at Base Camps for Hurricane Katrina.
    **Problem(s) with Contract:** Lack of Defined Requirements; Wasteful Spending; Mismanagement.

11. **Contractor:** Delta Air Lines.
    **Sub-Department:** Transportation Security Administration.
    **Estimated Value:** $17.7 million.
    **Contract Description:** Airport screening.
    **Problem(s) with Contract:** Substantial Challenged Costs.

12. **Contractor:** Fluor Enterprises, Inc.
    **Sub-Department:** FEMA.
    **Estimated Value:** $100 million.
    **Contract Description:** Manage Temporary Housing for Katrina Evacuees.
    **Problem(s) with Contract:** Mismanagement; Wasteful Spending.

13. **Contractor:** Globe Aviation Services Corporation.
    **Sub-Department:** Transportation Security Administration.
    **Estimated Value:** $255.8 million.
    **Contract Description:** Airport screening.
    **Problem(s) with Contract:** Substantial Challenged Costs.
14. **Contractor:** Jackson Hole Airport Board.
   **Sub-Department:** Transportation Security Administration.
   **Estimated Value:** $350,000.
   **Contract Description:** Airport screening.
   **Problem(s) with Contract:** Substantial Challenged Costs.

15. **Contractor:** L-3 Communications.
    **Sub-Department:** Office of Border Patrol.
    **Estimated Value:** $429 million.
    **Contract Description:** Integrated Surveillance Intelligence System (ISIS).
    **Problem(s) with Contract:** Wasteful Spending; Mismanagement.

16. **Contractor:** Lockheed Martin Northrop Grumman Joint Venture.
    **Sub-Department:** Coast Guard.
    **Estimated Value:** $17 billion.
    **Contract Description:** Deepwater.
    **Problem(s) with Contract:** Wasteful Spending; Mismanagement.

17. **Contractor:** Multiple Contractors.
    **Sub-Department:** FEMA.
    **Estimated Value:** $915 million.
    **Contract Description:** Manufactured/Mobile Homes for Katrina and Rita Evacuees.
    **Problem(s) with Contract:** Lack of Defined Requirements; Wasteful Spending; Mismanagement.
<table>
<thead>
<tr>
<th>No.</th>
<th>Contractor</th>
<th>Sub-Department</th>
<th>Estimated Value</th>
<th>Contract Description</th>
<th>Selected Audit Report(s)</th>
<th>Problem(s) with Contract</th>
</tr>
</thead>
</table>
22. Contractor: Prospect Airport Services, Inc.
   Sub-Department: Transportation Security Administration.
   Estimated Value: $16.6 million.
   Contract Description: Air traffic.
   Problem(s) with Contract: Substantial Challenged Costs.

   Sub-Department: FEMA.
   Estimated Value: $13 million.
   Contract Description: Cruise Ship Housing for Katrina Evacuees.
   Problem(s) with Contract: Wasteful Spending.

24. Contractor: Shaw Environmental, Inc.
   Sub-Department: FEMA.
   Estimated Value: $100 million.
   Contract Description: Manage Temporary Housing for Katrina Evacuees.
   Problem(s) with Contract: Mismanagement; Wasteful Spending.

25. Contractor: Sky Aviation Services, Inc.
   Sub-Department: Transportation Security Administration.
   Estimated Value: $363,000.
   Contract Description: Airport screening.
   Problem(s) with Contract: Substantial Challenged Costs.
26. **Contractor:** STC Constructors, LLC.
   **Sub-Department:** Customs and Border Patrol.
   **Estimated Value:** $1.5 million.
   **Contract Description:** Construction at Corpus Christi Naval Air Station.
   **Problem(s) with Contract:** Substantial Challenged Costs.

27. **Contractor:** Summit Security Services, Inc.
   **Sub-Department:** Transportation Security Administration.
   **Estimated Value:** $16.5 million.
   **Contract Description:** Airport screening.
   **Selected Audit Report(s):** DCAA, Report on Audit of Definitization of TSA Letter Contract No. DTA01-02-C-04042, No. 2201-2002-021000008 (Nov. 26, 2002).
   **Problem(s) with Contract:** Substantial Challenged Costs.

28. **Contractor:** U.S. Airways.
   **Sub-Department:** Transportation Security Administration.
   **Estimated Value:** $7.1 million.
   **Contract Description:** Airport screening.
   **Problem(s) with Contract:** Substantial Challenged Costs.

29. **Contractor:** Unisys.
   **Sub-Department:** Transportation Security Administration.
   **Estimated Value:** $1 billion.
   **Contract Description:** Airport telecommunications.
   **Problem(s) with Contract:** Lack of Defined Requirements; Wasteful Spending; Mismanagement.
|---|---|---|---|---|---|---|

30. **Contractor:** Wackenhut Corporation.
   **Sub-Department:** Transportation Security Administration.
   **Estimated Value:** $106.6 million.
   **Contract Description:** Airport screening.
   **Problem(s) with Contract:** Substantial Challenged Costs.
Chairman Tom Davis. Before I recognize our distinguished ranking member, let me just say, this Congress either tonight or tomorrow is going to go through a lengthy discussion and debate over legislation passed out of this committee last week that takes a look at all Federal programs across the board and should they be there, can we effectively combine them, and the like. The reaction of Government so many times when we have to lose weight or cut budgets is to cutoff fingers and toes.

But what we see here is that the fat in Government is layered throughout the bureaucracy in the way we do business. I would gather that there are billions of dollars in losses and just general procurement and business management practices where you have, I think, far greater losses than you had just cutting programs, Mr. Waxman. That is the tragedy of this as we look at it, is that we are just not running as efficiently as we should.

Again, I want to thank you and your staff for helping put this together. I look forward to your opening remarks. Thank you.

Mr. Waxman. Thank you very much, Mr. Chairman. I want to thank you for holding this important hearing to examine homeland security contracts. I think you are absolutely right, this committee has operated in a bipartisan way in developing this report that we are putting out today and taking seriously the job that we have before us.

With literally billions of dollars and the security of the American people at stake, congressional oversight is urgently needed and long overdue. Since the attacks of September 11, 2001, the Department of Homeland Security and its predecessor agencies have gone on a spending spree. In 2003, the Department entered into 14,000 contracts worth $3.5 billion. By 2005, the Department's spending on contracts swelled to 63,000 contracts worth $10 billion.

Our Nation has pressing security needs. If the money were well spent, it would be a good investment. But the problem is, hundreds of millions of dollars are being squandered. The taxpayers are being taken to the cleaners and our security is not being protected. Boondoggle contracts may enrich private contractors, but they drive us deeper into debt and leave our borders unprotected and our ports and airlines vulnerable to attack.

Today, the chairman and I are releasing a new report assessing the administration's record on homeland security contracts. The report describes a pattern of reckless spending, poor planning and ineffective oversight that is wasting taxpayers' dollars and undermining our homeland security efforts. The report is entitled, "Waste, Abuse and Mismanagement in Department of Homeland Security Contracts."

There are key findings in our report. First, we are spending more and more each year on Homeland Security contracts. In just the 3 years since the creation of the Department of Homeland Security, contract spending has increased 189 percent from $3.5 billion in 2003 to over $10 billion in 2005. Homeland Security spending is growing 31 times faster than inflation. It is even growing 11 times faster than the rest of our ballooning Federal budget.

Second, most of the new spending is occurring through non-competitive contracts, many of them no-bid contracts. In the 3 years since the creation of the Department of Homeland Security, the
The dollar value of non-competitive contracts has grown by an astronomical 739 percent. Last year over half of the Department’s contract spending was awarded without full and open competition. Competition protects the taxpayers by driving prices down and quality up. But the administration squelches full and open competition so it can offer lucrative deals to hand-picked contractors.

Third, the report finds that there is no effective system of contract management at the Department of Homeland Security. There is little contract planning and only meager contract oversight.

Fourth, the costs to the taxpayers are enormous. The report identifies 32 Federal Homeland Security contracts worth $34.3 billion that have experienced significant waste, fraud, abuse or mismanagement. In February 2002, the Transportation Security Administration awarded a $104 million contract to hire airport screeners. In less than 1 year, the contract ballooned to $741 million, yet the rate at which screeners detected weapons never improved and Government auditors identified hundreds of millions of dollars in unjustifiable charges.

Several months later, TSA awarded a $1.2 billion contract to Boeing to install and maintain luggage screening equipment at airports. But the baggage screening equipment never worked right. GAO says the taxpayer will now have to spend an additional $3 billion to $5 billion to upgrade to more efficient machines. Unfortunately, I can go on and on and on.

As described in the committee’s bipartisan report, the Department has botched the contracts to upgrade airport computer networks, detect nuclear devices and create a virtual border. What is most inexcusable is that no one in the executive branch seems to care. The same mistakes happen over and over again. This administration treats the taxpayer as its own piggy-bank.

A striking example is the Department’s new Secure Border Initiative, which is its new high-tech plan to protect the border. I want to read to you the request for proposal, also called the RFP, that the administration released earlier this year. The RFP is a remarkable document, because it is devoid of any substance. Instead of identifying specific Government needs, it takes the fairy godmother approach to the immensely difficult task of protecting our border.

Here is the only substantive requirement in the RFP. The Department wants private contractors, not Government officials, but private contractors, to figure out “highly reliable, available, maintainable and cost-effective solutions to manage, control and secure the border, using the optimal mix of proven, current and next generation technology, infrastructure, personnel, response capabilities and processes.” In case the contracting community missed the point, DHS Deputy Secretary Michael Jackson told potential bidders for the new Secure Border Initiative, “We are asking you to come back and tell us how to do our business.”

Well, that is not good governing, that is not planning. It is utterly incompetent, and it is going to cost the taxpayers billions. Mr. Chairman, in closing, I want to commend you for your leadership. You have approached this issue with bipartisanship and put the interests of the taxpayers first. This committee is doing an important
public service by exposing the astronomical levels of wasteful spending at the Department of Homeland Security.

[The prepared statement of Hon. Henry A. Waxman follows:]
Opening Statement of
Rep. Henry A. Waxman, Ranking Minority Member
Committee on Government Reform
Hearing on “Code Yellow: Is The DHS Acquisition Bureaucracy a
Formula for Disaster?”

July 27, 2006

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Boondoggle contracts may enrich private contractors, but they drive us deeper into debt and leave our borders unprotected and our ports and airlines vulnerable to attack.

Today, the Chairman and I are releasing a new report assessing the Administration’s record on homeland security contracts. The report describes a pattern of reckless spending, poor planning, and ineffective oversight that is wasting taxpayer dollars and undermining our homeland security efforts.

There are four key findings in our report. First, we are spending more and more each year on homeland security contracts. In just the three years since the creation of the Department of Homeland Security, contract spending increased 189% ... from $3.5 billion in 2003 to over $10 billion in 2005.

Homeland security spending is growing 31 times faster than inflation. It is even growing 11 times faster than the rest of our ballooning federal budget.
Second, most of the new spending is occurring through noncompetitive contracts, many of them no-bid contracts. In the three years since the creation of the Department of Homeland Security, the dollar value of the noncompetitive contracts has grown by an astronomical 739%.

Last year, over half of the Department’s contract spending was awarded without full and open competition.

Competition protects the taxpayer by driving prices down and quality up. But the Administration squelches full and open competition so it can offer lucrative deals to hand-picked contactors.

Third, the report finds that there is no effective system of contract management at the Department of Homeland Security. There’s little contract planning and only meager contract oversight.

Fourth, the costs to the taxpayer are enormous. The report identifies 32 federal homeland security contracts worth $34.3 billion that have experienced significant waste, fraud, abuse, or mismanagement.
In February 2002, the Transportation Security Administration awarded a $104 million contract to hire airport screeners. In less than one year, the contract ballooned to $741 million. Yet the rate at which screeners detected weapons never improved, and government auditors identified hundreds of millions of dollars in unjustified charges.

Several months later, TSA awarded a $1.2 billion contract to Boeing to install and maintain luggage screening equipment at airports. But the baggage screening equipment never worked right. GAO says the taxpayer will now have to spend an additional $3 to $5 billion dollars to upgrade to more efficient machines.

Unfortunately, I could go on … and on … and on. As described in the Committee’s bipartisan report, the Department has botched the contracts to upgrade airport computer networks, detect nuclear devices, and create a “virtual border.”

And what is most inexcusable is that no one in the executive branch seems to care. The same mistakes happen over and over again. This Administration treats the taxpayer as its own private piggy bank.
A striking example is the Department’s new Secure Border Initiative, which is its new high-tech plan to protect the border. I want to read to you the “Request for Proposal” — also called the “RFP” — that the Administration released earlier this year. The RFP is a remarkable document because it is devoid of any substance. Instead of identifying specific government needs, it takes the fairy godmother approach to the immensely difficult task of protecting our border.

Here is the only substantive requirement in the RFP. The Department wants private contractors — not government officials — to figure out (and I quote):

Highly reliable, available, maintainable, and cost effective solution(s) to manage, control, and secure the border using the optimal mix of proven current and next generation technology, infrastructure, personnel, response capabilities and processes.

In case the contracting community missed the point, DHS Deputy Secretary Michael Jackson told potential bidders for the new Secure Border Initiative: “We’re asking you to come back and tell us how to do our business.”
That’s not governing. That’s not planning. It’s utter incompetence, and it’s going to cost the taxpayers billions.

Mr. Chairman, in closing I want to commend you for your leadership. You have approached this issue with bipartisanship and put the interests of the taxpayer first. And this Committee is doing an important public service by exposing the astronomical levels of wasteful spending at the Department of Homeland Security.
Chairman Tom Davis. Mr. Waxman, thank you very much. The gentleman from Tennessee, Mr. Duncan.

Mr. Duncan. Thank you very much, Mr. Chairman, and thank you for calling this hearing on this very important report. You and the ranking member have both given outstanding statements and have mentioned several things that I would have mentioned. But I can tell you that just a few days ago, the Department of Homeland Security came out with a terrorist target list that immediately or very quickly became a joke around the entire Nation. It had 8,591 sites listed in Indiana, including the Amish Country Popcorn Factory, but only 3,212 sites in California.

But what got my attention, it had in my district the Sweetwater, Tennessee Flea Market. And I can assure you, the Department of Homeland Security became the laughingstock of Sweetwater and east Tennessee for a couple of days. That was a total waste. They might as well have just put out a report saying that any place that more than two or three people are gathered was a target list.

Now we get this report which is not really a laughing matter. Anybody who is not really sickened or horrified by the things that are in this report cannot legitimately call themselves a conservative Republican or a fiscal conservative in any way. The chairman and the ranking member have already mentioned the $104 million TSA contract that went to over $700 million to train airport screeners, the contracts awarded without competition that increased 739 percent between 2003 and 2005.

The report has so many other things, the two TSA employees that used Government purchase cards to buy $136,000 worth of personal items, $297 million of questionable or improper charges by NCS Pearson on a contract to hire airport screeners. The GAO found that FEMA cannot locate 22 printers and 2 GPS units worth $170,000, as well as 12 boats the agency bought for $208,000. It just goes on and on and on.

The Department, if the top people of the Department are not embarrassed by this, something is wrong. Something has to be done, and I think this hearing is the start of it. I can tell you, if these types of things were going on in a private company, heads would roll, people would be fired, action would be taken. So I eagerly await to see what is going to be done by the Department in response to what is a scandalous report of waste, fraud and mismanagement in this contracting by the Department of Homeland Security.

Thank you very much, Mr. Chairman.

Chairman Tom Davis. Thank you very much.

Any other Members wish to make opening statements? Mr. Gutknecht.

Mr. Gutknecht. Just briefly, Mr. Chairman. I just want to congratulate you and Ranking Member Waxman, because if there is one area where Congress has sort of let its guard down, it is in terms of the oversight responsibility we have. Frankly, I think Americans deserve better answers that they have received. I think this hearing is a very important step in the right direction.

I yield back.

Chairman Tom Davis. Thank you very much.
Members will have 7 days to submit opening statements for the record.

We are now going to recognize our first panel. We have Mr. Michael Sullivan, who is the Director, Acquisition Sourcing and Management, at the Government Accountability Office. Thank you for your work. Mr. David Zavada, who is the CPA, Assistant Inspector General’s Office of Audits, Department of Homeland Security. Thank you for being here. And Elaine Duke, the Chief Procurement Officer at the Department of Homeland Security. She is accompanied by Mr. John Ely, who is the Chief Procurement Officer, Customs and Border Protection Service at the Department of Homeland Security, and Mr. Richard Gunderson, the Acting Assistant Administrator for the Office of Acquisition at the Transportation Security Administration at the Department of Homeland Security.

It is our policy to swear everyone in before they testify. So if you would rise with me and raise your right hands.

[Witnesses sworn.]

Chairman Tom Davis. Thank you very much.

Mr. Sullivan, we will start with you and then we will move to Mr. Zavada and then to Ms. Duke. I thank you all again for being with us today. Your entire statement is in the record. I know you have a lengthy analysis you have done. That is all in the record. So if we could try to keep to 5 minutes. I am going to apologize, because at about 10 of, I have to leave for a few minutes to go over to the Senate and introduce two nominees from my district that are up, and then I will be back for questions. But I will want to get my first questions in.

Go ahead and start, Mr. Sullivan.


STATEMENT OF MICHAEL J. SULLIVAN

Mr. Sullivan, thank you, Mr. Chairman, for the opportunity to appear here today to update you on GAO’s work on the Department of Homeland Security’s acquisition policies and practices.

As you know, we designated the establishment of the Department and its transportation as high-risk, and pointed out that not effectively addressing management challenges could have serious consequences for national security. My testimony today is based on recent GAO work concerning various aspects of the Department’s acquisitions. I will address areas where the Department has had some success and where it still faces challenges.
The Department has some of the most extensive acquisition needs within the U.S. Government. In fiscal year 2005, it obligated almost $17.5 billion to acquire a wide range of goods and services. Its acquisitions included sophisticated screening equipment, technologies to secure the Nation’s borders, trailers to meet the housing needs of hurricane victims and the upgrading of the Coast Guard’s entire offshore fleet of service and their assets.

In March 2005, we found and reported on two acquisition areas where the Department had achieved some success. DHS’s organizations collaborated to leverage buying power for various goods and services such as office supplies, boats, energy and weapons, and recorded about $14 million in savings across the Department.

Also, the Department has had success with its small business program, which is felt across DHS. It recorded that about 35 percent of its contracting dollars went to small businesses, exceeding its goal of 23 percent.

Much more must be done, however. In 2005, we also reported that DHS’s efforts to create a unified accountable acquisition organization had been hampered by policies that create ambiguity about who is accountable for acquisition decisions. Further, we found that acquisition organizations across DHS were still operating in a disparate manner, with oversight left primarily up to each individual organization.

Today, DHS continues to face challenges in these areas. For example, the policy directive intended to integrate the acquisition function still relies on a system of dual accountability for acquisitions between the chief procurement officer and the heads of each DHS component, and still does not apply to the U.S. Coast Guard and the Secret Service.

Also, although the chief procurement officer has recently issued guidance providing a framework for acquisition oversight and added five staff to carry it out, implementation has been limited. We have work ongoing in this area now and will be updating the status of this policy in the near future.

Finally, staffing shortages in the Office of Procurement Operations, which handled about $4 billion of the Department’s contracting activity last year, led this office to rely on outside agencies for contracting support for about 90 percent of its obligations, often for a fee. The Office also did not have adequate internal controls in place to effectively oversee this interagency contracting.

There has been some improvement in this area recently. The Office recently increased its staffing level from 42 to 120, and the interagency agreements have now fallen from 90 percent to 72 percent of the Department’s obligations. However, it still lacks internal controls to oversee these interagency agreements.

To protect its major acquisition investments, DHS has put in place an investment review process that adopts best practices to help the Department reduce risks. However, the process does not include two critical management reviews: the first, to reduce technological risk by helping to ensure that the right technologies and funding will be ready to develop the program or product prior to beginning; and second, to reduce design risk by hoping to make sure the product or program’s design will perform as expected before moving into mass production.
In addition, the Department’s policy does not require critical information to be delivered at program reviews for these major investments. For example, before a program is approved to begin, DHS has no policy to require cost and schedule estimates for the acquisition based on knowledge from preliminary information or designs. Our prior reports on large DHS acquisition programs, such as TSA’s Secure Flight program and the Coast Guard’s Deepwater program have highlighted the need for improved oversight.

In closing, I believe that DHS has taken some strides toward putting in place a more effective acquisition organization. However, they are not enough to ensure that the Department is effectively managing the acquisition of the multitude of goods and services it needs to meet its mission. More must be done to fully integrate the Department’s acquisition function, pave the way for the chief procurement officer’s responsibilities to be effectively carried out, and put in place internal controls needed to manage interagency agreements, activity and large, complex investments. DHS’s top leaders must address these challenges or continue to exist with a fragmented acquisition organization that can only provide stop-gap, ad hoc solutions.

Mr. Chairman, this concludes my statement.

[The prepared statement of Mr. Sullivan follows:]
Testimony before the Committee on Government Reform, House of Representatives

HOMELAND SECURITY
Challenges in Creating an Effective Acquisition Organization

Statement of Michael J. Sullivan, Director, Acquisition and Sourcing Management
HOMELAND SECURITY

Challenges in Creating An Effective Acquisition Organization

What GAO Found

Since its establishment in March 2003, DHS has been faced with assembling 29 separate federal agencies and organizations with multiple missions and cultures into one department. This mammoth task involved a variety of transformational efforts, one of which is to design and implement the necessary management structure and processes for the acquisition of goods and services. We reported in March 2005 that DHS had opened communication among its acquisition organizations through its strategic sourcing and small business programs. With strategic sourcing, DHS organizations quickly collaborated to leverage spending for various goods and services—such as office supplies, boats, energy, and weapons—without losing focus on small businesses, thus leveraging its buying power and increasing savings. In its small business program, whose reach is felt across DHS, is also off to a good start. Representatives have been designated in each DHS procurement office to ensure small businesses can compete effectively for the agency’s contract dollars.

We also reported that DHS’s progress in creating a unified acquisition organization has been hampered by policy decisions that create ambiguity about who is accountable for acquisition decisions. To a great extent, we found that the various acquisition organizations within DHS were still operating in a disparate manner, with oversight of acquisition activities left primarily up to each individual organization. DHS continues to face challenges in integrating its acquisition function. Specifically, dual accountability for acquisitions exists between the Chief Procurement Officer (CPO) and the heads of each DHS component; a policy decision has exempted the Coast Guard and Secret Service from the unified acquisition organization; the CPO has insufficient capacity for department-wide acquisition oversight; and staffing shortages have led the Office of Procurement Operations, which handles a large percentage of DHS' contracting activity, to rely extensively on outside agencies for contracting support—often for a fee. We found that this office lacked the internal controls to provide oversight of this interagency contracting activity. This last challenge has begun to be addressed with the hiring of additional contracting staff.

Some of DHS’s organizations have major, complex acquisition programs that are subject to a multi-tiered investment review process intended to help reduce risk and increase chances for successful outcomes in terms of cost, schedule, and performance. While the process includes many best practices, it does not include two critical management reviews, namely a review to help ensure that resources match customer needs and a review to determine whether a program's design performs as expected. Our prior reports on large DHS acquisition programs, such as the Transportation Security Administration's Secure Flight program and the Coast Guard’s Deepwater program, highlight the need for improved oversight of contractors and adherence to a rigorous management review process.
Mr. Chairman and Members of the Committee:

Thank you for inviting me here today to discuss the Department of Homeland Security’s (DHS) acquisition organization. Since its establishment in March 2003, DHS has been faced with assembling 23 separate federal agencies and organizations with multiple missions, values, and cultures into one cabinet-level department. This mammoth task—one of the biggest mergers ever to take place within the federal government—involved a variety of transformational efforts, one of which is to design and implement the necessary management structure and processes for the acquisition of goods and services.

DHS has some of the most extensive acquisition needs within the U.S. government. In fiscal year 2005, the department reported that it has obligated almost $17.8 billion to acquire a wide range of goods and services. The DHS acquisitions portfolio is broad and complex. For example, it has purchased increasingly sophisticated screening equipment for air passenger security; acquired technologies to secure the nation’s borders; purchased trailers to meet the housing needs of Hurricane Katrina victims; and is upgrading the Coast Guard’s offshore fleet of surface and air assets. DHS has been working to integrate the many acquisition processes and systems that the disparate agencies and organizations brought with them while still addressing ongoing mission requirements and emergency situations such as responding to Hurricane Katrina. As you know, we designated the establishment of the department and its transformation as high risk; we also pointed out that not effectively addressing DHS’ management challenges and program risks could have serious consequences for our national security.

Based on work done for this committee last year, today I would like to discuss areas where DHS has been successful in promoting collaboration among its various organizations and areas where it still faces challenges, such as integrating and unifying the acquisition function across the department. I will also discuss our assessment of the department’s progress in implementing an effective review process for its major, complex investments, highlighting some recent GAO work related to these issues. This testimony is based on GAO reports and testimonies that were

Summary

Designing and implementing the necessary management structure and processes for the acquisition of goods and services for 23 separate federal agencies and organizations, with multiple missions and cultures, has been a mammoth task for DHS and, while it has had some success, there are many challenges remaining. DHS has opened communication among its acquisition organizations through its strategic sourcing and small business programs. DHS organizations quickly collaborated to leverage spending for various goods and services without losing focus on small businesses, thus leveraging its buying power and increasing savings.

We reported in March 2005 that DHS' efforts to create a unified, accountable acquisition organization have been hampered by policies that create ambiguity as to who is accountable for acquisition decisions. Further, we found that, to a great extent, the various acquisition organizations within the department are still operating in a disparate manner, with oversight of acquisition activities left primarily up to each individual organization. DHS continues to face challenges in creating a more effective acquisition organization. For example:

• A policy directive intended to integrate the acquisition function relies on a system of dual accountability for acquisitions between the Chief Procurement Officer (CPO) and the heads of each DHS component. This directive does not apply to the U.S. Coast Guard and the Secret Service, which is likely to hinder the formation of a unified acquisition organization.

• Although the CPO has issued guidance providing a framework for acquisition oversight, implementation of the oversight program has been limited due to insufficient staffing in the CPO's office.

• Staffing shortages in the Office of Procurement Operations, which handles a significant portion of DHS' contracting activity—over $4 billion last year—have led this office to rely heavily on outside agencies for contracting support, often for a fee. The office did not have adequate internal controls in place to effectively oversee this interagency contracting. Due to the challenges associated with interagency contracts,
we recently designated interagency contracting as a government-wide high risk area.¹

To protect its major, complex investments, DHS has put in place an investment review process that adopts many best practices—that is, proven methods, processes, techniques, and activities—to help the department reduce risk and increase the chances for successful acquisition outcomes. However, the process does not include two critical management reviews that would help ensure that (1) resources match customer needs prior to beginning a major acquisition and (2) program designs perform as expected before moving to production. We also found that some critical information is not addressed in DHS’s investment review policy or the guidance provided to program managers. For example, before a program is approved to begin, DHS does not require that cost and schedule estimates be established for the acquisition based on knowledge from preliminary designs. The review process also does not fully address how program managers are to conduct effective contractor tracking and oversight. Our prior reports on large DHS acquisition programs, such as the Transportation Security Administration’s (TSA) Secure Flight program and the U.S. Coast Guard’s Deepwater program, have highlighted the need for improved oversight of contractors and a management review that provides decision makers with critical information at the right time.

Early Initiatives to Leverage Buying Power and Small Business Programs Fostered Collaboration Among DHS Organizations

In the three years since its creation, DHS realized some successes among its various acquisition organizations in opening communication through its strategic sourcing and small business programs. Both efforts have involved every principal organization in DHS, along with strong involvement from the CIO, and both have yielded positive results. DHS disparate acquisition organizations quickly collaborated on leveraging spending for various goods and services, without losing focus on small businesses. This use of strategic sourcing—formulating purchasing strategies to meet departmentwide requirements for specific commodities, such as office supplies, boats, energy, and weapons—helped DHS leverage its buying power, with savings expected to grow. At the time of our March 2006 review, DHS had reported approximately $14 million in savings across the department. We also found that the small business program, whose reach is felt across DHS, was off to a good start. In fiscal year 2004, DHS reported that 36 percent of its prime contract dollars went to small businesses, exceeding its goal of 23 percent. Representatives have been

designated in each DHS procurement office to help ensure that small businesses have opportunities to compete for DHS' contract dollars.

However, some officials responsible for carrying out strategic sourcing initiatives have found it challenging to balance those duties with the demands and responsibilities of their full-time positions within DHS. Officials told us that strategic sourcing meetings and activities sometimes stall because participants must shift attention to their full-time positions. Our prior work on strategic sourcing shows that leading commercial companies often establish full-time commodity managers to more effectively manage commodities. Commodity managers help define requirements with internal clients, negotiate with potential vendors, and resolve performance or other issues arising after a contract is awarded and can help maintain consistency, stability, and a long-term strategic focus.

DHS Faces Key Challenges In Creating An Integrated Acquisition Organization

DHS continues to face challenges in creating a unified, accountable acquisition organization due to policies that create ambiguity as to accountability for acquisition decisions, inadequate staffing to conduct department-wide oversight, and heavy reliance on interagency contracting in the Office of Procurement Operations, which is responsible for a large portion of DHS' contracting activity.

Policy Directive Relies on Dual Accountability and Exempts Coast Guard and Secret Service

Achieving a unified and integrated acquisition system is hampered because an October 2004 policy directive relies on a system of dual accountability between the CPO and the heads of the department's principal organizations. Although the CPO has been delegated the responsibility to manage, administer, and oversee all acquisition activity across DHS, in practice, performance of those activities is spread throughout the department, reducing accountability for acquisition decisions.

This system of dual accountability results in unclear working relationships between the CPO and heads of DHS' principal organizations. For example, the policy leaves unclear how the CPO and the director of Immigration and Customs Enforcement are to share responsibility for recruiting and selecting key acquisition officials, preparing performance ratings for the top manager of the contracting office, and providing appropriate resources to support CPO initiatives.
The policy also leaves unclear what enforcement authority the CPO has to ensure that initiatives are carried out because heads of principal organizations are only required to "consider" the allocation of resources to meet procurement staffing levels in accordance with the CPO's analysis. Agreements had not been developed on how the resources to train, develop, and certify acquisition professionals in the principal organizations would be identified or funded.

While the October 2004 policy directive emphasizes the need for a unified, integrated acquisition organization, achievement of this goal is further hampered because the directive does not apply to the U.S. Coast Guard and U.S. Secret Service. The Coast Guard is one of the largest organizations within DHS, with obligations accounting for about $2.2 billion in fiscal year 2005, nearly 18 percent of the department's total. The directive maintains that these two organizations are exempted from the directive by statute. We disagreed with this conclusion, as we are not aware of any explicit statutory exemption that would prevent the application of the DHS acquisition directive to either organization. We raised the question of statutory exemption with the DHS General Counsel, who shared our assessment concerning the explicit statutory exemptions. He viewed the applicability of the management directive as a policy matter.

Chief Procurement Officer's Staffing for Oversight Is Insufficient

DHS' goal of achieving a unified, integrated acquisition organization is in part dependent on its ability to provide effective oversight of component activities. We reported in March 2005 that the CPO lacked sufficient staff to ensure compliance with DHS' acquisition oversight regulations and policies. To a great extent, the various acquisition organizations within the department were still operating in a disparate manner, with oversight of acquisition activities left primarily up to each individual organization. In December 2005, DHS implemented a department wide management directive that establishes policies and procedures for acquisition oversight. The CPO has issued guidance providing a framework for the oversight program and, according to DHS officials, as of May 2006, five staff were assigned to oversight responsibilities. We have ongoing work in this area and will be reporting on the department's progress in the near future.
The challenge DHS faces overseeing its various components' contracting activities is significant. For example, in May 2004, we reported that TSA had not developed an acquisition infrastructure, including organization, policies, people, and information that would facilitate successful management and execution of its acquisition activities. The development of those areas could help ensure that TSA acquires quality goods and services at reasonable prices, and makes informed decisions about acquisition strategy.

Office of Procurement Operations' Heavy Use of Interagency Agreements

To support the DHS organizations that lacked their own procurement support, the department created the Office of Procurement Operations. In 2005, we found that, because this office lacked sufficient contracting staff, it had turned extensively to interagency contracting to fulfill its responsibilities. At the time of our review, we found that this office had transferred almost 90 percent of its obligations to other federal agencies through interagency agreements in fiscal year 2004. For example, DHS had transferred $12 million to the Department of the Interior's National Business Center to obtain contractor operations and maintenance services at the Plum Island Animal Disease Center. Interior charged DHS $62,000 for this assistance.

We found that the Office of Procurement Operations lacked adequate internal controls to provide oversight of its interagency contracting activity. For example, it did not track the fees it was paying to other agencies for contracting assistance. Since our report was issued, the office has added staff and somewhat reduced its reliance on interagency contracting. Recently, DHS officials told us that the office has increased its staffing level from 42 to 120 employees, with plans to hire additional staff. As reported by DHS, the Office of Procurement Operations' obligations transferred to other agencies had decreased to 72 percent in fiscal year 2005.

Review Process for Major Investments, Despite Use of Best Practices, Was Inconsistent and Lacked Some Management Controls

To protect its major, complex investments, DHS has put in place a review process that adopts many acquisition best practices—proven methods, processes, techniques, and activities—to help the department reduce risk and increase the chances for successful investment outcomes in terms of cost, schedule, and performance. One best practice is a knowledge-based approach to developing new products and technologies pioneered by successful commercial companies, which emphasizes that program managers need to provide sufficient knowledge about important aspects of their programs at key points in the acquisition process, so senior leaders are able to make well-informed investment decisions before an acquisition moves forward.

While DHS' framework includes key tenets of this approach, in March 2005 we reported that it did not require two critical management reviews. The first would help ensure that resources match customer needs before any funds are invested. The second would help ensure that the design for the product performs as expected prior to moving into production. We also found that some critical information is not addressed in DHS' investment review policy or the guidance provided to program managers. In other cases, it is made optional. For example, before a program is approved to start, DHS policy requires program managers to identify an acquisition's key performance requirements and to have technical solutions in place. This information is then used to form cost and schedule estimates for the product's development to ensure that a match exists between requirements and resources. However, DHS policy does not establish cost and schedule estimates for the acquisition based on knowledge from preliminary designs. Further, while DHS policy requires program managers to identify and resolve critical operational issues before proceeding to production, initial reviews—such as the system and subsystem reviews—are not mandatory.

In addition, while the review process adopts other important acquisition management practices, such as requiring program managers to submit acquisition plans and project management plans, a key practice—contractor tracking and oversight—is not fully incorporated. We have cited the need for increased contractor tracking and oversight for several large DHS programs. While many of DHS' major investments use commercial, off-the-shelf products that do not require the same level of review as a complex, developmental investment would, DHS is investing in a number of major, complex systems, such as TSA's Secure Flight program and the Coast Guard's Deepwater program, that incorporate new technology. Our work on these two systems highlights the need for
improved oversight of contractors and greater adherence to a best practices approach to management review. Two examples follow.

We reported in February 2006 that TSA, in developing and managing its Secure Flight program, had not conducted critical activities in accordance with best practices for large scale information technology programs. Program officials stated that they used a rapid development method that was intended to enable them to develop the program more quickly. However, as a result of this approach, the development process has been ad hoc, with project activities conducted out of sequence. TSA officials have acknowledged that they have not followed a disciplined life cycle approach in developing Secure Flight, and stated that they are currently rebaselining the program to follow their standard systems development life cycle process, including defining system requirements. TSA officials also told us that they are taking steps to strengthen contractor oversight for the Secure Flight program. For example, the program is using one of TSA’s support contractors to help track contractors’ progress in the areas of cost, schedule, and performance and the number of TSA staff with oversight responsibilities for Secure Flight contracts has been increased. TSA reports it has identified contract management as a key risk factor associated with the development and implementation of Secure Flight.

The Coast Guard’s ability to meet its responsibilities depends on the capability of its deepwater fleet, which consists of aircraft and vessels of various sizes and capabilities. In 2002, the Coast Guard began a major acquisition program to replace or modernize these assets, known as the Deepwater program. Deepwater is currently estimated to cost $4 billion. We have reported that the Coast Guard’s acquisition strategy of relying on a prime contractor ("system integrator") to identify and deliver the assets needed carries substantial risks. We found that well into the contract’s second year, key components for managing the program and overseeing the system integrator’s performance had not been effectively implemented. As we recently observed, the Coast Guard has made progress in addressing our recommendations, but there are aspects of the Deepwater program that will require continued attention. The program continues to face a degree of underlying risk, in part because of the

unique, system-of-systems approach with the contractor acting as overall integrator, and in part because it is so heavily tied to precise year-to-year funding requirements over the next two decades. Further, a project of this magnitude will likely continue to experience other concerns and challenges beyond those that have emerged so far. It will be important for Coast Guard managers to carefully monitor contractor performance and to continue addressing program management concerns as they arise.

In closing, I believe that DHS has taken strides toward putting in place an acquisition organization that contains many promising elements. However, the steps taken so far are not enough to ensure that the department is effectively managing the acquisition of the multitude of goods and services it needs to meet its mission. More needs to be done to fully integrate the department’s acquisition function, to pave the way for the CFO’s responsibilities to be effectively carried out in a modern-day acquisition organization, and to put in place the strong internal controls needed to manage interagency contracting activity and large, complex investments. DHS’ top leaders must continue to address these challenges to ensure that the department is not at risk of continuing to exist with a fragmented acquisition organization that provides stopgap, ad hoc solutions. DHS and its components, while operating in a challenging environment, must have in place sound acquisition plans and processes to make and communicate good business decisions, as well as a capable acquisition workforce to assure that the government receives good value for the money spent.

Mr. Chairman, this concludes my statement. I would be happy to respond to any questions you or other members of the Committee may have at this time. For further information regarding this testimony, please contact Michael Sullivan at (202) 512-4841 or sullivanm@gao.gov.
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Chairman TOM DAVIS. Thank you very much.
Mr. Zavada, thank you for being with us.

STATEMENT OF DAVID M. ZAVADA

Mr. ZAVADA. Thank you. Good morning, Mr. Chairman, Ranking Member Waxman and members of the committee. Thank you for inviting me to testify before this committee today on DHS acquisitions.

We have reported acquisition management as a major management challenge for the Department of Homeland Security. DHS must have an acquisition management infrastructure in place that allows it to effectively oversee the complex and large dollar procurement critically important to achieving the Department's mission. We have also completed a number of reports in this area. I will focus my comments today on some common themes that have emerged from our work.

Acquisition management is not just the wording of a contract, but an entire process that begins with identifying a mission need and developing a strategy to fulfill that need through a thoughtful and balanced approach that considers cost, schedule and performance. The Department must develop a cadre of skilled program and acquisition personnel, as well as robust business practices and information systems to effectively meet DHS's schedule demands and complex program objectives.

Expediting program schedules and contract awards necessarily limits time available for adequate procurement planning and developing of technical requirements, acceptance criteria and performance measures. The urgency and complexity of the Department's mission, coupled with the Department's current program of procurement management capabilities, creates an environment in which many programs have undertaken high-risk acquisitions. Common patterns that we have seen in our reviews are the dominant influence of meeting an accelerated schedule, poorly defined requirements and inadequate oversight. This can lead to higher costs, schedule delays and systems that do not meet mission objectives.

DHS is beginning to improve its acquisition management capability. In a 30 day acquisition management assessment we completed for Secretary Chertoff in 2005, we made recommendations to DHS to expand procurement and ethics training, create and staff an organization to develop program management policies and procedures, and ensure sufficient procurement staff in the Bureau and at the Department level. DHS has concurred with each of these recommendations and has taken steps to implement them.

The urgency and complexity of the Department's mission will continue to demand rapid pursuit of major investment programs. While DHS continues to build its acquisition management capabilities, the business of DHS goes on and major procurement continue to move forward. One of those major procurement is SBInet.

Our review of SBInet is underway, but based upon our past work, we believe CBP faces some tremendous challenges and risks in pursuit of SBInet. These challenges and risks include one, an expedited time. The Department has set a tight deadline of September 2006, requiring CBP to press hard to meet the deadline while
mitigating risks and avoiding mistakes. To mitigate these risks, CBP must have an institutional capacity to plan and implement a new program, administer this complex contract and establish cost, schedule and performance controls.

Second, defining operational or contract requirements. High-risk acquisition strategies call for mitigators and controls. The use of a statement of objectives type of contract is made risky by broadly defined performance requirements and limited program management capabilities. Translating the Border Patrol’s operational requirements effectively into contract requirement entails thoroughly identifying the problems with status quo border control, communicating that problem to industry, negotiating a best value solution and applying measures of performance and effectiveness to gauge success.

Third, building an organizational oversight capacity. Building a program office entails not only recruiting and contracting for qualified acquisition managers and technical experts, but also establishing robust business processes. The SBInet acquisition strategy calls for scoping a series of task orders over a number of years, entailing vigilant contract administration.

Acquisition management will continue to be a priority area for the OIG. We plan a proactive approach to identify the risks that we see and provide recommendations to help the Department avoid wasteful spending and obtain the right equipment and services to achieve DHS’s mission.

Mr. Chairman, this concludes my prepared remarks. I would be happy to answer any questions.

[The prepared statement of Mr. Zavada follows:]
STATEMENT OF DAVID M. ZAVADA
ASSISTANT INSPECTOR GENERAL FOR AUDITS
U.S. DEPARTMENT OF HOMELAND SECURITY
BEFORE THE
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES

JULY 27, 2006
Good morning Chairman Davis, Ranking Member Waxman, and Members of the Committee.

I am David M. Zavada, Assistant Inspector General for Audits of the Office of Inspector General (OIG) for the Department of Homeland Security. Thank you for the opportunity to discuss OIG work related to DHS acquisitions and common themes that have emerged from our work.

Office of Inspector General Partnerships

The Office of Inspector General partners with the Secretary of Homeland Security and Congress to ensure that the Department accomplishes its mission in the most effective, efficient, and economical manner. We provide independent, objective information and analysis to identify issues and opportunities for cost-effective improvements. We share with the Chief Procurement Officer a vision of a world-class acquisition function that delivers the best value products and services to support the critical mission of DHS. Acquisition management is a high-priority area for our office – it is an area where we will have an ongoing and proactive presence.

In the area of acquisition management, one of our oversight partners is the Defense Contract Audit Agency (DCAA). DCAA’s pre-award surveys and post-award incurred cost audits complement the audit and review work that we and the Government Accountability Office (GAO) perform. Just as the possibility of an IRS audit increases voluntary compliance with the tax code, the possibility of a DCAA audit serves as an integral part of the internal control structure surrounding the acquisition management function.

Acquisition Management is a Major Challenge for DHS

We have identified a number of issues related to the challenge of building an effective acquisition management infrastructure for the significant level of contracting activities in the Department. DHS must have an acquisition management infrastructure in place that allows it to oversee effectively the complex and large dollar procurements critically important to achieving the Department’s mission. Acquisition management is not just awarding a contract, but an entire process that begins with identifying a mission need and developing a strategy to fulfill that need through a thoughtful and balanced approach that considers cost, schedule, and performance.
OIG Review of Program and Procurement Management

In 2005, Homeland Security Secretary Chertoff asked us to assess DHS’s program and procurement management operations and report back to him within 30 days. In that short time, we identified significant risks and vulnerabilities that might threaten the integrity of those operations. We reported a general need for more comprehensive acquisition guidance and oversight1. The vulnerabilities we described fall into three general categories: adherence to ethical conduct, program management, and procurement management.

Ethical Conduct

In the area of ethical conduct, we reported that senior program managers and procurement officials would benefit from expanded training and guidance on their procurement ethics responsibilities. DHS’s many partnership arrangements with the private sector suggest that the minimal initial and annual government ethics training DHS requires may be insufficient.

Program Management

Effective program management is essential to obtaining the right equipment and systems to accomplish the DHS mission. Complex and high dollar contracts require multiple program managers often with varying types of expertise. Several DHS procurements have encountered problems because contract technical and performance requirements were not well defined. We identified the need for more certified program managers; department-wide standards for program management; a strengthened investment review board process to provide greater independent analysis and review; better defined technical requirements; and, a more balanced approach to schedule, cost and performance when expediting contracts. Across the department, the number of acquisition program managers ranged from one to 62, but only 22 percent of the program managers had achieved appropriate certification, and only the Transportation Security Administration (TSA) and the U.S. Coast Guard (USCG) had more than two qualified program managers, while the Secret Service and Federal Emergency Management Agency (FEMA) had none.

Procurement Management

We identified a number of issues related to the management capabilities of DHS procurement offices. Integrating its many separate components into a single, effective, efficient, and economical department remains one of DHS’s biggest challenges. Today’s DHS procurement function reflects the legacy DHS inherited from the 22 previously independent or departmental agencies that became the Department of Homeland Security.

In their transition into DHS, seven agencies retained their procurement functions, including USCG, FEMA and TSA. The expertise and capability of the seven procurement offices mirrors the expertise and capability they had before creation of the department. This capability ranged from 21 to 346 procurement personnel.

DHS established an eighth acquisition office, the Office of Procurement Operations (OPO), under the direct supervision of the Office of the Chief Procurement Officer (OCPO), to service the other DHS components and manage department-wide procurements. Many DHS procurement offices reported that their lack of staffing prevents proper procurement planning and severely limits their ability to monitor contractor performance and conduct effective contract administration.

A second issue we identified in this area relates to OCPO oversight within the department. In addition to actually awarding contracts, the OCPO is tasked to provide procurement oversight to help DHS components ensure adherence to standards of conduct and federal acquisition regulations in their award and administration of contracts. This oversight role involves developing department-wide procurement policies and procedures and enforcing those policies and procedures through active awareness of ongoing procurement actions.

Both our office and GAO have reported that the OCPO needs more staff and authority to effectively carry out its general oversight responsibilities. GAO reported in 2005 that OCPO had only two people to oversee the eight procurement offices, which handled nearly $10 billion in procurement activity during fiscal year 2004. GAO recommended that DHS provide OCPO with sufficient resources and enforcement authority to enable effective department-

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wide oversight of acquisition policies and procedures. We made a similar recommendation.

**Expedited Schedules and Poorly Defined Requirements**

We have conducted audits and reviews of a number of individual DHS contracts, such as TSA’s screener recruiting, TSA’s information technology services, and CBP’s Integrated Surveillance Intelligence System. Common themes and risks emerged from these audits, primarily the dominant influence of expediency, poorly defined requirements, and inadequate oversight.

Little disagreement exists about the need for our nation to protect itself immediately against the range of threats, both natural and manmade, that we face. At the same time, the urgency and complexity of the Department’s mission create an environment in which many programs have acquisitions with a high risk of cost overruns, mismanagement, or failure.

The Department’s lack of institutional capacity for managing such risks is a common theme in the audits we have conducted. The Department lacks a cadre of skilled program and acquisition management personnel, as well as robust business processes, and information systems, to meet quickly and effectively DHS’s urgent schedule demands and complex program objectives.

Programs developed at top speed sometimes overlook key issues during program planning and development of mission requirements. Also, an over-emphasis on expedient contract awards may hinder competition, which frequently results in increased costs. Finally, expediting program schedules and contract awards necessarily limits time available for adequate procurement planning and development of technical requirements, acceptance criteria, and performance measures. This can lead to higher costs, schedule delays, and systems that do not meet mission objectives.

**TSA Hiring of Airport Security Screeners**

TSA faced particular performance specification, scheduling, and cost growth challenges in administering the NCS Pearson contract for hiring airport security screeners. TSA had not finalized screener staffing requirements prior to the contract solicitation. Within a month of awarding the contract, TSA significantly changed the scope of the contract. Rather than use NCS Pearson’s existing

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assessment centers, TSA directed the contractor to establish about 150 temporary assessment centers.

The establishment of temporary assessment centers; delays and revisions in issuance of the airport federalization schedule and staffing requirements, including the requirement for a ready pool of approved applicants beyond those initially hired; and, higher than expected applicant rejection rates significantly increased NCS Pearson’s costs to establish and operate the assessment centers. By the contract’s end, NCS Pearson had assessed more than nine times the number of screeners originally estimated in less than half the time originally allotted. Consequently, the increased candidate volume increased the size of assessment centers needed and the length of time those centers had to be available. These factors contributed to increasing contract costs from the original estimate of $104 million to a final settlement amount of $741 million.

TSA Acquisition of Information Technology

Another example of where an expedited schedule led to DHS acquisition deficiencies is TSA’s information technology managed services contract with Unisys. In 2002, TSA started the rollout of security operations at airports under congressionally mandated short timeframes with significant budget constraints. To quickly establish an information technology and telecommunication infrastructure needed to support its employees at headquarters and airport locations across the United States, TSA awarded a $1 billion contract to Unisys using a broad statement of objectives to describe the requirements. At the time, the TSA Office of Information Technology (OIT) and Contracting Office had small staffs overseeing numerous high value acquisitions, including the Unisys contract.

By the beginning of fiscal year 2006, TSA had spent most of the contract ceiling, 83 percent, without receiving many of the contract deliverables critical to airport security and communications. OIT issued numerous requests for specific tasks and deliverables, but did not always ensure that technical proposals included all of the required contracting elements such as statements of work with delivery due dates and acceptance criteria. TSA did not have adequate performance measures on the Unisys contract two years into the contract. Performance measures have evolved and improved over the life of the contract through TSA’s efforts to improve them, but performance measures were limited to a small portion of

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contract work and were added too late in the contract cycle to be effective in
assessing the contractor’s performance.

**FEMA’s Award of Post-Katrina Contracts**

We also reviewed contracts awarded in the aftermath of Hurricane Katrina. FEMA’s core mission is to respond to emergencies and procure emergency supplies and equipment. Therefore, planning for these types of procurements would be sound business practice. Because of the unpredictable nature of emergency operations, such planning cannot always be used to select specific sources in advance of a disaster. However, our review of post-Katrina major contract awards found that:

FEMA scrambled to purchase supplies, commodities, equipment and other resources to support emergency and disaster response efforts from numerous vendors because requirement planning prior to Katrina was inadequate;

Call or standby contracts with pre-negotiated prices, quantities, terms and conditions, and specifications could have greatly facilitated post disaster procurement operations, but were not implemented;

In many instances, the government did not pay a reasonable price for its purchases, because competition was limited; and,

The government’s contract oversight and monitoring was inadequate, resulting in cost and price variations.

**DHS Begins to Improve its Acquisition Management Capacity**

In our 30-day assessment for Secretary Chertoff, we recommended that DHS (1) require expanded procurement ethics training for senior program and procurement officials; (2) monitor departmental procurement activities for potential standards of conduct violations; (3) create and staff a DHS organization to develop program management policies and procedures; provide independent technical support and share best practices; (4) optimize procurement organization resources across DHS; and, (5) provide OCPO with sufficient staff and resources to effectively oversee DHS procurement operations.

DHS concurred with each of these recommendations. To a great extent, the Chief Procurement Officer’s agenda reflects the issues in our report. Specifically, the OCPO is developing a training class on procurement ethics for senior program...
and procurement officials that is emphasizing real examples of procurement fraud in addition to teaching applicable regulations. The OCPO’s December 2005 management directive on acquisition oversight increases the Department’s ability to monitor procurement activities for standards of conduct violations.

In May 2004, DHS instituted a program management certification process that requires increasing levels of certification based on training and experience. A higher-level certification is required to manage higher dollar value programs. For example, Level I certification is required for programs with annual costs ranging from $5 million to $50 million or life-cycle costs ranging from $20 million to $100 million. Level III certification is required for programs with annual costs exceeding $100 million or life-cycle costs exceeding $200 million.

In December 2005, the Office of the Chief Procurement Officer issued a DHS management directive on acquisition oversight and is hiring additional staff to oversee the acquisition offices.

Risks Related to Major Acquisitions Underway

The urgency and complexity of the Department’s mission will continue to demand rapid pursuit of major investment programs. While DHS continues to build its acquisition management capabilities in the component agencies and on the department-wide level, the business of DHS goes on and major procurements continue to move forward. One of these major procurements is SBInet.

On November 2, 2005, the Department announced a multi-year strategy to secure America’s borders and reduce illegal immigration, called the Secure Border Initiative (SBI). We are paying close attention to SBI procurements due to their size and scope and issues raised in our previous audits related to similar programs. We see risks and vulnerabilities similar to those identified in previous OIG audits and reviews.

SBInet Procurement Risks

The Department issued a request for proposal to select a system integrator for SBInet using an indefinite quantity/indefinite delivery performance-based acquisition strategy. Requirements are described in a broad statement of objectives to the bidders, providing the flexibility for them to propose innovative solutions. It remains to be seen whether the proposed solutions fully address the Border Patrol’s needs, what measures of performance and effectiveness can be applied to the contract, how soon the program can be implemented, and what a
reliable estimate of the program’s cost would be. We anticipate scrutinizing the program’s performance management plan, acquisition program baseline, schedules, cost controls, and cost estimates when they are prepared. We will also assess the effect on the program and its costs as CBP’s operational requirements are set and adjusted after award.

In general, based upon our past audit work and experience with large acquisition programs, we believe that CBP faces some tremendous challenges and risks in pursuit of SBInet. These challenges and risks include:

An Expedited Timeline

The Department has set a tight deadline of September 2006, requiring CBP to press hard to meet tight deadlines while mitigating risks and avoiding mistakes. To mitigate these risks, CBP needs an institutional capacity, including a cadre of acquisition management personnel and robust business processes, to accomplish the tasks needed to set-up and implement a new program, administer the contract, and establish cost, schedule, and performance controls.

Building an Organizational Oversight Capability

Building a program management office entails not only recruiting and contracting for qualified acquisition managers and technical experts, but also establishing robust business processes. The SBInet acquisition strategy calls for scoping a series of task orders over a number of years; therefore, entailing not only vigilant contract administration but also continuing program decisions, systems engineering efforts, and business case analyses, all of which necessitate a substantial program management office capability.

Defining Operational and Contract Requirements

The department has adopted a high-risk acquisition strategy for SBInet that underscores the need for risk mitigation and controls. The use of a statement of objectives type of contract is made high-risk by broadly defined performance requirements. Translating the Border Patrol’s operational requirements effectively into contract requirements entails thoroughly identifying the problems with status quo border control, communicating the problem to industry, negotiating a best value solution, and, applying measures of performance and effectiveness to gauge success. A broadly defined statement of objectives approach coupled with undefined requirements leaves programs vulnerable to failure and cost overruns.
Acquisition Management a Priority Area for the OIG

We are currently developing our work plan for fiscal year 2007. Depending on available resources, we expect the plan to include audits and reviews that will examine crosscutting acquisition issues, in addition to individual programs and contracts. Acquisition management is a priority area for OIG and an area where we plan a proactive approach to identify the risks we see to avoid wasteful spending and obtain the right equipment and services to achieve DHS's mission.

We intend to initiate a review of the Department's use of sole source contracts. DHS's current advance acquisition plan lists eight non-competitive procurements valued at more than $10 million each. Non-competitive procurements require justification and additional management controls to ensure that the procurements are in the best interest of the government and provide taxpayers the best value. Additionally, we plan a series of projects on Deepwater, SBI, and other major acquisitions. We look forward to conducting these projects and providing the results to Congress and the Secretary.

Mr. Chairman, this concludes my prepared remarks. I would be happy to answer any questions that you or the Committee Members may have.
Chairman Tom Davis. Thank you very much.
Ms. Duke, thank you for being with us.

STATEMENT OF ELAINE C. DUKE

Ms. Duke. Good morning Chairman Davis, Ranking Member Waxman and members of the committee. Thank you for the opportunity to appear before you to discuss the Department of Homeland Security acquisition program.

I am a career executive and have spent my 23 years of public service as an acquisition professional. On January 31, 2006, I was selected as the Department's Chief Procurement Officer.

Accompanying me today are Mr. John Ely and Mr. Rick Gunderson. Mr. Ely is the Executive Director of Procurement for Customs and Border Protection. Mr. Gunderson is the Assistant Administrator for Acquisition for the Transportation Security Administration.

My two main priorities as the DHS Chief Procurement are to: No. 1, build the DHS acquisition work force; and No. 2, enhance acquisition planning. These priorities, detailed in my written testimony, are designed to mitigate the challenges the Department faces due to significant increases in contract spending, shortages of acquisition personnel and mission urgency driving aggressive schedules.

Since our establishment in 2003, the Department has seen significant growth in its acquisition program. In less than 3 years, the Department has grown from $6.7 billion to over $17 billion in obligated contract dollars in fiscal year 2005, with 66,000 contract actions with 15,000 prime contractors.

The Chief Procurement Officer has initiated staffing solutions to resolve personnel shortages and build in-house capacity to handle contracting actions. Balancing the appropriate number of DHS contracting staff with the growth of the contracting requirements has been a challenge. My office has taken the lead department-wide to create a centralized recruiting system for contracting personnel within DHS components and enhance the DHS Acquisition Fellows program, targeting recruitment efforts to recent college graduates.

As a new department, it has been a challenge to grow DHS, since our mission requires the infrastructure to be built while simultaneously meeting operating requirements. But despite the challenge, the Department has had significant accomplishments in securing the vital infrastructure, products and services that ensure the security of the American public.

Each initiative is guided by an acquisition process that includes three key factors: performance, cost and schedule. These factors comprise the major elements of procurement decisionmaking and valuation. Balancing performance cost and schedule requirements is challenging for all agencies, and is especially challenging for DHS, given its mission and current contracting staffing levels.

When necessary due to urgency of mission, DHS has entered contracts for goods and services in short periods of time to provide immediate relief to meet pressing humanitarian needs and protect life and property.

Since DHS operation is in a rapid acquisition environment, it must prioritize its acquisition planning beyond what is generally
expected of a non-emergency response agency to ensure that decisions are made properly and timely. It is critical that DHS continue to develop an acquisition system that includes professionals in all disciplines forming an acquisition team, including program management.

DHS has initiated a program management counsel to build this necessary cadre of professionals in the Department. We want to make sure we have accountability at DHS, so that we are responsible stewards of the public funds. But we want to make sure that we can act quickly to save lives.

The challenges DHS has experienced since its inception have tested our capabilities, but have also demonstrated our resolve, strengthened our determination, increased the urgency of our efforts and underscored a solemn responsibility that all of us may face.

In closing, I would like to express my gratitude to Chairman Davis and Mr. Waxman for working with DHS to develop better business practices at the Department. I look forward to continuing to work with the committee on developing solutions to current and future issues, including the ones we are discussing today.

I am glad to take any questions and thank you.

[The prepared statement of Ms. Duke follows:]
Chairman Davis, Congressman Waxman and Members of the Committee, thank you for the opportunity to discuss the Department of Homeland Security (DHS) acquisition program and our contracting procedures. I am the Chief Procurement Officer for the Department of Homeland Security (DHS). I am a career executive and I have spent most of my 23 years of public service in the procurement profession. On January 31, 2006, I was selected as the Department's Chief Procurement Officer.

Accompanying me today are Mr. John Ely and Mr. Rick Gunderson. Mr. Ely is the Executive Director of Procurement for Customs and Border Protection and manages the organization that provides procurement services to ensure the security of our nation's borders. He joins me today to answer any questions that this committee may have concerning CBP. Mr. Gunderson is the Assistant Administrator for Acquisition for the Transportation Security Administration and manages the procurement operations to ensure the security of our nation's transportation systems. He joins me today to answer any questions that this committee may have concerning TSA. Mr. Ely and Mr. Gunderson are both career executives with extensive careers in acquisition and public service.
In addition to CBP and TSA, as the Chief Procurement Officer (CPO), I provide oversight and support to six other procurement offices within DHS including, Immigration and Customs Enforcement (ICE), Federal Emergency Management Agency (FEMA), the Federal Law Enforcement Training Center (FLETC), United States Coast Guard (USCG), United States Secret Service (USSS), and the Office of Procurement Operations.

As the CPO, my primary responsibility is to manage and oversee the DHS acquisition program. I provide the acquisition infrastructure by instituting acquisition policies and procedures that allow DHS contracting offices to operate in a uniform and consistent manner. The use of strategic sourcing commodity councils across the eight contracting offices also allows DHS to secure volume discounts whenever possible. Commodity councils are cross departmental teams of subject matter experts that focus on developing the best strategy for acquiring groups of products and services. While I provide the infrastructure, the responsibility for properly planning and executing procurements rests with the components since, with the exception of the DHS’ Office of Procurement Operations, each contracting office reports directly to the heads of the component it supports. Because seven of eight contracting offices report to the heads of their components, I strive to achieve functional excellence among the offices primarily through collaboration. I use the DHS Chief Acquisition Officers Council, comprised of the heads of each contracting office, to integrate the contracting function while maintaining the components’ ability to meet their customers’ unique needs.
My top four priorities for the DHS program are:

- First, to build the DHS acquisition workforce to enhance the Department's acquisition program.
- Second, to establish an acquisition system whereby each requirement has a well-defined mission and a management team that includes professionals with the requisite skills to achieve mission results.
- Third, to ensure more effective buying across the eight contracting offices through the use of strategic sourcing and supplier management.
- Fourth, to strengthen contract administration to ensure that products and services purchased meet contract requirements and mission need.

**Priority 1:** Build the DHS acquisition workforce to enhance the Department's acquisition program.

**Challenges:**

Balancing the appropriate number of DHS contracting officials with the growth of DHS contracting requirements has been a challenge. At times, the gap between Department spending and staffing levels has placed increased demands on procurement officials. A study conducted by the Government Accountability Office (GAO) in 2004 revealed that the Office of Procurement Operations' contracting staff on average handled $101 million per employee. FEMA in particular has experienced difficulties in hiring staff in this area. To address the lack of in-house capacity, the Office of Procurement Operations has
used interagency agreements with outside agencies for contracting assistance to effectively support the mission.

**Solution:**

Within the DC area competition for procurement personnel is substantial. On July 15, 2006 there were 45 job announcements in the DC area for acquisition personnel on USAJobs.gov, the website for posting federal employment opportunities. DHS has initiated staffing solutions to resolve personnel shortages. In particular, the Office of the Chief Procurement Officer has taken the lead Department-wide to create a centralized recruiting system for contracting personnel within all DHS components, enhance the DHS Acquisition Fellows Program which aims to recruit recent college graduates, and work with Human Resources to streamline the direct hire process. The FY 2007 Budget requests funding to hire additional procurement personnel. Higher staffing levels will improve DHS' ability to monitor department contracts and effectively identify and correct poor contractor performance.

DHS is also building in-house capacity to handle contracting actions so as to reduce reliance on interagency agreements, which typically require significant fees. In order to ensure that internal controls are in place when using interagency contracting, DHS issued a management directive that sets forth a number of oversight and management requirements. From 2004 to 2005, the percentage of dollars the Department sent to other agencies decreased based on total spend by 14% although the total dollars increased by 8.2%.
Priority 2: Establish an acquisition system whereby each requirement has a well-defined mission and a management team that includes professionals with the requisite skills to achieve mission results.

Challenges:
Three factors guide the acquisition process: Technical, Cost and Schedule. These factors comprise the major elements of procurement decision-making and evaluation. On occasion, due to urgent and compelling circumstances, DHS enters into contracts for goods and services in short periods of time in order to provide immediate relief to meet pressing humanitarian needs and protect life and property. Balancing technical, cost and schedule requirements is challenging for all agencies, and is especially challenging for DHS given its mission and current contracting staffing levels. Since DHS operates in a rapid acquisition environment, it must prioritize acquisition planning – beyond that generally expected of an agency that does not have emergency response as a primary responsibility – to ensure that decisions are made properly and timely.

While an increase in contracting staff is critical to the success of the DHS program, also important is the development of an acquisition system that includes professionals from all disciplines to form an acquisition team, including program management. Without proper program management, contracting officials are unable to meet schedule requirements or adequately track and evaluate cost and technical criteria. While the
number of program management certified personnel is steadily increasing there are still a number of investments that are not managed by certified program managers.

Solution:
In order to mitigate the challenges that result from accelerated procurement schedules, the Office of the Chief Procurement Officer is currently promoting the use of an advance procurement planning system that should allow better program planning. To facilitate the contracting process, it is important that all parts of the acquisition program function correctly so that requirements are adequately defined, properly procured, and effectively managed to avoid mispending on technologies and services that may not achieve their objectives. In an effort to drive planning, the Department is strengthening its acquisition program by emphasizing acquisition planning throughout the entire procurement lifecycle including research and development, program management, and contracting.

The Office of the Chief Procurement Officer issued a management directive in May 2004, which mandated that all program managers meet the Department’s certification and training requirements. Since the release of this directive, the number of personnel certified as program managers has increased dramatically from 0 in May 2004 to 348 in July 2006. Additionally, during this same time period, the number of certified program managers by investment level has increased from 0% to 23%. Recognizing that only 23% of investments have program management certified program managers, the Office of the Chief Procurement Officer is assessing the assignment of program management positions. The Office of the Chief Procurement Officer has also led the formation of a
Program Management Council as part of the Program Management Center of Excellence that is working to develop the policies, procedures and other tool sets needed for DHS Program Managers to succeed. A key component of this effort is the DHS Program Management certification program that is being used as the model for a government-wide certification program. Finally, DHS has implemented Earned Value Management (EVM) within high priority programs and a Program Management Periodic Reporting process to assess the performance of all major investments each quarter.

Priority 3: Ensure more effective buying across the eight contracting offices through the use of strategic sourcing and supplier management.

Challenge:
As a maturing organization, DHS faces challenges in conveying to its components the importance of consolidating requirements and collaborating procurement efforts. As the organization matures it is essential that DHS' strategic sourcing program work to promote the leveraging of buying activities within the Department.

Solution:
Strategic Sourcing is the process of leveraging an organization's buying power and the managing of strategic procurement spending in logical categories in order to emphasize various characteristics and achieve efficiencies and economies of scale. These characteristics include performance, price, total life cycle management costs, socio-economic goals, and stakeholder collaboration. DHS' strategic sourcing has added
value to the DHS investment review process, improved the quality and timeliness of the
delivery of goods, and generated Department-wide savings on commodities such as
aviation, boats, information technology, uniforms, weapons and office supplies. Since
FY 2004, DHS has seen $201 million in price savings and $9 million in cost avoidance
for a total of $210 million in strategic sourcing program savings to date. For example, a
strategic sourcing initiative for weapons and ammunition resulted in price reductions of
35%, two awarded contracts – one to a small business, $1 million in cost avoidance for
testing, and an extended warranty period.

Priority 4: Strengthen contract administration to ensure that products and services
purchased meet contract requirements and mission need.

Challenge:
As DHS continues to work to align processes and resources within the Department, it is
important that the organization procure goods and services that meet their required
objectives to facilitate effective post-award contract administration and oversight.

Solution:
In order to ensure that contract technical and performance requirements are adequately
defined and developed, DHS uses a knowledge-based approach to program and
acquisition management. The Department’s investment review process provides for
discretionary milestone reviews based on risk as well as key milestone decision reviews
prior to entering each new acquisition phase. Each component has oversight
responsibility for all of their programs, regardless of acquisition level. Additional
departmental oversight is exercised through the Joint Requirements Council and the Investment Review Board. These groups are supported by an Integrated Program Review Team consisting of subject matter experts representing the Chief Procurement Officer, Chief Financial Officer, Chief Information Officer and the Chief of Administrative Services to provide better decision support. To improve oversight on major complex investments, DHS requires an investment review prior to prototyping a solution, which is a key decision point required prior to entering the concept and technology development phase. Similarly, the department may require a milestone review to assess the results of prototyping and readiness to proceed with a low rate production. In accordance with recent changes to the Federal Acquisition Regulation, DHS has begun a rigorous program requiring each major investment to report on the ongoing progress of its programs and its associated contracts against predetermined cost, schedule and performance measurements, including a provision for alerting senior department management to any potential breaches of any threshold level. During the fiscal year this process provided oversight for 53 major investments, each with total acquisition costs exceeding $50 million. DHS is making progress towards the goals outlined in the external reviews, such as those provided by the GAO, but we recognize that more improvement is needed in order to reduce risks.

CONCLUSION:

In closing, accomplishing these key objectives requires collaboration and strong working relationships with all DHS stakeholders, to include private industry, other federal agencies, and members of Congress, to ensure DHS meets its mission as effectively as
possible. I am committed to continuing with fostering those relationships. Thank you for the opportunity to testify before the Committee about DHS contracting procedures and I am glad to answer any questions you or the Members of the Committee may have.
Chairman Tom Davis. Thank you very much.

Mr. Ely and Mr. Gunderson, do you want to make brief statements?

Mr. Ely. I just want to say good morning, Chairman Davis, to you and Ranking Member Waxman and the distinguished members of the committee. I am John Ely, that has been said before, and I am the Chief Procurement Officer of Customs and Border Protection. I just want to let you know that I am pleased to be here today to answer any of your questions.

Thank you.

Chairman Tom Davis. Thank you.

Mr. Gunderson. Just a couple of minutes, please.

Chairman Tom Davis. Sure.

Mr. Gunderson. Chairman Davis, Congressman Waxman and members of the committee, thank you for the opportunity to discuss the Transportation Security Administration’s acquisition and contracting programs. As the Assistant Administrator for Acquisition, I provide direction and oversight of TSA’s acquisition program, including the award and administration of contracts, grants and financial assistance. Since TSA was enacted, it has obligated more than $2 billion per year for supplies, services and financial assistance in support of various TSA missions.

As you are aware, through its enacting legislation, TSA was faced with significant mission challenges. To meet those challenges, TSA awarded several large contracts to industry teams in an abbreviated time period with minimal staffing. Major contracts included the purchase, deployment and maintenance of security screening equipment at more than 440 airports, the outfitting of TSA operations with the necessary information technology equipment and the recruitment, assessment and hiring of screeners.

While these contracts resulted in the successful accomplishment of the missions, they came at a higher cost than originally estimated. The increases were due to several factors, but changing requirements was the primary driver. As a result, the final cost of these contracts should not be compared to the original amounts without considering the original work performed. These major contracts, awarded in the stand-up phase of TSA, have been replaced with new contracts that implement a more streamlined approach, greater opportunities for small businesses, and a greater emphasis on performance-based measures.

For example, maintenance of our security screening equipment was originally accomplished through a single large integrator contract but has since been replaced with several contracts that have fixed price terms and eliminated unnecessary layers of contractor support. As a result, TSA has transferred cost risks to industry and lowered the maintenance costs per machine.

I will continue to strengthen the acquisition program at TSA through the implementation of policies and procedures targeted to provide greater effectiveness and oversight, implementing new business strategies to decrease costs and increase performance, and building a stronger acquisition work force.

Thank you for the opportunity to testify before the committee, and I would be pleased to address any questions you may have.
Chairman Tom Davis. Thank you. Let me start the questions, because I am going to have to run.

I understand there are changes in scopes in contracts and that is what causes them to grow on many occasions. It is not just always that they bid low, do a buy-in and then try to come back. Of course, one of the difficulties is when you bid the contract out originally and it comes in at $104 million and then grows to $700 million, it is not competitive all the way through. You might have gotten a different outcome had you known what you wanted in the first place. Is that a fair comment?

Mr. Gunderson. Yes.

Chairman Tom Davis. I had been in Government contracting for 15 years before I came to Congress. I was the general counsel for a billion dollar company that did a lot of Government contracts. I understand where it goes right and where it goes wrong.

The other thing that really alarmed me, just looking here on the macro, was the number of contracts that were awarded that were sole source, without full and open competition. It seems to have exploded here. Not just in your agency, but I am saying, across the Department.

Now, I wouldn't be sitting here complaining about that, because I understand the need to do that on occasion, you get a unique technology, you need it quickly, you can go out and respond to an unsolicited proposal or whatever. And we even set up something in the Department of Homeland Security called Other Transactions, the OT, where people who aren't used to selling to the Government can come in and do it. So I don't think it is inherently bad, but when you are getting terrible results like this, we have to ask the question, and assume that maybe that is part of the problem.

Ms. Duke, do you want to address that?

Ms. Duke. I would agree with you, Mr. Chairman, competitive contracting is the preferred way to go. We did have a dip in our competitive numbers, primarily due to the Katrina contracting in FEMA. Our numbers were at about 76 percent competitive at the onset of the hurricane season.

What we are doing to counteract that is putting the contingency contracts in place, in FEMA specifically, and improving our planning so we have the contracts competitively.

Chairman Tom Davis. But let me just add, to get back to Katrina, as you know, I was the author of the investigative report. One of the problems we found there is that we were giving out these large contracts, contingency contracts, and at the end of the day we didn't make use of locals, there were a lot more efficient ways we could have done this downstream. It really wasn't thought through. We gave it to these big companies and they add surcharge after surcharge as it moves on down. You get the local guys doing the work, but you have a huge markup along the line.

I think we have learned, hopefully, we have learned our lessons from that.

Ms. Duke. Yes, we have. We have national strategies for immediate response for regional or local. But we also have regional programs in place, for instance, the maintenance and deactivation of trailers is all being done now by local contractors in the Gulf region. So we do agree with you on that strategy.
Chairman TOM DAVIS. We got a letter today from FEMA on the trailers. I don’t know if anybody can answer this, but basically they are telling us something different from what the IG has said. FEMA puts out this fact sheet. They say, FEMA is unaware of a termite problem in any of the 95,000 trailers that are currently deployed along the Gulf Coast, with the exception of just one report. A random sample of 200 trailers also negative results for termites.

My understanding is, and I haven’t been there, that at the site in Arkansas where we have stored literally thousands of trailers that we have a number of termite-infested trailers there. Can anybody shed any light on that?

Ms. DUKE. I do know that in the Gulf region termites are an issue, and there is a quarantine in 11 of the parishes for Formosan termites. FEMA has procedures in place to ensure that as those trailers are moved in the Gulf region that we have the appropriate compliance with the Louisiana——

Chairman TOM DAVIS. Well, here is what I want to ask, and if you don’t have the answer today, I would like to send a couple of people down to go through those trailers that are sitting down there in Arkansas. We purchased a lot of trailers that it doesn’t look like will ever be used. I understand sometimes contingency planning and storage and things go awry and that appears to have happened in this case.

But my question is, are any of those trailers that we have stored for “future use” that American taxpayers have paid for, have we stored them in a way down there that they are termite-infested? If you can’t answer that, I would like you to just give us a straight answer.

Ms. DUKE. I do not have information about the stored trailers in Arkansas.

Chairman TOM DAVIS. Could you please check on that?

Ms. DUKE. Yes.

Chairman TOM DAVIS. That again would just be—I don’t want to dwell on it, but just go back and check that, because we have information that they are. We would be happy to send an inspector down. I know Members have been denied that right. Mr. Waxman and I and Mr. Duncan would be, we just want to see what has happened, what has gone wrong here. Maybe there are better places to store them. We understand what happened with Katrina, it is the largest reported storm in history. And the response just was not as efficient as it might have been had we been more prepared and seen it coming and everything else, so I don’t want to dwell on that.

I want to ask you just a couple of other questions. Do you have enough trained procurement personnel, or do you need more?

Ms. DUKE. We need more. We have an increase coming in the current 2007 budget of about 200 additional. We are working toward needing even more over time. As you know, Mr. Chairman, our spending is increasing. We increased 35 percent just between 2004 and 2005.

Chairman TOM DAVIS. Well, you are darned if you do and darned if you don’t. I remember when we started up, contractors were lined up, when is Homeland Security going to start coming out with all these contracts. I think the philosophy at the top was, we
are going to wait until we know what the mission is, what our requirements are before we go out and spend money. I think on that stage we did a good job.

The problem is, once they came out, some of the oversight and everything else, and particularly emergency response has just been a little sloppy. My concern is, a procurement officer in the Government is worth their weight in gold. If we can buy what we want and get the best value for the taxpayer, we are going to save tens of billions of dollars annually. We don't spend enough time doing that. It is not your fault, Ms. Duke, but Government-wide, this just has not been given the appropriate attention. In fact, some of it has been tied from Congress. We have Members who think, to save money, we are going to cut procurement officers. And that makes it very difficult to give appropriate oversight to contracts.

But more importantly, that contracting officer is not always in touch with what the agency needs, and doesn't always use the best vehicle. I think Mr. Waxman and I would say, competitive vehicles are usually best, because it offers you an array of choices and competition tends to bring costs down for the taxpayers.

I don't want the agencies to come up here and say we haven't given them enough resources and that we are asking you to do more with less. I understand you are a career employee that they have sent up here today to answer for some of these things. But these mistakes start at the top where they have just not kept their eye on the ball, haven't committed the resources here. Yet TSA in particular, we gave them particular flexibilities in hiring that no other agency in Government has to try to get to this.

And I just think on the procurement shop, from this committee's perspective, we don't have jurisdiction over all of the funding and everything else. We need to know what you need. Because one huge cost overrun or $100 million ends up costing more than hiring 25, 100 good people that could have overseen this thing and done it right. Is that a fair comment?

Ms. DUKE. It is. And as we prepare our fiscal year 2008 budgets, I am looking at each's component's budget and how they are budgeting for acquisition work force members, and am taking a consolidated Department look at that to make sure that we are putting into our budget the right amount of contracting basics.

Chairman TOM DAVIS. How much buying do you do off the GSA schedules?

Ms. DUKE. I don't have an exact number, but a considerable amount.

Chairman TOM DAVIS. Ballpark?

Ms. DUKE. If I had to guess—we could get you an exact number. But I would say of dollars, potentially up to 30 percent.

Chairman TOM DAVIS. When you give the schedules, do you usually go to two or three groups to shop around, right?

Ms. DUKE. Yes.

Chairman TOM DAVIS. It is not just one. How much do you do off of GWACS, off of wider contracts? What percent, ballpark?

Ms. DUKE. Mostly in the IT area, like integrated wireless. I would say in IT dollars, a lot of those vehicles are new, so less, 10, 15 percent maybe.
Chairman Tom Davis. OK. I have a lot of other questions, but I have to run over to the Senate, so I am going to give Mr. Waxman a few minutes, and I am going to turn the Chair over to Mr. Duncan.

I appreciate your being here. This is a serious, serious problem, and it is a black eye for the administration to have these things. We just need continued oversight. And don't hesitate to ask. We don't want to just keep you out there, and if you are not getting the tools you need, we need to know about it. But the oversight that has come from the top here has ended up costing us billions of dollars that we could have better spent on a lot of other items. We will go over and fight on the floor over $20 million or $10 million sometimes on a program or an earmark or something like that, while billions get wasted just in the way we are doing business. That is what we are trying to get at today, and I appreciate your being here.

Mr. Waxman.

Mr. Waxman. Thank you, Mr. Chairman.

One of the frustrating parts of all of this to me is how this administration and its approach to Federal contracts is that no one seems to learn from their mistakes. We have seen incredible waste in Iraq. We have seen the same thing in response to Hurricane Katrina and now we see it at the Department of Homeland Security.

A good example is how this administration approaches border security. Under a deeply flawed contract called Integrated Surveillance and Intelligence System [ISIS], the Customs and Border Protection Office wasted enormous sums on a high-tech surveillance system that never worked. Now, instead of learning from these mistakes, the Department wants to enter into an even bigger contract called the Secure Border Initiative, which will cost taxpayers $2 billion. In my questions in this round, I want to focus on these two contracts.

Under the ISIS contract, over $400 million was spent on thousands of cameras and sensors to monitor our borders. Most of this money was spent during the past 5 years. The idea was that this would be a high-tech, state-of-the-art surveillance system for protecting our borders. Mr. Zavada, the Inspector General examined the ISIS contract and the equipment purchased under it. I would like to ask about your findings. Weather conditions on the border can be demanding. How well did the cameras function when exposed to snow, ice, humidity and extreme temperatures?

Mr. Zavada. We reported problems with the functioning of the equipment in our report.

Mr. Waxman. They malfunctioned, in other words?

Mr. Zavada. Yes. Some issues with the operation of the equipment.

Mr. Waxman. I understand that another problem was power outages. Did the cameras experience this problem?

Mr. Zavada. I am not aware of that.

Mr. Waxman. What we found out was that even if the cameras systems were working, I understand that they didn't detect movement automatically. Instead, the Border Patrol officials had to be
monitoring the cameras at all times, which rarely happened, is that right?

Mr. ZAVADA. I believe that was the case.

Mr. WAXMAN. When you took all these factors into account, what did you conclude? Was the ISIS system an effective system?

Mr. ZAVADA. I think from a contract management standpoint, we found problems with the way that the program managers managed that contract. There were communication problems, that was a contract that GSA was the contracting officer for that. What we reported in our report was that there were communication issues between the Border Patrol program people and the GSA contracting officers that inhibited effective program management.

Mr. WAXMAN. The taxpayers spent $400 million on this system, which didn’t work. Even if the cameras had worked, they only covered 5 percent of the border, leaving 95 percent unprotected. This hardly sounds like a dependable state-of-the-art equipment.

Mr. Ely, do you agree that this equipment was inadequate?

Mr. Ely. Yes, sir, but I would like to qualify that with a little bit of personal experience. I have been down on the border and I have watched the cameras and sensors. It is interesting to see that it does expand the capability of Border Patrol agents to keep an eye on particular geographical areas.

I did study the ISIS situation. You are correct with many of the things that you say. But I would like to swing back to the contract management issue. That is a gigantic issue, not just in Homeland, but I believe in Government, that we think we are there when we sign a contract, but the delivery is the really important part. We have to manage these carefully.

Border Patrol was working through GSA. GSA is not what I would call a “family member” when it comes to managing contracts. They work hard, they do a good job. But they are not in-house procurement experts.

Mr. WAXMAN. Well, let me go through this issue, because auditors for the General Services Administration Inspector General concluded that the dismal oversight of this program placed taxpayers’ dollars and national security at risk. Rather than learn from this mistake, DHS officials seem poised to repeat them. Because in March of this year, DHS asked contractors for proposals for a new Secure Border Initiative [SBI]. It will be a $2 billion Federal contract to design, build, test and operate a massive border security system.

Here is the only requirement DHS established in its request for proposals. DHS wants “highly reliable, available, maintainable and cost-effective solutions to manage, control and secure the border, using the optimal mix of proven, current and next generation technology, infrastructure, personnel, response capabilities and processes.” Mr. Zavada, in your opinion, does that adequately define technical and cost requirements?

Mr. ZAVADA. In terms of SBI, we have, based upon the past work that we have done, we have identified three risk areas related to that contract. The first one is the accelerated schedule. Certainly the accelerated schedule to meet the September deadline, combined with the program management capabilities, as they stand, is a potential risk area.
Mr. WAXMAN. Do you think it is a problem that it is such a vague description of what is needed to create this program?

Mr. ZAVADA. That was the second risk area that we pointed out. The contract objectives in the past, in our past reports we pointed out that broad contract objectives can be problematic and have created issues in other contracts.

Mr. WAXMAN. Mr. Sullivan, do you agree, this $2 billion contract rests on deeply flawed contracting philosophy. In January, Secretary Michael Jackson told potential bidders for SBI, we are asking you to come back and tell us how to do our business. That is incredible. There is no plan. There is no attempt to do the hard thinking about what needs to be done to secure our borders. Instead, DHS is outsourcing the job of Government to private contractors.

What is your view on that?

Mr. SULLIVAN. It is interesting, because one of the reasons I am here testifying today for GAO is the work that I have done in the area of the Department of Defense and some of the major acquisitions that it has to make for weapons systems. In doing the work, I did the work looking at DHS’ major investments and some of the strategic sourcing and things that I talked about.

There are so many similarities, it seems to me, including the cost schedule and performance outcomes that I hear, in the Department of Defense I would say that there are very similar problems. The requirement setting process at both the strategic level and at a tactical level for a specific weapons system is flawed, very similar to what Mr. Zavada explained for the DHS.

Mr. WAXMAN. It seems that the Department is asking private contractors to tell the Department what it needs, rather than the Department defining its own needs. It doesn't make sense to me, and I would be curious whether it makes sense to you, do you really think it is a good idea to launch a multi-billion dollar procurement program without adequately defining technical or cost requirements?

Here is the problem as I see it. The Department, in fact the whole administration thinks private contractors are like fairy godmothers. You tell them we want a certain thing done, we want to protect our borders, we want to keep these illegal aliens from getting in here or terrorists getting into the country. It is a hard problem. It is a hard problem to rebuild Iraq. It is a hard problem to restore the Gulf Coast, making our country secure, it is hard.

But the administration assumes that private contractors will be able to wave a magic wand and solve the problem.

Mr. SULLIVAN. Yes, sir. I think when you are setting requirements for systems and programs as complicated as what we are talking about here, you are going to have perhaps a limited industrial base. So in order to do that, you have to set requirements, you have to study requirements, you have to study the needs, the mission needs of the DHS, and understand very thoroughly, I think, what you need, rather than asking them to supply that information for you.

And then in addition to that, because I think you are asking for, in many cases, systems that aren’t necessarily going to have other markets or are going to be technologically challenging and risky,
you need to have way more internal controls in place than it appears DHS has when you put an RFP out for a contractor. You need to do, for example, you need to ask them for cost data. If they are going to come back with a proposal to meet your requirements, they should provide the cost. You are in a sole source environment because perhaps the technology is proprietary or very limited and very risky. Sole source means that the Government needs to understand how much it is costing that contractor to bid those kinds of proposals, so that a fair and equitable price can be determined.

Mr. Waxman. Well, the net result of all this is the contractors get rich, the problem doesn’t get solved and taxpayers get stuck with the bill. That is what our concern is, and I think it is shared by everyone on this panel.

Thank you, Mr. Chairman.

Mr. Duncan [presiding]. Thank you, Mr. Waxman.

Let me ask you this. Both the chairman and the ranking member mentioned this $104 million airport screener contract that ran to $740 million that NCS Pearson did. The report says in addition that NCS Pearson had $297 million worth of very questionable costs.

Then we have the L3 Company that came up with the $400 million surveillance system that apparently doesn’t work. Is the Department still doing business with those companies? Has any action been taken toward either one of those companies or other companies that have huge cost overruns or questionable costs?

Ms. Duke. The screener hiring contract, the $104 million, that ended in December 2002. So it was just used during the initial rollout, from April to December 2002.

Mr. Duncan. But that wasn’t my question. Is the Department still doing other business with NCS Pearson, or was any kind of action taken against them?

Ms. Duke. I don’t know of any major contracts with—I know we don’t have any major contracts. We might have a small one. I could check on that. But we do not have any major hiring contracts with NCS Pearson at this time.

Mr. Duncan. What about the L3 Communications Company that provided this $400 million surveillance system that is not working?

Mr. Gunderson. Are you referring to the explosive detection systems? Yes, we still have contracts with L3 for the delivery of systems.

Mr. Duncan. So you are not taking any action against companies that have these huge cost overruns or provide equipment that doesn’t work?

Mr. Gunderson. With respect to the effectiveness of the machines, there was no cost overruns on the production of the machines. The increased costs associated with that program was with the deployment of the machines, outfitting the airports to install the machines.

With respect to the effectiveness of the machines, the chief technology officer is best to address those issues. What we have done in other areas from a contracting perspective is incentivized the contractor to improve the reliability of the machines, as far as how often it breaks down.
Mr. DUNCAN. So you mean when they provide equipment that doesn’t work, you give them extra money, incentive money to come in and make sure the equipment works?

Mr. GUNDERSON. I would term it as disincentives. If the machines do not achieve a certain amount of reliability, then they would lose money from their profit.

Mr. DUNCAN. Let me ask you this. We have a later witness that says that all contracts should be competed, even when the dollar amount is under the legal threshold. What do you think about that? Mr. Sullivan. Ms. Duke.

Mr. SULLIVAN. I think that contracts should be competed. I think there are situations where it might not be possible to always have competition in cases where you have proprietary technologies or risky technologies or where you might have to go to a cost plus arrangement to push technology or something like that. But other than that, I think competition is always the most healthy way to purchase things.

Mr. DUNCAN. Ms. Duke, when you referred a few minutes ago to the 76 percent competition, were you talking about 76 percent of all contracts over the limit, or 76 percent of all contracts total?

Ms. DUKE. Of all our DHS contracts.

Mr. DUNCAN. That was counting even those under the legal threshold, is that what you are saying?

Ms. DUKE. We are required to compete. The competition in contracting as a statute kicks in over $100,000. But even under $100,000, we are required by regulation to compete those or justify not competing them.

So there are different guidelines, one is statute, one is regulatory. But our requirement is to compete all contracts as a standard business practice.

Mr. DUNCAN. And this later witness says under no circumstances should the Department allow contracts to become de facto, illegal, cost plus percentage of cost contracts. What do you think about that?

Ms. DUKE. I agree with that, that cost plus percentage of cost contracts are illegal and should not be done.

Mr. DUNCAN. All right. He says it was done in this Boeing $1.2 billion contract to install and maintain explosive detection systems.

Ms. DUKE. I believe the IG report said that there was an appearance of that. Because of the urgency of awarding that contract, the award fee provisions were not negotiated until after award. And some provisional award payments were made. That was corrected during the performance of the contract. So there was an appearance, but it was not a cost type percentage of cost contract.

Mr. DUNCAN. And finally, he is recommending that when the bulk of the work is being done by subcontractors, that as much as possible the middleman should be cut out. I can tell you that I got a call from a trailer manufacturing company, not in my district, but from Tennessee back when all the Katrina stuff was going on. This was a company making a lot of these trailers that we have heard so much about. This company owner said that they were having to provide DHS these trailers through a middleman who was doing nothing to the trailers but adding $4,000 to the cost of each one.
He said he would like to find somebody, he said he was perfectly willing to sell these trailers directly to DHS and save that $4,000 per trailer. But they wouldn't let that be done. What I am wondering about, it would have been so simple for one person at DHS to handle something like that. Has that gotten any better?

Ms. DUKE. I think whether you should layer or not is really a value proposition. It is similar to if you are having remodeling in your home and you are deciding whether you want to have a general contractor [GC], or you want to contract directly with a plumber and electrician. But I do think it is a decision that should be consciously made on each program and that we shouldn’t add layering unless there is that value of management or integration.

Mr. DUNCAN. Let me mention one other thing. The day before yesterday we had the third in a series of hearings pointing out tremendous waste by the Department of Defense selling items, even items that cost $120,000 or $200,000 for just almost nothing to people in the private sector. Some of these things were brand new. One of the smaller items was they sold $23,000 and some odd dollars worth of brand new boots that had never been worn for $69 to this one company. Not $69 per pair of boots, but $69 for the whole $23,000 and some hundred dollars.

I hope that you will make sure that we don’t start selling these thousands of trailers that are sitting unused for just pennies on the dollar.

Ms. DUKE. The current plan is to use the manufactured homes that have not been used yet for future disasters. There is no current plans to resell them.

Mr. DUNCAN. Let me ask one final question. The major problems that plague DHS acquisition, these are not new. Since the Department started, these problems have been the subject of hearings in both the House and Senate, reports by the Inspector General, by the GAO, by the press. Yet despite the fact that everyone hears about and reads about and knows about these things and everybody says they are terrible and scandalous, they never get fixed. Do you have an opinion, Mr. Sullivan, on why we are not seeing more progress? It is just not possible for a gigantic bureaucracy to handle an acquisition program in a cost efficient, effective way?

Mr. SULLIVAN. In fairness, I think we should remember, it is still a young organization and its mission, it is probably still working very hard to bring these 22 or 23 different cultures together and be able to put in unified policies into that.

But that said, I think it is possible, obviously, to do better. I think the things that the organization has to focus on are some of the things we discussed here. They need to understand the mission needs, they need to be able to articulate requirements for the goods and the services and the big acquisitions that they have to make. They need people in place who understand that. And then they need internal controls to ensure that the industrial base that is supplying these is supplying them to them at reasonable cost and with reasonable performance.

Mr. DUNCAN. All right. I think Mr. Ruppersberger is next.

Mr. RUPPERSBERGER. A couple of things. We do have a serious problem in Homeland Security. A lot of it is because of what you just said, it is a young organization, we don’t have our systems
down completely, and I think because of the fact that we are talking about Homeland Security, there is a lot of rushing to get equipment that hasn’t been properly tested, and that we really need to maybe move forward with pilot programs, or even a contract if we could get it in there, a penalty if a contractor is saying this equipment works and it turns out that it doesn’t.

Would you think that we could have that? I guess I would ask you, Mr. Ély, about the possibility of a penalty clause in a contract for our contractors that are supplying radiation equipment or other equipment that just isn’t working.

Mr. ÉLY. Yes, sir, I think you have hit it right on the button, what you are telling us, and I agree with you 100 percent, it is post-award management. Penalties are doable under Government contracts. And we are moving in this direction very similarly to what you are discussing, by building post-award management capability that will allow us to be even closer to the results of these contracts, and penalize contractors when they should be penalized and incentivize them when they should be incentivized.

Mr. RUPPERSBERGER. We need to have you get back to us on that from our oversight point of view. There are cases, and I just want to name a few here, your airport screeners contract, baggage screening equipment contract, airport computer network contract, radiation detector contracts, the cruise ship area where we probably could have sent a family to a top-rated hotel in Las Vegas than where we were now.

Now, I understand we were working under difficult situations and Homeland Security is new. But sooner or later, we are going to have to step up, because there is just not, we can’t continue to lose billions, not millions, of dollars. I am asking you all to come back to us, and with the help of GAO, to let us know what the proper systems are. Your internal controls, things of that nature. Let me, since we only have a short time, just to review one area. I don’t know if I can get to another. I represent the Port of Baltimore and am the co-chair of the Port Security Caucus, the congressional caucus. I want to talk to you about the radiation detector contracts. Again, we have an issue there that the contract that was given out, I think $286 billion to a major contractor, really turned out to be wasting a lot of money. The machines turned out to be so sensitive to radiation that they can’t distinguish between weapons-grade nuclear material and items that naturally emit radiation, like cat litter, porcelain toilets, bananas, things like that.

Mr. Ély, would you agree that this major contract that has provided the radiation detector contracts cannot quickly determine the type of radioactive material they detect?

Mr. ÉLY. Sir, the best I can do to answer that question is to clarify that with the RPMs, we are actually——

Mr. RUPPERSBERGER. With the what?

Mr. ÉLY. Radiation portal monitors. We are actually engaged in a contract through an interagency agreement with DOE. Energy provides other services, along with bringing in the portal monitors, radiation monitors. It is an ongoing test and evaluation environment.

So unlike a direct contract between Customs and Border Protection and a commercial firm, we are working with another Govern-
ment agency. The rules are a bit different in working that way. But from what I have gleaned, this is a continuous development and learning process in the application of these devices. We can enforce these, but only working through Department of Energy.

Mr. RUPPERSBERGER. Do you agree that there is technology that is out there that can provide the detection we need for nuclear components?

Mr. ELY. Sir, I am not qualified, I am a procurement guy. But what I have learned in talking to the CBP program people is that it is constantly evolving. The Department, and DNDO in particular is looking at a higher level machine right now. It looks like we are moving toward working more with this new type of technology.

Ms. DUKE. The Advanced Spectroscopic Portals [ASP], we just awarded three contracts through Domestic Nuclear Detection Office. That is a new technology, and has a much lower false alarm rate and better detection. And ASP is the new generation of the machines you are talking about now.

Mr. RUPPERSBERGER. I had occasion, right after the Dubai Port issue, to go to Dubai and to meet with their port security people and to also observe equipment that they have, which is probably some of the best equipment in the world. When we decide to move forward and to try new equipment, do we look at other equipment throughout the world? Do we test it? Or are we again jumping into an area where we are going to spend millions and millions of dollars and we find out that it doesn’t work?

Because the first set of equipment that is there, we wasted all that money. The contractor got paid and we don’t have the money to use for something else. So you need a system to make sure that you are getting what is out there, the top technology, and to do your research throughout the world. Do we do that? Is the system in place to do that now?

Ms. DUKE. I agree with you, we need to do that. I think that was the reason for setting up the Domestic Nuclear Detection Office, to make sure we have that centralized, cohesive strategy that is not just a DHS office, it is a Federal-wide office, housed within the Department of Homeland Security. So I do believe that is an initiative to support what you are saying.

Mr. RUPPERSBERGER. Do you work with the Department of Energy in that regard?

Ms. DUKE. No, that is not through the Department of Energy.

Mr. SULLIVAN. I would just say, on this generally speaking, in terms of technologies like this where we are going to spend millions, hundreds of millions and maybe even billions of dollars, one of the things that we found when we did our work in 2005, and we still find deficient in their policies for big acquisitions, is the need to have thorough reviews and testing of technologies before you start a program like this. I think that is one thing.

When you look at the investment review board policy that DHS has right now, they could strengthen, that is a control they could use right now to strengthen their major investment, their major acquisitions, is to focus on technology readiness before they let those contracts.

Mr. RUPPERSBERGER. And also the possibility of a pilot program.

Mr. SULLIVAN. Yes, absolutely.
Mr. RUPPERSBERGER. It seems to me that GAO should be in the picture before instead of after. We might be a lot better off.

Mr. SULLIVAN. We try.

Mr. RUPPERSBERGER. Well, it didn’t work here.

Is my time up? I can’t see the clock. I yield back my time.

Mr. DUNCAN. Well, thank you very much, Mr. Ruppersberger.

For 18 years, I have heard, every time a Government agency messes up, either they are under-funded or their technology is out of date, although the Federal Government has much newer computers and technology than in the private sector.

Mr. GUTKNECHT. Thank you, Mr. Chairman.

Let me just first of all offer a couple of observations. In response to something that Mr. Waxman said earlier, I think he made the reference that the contractors’ response to most of our problems is to throw more money at it. Well, the truth of the matter is, we are responsible for that as well. I think that many times is the response here in Congress.

I was a healthy skeptic of the whole idea of combining these 22 agencies into one super-agency. I remember, and I am not that old, I can still remember what the argument was, that there would be efficiencies and this would be less expensive in the long run. Well, that was then and this is now, I guess.

The other point I would like to make in response to something that you said, Chairman Duncan, and that is, as we do dispose of some of this equipment, whether it be trailers or boots, and I am a licensed and bonded auctioneer, so I have a vested interest in this in some respects, but I understand what the Federal Government just resists every step of the way is hiring auctioneers to get rid of some of this surplus equipment.

I am going to make that comment. I have said it a hundred times, and I will keep making the point. Because it is one way that you can at least ensure there is some competition, instead of selling all these boots for $69. You would have gotten fair value, I think, if they had been willing to pay an auctioneer 10 percent of the proceeds, they would have made a lot of money for the taxpayers.

Anyway, my real issue, and I am going to come to you, Mr. Zavada, and I want to say a special thank you to one of our colleagues who can’t be here today, and that is Congressman Platts from Pennsylvania. He has really been a leader in trying to bring about more accountability, not only in this Department, but in Government in general. I want to call your attention, I am sure you are aware of Public Law 108–330, Mr. Zavada.

I will just give you a little background. My daughter and her husband are both CPAs. One works in the private sector, one works on the public side. One of them loves Sarbanes-Oxley and the other one hates it. But essentially that act, if I understand and remember correctly, was about bringing some of those kinds of standards to bear on the Department of Homeland Security.

One of the things that is in that law is the requirement that they create—I want to make sure I use the right term here—but they have internal controls. We have had a process, we understand there are a lot of problems, but I wonder if you could talk about the quarterly reports and the progress that you see being made under Public Law 108–330.
Mr. ZAVADA. I assume you are talking about in the area of financial management?

Mr. GUTKNECHT. Exactly.

Mr. ZAVADA. Right now, the Department needs to focus on corrective action plans. We have been working with them and providing some guidance through some audits that we have been doing to direct them toward the corrective action plan process. What they have done to date is put together, or are working on putting together a Department-wide corrective action plan and corrective action plans in particular focus areas.

There are some signs of progress. To a large extent, the CFO suffers from the same issues that we are talking about today in relation to the chief procurement officer, staffing and capabilities. But there are some signs of progress in some of the bureaus.

Mr. GUTKNECHT. Well, in October, don’t they have to come forward with a full financial report?

Mr. ZAVADA. Yes, in November, yes.

Mr. GUTKNECHT. Any idea of what that report is going to look like?

Mr. ZAVADA. I am hopeful that there will be some marginal signs of improvement. But to a large extent, correcting many of the material internal control weaknesses that the Department has is going to take a long-term effort.

Mr. GUTKNECHT. I am always skeptical when I hear about this long-term thing. Mr. Sullivan said, well, the Department is still relatively young. I always remind people, we won World War II in 3½ years. This country can do big things. But we have to raise our expectations.

I think one of the weaknesses we have had here in Congress is we have been too willing to accept low expectations in some of these departments, in managing their funds and being accountable for the taxpayers’ dollars that we give them.

So I really am glad we are having this hearing. I hope we have a lot more hearings. And again, I want to congratulate my colleague, Congressman Platts, for what he has been doing on his subcommittee to try and hold more of these departments more accountable.

I yield back the balance of my time.

Mr. DUNCAN. Thank you very much, Mr. Gutknecht.

Mr. Kucinich.

Mr. KUCINICH. Thank you very much, Mr. Chairman.

I am looking at the title of this report. If I walked into this hearing just cold, from nowhere in particular, and I looked at the title of it, Waste, Abuse and Mismanagement in—fill in the blanks. The blanks could be filled in, it could be Waste, Abuse and Mismanagement in the Department of Defense, Waste, Abuse and Mismanagement in the Administration of Contracts in Iraq, Waste, Abuse and Mismanagement in Army Surplus Material. I have heard this so many times before, and someone comes here and tries to pass it off, well, we are just a new agency, apparently you are not new at all, because you are doing what everyone else does.

I am offended when I hear this stuff. People in our district work real hard to pay their own bills, and they pay their taxes and what they get is this kind of thing. I am looking at the appendix, Mr.
Chairman, and I am looking at some of the biggest companies in America. They don't know how to run a contract? Or is it that they feel it is Government money, taxpayers' money, they just take the taxpayers for a ride? Accenture and Partners, $10 billion contract, here is what the investigation says, lack of defined requirements, wasteful spending, mismanagement. Bechtel, $100 million contract, mismanagement, wasteful spending. Boeing Service, $1.2 billion contract, wasteful spending, mismanagement. Carnival Cruise Lines, $82 million contract, $62 million contract, $91 million contract, wasteful spending, wasteful spending, wasteful spending.

I mean, what is going on here? This is like Government as a scam. It really is. And we shouldn't stand for it.

Another thing we ought to look at, Mr. Chairman, and you know, I say this having voted against the creation of this monstrosity known as the Department of Homeland Security, I said it would take them 20 years to figure out what the left and right hand are doing. And that goes beyond the corruption.

This raises issues. I am a former mayor. And I understand what happens when you start passing contracts around and you don't have oversight. You have people who are just making themselves rich at the taxpayers' expense.

We ought to go a little bit deeper on this committee. We ought to find out who the executives are in these corporations, we ought to find out who their attorneys are and who their accountants are. We ought to find out if they are giving contributions to any political parties or if they are giving contributions to any individuals. We ought to be looking at the stock options of these executives. We ought to be looking at their pension benefits. We ought to be looking at who their lobbyists are. There is a whole system here. We are just scratching the surface.

I would like to ask the representative of the Inspector General here, Mr. Zavada, I would like to ask you a couple of questions in this regard. When you review these contracts, do you interview the companies that are involved as far as their conduct with the Government's money?

Mr. ZAVADA. I think it would depend on the circumstances involved in the particular contract.

Mr. KUCINICH. Well, let's start with Accenture. Did you interview anybody at Accenture?

Mr. ZAVADA. I don't know the answer to that, but I would be happy to get back to you on that.

Mr. KUCINICH. How is it possible that you can talk about the administration of a contract and not talk to the people who have the contract?

Mr. ZAVADA. I think many of the issues that we pointed out deal with the oversight, with the program management and the procurement management and the risks in those areas. So the focus of our reports have primarily been on the staffing in both of those areas.

Mr. KUCINICH. Well, you have reported here that these contracts, the administration of contracts is woefully understaffed, right?

Mr. ZAVADA. Yes.

Mr. KUCINICH. If then it is woefully understaffed, then that means they can't really see how the contractor is performing, right?
Mr. ZAVADA. That has been a problem. The combination of broadly defined contracts with the oversight issues, the lack of staffing, we mix acceleration, an accelerated time line in there, and that is a high risk formula.

Mr. KUCINICH. So Mr. Chairman, this is kind of like a multi-billion dollar honor park. When you have an honor park, some people come in, they pay what they are supposed to do, because they are good citizens. But nobody really watches, because it is an honor park.

We have reduced Federal contracting kind of like honor parks. If you have people that are of good intention and goodwill, they do the right thing. But if they are not of good intention and good will, they rip the taxpayers off for billions of dollars.

Why aren’t you interviewing the people who are actually executing these contracts as contractors? Do you intend to do that?

Mr. ZAVADA. I think the focus of our work and the problems we have seen to date in many respects has been in the way that the objectives are defined in these contracts. That would involve both the way the Department and the contractor define—the Department defines what it wants and then measures the contractor’s performance in getting what they intended.

Mr. KUCINICH. I thank you for pointing that out, but Mr. Chairman, we have only half of the equation here. Think about it. We are acting as though, well, these contractors, they just don’t know what to do, they don’t know how to run a business, and it is only if the Government tells them what to do. We are not keeping an eye on the contractors, is what it amounts to, because we don’t have enough personnel.

I think that we need to haul in front of this congressional committee some of these contractors, such as the Halliburtons of the world, the Bechtels, the Accentures, the Boeings, if necessary, the Carnival Cruise Lines. All of these people are ripping off the taxpayers. And put them, have them raise their right hand, put them under oath, ask them how come this contract has gotten out of hand, how did you execute the contract, how did you manage it. The Government didn’t do its job. You pointed that out. But this takes two to tango here. You have contractors who know, well, the Government is not watching me, ha, ha, ha. So I think that we have a moral obligation here to the taxpayers of this country who not only expect better, but they demand better. And on their behalf, I am speaking. I am saying that this is criminal.

And Mr. Chairman, I just would suggest to you respectfully that our committee, this isn’t a partisan matter. This is something we can agree on. The taxpayers are getting ripped off. We don’t have to buy that for a second. And I don’t want anyone coming to this committee and saying, well, we are kind of new at the job. Right. Handling multi-billions of dollars, oh, well, we are just kind of new at the job. No, no, no, that doesn’t work here.

Mr. DUNCAN. Thank you very much, Mr. Kucinich. Almost every major Federal contract is a sweetheart deal of some sort or another. In fact, that is why all these big companies hire these high level Federal employees when they leave their offices, it is why all the defense contractors hire all the retired admirals and generals,
and then they come back and get the offices that they headed up, or the departments they headed up, to give them contracts.

Mr. KUCINICH. Amen.

Mr. DUNCAN. That is what it is all about. And it is not right, but unfortunately, it is the way it is.

Ambassador Watson.

Ms. WATSON. Mr. Chairman, I really want to thank you for holding this hearing. The Congress, since I have been here, hasn’t done much oversight. We are the protectors of the tax dollars, supposedly. And we have given five tax breaks. So that pile of money is being decreased. So we have to really zero in.

I am bewildered as to why we are still giving out no-bid contracts. I must apologize, Mr. Chairman, for not being here earlier, so I probably missed a lot of the testimony from these witnesses. So please forgive me if I am being redundant, and just let me know that you have already responded.

But I would like to go to Mr. Zavada, about the no-bid contracts and what your overall response is to the no-bid. Do they place our taxpayers at risk? Why do we do so much of that no-bid? I can go all the way back to the Iraqi war, when Halliburton was on the ground before we as policymakers knew it. I understand that after Katrina they were on the ground down in New Orleans before we knew it. They have a big, big chunk of the money that is allotted, in many cases, without accountability. We have had some hearings. And we know that they have not, in every case, provided the kinds of services that they were contracted for in a timely manner.

So if you could talk about the no-bid contracts and the risks that we are under, but why we do so much of it.

Mr. ZAVADA. I can address the issue of risk with those contracts. Certainly, they are not the preferred way of doing business. They are higher risk contracts, and they require mitigating controls, other steps that you have to take to make sure that the Government is getting the best value for their money.

So from our standpoint as an auditor, we would certainly see those types of contracts as more high-risk type contracts.

Ms. WATSON. I have not read the GAO report, but I have read former reports. They will give you an example. Halliburton was supposed to deliver ice and cold drinks out on the front, and they charged $65 to the Government for a case of Coca-Cola. So somebody, and there is a $9 billion amount of missing dollars, and they just kind of pass it off. So I don’t know, in your no-bid process, why we continue to choose the same companies. I heard because they have the experience. But I do know personally that there are companies lined up to do the job, and they don’t get a chance at them because of the no-bid process.

So is there a mechanism for very quickly going to competitive bidding, so that we can get the best bang for our buck?

Mr. ZAVADA. I think that is a good question, it is probably one best addressed by the Department’s Chief Procurement Officer.

Ms. WATSON. Is there someone here? I do know that each one of you comes from a specific department. Can anyone address that? If not, I will wait.

Ms. DUKE. Yes, I can address in general. I am the Chief Procurement Officer for the Department of Homeland Security. We do pre-
fer competitive. Our numbers for doing competitive solicitations are actually a little bit better than the Federal Government average. But we need to get better as a Federal Government.

We can do limited competitions under urgent circumstances. So you don’t have to jump from everyone competing to just one. So that is a preference.

The other thing we are trying to do is put contracts competitively in place before, in the case of disaster type, before they hit. So I do agree with you.

Ms. Watson. That is really the kind of answer I wanted to hear. Because I would think now, after September 11th, and after the creation of this humongous department, which I thought was going to be too sluggish in moving, so you have to go to the people you know can do the job, but I would think you would start lining up those providers who can then immediately, if given a contract, move in.

Hurricane Katrina was a disaster in more ways than one. If that is an example of how we respond to a natural or man-made disaster, we are going to perish. That was an absolute disaster. It is really scary to think that we are no better prepared.

I represent the west coast. There is an airport adjacent to my district. We have bridges, we have freeways and so on. I don’t see us having the resources to move in and protect them. Homeland security is not really about the land, it is about the people on the land. We need to be sure that those services are there when there is an emergency.

Thank you so much, Mr. Chairman.

Chairman Tom Davis [presiding]. Thank you very much.

Ms. Norton.

Ms. Norton. Mr. Chairman, first I want to thank you and the ranking member for this report, which exposes this extraordinary boondoggle, that means that this war has been a boondoggle for everybody except the troops who are stuck in Iraq. I wanted to stop by amidst other duties this morning, and hope that during the course of the testimony and the questions you have uncovered why, how this long after the war over half the contracts have been no-bid contracts, whether there is something structural. I can’t believe that wasn’t somehow attempted to be answered.

I must say, Mr. Chairman, that this report comes late in the war. But I want everybody to remember that during World War II, World War II, a war that had unanimous, shall I say, or virtually unanimous support of the American people, Harry Truman held hearings on contracting irregularities, during that war, when his party controlled the Senate, when his party controlled the White House. He held those hearings. Oversight of contracts, in the midst of a war that was supported by the American people. That is the way, it seems to me, is the pattern that this Congress has finally to assume.

By the way, Harry Truman, instead of being punished for that, later became Vice President of the United States. That I think——

Chairman Tom Davis. I think he went higher than that. [Laughter.]
Ms. Norton. Ultimately he went even higher than that. So it does show you that exposing such problems, Mr. Chairman, may not get you into trouble, it may help you.

Mr. Chairman, I must tell you, you and I have shared the concern that in the national capital region that you and I both share as Members of Congress, we have shared the outrage that there has been a 40 percent cut in funds to this region, and would you believe, to New York City, so that when you read of homeland security contracts and the overruns that have come out in the report and the no-bid contracts that have continued, and you live where Al Qaeda has most targeted, your outrage is very special.

I have only one question, and I asked whether this question has been answered, and I am told it hasn't been answered. It is really about perhaps one reason that at least the airport screeners contract cost so much more than it should have. That is something of interest to me also in my role on the Aviation Subcommittee. I am also with the chairman on the Homeland Security Committee as well. So it is very painful to see this waste in contracts.

I understand this may be a question for Mr. Gunderson, I am not certain. But I would like to know why, and the testing that was done was not done at the assessment centers, at Pearson's assessment centers, but apparently at hotels, some of them luxury hotels. Individuals at expensive hotels in cities like New York, where these were tested, cost the taxpayers, who are responsible for a good deal of the cost to the taxpayers, I understand that in New York City, TSA spent $14,000 for each person hired. That sounds pretty high.

But I am truly interested in this testing, and whether or not TSA decided, or why this testing was done in hotels instead of an assessment center, why it was done in hotels where you had to rent the space, to test this equipment.

Mr. Gunderson. Yes, I will address that. It fundamentally starts with the requirements. When the contract was awarded, the estimated value was just over $100 million. It was premised on the use of the Pearson recruiting model for assessing them and the other various aspects before you hire a screener, which was a decentralized process, meaning that the screeners would have to show up at wherever Pearson had established a center, they would be sent off to get whatever medical testing was required, and the other aspects.

There was a decision made shortly after the contract award that determined that the best way to do the recruiting was to use a different model, which focused on getting closer to the airports, within a couple of hours, I believe was the baseline. That is what resulted in the changed model to end up using hotels.

Ms. Norton. Did you ask if there was Government space that could be used in New York City and other places to do this testing of individuals to be screeners?

Mr. Gunderson. I am not aware.

Ms. Norton. Well, you can see my concern. I can see why people turn to hotels generally. But when you consider what the price, the cost of the most expensive place, the most expensive space in a place like New York City are hospitals, if you want to stay in a
hospital or a hotel room or space to be rented in a hotel room. Thank you very much, Mr. Chairman.

Chairman TOM DAVIS. Thank you all very much.

Mr. Van Hollen, do you want to ask some questions?

Mr. VAN HOLLEN. Thank you, Mr. Chairman.

I apologize for missing the testimony. I was next door at another hearing, in another committee. But I did want to thank the chairman and the ranking member and the staff for their report on this very important issue and trying to make sure that we don't have the kind of rampant abuse of taxpayer dollars.

I just wanted to focus on one issue that was raised in this report, and if I could, Mr. Zavada, I will ask you a question regarding the TSA contract with Unisys. I understand it was a $1 billion contract to upgrade computer networks at various airports.

If you could just give us a sense of your assessment of how quickly money is being spent on this particular contract. There is apparently an issue on the payout schedule.

Mr. ZAVADA. Yes. I don't remember the exact numbers. But when we conducted our review, we found that much of the money that was on the contract was spent far in advance of the schedule. I think a lot of that was attributed to this issue of changing requirements. This was at a point when TSA had a very limited procurement operation. The combination of the changing requirements with the lack of oversight resulted in the high costs.

Mr. VAN HOLLEN. Well, let me ask you about that question of changing requirements, or whether there was sort of an understanding up front that there were going to be changes and a failure to anticipate the costs associated with those changes. Because as I understand it, and I want to know if this is true, TSA officials estimated the contract costs would reach $3 billion to $5 billion, but decided to set an artificial contract ceiling at $1 billion, despite expectation that it would be much higher.

Mr. ZAVADA. What we said in our report was that at the billion dollar amount, we could not identify specific requirements that were attributed to that number.

Mr. VAN HOLLEN. Well, let me just make sure I understand that. Did you find that there was a belief or understanding that in fact the costs would be higher than $1 billion, or did you not find that?

Mr. ZAVADA. My recollection from the report is that the ceiling on the contract was constrained, I think, by the budget.

Mr. VAN HOLLEN. Well, let me ask you this. As I understand it, there was a former chief information officer at TSA who said that he was instructed by senior administration officials to cite the $1 billion cost figure to Congress and that they “pulled a number out of the air” that would “be more palatable.” Was that part of your finding?

Mr. ZAVADA. Well, again, what I will say is that we could not identify specific requirements attributable to that billion dollar amount. So it was suspect in our mind.

Mr. VAN HOLLEN. Well, there is a reference that it would be more palatable. So that raises a question, more palatable compared to what. And the implication is more palatable compared to the higher number that everybody agreed would be more reasonable.
You didn’t find as part of your determination that there was a belief that it would be higher?

Mr. Zavada. I believe we said in our report that some TSA officials did tell us that it might be between $3 billion and $5 billion in total. I believe that is in our report.

Mr. Van Hollen. And despite that assessment that they had at the time, Congress was told that it would be $1 billion, is that right?

Mr. Zavada. I don’t know what was communicated to Congress.

Mr. Van Hollen. You don’t know what the figure provided to Congress for the cost? Because my understanding is that Congress was told that it would be $1 billion. Does anyone have any knowledge of that at the table here?

Ms. Duke. I don’t know if it was communicated to Congress, but that was the ceiling on the contract. So that was the maximum amount we could award under the Unisys contract.

Mr. Van Hollen. I am just interested in a response. Here we have a situation where internally, according to testimony of people who were there, there was an understanding that the cost of this contract would be between up to $3 billion to $5 billion. And yet a ceiling on the contract was set at $1 billion. It just seems to be a case of obvious effort to mislead people with respect to what the true costs were. I am just interested in a response. I don’t know who was involved.

Mr. Gunderson. I wasn’t there in the summer of 2002. I joined TSA in December 2002. But my understanding from a requirements standpoint, when TSA was trying to assess what is that what I called the realm of IT requirements, they were having a difficult job trying to get their hands around that.

Ultimately, there was a decision made that OK, we know that we are going to have this billion dollar need, and that is what we are going to move forward with. Whether there might have been something else beyond that, there may have been. But the decision was to award a contract that was able to be kind of geared toward the billion dollar ceiling.

Mr. Van Hollen. Let me ask you this. Is the job going to get done for $1 billion?

Mr. Gunderson. In some of the other contracts we have had, as TSA’s mission evolved, the requirements changed. So what may have set out to be done at $1 billion, other things came in and took different priorities.

Mr. Van Hollen. Were you personally involved in this whole decision?

Mr. Gunderson. No.

Mr. Van Hollen. Because what you are saying really contradicts what I understand the record found. You are saying that it was $1 billion, you set it and then there were changes that you discovered later on that caused this cost overrun. The testimony in the findings as I understand it, from the IG, are very different. It is that there was an understanding up front that this was going to cost more than $1 billion, and yet a contract ceiling was put on for $1 billion, knowing full well that wasn’t going to be the case.

Do you have information to suggest that is not what happened? Do you agree with the assessment that there were people inside
the Department of Homeland Security who knew full well that the costs were going to be more than $1 billion at the time they set a contract cap of $1 billion?

Mr. Gunderson. What was written in the IG report is what I know with respect to a number larger than $1 billion. I don't know of anything in my discussions at TSA that support the larger number.

Mr. Van Hollen. All right. Well, thank you. Thank you, Mr. Chairman.

Chairman Tom Davis. Thank you very much. Just a couple wrap-ups and I will let you go.

Ms. Duke, let me just ask you, who has contractual authority within the Department of Homeland Security? As the Chief Procurement Officer, do you have any warrants yourself, or do you just kind of oversee policy?

Ms. Duke. I do not have a warrant. I oversee policy and I also directly supervise one of the eight contracting shops.

Chairman Tom Davis. Does the CIO have any contracting authority?

Ms. Duke. No.

Chairman Tom Davis. He has no warrants, either?


Chairman Tom Davis. Now, if someone has a product that they think they should sell, is it appropriate for them to talk to the CIO, or to you, to say, what are the needs of the Department?

Ms. Duke. Yes, either.

Chairman Tom Davis. And you don't consider that selling to the Government, that is more of an information type of meeting?

Ms. Duke. Yes.

Chairman Tom Davis. If they actually want to sell it, they would have to talk to a procurement officer, isn't that correct?

Ms. Duke. Yes.

Chairman Tom Davis. OK. There is a lot of misunderstanding about what you do. But you are kind of the policy shop at this point. A real problem comes down a couple tiers where you get to the people who are contracting who, you tell us you don't have enough people, they need appropriate training. Do you have enough tools? Do you need more tools for contracting, like more share on savings contracts, more fixed price vehicles? Give us any thought on the vehicles that you have available for contracting.

Ms. Duke. Share in savings or that type of methodology is something we are looking at where, because of some new mission requirements we don't have the up-front capital to deploy technology. So we are looking internally at how we could possibly do a share in savings type.

Chairman Tom Davis. That limits your downside, doesn't it?

Ms. Duke. It does. But it is the standard argument of whether it is more expensive to do a lease-utility type of arrangement. But we are looking at that in the preparation of the fiscal year 2008 budget submission.

Chairman Tom Davis. Mr. Zavada, two of the contracts highlighted in our staff report were managed by TSA. Congress has exempted TSA from the competitive acquisition laws. Do you think that TSA's exemption helped or hurt its ability to award and man-
age the contracts for airport screeners and information technology infrastructure?

Mr. ZAVADA. From my perspective, it seemed that the problems were so fundamental in terms of shifting requirements and lack of oversight that they might not have been related to the differing authority.

Chairman TOM DAVIS. OK. What does that mean? [Laughter.]

Mr. ZAVADA. I guess what I am saying is that in those two contracts, the pattern was similar. They had changing requirements, they had a lack of oversight. They were both at a time when TSA had just begun their operations and they were doing things on a very accelerated time table.

Chairman TOM DAVIS. Thank you.

Mr. Ely, let me just ask you, how is U.S. VISIT coming? That is the largest procurement, I think, from this Department, one that had some controversy in the House. How is that coming together? How is the oversight of that? How are contractors performing? How is the schedule? Can you give me a brief overview? Or if you can’t, I will ask Ms. Duke.

Mr. ELY. Yes, this is more her area, sir.

Chairman TOM DAVIS. That is a higher level, what you are kicking it up to.

Ms. DUKE. There was a recent report on U.S. VISIT in terms of contract management. It was rated as the contracts that DHS is administering itself are going actually well. Only about half of those are done by DHS and there are some done by other agencies.

The main criticism has been whether it is an effective program. We are dealing with U.S. VISIT in terms of new credentialing programming office and trying to deal with it that way. But there have been questions about the effectiveness of the program.

Chairman TOM DAVIS. The reason I ask is, you mentioned the GAO released a report stating that the Department’s management and oversight of U.S. VISIT related contracts are not yet at the level they need to adequately ensure success. We have a lot of the top contractors in the country working on this who have a lot of innovative—you have to rein them in and direct them. So often when these things go south it is the fact that we are not on top of them. I can’t emphasize enough how important it is that this contract work and that we bring this in. Can you assure us we are doing everything we can to oversee this, at least from your Department?

Ms. DUKE. Yes.

Chairman TOM DAVIS. I think that is all I have. Anyone else?

Mr. Van Hollen.

Mr. VAN HOLLEN. Mr. Chairman, just a couple of things. First of all, I want to say to Ms. Duke, welcome. I know you are relatively new to the Department and I wish you all the best.

Chairman TOM DAVIS. She is a career employee, too, so they sent her up here today.

Mr. VAN HOLLEN. Yes, I know, and I wish you all the best as you try and clean up a lot of the mess that we have been talking about today. I hope all of us can work together to make sure that we address the serious problems that have come to light.
Just for the record, Mr. Chairman, with respect to the Unisys airport contract I was talking about, I would like to just point out that in the Office of Inspector General’s report that was issued in February, they said, “Several TSA officials said they never expected to complete all of the contract objectives within the original contract ceiling and originally estimated the contract could cost between $3 billion to $5 billion, but set the contract ceiling at $1 billion.” And in a Washington Post article dated October 23, 2005, Patrick Schambach, who is the former chief information officer at TSA who managed the project, said that it was just a guess and that Government officials who spoke at a background briefing said that they knew at the time that the project would cost closer to $3 billion, but used the $1 billion figure because it would be more palatable to Congress. Schambach said senior Transportation Department officials told him to cite the $1 billion figure.

It is just outrageous, actually, that people would be trying to game Congress and trying to game the American people by providing a number to the Congress that they know at the time they submit it is wrong. We have unfortunately seen this in other legislation and we don’t need to talk about the prescription drug bill and the changing estimates, one known at the administration at the time to be much higher in terms of cost to the American people than the number that was provided to Congress.

But this kind of thing has to end, and I hope, Ms. Duke, on your watch it will certainly end with respect to procurement issues at the Department of Homeland Security.

Thank you, Mr. Chairman.

Chairman TOM DAVIS. Would you like to add anything?

Ms. DUKE. I am committed to working honestly and openly with this committee and Congress. I thank you for that opportunity.

Chairman TOM DAVIS. Thank you very much. We will dismiss this panel and take a 2-minute break and get our next panel. Thank you.

[Recess.]

Chairman TOM DAVIS. The meeting will come to order.

We have our second witness up today, no stranger to this committee, Clark Kent Ervin. He is the director of the Homeland Security Initiative at the Aspen Institute. We very much appreciate your being here today. Of course, you have had prior work at Homeland Security to this.

It is our policy that we swear you in. If you would rise and raise your right hand.

[Witness sworn.]

Chairman TOM DAVIS. Thank you very much.

We expect a vote momentarily, but why don’t you go ahead, get your statement in and try to get through as quickly as we can. Thank you for your patience in being here today.

STATEMENT OF CLARK KENT ERVIN, DIRECTOR, HOMELAND SECURITY INITIATIVE, THE ASPEN INSTITUTE

Mr. Ervin. It is my pleasure, Mr. Chairman, and thank you very much, and ranking member all the members of the committee, very much for having me. Thank you for holding this hearing on a very important topic, needless to say.
Though the Department is only 3 years old, it has already firmly established a reputation, needless to say, as one of the more dysfunctional agencies in Government. This is especially true in the area of procurement. This is not just a matter of wasting precious taxpayer dollars, as bad as that is, especially at a time of tight budgetary circumstances, it also constitutes a gap in our security that terrorists can exploit to kill Americans and harm our economy. Because every dollar wasted on a flawed contract or flawed contracting process is a dollar that could have been spent to make our Nation more secure.

If that is the bad news, the good news is that lessons can be learned from the last 3 years. These lessons translate into several common sensical principles, as follows.

First, the lesson to take away from FEMA’s disastrous performance during Katrina and from TSA’s $19 million contract to set up an elaborate operations center is that all contracts should be competed, even when the dollar amount is under the legal threshold, to ensure that the best possible value is obtained for the American people. In the past, emergencies have been used to justify no-bid contracts. But emergencies, especially at a Department of Homeland Security, should be anticipated and planned for in advance by putting in place competitively bid contingency contracts, so that the Department is not forced to do in extremis what it would not willingly do under normal circumstances.

Second, one lesson to take away from the Boeing Company’s $1.2 billion contract to install and maintain explosive detection systems at airports is that under no circumstances should the Department allow contracts to become de facto illegal cost plus percentage of cost contracts. Such contracts are illegal for a good reason: because the higher the contract’s cost, the greater the contractor’s profit. There is no incentive for contractors to economize, and every incentive for them to overcharge.

Third, another lesson to take away from that particular contract is that when the bulk of the work under a contract is to be done not by the prime contractor but by subcontractors, the Department should save money by cutting out the middleman and contracting directly with the subcontractors.

Fourth, the lesson to take away from the $1 billion Unisys contract, which we have talked about, and also the $2 billion Secure Border Initiative contract, is that under no circumstances should a contractor be allowed to define contract requirements. If we leave it up to contractors to determine what Government agencies need, chances are high that contractors will decide that the agencies need more expensive things than they actually do.

Fifth, under no circumstances should contractors in the business of providing the very goods and services at issue oversee the work of fellow contractors.

Sixth, one of the lessons to take away from the contract to provide limousine services to DHS personnel that has been linked to the Duke Cunningham congressional bribery case is that background checks should be required not only on those of the contractor’s employees who are to provide services under the contract, but also on the contractor’s officers, directors and major shareholders.
Seventh and finally, penalties should be built in contracts for failure to perform, tardiness, bonuses, performance awards and other incentives should be paid only when earned.

In addition to the foregoing, the number of procurement officers in the Department should be significantly higher than it presently is. It is not just a question of throwing more bodies at the problem. The people hired should have years of Government contracting experience. Otherwise, there will simply be more DHS procurement officials for more experienced private sector procurement experts to take advantage of.

Further, part of the problem with procurement is that the Department’s Chief Procurement Officer does not have the authority that her title implies. The CPO, as we just heard, lacks presently and should be given the power to hire, fire, and otherwise direct the work of the component procurement heads. Otherwise, components will continue to make discrete purchases that are not in the overall interest of the Department.

I will submit the rest of my statement for the record, Mr. Chairman, and will be happy to take your questions. Again, thank you very much.

[The prepared statement of Mr. Ervin follows:]
TESTIMONY OF CLARK KENT ERVIN BEFORE THE HOUSE COMMITTEE ON GOVERNMENT REFORM ON THE SUBJECT OF ACQUISITION REFORM AT THE DEPARTMENT OF HOMELAND SECURITY, JULY 27, 2006

Thank you, Mr. Chairman and Mr. Ranking Member, for inviting me to testify today on the state of contracting at the Department of Homeland Security. Though the department is only three years old, it has firmly established a reputation as one of the more dysfunctional agencies in government, and this is especially true in the area of procurement. This is not just a matter of wasting precious taxpayer dollars, as bad as that is, especially now at time of significant budgetary challenges. It also constitutes a gap in our security that terrorists can exploit to kill Americans and harm our economy, because every dollar wasted on a flawed contract or flawed contracting process is a dollar that could have been spent to make our nation more secure.

If this is the bad news, the good news is that lessons can be learned from the last three years. These lessons translate into several commonsensical principles, as follows.

First, the lesson to take away from FEMA’s disastrous contracting performance during Katrina, and from the TSA’s $19 million contract to set up an elaborate operations center, is that all contracts should be competed, even when the dollar amount is under the legal threshold, to ensure that the best possible value is obtained for the American people. In the past, “emergencies” have been used to justify no-bid contracts, but emergencies, especially at a Department of Homeland Security, should be anticipated and planned for in advance by putting in place competitively bid contingency contracts so that the department is not forced to do in extremis what it would not willingly do under normal circumstances.

Second, one lesson to take away from Boeing’s $1.2 billion contract to install and maintain explosive detection systems at airports is that under no circumstances should the department allow contracts to become de facto illegal “cost plus percentage of cost” contracts. Such contracts are illegal for a good reason – because the higher the contract’s cost the greater the contractors’ profit there is no incentive for contractors to economize and every incentive for them to overcharge.

Third, another lesson to take away from that contract is that when the bulk of the work under a contract is to be done not by the prime contractor, but by subcontractors, the department should save money by cutting out the middleman and contracting directly with the subcontractors.

Fourth, the lesson to take away from the $1 billion Unisys contract to supply TSA with an IT system is that under no circumstances should a contractor be allowed to define contract requirements. If we leave it up to contractors to determine what government agencies need, chances are high that the contractors will decide that the agencies need more expensive things than they actually do.
Fifth, under no circumstances should contractors in the business of providing the very goods and services at issue oversee the work of fellow contractors.

Sixth, one of the lessons to take away from the contract to provide limousine services to DHS personnel that has been linked to the Duke Cunningham congressional bribery case is that background checks should be required not only on those of the contractor’s employees who are to provide services under the contract but also on the contractor’s officers, directors, and major shareholders.

Seventh, penalties should be built in contracts for failure to perform and tardiness, and bonuses, performance awards, and other incentives should be paid only when earned.

In addition to the foregoing, the number of procurement officers in the department should be significantly higher than it presently is. And, it’s not just a question of throwing more bodies at the problem; the people hired should have years of government contracting experience. Otherwise, there will simply be more DHS procurement officials for more experienced private sector procurement experts to take advantage of.

Further, part of the problem with procurement is that the department’s “Chief Procurement Officer” does not have the authority that her title implies. The CPO should be given the power to hire, fire, and otherwise direct the work of the component procurement heads; otherwise, components will continue to make discrete purchases that are not in the overall interest of the department. This has been a problem since day one, not only with regard to the Chief Procurement Officer, but also with regard to the Chief Financial Officer and the Chief Information Officer. Secretary Ridge was never willing to fix the problem, and despite a “second stage review” that promised to fix problems like this one, Secretary Chertoff has likewise failed to address it.

Moreover, I suggest investigating the degree to which DHS, relative to other agencies its size, relies on contractors to perform its core functions. (This suggestion was prompted by my surprise recently when, to request that a department official attend a meeting I had to make the request through a contractor who keeps his schedule.)

Finally, it is critical that the department’s Office of Inspector General have the resources necessary to audit major department contracts. To ensure that the OIG has the resources to do so, consideration should be given to setting aside a small percentage of each increase in the annual DHS budget to fund such OIG oversight.

Thank you, again, for your invitation, and I look forward to answering your questions.

Clark Kent Ervin
Former Inspector General
United States Department of Homeland Security
Director, Homeland Security Initiative
The Aspen Institute
Chairman Tom Davis. I will just say, I think your testimony speaks for itself. I think you have given us some very good suggestions.

Mr. Waxman.

Mr. Waxman. Thank you, Mr. Chairman. I also agree with the chairman. I think you have given us very specific, important suggestions for improving the way contracts are handled.

You have been the Inspector General for DHS. You have examined several of the most problematic Homeland Security contracts. I want your frank insights as to what went wrong and how we can fix it, so that future contracts increase our security and protect the taxpayer.

I asked the previous panel about contracts for border security. They had this contract called ISIS. Over $400 million was spent on thousands of cameras and sensors to monitor our borders, and then these cameras malfunctioned. If the weather was bad, it didn’t work at all. And it only covered 5 percent of the border.

So they realized that is not going to protect our border. Now DHS, after botching this one, is trying to develop another contract. But they didn’t seem to learn their lessons. Instead, they have this vague proposal, request for proposals, with words like, we want something that is highly reliable, available, maintainable, cost effective, to manage, control and secure the border using the optimal mix of proven, current and next generation technology, infrastructure, personnel response capabilities and processes.

Now, that sounds good, but it is so vague. Does this adequately define technical or cost requirements? Aren’t they just making the same mistake over and over again?

Mr. Ervin. You are absolutely right, Mr. Waxman. Einstein defined insanity as doing the same thing over and over again and expecting a different result. In fact, it is not just ISIS. Before ISIS, or rather, before the Secure Border Initiative, right after ISIS, there was the American Shield Initiative that was intended to do the very same thing, a combination of more border patrol agents and greater use of technology.

So essentially, we have the same thing with the Secure Border Initiative, but arguably it is worse in this instance, because as you say, of the vagaries of the contract mechanism let here. Under no circumstances, as I say, it seems to me, should any department, especially the Department of Homeland Security, leave it up to contractors to define exactly what it is the Department should obtain, because needless to say, it is pretty clear that the contractors are going to decide that the Department needs more expensive technology than it actually does. It is highly questionable whether in the end the technology will actually work.

Mr. Waxman. Well, it is really amazing to me. The Republicans are saying, we have to do something to protect our borders, we have all these people coming to the borders, it is an open border, in effect, even terrorists can get through. But certainly millions of illegals are getting through.

So they are going around the country holding hearings on this problem. Some of them have suggested already they passed the bill before they had the hearings. We ought to build this huge fence. Now, can you imagine what it would be like if they follow these
kinds of procedures? They are going to say to contractors, give us a contract, we will spend whatever billions it takes to build a fence? Do you think that is a clear enough idea of how to protect the borders?

Mr. ERVIN. Absolutely not. It is the job of Government to decide how to execute policy. If the policy judgment has been made that we need to secure our border, and certainly, we do need to secure our border, and I support that policy judgment, needless to say, then it is up to the Government to determine exactly how that should be done, and then to define contract requirements for contractors to follow, not the other way around.

Mr. WAXMAN. Well, I want to commend you for your work as Inspector General, your testimony to us today. I hope this hearing will serve as a wakeup call for the administration. This utter incompetence has to stop. Americans deserve better than more of the same, and we need to head in a new direction.

I yield back. Thank you.

Chairman TOM DAVIS. Thank you.

Mr. Cummings.

Mr. CUMMINGS. Just very briefly. I too agree that you have done a great job here.

But I am just wondering, is this basically incompetence? Is it a lack of—it seems like it is deja vu all over again. I am just trying to figure out, is it that we are hiring the wrong people? Is it structural? In other words, the structure of the process. Is it a systemic process?

I just want to get down to the nitty-gritty of it, the bottom line.

Mr. ERVIN. I think that is a key question, Mr. Cummings. I guess I would start by saying that all of these problems that we are talking about here today were anticipated at the very beginning. I wrote a memo, or attempted to write a memo, to the then-Secretary, Secretary Ridge and to the Deputy Secretary, Gordon England, on March 18, 2003, which was less than a month after the Department was officially established. In that memo, I said, two areas that DHS needs to get control of early to minimize waste and abuse are the procurement and grant management functions, getting the right leadership and systems in place for both functions should be made a high priority. Early attention to strong systems and controls for acquisition and related businesses processes will be critical to ensuring success and maintaining integrity and accountability.

I subsequently found out that this memo actually did not make it to the Secretary and the Deputy Secretary because it was held up in the clearance process, even though Inspector General memos are not to be held up, uniquely, unlike any other communication from any other official in the Department, by, of all people, the Under Secretary for Management. Her rationale, I subsequently learned, for having done that, was that she knew that the controls I was recommending were not in place and she didn't want the Secretary to know that.

So the seeds of all this were laid at the beginning. To answer your question directly, I think it is a combination of things. First of all, incompetence, as you say. Two, I think under-funding. And I say that as a conservative Republican who typically does not call
for greater Government spending. But you can’t do anything on the cheap, and you certainly can’t do homeland security on the cheap. And a key part of homeland security is procurement. There were too few, at the beginning, there were too few and there remain too few procurement professionals. As I say, it is not just a question of numbers, but we need people who are also experienced and expert in this area.

Finally, I would say it is a question of accountability. There are no consequences when on a repeated basis these kinds of things happen. One of the questions in the earlier round was whether there had been any penalties meted out against the companies that failed to perform in these instances. We heard in prior testimony that at least one of these companies continues to perform contracts for the Department.

And by the way, finally, I would say, people in the Department of Homeland Security who oversaw these functions subsequently go on to the private sector to some of the very companies that have taken advantage of the Department.

So unless and until we get to these root problems, this kind of thing will happen again and again.

Mr. CUMMINGS. Mr. Chairman, I will submit some written questions.

[The prepared statement of Hon. Elijah E. Cummings follows:]
U.S. House of Representatives
109th Congress

Opening Statement

Representative Elijah E. Cummings, D-Maryland

Full Committee Hearing:
“Code Yellow: Is the DHS Acquisition Bureaucracy a Formula for Disaster?”
Committee on Government Reform

July 27, 2006

Mr. Chairman,

Thank you for holding this vitally important hearing on waste, fraud and mismanagement in contracting practices at the Department of Homeland Security (DHS).

As you know, since its inception, DHS and its predecessor agencies have entered into contracts worth well over $20 billion. Last year alone, it entered into over 63,000 contracts worth $10 billion. Notably, more than half of those were no-bid contracts.

The opportunity for waste under such a system is great.

Officials at DHS have proven time and again that they will dole out taxpayer dollars to contractors that are unable, or unwilling to get the job done. Worse yet, they continue to do so without seeking the best price available.

Efforts to secure our borders illustrate this point.

Last week in the Subcommittee on Criminal Justice, Drug Policy and Human Resources, on which I serve as ranking member, we held a joint hearing with Subcommittee on Economic Security, Infrastructure Protection and Cybersecurity entitled, “Fencing the Border: Construction Options and Strategic Placement.”

During that hearing we heard testimony on how much it would cost to build a fence on our Southern border. Under most estimates, it would be about $1 million per mile—that’s about $380 million under in the Senate bill, and at least $700 million in the House version. It’s no small project.

As I listened to the witness’s testimonies, I could not help but consider the potential for waste, fraud and mismanagement associated with such a project.

If past experience is any indication, the outlook is not good. The Office of Border Patrol in 1997 spent $429 million to deploy thousands of cameras and sensors on the Mexican and Canadian borders that don’t work.
The program known as the Integrated Surveillance and Intelligence System (ISIS) is largely ineffective because the cameras used do not have the ability to detect movement automatically, allowing illegal activity to go unnoticed unless border patrol personnel are monitoring the cameras at the time.

Furthermore, the cameras frequently lose power, they malfunction when exposed to snow, ice, humidity, and extreme temperatures—and they only cover about 5 percent of the border.

I think we can assume that DHS could have anticipated at least some of these problems before it spent $429 million on the project.

And yet, the department appears to have learned little from this mistake. DHS is preparing to award a new $2 billion contract to secure the border—but DHS has not yet determined how it intends to accomplish this goal. Shouldn’t this be determined before a $2 billion contract is awarded?

Incredibly, DHS Deputy Secretary Michael Jackson told potential bidders for the contract: “We’re asking you to come back and tell us how to do our business.”

That is a statement we simply cannot justify to the American people. No businessman in his right mind would award a contract of that magnitude for an undefined project. There is no reason why government officials should act differently.

We have an obligation to be good stewards of taxpayer dollars, and to run government as effectively and efficiently as possible. Unfortunately, it consistently fails to live up to that standard.

I want to thank the Chairman and the Ranking Member for their attention to this vitally important issue.

I look forward to the testimonies of today’s witnesses and yield back the balance of my time.
Chairman Tom Davis. Thank you very much.
Mr. Van Hollen.
Mr. Van Hollen. In light of the time, I will be very brief as well. I want to thank you for your testimony. I think it is particularly valuable, because as others have said, you have some very specific recommendations in here that I would hope on a bipartisan basis we could implement as soon as possible.
Your last remark suggested that if maybe the memo had gotten to the top, maybe someone would have done something about it. I do believe leadership starts at the top. I do know elsewhere you have said that in fact you were able to at least have a conversation with Secretary Ridge about this, and sort of the response you got at the time was, why are you always being so critical. Well, if your early warning had been heard then, we might be in a better position today.
Can you just briefly, that was the response you got from the very top leadership, what are you so worried about, why are you always carping about this. Can you just respond to that?
Mr. Ervin. That unfortunately is an attitude that I found time and again at the Department of Homeland Security. Rather than seeing these kinds of recommendations as being helpful and as the kind of thing that if put in place could reflect well on the Department, on the administration, instead, as you suggest, all too often it was taken the wrong way.
But the good news, as I say, is that it is not too late. We can prevent these kinds of abuses from going forward in the future if the recommendations that I am advancing today are put in place.
Chairman Tom Davis. I was going to ask you how you got the name Clark Kent Ervin before we started, but you have certainly shown yourself bullet proof to some of the occurrences during your career. [Laughter.]
Thank you. You have given us a lot of food for thought on this. This is not a political issue, it is our job as oversight. We appreciate you coming forward, and others, trying to identify problems. We are trying to solve them for the American people and solve them money. This has been very, very helpful to us. Thank you for your patience and thank you for your great testimony.
Thank you.
At this point, I think we have, Mr. Waxman thanks me for asking you about the Clark Kent question. [Laughter.]
At this point, I think this has exhausted us, and I am going to adjourn the hearing. Thank you very much.
[Whereupon, at 12:15 p.m., the subcommittee was adjourned.]
[The prepared statement of Hon. Todd Russell Platts and additional information submitted for the hearing record follows:]
Thank you for holding this important hearing, Mr. Chairman.

The problems that have been detailed today are concerning, and they are precisely the reason I introduced the DHS Financial Accountability Act (P.L. 108-330) during the 108th Congress, which the President signed into law on October 16, 2004. That law puts DHS under the most stringent audit requirements of any Federal agency.

The contracting problems we are hearing about today are the result of breakdowns in internal controls – the checks and balances that should be in place to ensure that every transaction is done properly. Under the DHS Financial Accountability Act, the Department has to document their internal controls and have an auditor attest to the effectiveness of those controls.

This type of review – the equivalent of going through DHS accounting practices with a fine-tooth comb – is the only way to get to the root cause of contracting problems. The reviews are underway as we speak, and the internal controls audit opinion and accompanying report will be issued on November 15, 2006.

Perhaps more important than the report is the work that is going on right now. It is my understanding that the Office of the Inspector General has been working to present its findings quarterly to the Office of the CFO – providing clear recommendations and measuring progress during the fiscal year. This internal controls audit report will assist the Committee in its oversight efforts, but most importantly will help DHS management improve the effectiveness of internal controls and go a long way toward providing a long term solution to the problems we are hearing about today.

Thank you, Mr. Chairman, for your help in passing the DHS Financial Accountability Act, both as an original cosponsor of the bill and as a champion of its passage in Committee and the House.
February 13, 2002

The Honorable Tom Ridge  
Assistant to the President for Homeland Security  
Office of Homeland Security  
The White House  
1600 Pennsylvania Avenue, N.W.  
Washington, DC 20500

Dear Governor Ridge:

I am writing on behalf of Mr. Glen Gaydlin, who is President of the Liberty K9 Detection Teams Program and a resident of Norwalk, Connecticut.

Mr. Gaydlin contacted my office concerning the need for more bomb sniffing dog teams for increased security in airports and other facilities throughout the country. He believes his program provides a unique approach to training large numbers of K9 teams to meet the demand for these services. Please find enclosed a copy of Mr. Gaydlin’s correspondence with my office. As this is a matter under your jurisdiction, I am referring his letter to you for an appropriate response.

Thank you for your care and attention to this matter.

Sincerely,

[Signature]

United States Senate
WASHINGTON, DC 20510-0733

Josef LIEBERMAN  
United States Senator

JL/crl
Enclosure  
cc: Mr. Glen Gaydlin
RETURN OF SERVICE

CASE NO. PROPOSAL FOR BS TRAINING

CLINE GAYLORD
LIBERTY BS DETENTION TRAINING PROGRAM

TO:

THE HONORABLE TOM RIDGE
OFFICE OF HOMELAND SECURITY

I DECLARE UNDER OATH THAT I AM OVER THE AGE OF EIGHTEEN YEARS AND I AM NOT INTERESTED IN, NOR AM I A PARTY TO THIS CASE.

I SERVED A SUMMONS AND COMPLAINT UPON

IN

AT THE FOLLOWING LOCATION

DATE: _______ TIME: ______ AM PM

I WAS NOT ABLE TO SERVE THE PROPOSAL FOR BS TRAINING FOR THE FOLLOWING REASON:

MY FIRST ATTEMPT TO DELIVER THE PROPOSAL TO 1600 PA. AVE. NW

ON MAY 31, 2002, I WAS ADVISED THAT I WOULD HAVE TO CALL THE

HOMELAND SECURITY OFFICE TO MAKE AN APPOINTMENT TO DELIVER THE

Proposal. I called to make an appointment and found that I had to

FAX a request to get the appointment. I HAVE FAXED THE REQUEST


I HAVE NOT RECEIVED A RETURN CALL FOR THE APPOINTMENT.


MARTIN L. RICE
PROCESS SERVER


Signed under oath before me on _7/2/2001_


NOTARY PUBLIC


USA RENEE JOHNSON
Commission Expires 11/1/2001
May 11, 2005

Mr. Dave Kosty
Director, Department of Homeland Security
Office of the National Explosives Detection Canine Team
TSA HQ: TSA-18001 South 12th Street
Arlington, Virginia 22202-4220

Dear Dave:

I am writing on behalf of Glen Gaylinn, President of Liberty K9 Detection Teams, who has presented me with a program to train and implement K9 detection teams. According to Mr. Gaylinn, his program would produce unprecedented numbers of those teams for the deployment of bomb and chemical/biological detection in the field.

Mr. Gaylinn believes that K9 detection teams are the most effective means of detecting explosives and chemical/biological agents, both in terms of performance and cost-effectiveness. His research finds current conventional methods used to train those teams is not sufficient to meet post-9/11 security demands, and I feel his research merits consideration.

Mr. Gaylinn and his associates have expressed their willingness to meet with you at your convenience to further explain and represent their proposal. He can be reached at:

Liberty K9 Detection Teams Program
177 MacDougal St. Suite #3
New York, NY 10011
Glen74@soi.com 212/375-1712

Thank you for your consideration. If I can be of further assistance in this matter, please do not hesitate to contact my Chief of Staff, Betty Hawkins, at 202/225-5541.

Sincerely,

[Signature]
U.S. Department of Homeland Security

AUG 8 2003

The Honorable Joseph I. Lieberman
United States Senate
Washington, D.C. 20510

Dear Senator Lieberman:

Thank you for your letter on behalf of your constituent, Mr. Glen Geifman. In your correspondence, you requested that we review Mr. Geifman's concerns about the need for bomb-sniffing dog teams for the Department of Homeland Security (DHS). The Bureau of Customs and Border Protection (CBP) has recently completed its review of this matter. Please allow me to outline our findings.

The U.S. Customs Service, U.S. Border Patrol, and parts of the U.S. Immigration and Naturalization Service and the U.S. Department of Agriculture merged on March 1, 2003, and became CBP. The merger resulted in the consolidation of resources to include canine officers and canine training academies of each "legacy" agency. The consolidation of these workforces dramatically increased the effectiveness and efficiency of canine enforcement activity all across our Nation's borders.

The CBP Canine Program has increased in both size and significance to support our anti-terrorism mission. Our current staffing includes more than 1,384 canine teams covering 72 ports of entry. Three canine enforcement training centers operate round-the-clock and have the capacity to train a sufficient number of canine teams annually for Federal, State, and local law enforcement agencies.

The CBP mission of deterring terrorist attacks within the United States and reducing America's vulnerability to terrorism is well supported by the ongoing efforts of our explosive, chemical, narcotic, canine, agriculture, and concealed-human detector dog teams. The CBP canine enforcement program will continue to set the highest standard in the training of detector dogs.
At this time, CBP is not offering federal grants for center-specific endeavors. However, our research does indicate that the Bureau of Alcohol, Tobacco, Firearms and Explosives may have a federal grant available for the “training of state and local law enforcement agencies in connection with the training and acquisition of canines for explosive and fire accelerants.”

I appreciate your interest in the Department of Homeland Security, and we look forward to working with you on future homeland security issues. If we may be of further assistance, please contact the Office of Legislative Affairs at (202) 205-4412.

Sincerely,

Pamela J. Turner
Assistant Secretary for Legislative Affairs
July 21, 2006

Dear House Committee Members:

On behalf of my associates and as President of Liberty K9 Detection Teams Association, I am submitting this testimonial to relate our frustration at interacting with the DHS.

Our association, comprised of some of this country’s foremost experts in K9 bomb detection, offers a program which can output 15X the current federal rate of production of quality bomb dog teams at a cost lower than the current federal allocation, (proposal attached). Several house committee members have reviewed, and were all intrigued at the design and merits of our program. They each commented that DHS was set up to jump-start programs such as ours due to the new terrorism paradigm of 9/11. We were advised to submit our proposal to the DHS as an “unsolicited proposal”.


2003-2005: Our proposal is submitted on three occasions to the DHS in exact compliance as an “Unsolicited Proposal”, (certified return receipt ID’s attached).

3/2005: DHS Dir. Kontry confirms via phone that he is in possession of our proposal.

5/2005: Congressman Shays’ Chief of Staff, Betsy Hawking, wrote to Dir. Kontry at DHS requesting a review of the Liberty K9 proposal, (attached).

2/2006: Ms. Snyder, (asst. to DHS Dir. Kontry), requested that we submit our proposal yet a fourth time. We did so on 4/20/2006. This time DHS has not returned the receipt of delivery, but I have attached the proof of certified mail receipt.

Our 26 page proposal has been submitted for review to the DHS on 9 occasions and has not received a legitimate review or critique of our program to date.

On 4/2006, DHS sent us a copy of a brief “review” to Senator Lieberman dated 8/2003, (attached). The note states that their findings are that the consolidation of the resources of the new DHS has “increased the effectiveness and efficiency of canine enforcement activity all across our Nation’s borders”, and that they “have the capacity to train a sufficient number of canine teams annually.” There was no review or reference to our proposal in the brief and seemingly defensive note.

Interestingly, On 9/28/2005, the findings of a House Committee hearing: “Sniffing Out Terrorism: The Use of Dogs in Homeland Security”, (with testimonial given by Department Directors of DHS), as well as an extensive research report conducted by our association directly refuted the above contention.
It is our deepest hope that this committee will seriously take the steps necessary to eradicate the cumbersome bureaucratic red tape at the DHS and help to allow more creative thinking from the private sector to assist in defending our nation from a most threatening adversary.

If I can be of any further assistance to the committee on this matter, it would be my honor to avail myself to you.

Sincerely,

Glen Gaylinn, President
Liberty K9 Detection Teams Program © 2001
177 MacDougal St. Suite 3
New York, NY 10011
(212) 375 - 1712
LIBERTY K9
Detection Teams Program

Output of 1,000 Teams Per Year
(10X Current National Rate)

Proposal for implementation to the
Department of Homeland Security

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Glen Gaylinn, President
(212) 375 - 1712
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EXECUTIVE SUMMARY

Liberty K9 Detection Teams Program offers a viable solution to remedy an acute shortage in production of K9 Detection Teams, due to the incredible demand for them since 9/11/2001. These teams have been proven for decades to be the most effective, reliable, and efficient means of terrorism prevention. They also serve as a visible deterrent to terrorists as well as an obvious and acceptable statement to the citizenry of our anti-terrorism efforts.

Our proposal asks to assist in consulting the United States Government's Department of Homeland Security on their current Bomb Dog Production. Liberty K9 offers to either on its own, or working with the current federal program in a consulting role; develop and operate a restricted compound which will supply upwards of 1,000 quality Detection K9 Teams per year. Each team consists of a trained and certified Detection K9 and Handler.

Our program will revolutionize the entire process for development of such teams. The Liberty K9 compound will operate as an institution which will bring together a staff of over 70 of the nation's most highly skilled professionals in K9 Detection Training and in K9 care. We will work with approximately 200 Detection Teams at a time, over a 10-week course. This uniqueness will allow us to create the mentioned 1,000 quality K9 Detection teams each year.

These K9 Detection Teams can then be deployed under contract by
the Federal Government, (Department of Homeland Security), as well as by the private sector, to protect the public and to preserve the liberties of our citizens.

Our team is comprised of our nation's foremost leading innovators and experts in the fields of K9/Handler Detection Training and K9 care. Our reputations in our respective and applicable fields are unmatched nationwide. Our creative, ground-breaking insights within our professions and our strict adherence to quality leads us to contend that we are the best candidates for this noble and necessary task.
PROBLEM

Our civil liberties have been compromised due to the reality that terrorism is now, and will always be, a constant threat in our society. More broadly, the way in which we go about our lives will be bogged down in cumbersome individual personal searches and screenings such that we will not be able to enjoy the fruits of the standard of living that this country has afforded us before September 11, 2001.

The following is an elementary and partial list of categories that will now be compromised by the current inefficient methods of insuring our safety from terrorist activities: Airports, Train & Bus Stations, Bridges, Tunnels, Borders, Sea Ports, Sport Stadiums, Concert Arenas, Theaters, Shopping Malls, Schools, Factories, Power Plants, Hospitals, Fuel Depots, Governmental Facilities, etc. .

The current methods of screening individuals, vehicles, and containers are both grossly inefficient and understaffed. Thorough Pat/Scan searches for individuals entering events such as the 2001 World Series at Yankee stadium took patrons 4 ½ hours to enter after 9/11. Furthermore, the irony of many current methods of protection of our civil liberties end up actually infringing on our civil liberties, as in the cases of racial profiling and intrusive, empty
investigations. Manpower alone is clearly not the answer to the problem.

The new technology vapor scanning devices, (while only marginally effective), are currently making erroneous and unproven claims, (according to most detection experts, including those listed in this writing). The U.S. Government has not approved most of these devices. They remain incredibly expensive at over one million dollars per unit to install. There are over 2,200 airport terminals in this country, equaling a cost of over 2.2 billion dollars for just this institution's security needs alone.

The only proven and reliable bomb and accelerant detection method currently in use today is Detection K9 Teams. It should be noted that such teams are also capable of detecting some forms of the current bio-terrorist threat, as in "Dirty Nukes", as there must be an explosive device used to disperse the radiation. Clearly there are not enough K9 Detection Teams to meet the pressing needs of our nation.

Currently, the existing federal bomb dog program reports on their website, that they are planning to ramp up their operations to put out about 120 Detection K9 Teams per year at an annual cost of about 17 million dollars. While Liberty K9 has tremendous respect for their efforts and personnel; they are simply not set up to mass-produce the Quality K9 Detection Teams needed to adequately secure our nation.
STATEMENT OF NEED

1. Secure and build a suitable, (sizable), training compound.
2. Attract the most competent K9 Detection Trainers.
3. Establish an on-site Veterinary Hospital and staff.
4. Establish an on site DEA/ATF certified Explosives Laboratory and staff.
5. Establish and staff eight separate security kennels, capable of safely housing twenty six, (26), K9s each.
6. Establish and staff a K9 "Screening and Preparatory", (S&P), facility for acquiring suitable K9s, and readying them for Detection Training.
7. Constructing multiple training staging sites on compound.
9. Constructing dormitories and appropriate living facilities for the K9 Handlers during their course.
10. Constructing and staffing the needs of the operational administration, (Includes staff directors, legal, marketing, recruitment, & accounting depts.)
11. Contracting a capable security team in and around the compound.
OPERATIONAL DESCRIPTION

Liberty K9, Inc. will operate a unique high security compound which will supply upwards of 1,000 certified Detection K9 Teams for use by the Federal Government each year. These teams will then be employed for use by the Federal Government. Liberty K9 will also train additional teams to operate as Independent Contractors for use by the private sector, as needed. All Detection Teams produced by Liberty K9 will be required to obtain “individual use” approval from the Federal Government.

Detection K9 teams will be trained specifically for the limited use as Chemical Accelerant and Explosive Detection Screeners. This may include some forms of Bio-Chemicals and “Dirty Nukes” radiation detection as well.

Liberty K9’s Screening and Preparatory staff will scour the over-crowded dog shelters of the U.S. for capable detection K9s. A donation will be given to participating shelters. Liberty K9 will also purchase K9s from breeders to meet demand, as well as commence large scale breeding of competent Detection K9s. The S&P staff will then prepare the K9s and their handlers for a one week period, to ready the K9s for the Detection Training Program.
K9s will be kept in Liberty K9’s secured kennels. An on-site veterinary hospital, staff and kennel staff will provide around the clock supervision.

Initially the program will attract and screen qualified handlers, similar to the current U.S. Sky Marshall Program. It will seek primarily retired police and inactive military personnel. Handlers will pay a tuition of $15,000 for a career as a K9 Detection Handler. The program will consist of a 10-week training course at the Liberty K9 facility. Handlers will be supplied by Liberty K9 with ownership of a certified Detection K9.

Liberty K9, Inc. will provide living accommodations for the Handlers on premises for the 10-week course duration.

Private individuals, (male or female), wishing to become handlers will be screened by the U.S. Government for approval in the program, and will be responsible for their own tuition. The U.S. Government may choose to fund it’s ex-military and law enforcement retirees the tuition for this career.

A staff of 25 of the most highly qualified K9 Detection Trainers on our staff will train 200 teams per 10-week period. They will consist of squads of 10 teams per trainer, (5 trainers will rotate out). Each K9 will bond/train with a handler on a ONE ON ONE BASIS ONLY during the 10-week training period, to ensure effective quality control.

The training methods and course curriculum will be staff supervised, in concert with the country’s leading expert authorities in Detection Training. The compound will offer the most realistic mock-up scenarios of vulnerable institutions and facilities. At conclusion, the teams will be fully capable of meeting current DEA/ATF tests for Detection K9 Teams and will be granted for
certification by the DEA/ATF.

Liberty K9 will require that ALL of its graduates return once every 18 months for a three day re-certification and "methods update" mini-program.

There will be a $500 fee to independent contractors for this refresher program.
LIBERTY K9 COMPOUND LAYOUT
(APPROXIMATELY 30 ACRES)
TIME LINE

**Days 1 – 60:**
1) Secure lease on compound property.
   2) Commence construction of temporary kennels, training sites and essential facilities.
   3) Recruit Detection training staff.
   4) Recruit and screen K9s.

**Days 61-90:**
5) Recruit and screen Handlers.
   6) Commence training first group on trial run.

**Months 4-6:**
7) Certify first graduates of Liberty K9 Detection Teams and place them for use with direction from Dept of Homeland Security.
   8) Commence construction of permanent compound facilities.
   9) Continue with next cycle of K9 Detection Teams, (recruitment and training).
ANNUAL OPERATIONAL BUDGET

REVENUE:
1000 Detection Teams per year at $15,000 each, (tuition).
+ Refresher training/re-certification intervals at $500.  (EST.)  $16,000,000

EXPENSES:
Utilities $250,000
Supplies, (from Vets.to dog food to training) $500,000
Dormitory, (foodservice/housekeeping for 300) $3,500,000
Marketing/Advertising $300,000
ASPCA Donations & Purchases from Breeders $650,000
Insurance $400,000

Salaries:
Project Administrator, (Org. CEO) $225,000
Attorney, (CEO) $200,000
Director of Detection Training, (CEO) $200,000
Accountant $100,000
Marketing team (2 x $75k) $150,000
Veterinarians (2 x $100k) $200,000
Veterinary Techs. (3 x $40k) $120,000
Detection Trainers (25 x $100k) $2,500,000
Screening/Prep (S&P) Trainer $75,000
DEA Cert. Accelerant Specialists (2 x $75k) $150,000
Kennel Staff (16 x $35k) $560,000
Training Site Engineers (2 x $75k) $150,000
Compound Security (6 x $35k) $210,000
Maintenance crew (4 x $35k) $140,000
Secretaries (4 x $40k) $160,000

Health Plan 71 employees: $120,000

TOTAL ANNUAL EXPENSES: $10,860,000

ANNUAL NET OPERATING SURPLUS: * $4,140,000

***OPENING START UP COSTS:
Property: $1,500,000
Initial emergency setup $500,000
Entire compound facilities $22,000,000

TOTAL START UP COST: * $24,000,000

ESTIMATED DEBT RETIREMENT PERIOD: 6 years; * (24/4)
## Forecasted Budget as a Private Company:

**LIBERTY KS DETECTION TEAMS PROGRAM**

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**Operating Expenses**

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**Income/(Loss) Before Taxes**

|                      | (33,328,834) | (17,310,007) | (460,087) | (522,751) | (522,750) | (522,751) |

**Note:** Interest based on $30,000,000 at 4%
### FORECASTED BUDGET

**LIBERTY NF DETECTION TEAMS PROGRAM**

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**OPERATING EXPENSES**

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<td>60,000</td>
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<td>Real Estate Taxes</td>
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<tr>
<td>Accounting &amp; Legal</td>
<td>60,000</td>
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<td>12,000</td>
<td></td>
<td></td>
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<td>1,000</td>
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<tr>
<td>Interest expense (see note)</td>
<td>1,100,000</td>
<td></td>
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<td>100,000</td>
<td>100,000</td>
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<tr>
<td><strong>Facility</strong></td>
<td>17,000,000</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
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<tr>
<td><strong>TOTAL OPERATING EXPENSES</strong></td>
<td>23,998,834</td>
<td>622,750</td>
<td>622,750</td>
<td>622,754</td>
<td>622,754</td>
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<td>622,754</td>
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<tr>
<td><strong>INCOME/(LOSS) BEFORE TAXES</strong></td>
<td>(23,828,834)</td>
<td>(914,416)</td>
<td>(914,416)</td>
<td>(914,416)</td>
<td>(914,416)</td>
<td>(914,416)</td>
<td>(914,416)</td>
<td>(914,416)</td>
<td>(914,416)</td>
<td>(914,416)</td>
<td>(914,416)</td>
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**Note:** Interest based on 30,000,000 at 4%
## FORECASTED BUDGET

### LIBERTY K9 DETECTION TEAMS PROGRAM

<table>
<thead>
<tr>
<th></th>
<th>1st Year</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
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<tr>
<td><strong>Projected Teams Initiated</strong></td>
<td>240</td>
<td>490</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
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<tr>
<td><strong>REVENUE</strong></td>
<td></td>
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<td></td>
<td></td>
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<td>Tuition</td>
<td>3,800,000</td>
<td>15,000,000</td>
<td>15,000,000</td>
<td>15,000,000</td>
<td>15,000,000</td>
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<td>Registration fees</td>
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<td>40,000</td>
<td>220,000</td>
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<td><strong>Total Revenue</strong></td>
<td>3,800,000</td>
<td>15,240,000</td>
<td>15,220,000</td>
<td>15,925,000</td>
<td>15,925,000</td>
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<tr>
<td><strong>COST OF GOODS SOLD</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td>Facilities</td>
<td>2,375,000</td>
<td>3,800,000</td>
<td>3,182,700</td>
<td>3,278,181</td>
<td>3,376,528</td>
<td>3,477,822</td>
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<td>Cost of Doge</td>
<td>430,000</td>
<td>918,000</td>
<td>1,000,000</td>
<td>250,000</td>
<td>750,000</td>
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<td>Supplies</td>
<td>375,000</td>
<td>365,200</td>
<td>387,839</td>
<td>408,723</td>
<td>422,689</td>
<td>436,728</td>
<td>447,770</td>
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<tr>
<td><strong>Total Cost of Goods Sold</strong></td>
<td>3,230,000</td>
<td>4,651,250</td>
<td>4,590,538</td>
<td>3,937,954</td>
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<td>4,152,590</td>
<td>4,287,457</td>
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<td><strong>GROSS PROFIT</strong></td>
<td>570,000</td>
<td>11,510,000</td>
<td>11,617,462</td>
<td>11,987,046</td>
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<td>11,772,410</td>
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<tr>
<td><strong>OPERATING EXPENSES</strong></td>
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<td>Supplies</td>
<td>4,570,834</td>
<td>5,063,358</td>
<td>5,348,159</td>
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<td>Utilities/Telephone</td>
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<td>341,752</td>
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<td>Exterminating/Tenac removal</td>
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<td>37,080</td>
<td>38,192</td>
<td>39,538</td>
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<td>41,724</td>
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<td>370,000</td>
<td>381,924</td>
<td>393,882</td>
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<td>417,329</td>
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<td>Cleaning</td>
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<td>61,000</td>
<td>63,654</td>
<td>65,964</td>
<td>67,331</td>
<td>66,566</td>
<td>71,643</td>
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<tr>
<td>Advertising/Publicity</td>
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<td>206,000</td>
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<td>225,102</td>
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<td>238,610</td>
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<td>Repairs and Maintenance</td>
<td>60,000</td>
<td>61,000</td>
<td>63,654</td>
<td>65,964</td>
<td>67,331</td>
<td>66,566</td>
<td>71,643</td>
</tr>
<tr>
<td>Real Estate Taxes</td>
<td>60,000</td>
<td>61,000</td>
<td>63,654</td>
<td>65,964</td>
<td>67,331</td>
<td>66,566</td>
<td>71,643</td>
</tr>
<tr>
<td>Accounting &amp; Legal</td>
<td>60,000</td>
<td>61,000</td>
<td>63,654</td>
<td>65,964</td>
<td>67,331</td>
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<td>71,643</td>
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<td>Office Supplies</td>
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<td>30,000</td>
<td>31,827</td>
<td>32,762</td>
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<td>12,360</td>
<td>12,731</td>
<td>13,113</td>
<td>13,606</td>
<td>13,911</td>
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<td><strong>Total Operating Expenses</strong></td>
<td>23,998,634</td>
<td>7,951,196</td>
<td>7,650,334</td>
<td>7,654,685</td>
<td>7,663,126</td>
<td>7,672,136</td>
<td>7,902,390</td>
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<td><strong>INCOME/(LOSS) BEFORE TAXES</strong></td>
<td>(21,827,834)</td>
<td>4,248,802</td>
<td>4,192,268</td>
<td>4,087,134</td>
<td>3,963,140</td>
<td>3,865,042</td>
<td>3,727,544</td>
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**Note:** Interest based on 30,000,000 at 4%
ORGANIZATIONAL STRUCTURE

[Diagram of organizational structure with roles and departments]
### CONSULTANTS' CURRICULUM VITAE

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Glen Gaylinn</td>
<td>Patented K9 Facilities Inventor and Developer&lt;br&gt;Owns and operates NYC's largest modern K9 training and care facilities for over 12 years.&lt;br&gt;Veterinary Technician&lt;br&gt;BBA Degree University of MA, Amherst 1984.</td>
</tr>
<tr>
<td>Jan Scofield</td>
<td>Master Trainer; N. American Police Work Dog Assoc.&lt;br&gt;FBI Academy, Quantico, Va.&lt;br&gt;Kennedy Space Center K9 Specialist for Ordinance and Narcotic Searches&lt;br&gt;Sheriff, Under-sheriff, and Investigator; including bombs and hazardous devices for Yates County, NY&lt;br&gt;(See attached C.V. following this page)</td>
</tr>
<tr>
<td>Det. Timothy Dinan</td>
<td>NYPD Bomb Squad K9 Trainer and Handler&lt;br&gt;12 Years experience Explosive Detection K9 training&lt;br&gt;Graduate of FBI Hazardous Devices School, Huntsville, AL</td>
</tr>
<tr>
<td>Det. Kenneth Silva</td>
<td>NYPD Bomb Squad K9 Trainer and Handler&lt;br&gt;12 Years experience Explosive Detection K9 training&lt;br&gt;Graduate of FBI Hazardous Devices School, Huntsville, AL</td>
</tr>
<tr>
<td>Sgt. Frank Holland</td>
<td>Norwalk Police Bomb Squad K9 Trainer and Handler</td>
</tr>
<tr>
<td>Renee Payne</td>
<td>7 years experience as a certified K9 Obedience trainer and Behavior Therapist in New York.</td>
</tr>
<tr>
<td>Dr. Edward Kurose</td>
<td>Veterinarian, Owning Partner of Strawberry Hill Animal Hospital, Norwalk, CT</td>
</tr>
<tr>
<td>Dr. David Santisi</td>
<td>Veterinarian, Owning Partner of Strawberry Hill Animal Hospital, Norwalk, CT</td>
</tr>
<tr>
<td>William Tolhurst</td>
<td>President; Nat. Police Bloodhound Assoc. 1972-75&lt;br&gt;Author of N.P.B.A. Training Manual&lt;br&gt;Training Officer for N.P.B.A. for 14 years.&lt;br&gt;President of N. American Search Dog Network 1990</td>
</tr>
<tr>
<td>John Weagle</td>
<td>Attorney at Law</td>
</tr>
<tr>
<td>David Barrett</td>
<td>Attorney at Law</td>
</tr>
<tr>
<td>Andrew Wittenstien</td>
<td>M.I.S. specialist, B.S., Syracuse University 1985</td>
</tr>
</tbody>
</table>
Jan S. Scofield

Education
1966 - 1970
Monroe Comm. College, Rochester, NY
AAS Police Science

1963
FBI Academy, Quantico, VA

Professional experience
1990-Present
Titusville Police Department, Titusville, FL

1962 - 1988
EG&G of Florida, Kennedy Space Center

Canine Specialist
* Main duties are Ordnance and Narcotic Searches

Yates County Sheriff, Penn Yan, New York.
Sheriff, Undersheriff, Investigator, and Deputy. Numerous schools on
criminal investigation, photography, fire & arson investigation, bombs &
hazardous devices, and evidence collection.

Professional memberships
Master Trainer with North American Police Work Dog Assoc.

State Certifying Official of the National Narcotic Detector Dog Assoc.

Past Instructor, Trainer, and Examiner for Canine Teams for the Bureau of
Municipal Police in New York State. Assisted in developing the training and
certification program in effect in New York State today.

I have trained approximately 400 K9 teams during my career.
The majority of these have gone on to reach certification with New York
State, NAPWDA, or NNDCA.

During the last twelve months I have tested approximately 60 teams for
these organizations.

I currently own, train, & handle my own ordnance and narcotic canines.
February 28, 2002

To Whom It May Concern:

Reference: Liberty K9 Detection Teams Program

My name is Jan Scofield. I have been a Police Officer for 30 years and have been training dogs for about the same period of time. I am currently a Master Trainer for the North American Police Work Dog Association, a State of Florida Certifying Official for the National Narcotic Detector Dog Association. While I was the Sheriff in Yates County, New York, I assisted in writing and enacting that State's Police K9 Evaluation Process, which is in place today. Upon my retirement from the Department in New York, I moved to Florida. I was employed by EG&G of Florida at the Kennedy Space Center as a Canine Specialist until I came to the Titusville Police Department which is where I am employed today. I have trained hundreds of Patrol, Narcotics, Ordnance, Cadaver and a few Arson (hydrocarbon) Detection dogs over the years.

For the last several weeks I have been reviewing a proposal by Glen Gaylin to create a unique K9 training compound, with knowledgeable trainers. This is an effort to help relieve the County's current need for detector K9's. I envision this proposal as the first step toward UNIFORMITY in training teams and holding them to a standard of proficiency that we can all be proud of. Currently there are multitudes of K9's being sold as detector dogs. Unfortunately some of these are not trained properly when they are purchased. Some of the others are merely placed with a handler and put to work searching without any handler/K9 training. I believe that this proposal, with the number of trainers stated, is theoretically sound. It would be possible to achieve the number of finished teams as stated, with this type of instruction and viable K9 candidates.

I do not believe there are any Local, County, State, or Federal Agencies that are operating there training with this type of concept. I also do not believe that any would be able to turn out the numbers of credible teams needed to fill the void that has been created. Also to my knowledge there has been no effort to address the K9 training needs of the private security companies that are currently doing much of the searching in our ports, private corporations, and other homeland security needs. This proposal would also help to address those issues, and again provide Uniformity and proficiency.

If I may be of any further assistance in this matter please do not hesitate to contact me.

Sincerely,

Jan S. Scofield

QUALITY OVER QUANTITY
February 11, 2002

Mr. Glen Gaylinn
177 MacDougal St.
New York, NY 10011

Mr. Gaylinn,

My name is Timothy M. Dinan and I am a Detective, currently working with the New York City Police Department Bomb Squad. Along with my partner, Detective Kenneth Silva we have over 24 years experience in Explosive Detection Canine training. In addition to our canine training, we are both graduates of the FBI’s Hazardous Devices School, in Huntsville Alabama. The advantage of being a Bomb Technician, as well as a trainer is that you have a full understanding of, not only the canine aspect of Detector Dogs, but the Explosive side of the equation.

Det. Silva and I have reviewed your proposal to start a Detector Dog Company, and in our opinion it is a very well thought out, feasible plan of Action. The highlights that jumped out at us were the importance of Dedicated handlers, and qualified trainers. We also liked your idea of Obtaining canines from shelters and rescue groups, as we have done this for years with great success. In this time of heightened security, the need for well trained, properly handled Explosive Detection Canines is on the rise. And we believe this trend will continue. Your proposal addresses this shortage head on. We wish you much luck with your proposal and any future endeavors.

Det. Timothy M. Dinan

Det. Kenneth Silva
Strawberry Hill Animal Hospital LLC
Edward W. Kurose DVM
350 Westport Avenue
Norwalk, CT 06851
(203) 847-5875

February 10, 2002

To Whom It May Concern:

I am the founder and managing partner of Strawberry Hill Animal Hospital in Norwalk, CT. Glen Gaylinn approached me several years ago with a proposal to start up a business within our animal hospital. He presented a plan for a business to be known as “The Dog Wash” which was a novel idea for the area and which he had obviously thoroughly researched. He impressed me with his knowledge of all the details and ramifications of what he was proposing. This, with his drive and enthusiasm, convinced me to enter into this venture with him. The business has been a great success for us. Glen had accurately assessed the time it would take to construct the facility and his business plan also accurately predicted anticipated costs and revenues. His ability to manage and motivate staff was a huge factor in the success of the business.

I can wholehearted recommend Glen as an individual who thoroughly researches his ideas and then carefully constructs a business plan to assure its viability. He is a man of unquestioned character and integrity.

If you have any further questions with regard to our experience in working with Glen, please feel free to call the above number.

Sincerely,

Edward W. Kurose DVM
To Whom It May Concern,

I've worked with Glen Gaylinn for just over a year, myself a private contractor conducting training classes out of his establishment. I first approached Glen based on his reputation and the buzz about his store. I've stayed with him because of his sharp business and marketing sense, his commitment to his staff and clientele, his genuine concern for the care of dogs and countless other reasons. In a nutshell, he has a rare combination of impeccable business, people and animal skills.

Glen's proposal of the Liberty K9 Detection Team Program is another step in his ongoing list of innovative ideas. I read his proposal and, although I knew that it would be carefully planned, I was quite impressed by the magnitude of the project and his ability to put every piece of the puzzle into place.

The need for this kind of program is evident in every newscast and newspaper report about our country's new dilemma in keeping our citizens safe from terrorist attacks. Living in New York, I see countless examples every day of how much easier this safety would be guaranteed if there were more detection dogs available. From the lack of trashcans in subway stations to the searching of cars at bridges and tunnels to the 4-hour wait to get into a World Series game at Yankee stadium, there are hundreds of places for these dogs in NYC alone.

Glen's layout of the Liberty Program covers every base in the process of being able to turn out thousands of detection dogs. My role would be at the beginning stage, finding appropriate dogs, most of them sitting in shelters waiting for euthanasia. I would train the dogs in basic obedience and ready them for the next stage where Glen and others that were trained in tracking would ready them in a short period of time to go on the job.
The proposal of the program is perfectly drawn out, with the physical structure of the facility allowing everyone from veterinarians to trainers and executives to have access to the kennel and training area. Looking at it on paper and comparing it to how smoothly Glen's current animal care facility runs, I feel confident that the efficiency and delivery will be enormous.

The Liberty Program would provide more than homeland security. It would also provide countless jobs and a partial solution to the country's pet overpopulation problem. I fully support the project and look forward to doing a good thing for our country and for dogs.

Thank you for your time,

Renee Payne
Canine Behavior Therapist
Owner, Walk This Way, Inc.
Strawberry Hill Animal Hospital
350 Westport Ave.
Norwalk, CT 06850
203-847-5875

February 8, 2002

To whom it may concern:

I have read the proposal sent to me by Glen Gaylim regarding the Liberty K9 Detection Teams Program, and he has asked me to comment at this time. Although I am a veterinarian and do not have specific experience regarding detection training, I am able to render an opinion about the feasibility of this plan with respect to animal care and housing. The veterinary, technician, and kennel staff budget figures and manpower considerations for this endeavor appear to be accurate annual estimates in my opinion.

I have known Glen Gaylim for nine years during which time he has worked exclusively with dogs. I consider him an energetic and honorable person with an excellent knowledge of canine behavior combined with a keen business sense. Therefore I would consider him a strong candidate to initiate and oversee the aforementioned detection program.

Since 9/11/01, it has become very obvious to all Americans that canine detection will continue to be an invaluable tool in thwarting terrorism. Mr. Gaylim's ideas and concepts truly make sense to me. To this end, I am willing to assist in any way possible. Feel free to call should any other questions arise.

Sincerely,

David S. Santisi, DVM
February 19, 2002

Mr. Olen Gaylinn
177 McDougal St.
New York, NY 10011

Mr. Gaylinn,

I writing you this letter of endorsement regarding your Liberty K9 proposal. I was quite impressed with the overall package. The facility you propose would be one of a kind. Dedicated to producing top quality detection canines in a time where America, as well as the world, are in need of such a resource.

I have been a police canine handler for the past ten years. I work for the Norwalk, Connecticut Police Department. I am very versed in the idiosyncrasies of training detection dogs, as well as patrol dogs. I have attended many training seminars to keep up to date with various training methods and case law regarding police canines.

I am nationally accredited instructor of police service dogs with the North American Police Work Dog Association, along with the Connecticut Police Work Dog Association. My field of expertise is detection and patrol canines.

I have instructed numerous recruit level, and re-certification classes. I feel, given the type of facility you propose, turning out the number of service dogs you’ve quoted in your proposal is a realistic number.

I wish you the best of luck in your endeavor, and offer my assistance in anyway possible. I can be reached at the following number: (203) 521-0319.

PO F. Holland
Norwalk, CT Police
NAPWDA Trainer
Mr. Clark Kent Ervin, Director
Homeland Security Initiative
The Aspen Institute
One Dupont Circle, NW
Washington, DC 20036

Dear Mr. Ervin:

This letter is being sent as a follow-up to the July 27, 2006 hearing of the Committee on Government Reform entitled "Code Yellow: Is the DHS Acquisition Bureaucracy a Formula for Disaster." Enclosed are questions that I have submitted for the record.

I look forward to receiving your response to these questions by August 27, 2006. Please send your response by mail to the Committee majority staff in 2157 Rayburn House Office Building, to the minority staff in 350A Rayburn House Office Building, and to my office in 2235 Rayburn House Office Building. If you have any questions, please call Danielle Grote in my office at (202) 225-4741. Thank you for your attention to this request.

Sincerely,

Elijah E. Cummings
Member of Congress

Enclosure

cc: The Honorable Tom Davis, Chair
The Honorable Henry A. Waxman, Ranking Member
Congressman Elijah E. Cummings  
Additional Questions for the Record  
Government Reform Committee Hearing  
“Code Yellow: Is the DHS Acquisition Bureaucracy a Formula for Disaster?”  
July 27, 2006  

Additional Questions for Mr. Clark Kent Ervin

1. In your book, *Open Target: Where America Is Vulnerable to Attack*, you are critical of DHS contract management. Since you left DHS in July 2005, have you seen any signs of improvement?

2. In response to my question regarding the root of the problem at DHS, you pointed to several factors, including incompetence and pervasive, institutional weaknesses. What do you see as the potential solutions to the problems you identified?
### DCAA Audit Findings

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<th>By</th>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nebraska (State of)</td>
<td>DCAA</td>
<td>8/11/2009</td>
<td>DCAA identified Nebraska's Department of Correctional Services' actual and estimated costs. DCAA did not adjust the actual or estimated decision price.</td>
</tr>
<tr>
<td>Shaw Environmental &amp; Infrastructure, Inc.</td>
<td>DCAA</td>
<td>8/26/2009</td>
<td>Examination of the proposed disclosure statement, including labor and material costs. Proposed is acceptable for rates in a fair and reasonable price.</td>
</tr>
<tr>
<td>Shaw Environmental &amp; Infrastructure, Inc.</td>
<td>DCAA</td>
<td>8/26/2009</td>
<td>Examination of the proposed disclosure statement, including labor and material costs. Proposed is acceptable for rates in a fair and reasonable price.</td>
</tr>
<tr>
<td>Uramex Management</td>
<td>DCAA</td>
<td>9/10/2009</td>
<td>DCAA determined a rate of 1.0. No judgment was made regarding the appropriate rate.</td>
</tr>
<tr>
<td>Shaw Environmental &amp; Infrastructure, Inc.</td>
<td>DCAA</td>
<td>8/19/2009</td>
<td>Examination of the proposed disclosure statement, including labor and material costs. Proposed is acceptable for rates in a fair and reasonable price.</td>
</tr>
<tr>
<td>CH2M HR, Inc.</td>
<td>DCAA</td>
<td>8/19/2009</td>
<td>Examination of the proposed disclosure statement, including labor and material costs. Proposed is acceptable for rates in a fair and reasonable price.</td>
</tr>
<tr>
<td>CH2M HR, Inc.</td>
<td>DCAA</td>
<td>8/19/2009</td>
<td>Examination of the proposed disclosure statement, including labor and material costs. Proposed is acceptable for rates in a fair and reasonable price.</td>
</tr>
<tr>
<td>Michael Eiler Jr. (MELL)</td>
<td>DCAA</td>
<td>9/14/2009</td>
<td>Examination of the proposed disclosure statement, including labor and material costs. Proposed is acceptable for rates in a fair and reasonable price.</td>
</tr>
<tr>
<td>Shaw Environmental &amp; Infrastructure, Inc.</td>
<td>DCAA</td>
<td>6/10/2009</td>
<td>Examination of the proposed disclosure statement, including labor and material costs. Proposed is acceptable for rates in a fair and reasonable price.</td>
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<tr>
<td>Shaw Environmental &amp; Infrastructure, Inc.</td>
<td>DCAA</td>
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<td>Examination of the proposed disclosure statement, including labor and material costs. Proposed is acceptable for rates in a fair and reasonable price.</td>
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<tr>
<td>Shaw Environmental &amp; Infrastructure, Inc.</td>
<td>DCAA</td>
<td>6/10/2009</td>
<td>Examination of the proposed disclosure statement, including labor and material costs. Proposed is acceptable for rates in a fair and reasonable price.</td>
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<tr>
<td>Shaw Environmental &amp; Infrastructure, Inc.</td>
<td>DCAA</td>
<td>6/10/2009</td>
<td>Examination of the proposed disclosure statement, including labor and material costs. Proposed is acceptable for rates in a fair and reasonable price.</td>
</tr>
<tr>
<td>Shaw Environmental &amp; Infrastructure, Inc.</td>
<td>DCAA</td>
<td>5/25/2009</td>
<td>Examination of the proposed disclosure statement, including labor and material costs. Proposed is acceptable for rates in a fair and reasonable price.</td>
</tr>
<tr>
<td>CH2M HR, Inc.</td>
<td>DCAA</td>
<td>5/22/2009</td>
<td>Examination of the proposed disclosure statement, including labor and material costs. Proposed is acceptable for rates in a fair and reasonable price.</td>
</tr>
<tr>
<td>Shaw Environmental &amp; Infrastructure, Inc.</td>
<td>DCAA</td>
<td>4/21/2009</td>
<td>Examination of the proposed disclosure statement, including labor and material costs. Proposed is acceptable for rates in a fair and reasonable price.</td>
</tr>
<tr>
<td>CH2M HR, Inc.</td>
<td>DCAA</td>
<td>4/7/2009</td>
<td>Examination of the proposed disclosure statement, including labor and material costs. Proposed is acceptable for rates in a fair and reasonable price.</td>
</tr>
<tr>
<td>CH2M HR International Services, Inc.</td>
<td>DCAA</td>
<td>3/3/2009</td>
<td>Examination of the proposed disclosure statement, including labor and material costs. Proposed is acceptable for rates in a fair and reasonable price.</td>
</tr>
</tbody>
</table>

Note: Figures have been rounded to protect disclosure of proprietary information.
### DCAA Audit Findings

<table>
<thead>
<tr>
<th>Contractor</th>
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<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CH2M Hill Covint, Inc. (CH2M)</td>
<td>DCAA</td>
<td>3/19/2008</td>
<td>DCAA evaluated DOI cost plus indirects proposal to determine if the cost of the proposal examined was appropriate as a basis to negotiate a firm contract price. CH2M examined the direct labor rates, service center rates, equipment, material, and supplies costs, other direct costs, travel, meals, and indirect rates. DCAA questioned proposed costs and identified unallowed costs.</td>
</tr>
</tbody>
</table>

| Reveal Imaging Technologies | DCAA | 3/19/2008 | DCAA examined Reveal’s financial condition and capability to determine if the contractor has adequate financial resources to perform Gov’t contracts. To do so, DCAA reviewed the contractor’s audited financial statements for FY 2005 and 2006, unaudited financial data for FY 2007, and cash flow forecast through 2008. DCAA found Reveal’s financial condition to be acceptable for performing Gov’t contracts. |

| FFE | DCAA | 3/23/2009 | DCAA evaluated FFE’s rough order of magnitude (ROM) proposal for a task under the contract by verifying the proposed direct/contract costs to the contractor’s supporting documentation; verifying the proposed direct cost compensation rates and all applicable line-by-line costs, including the proposed labor cost rates and evaluating the document status of the accounting, billing and other systems and financial capability. DCAA identified differences in the proposed burden and overhead rates applied to the base labor rates and OAA rates. |

| Inhouse, Inc. | DCAA | 3/23/2009 | DCAA evaluated inhouse’s accounting system to determine whether the design of the system is acceptable for the award of a prospective contract. They found that the design of the accounting system is, at all material respects, considered acceptable for the proposed contract. |

| Swae Environmental & Infrastructure, Inc. | DCAA | 3/23/2009 | Evaluation lender to certain contractor estimating procedures used in preparation of proposals submitted. Contractor unable to provide the basis for the proposed direct labor costs or indirect cost or pricing data for the proposed subcontract costs. Following problems found: Contractor did not consistently prepare and document bid packages, document management reviews, subcontract pricing considerations, and subcontractor invoices to the subcontractor’s books and records. DCAA took action to correct these deficiencies. |

| Universal Project Management Inc. (UPM) | DCAA | 10/6/2006 | DCAA evaluated UPM’s accounting system to determine whether the system design is acceptable for the award of a prospective contract. DCAA found the system design inadequate in that it could adversely affect recording, processing, summarizing, and reporting costs. DCAA found a need for identification and classification of project costs and a need to preserve written policies and procedures. |

| UPM | DCAA | 1/23/2005 | DCAA evaluated UPM’s subcontract with FFE by examining the proposed labor hours, indirect cost rates, direct labor costs and fee costs. DCAA found that UPM had incorrectly allocated the indirect labor and fee costs, and that UPM’s other effort-based costs were unallowable. DCAA took action to reclassify these costs and costs overhead. |

| ATCS Serv. | DCAA | 1/1/2004 | This is a supplemental DCAA report replacing the above IFP in its entirety. DCAA evaluated their proposal for the above IFP for the拟议. DCAA applied the IFP method, OAA, material handling, and profit to actual labor rates to determine a fully burdened rate for each category and sublevel. As to indirect rates, DCAA found the OAA rates for 2000 were based on projections from actual 2002 rates, and determined that these projections were not inclusive of actual rate. DCAA took no exception to the proposed material handling rate. |

| FFS | DCAA | 1/23/2005 | DCAA evaluated FFS proposal for a task under the contract by verifying direct labor costs to books and records, verifying support for proposed direct cost allocations, contractor’s costs, and evaluating the document status of the accounting, billing and other systems and financial capability. DCAA took no exception. |

| ATCS Serv. | DCAA | 1/23/2005 | DCAA evaluated the realism of ATC’s proposed labor rates on a subcontract. DCAA took exception to the proposed labor rates, proposed overhead, and OAA rates. DCAA did not take exception to the proposed material handling rate. |

| Swae Environmental & Infrastructure, Inc. | DCAA | 1/23/2005 | Except for qualifications for the work of Part VI’s database statement remaining correct (being in process, offerer has submitted adequate data and pricing data. Proposed cost considered reasonable, Audits of Part VI correct in progress. |

| SNI | DCAA | 1/23/2005 | Audit statement that except for qualifications regarding the results of a government controlled evaluation of the impact of SNI’s proposed schedule extension, SNI submitted adequate cost or pricing data. DCAA questioned other direct costs, including equipment, other expenses, and other. DCAA concerned with findings. |

| FFS | DCAA | 1/23/2005 | DCAA evaluated FFS proposal for a task under the contract by verifying direct labor costs to the contractor’s books and records, comparing claimed sales, cost, and fees to the contractor’s detailed support and verifying the mathematical accuracy of the public support. DCAA took no exception. |

**Note:** Figures have been removed to protect disclosure of proprietary information.
# DCAA Audit Findings

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<tr>
<td>MILR</td>
<td>11/19/05</td>
<td>DCAA assessed MILR’s compliance with the requirements of CAS 412 Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives, and any applicable Federal Acquisition Regulation Part 31 requirements. DCAA found MILR complied in all material respects.</td>
</tr>
<tr>
<td>ISP Federal Serv. Inc. (PFS)</td>
<td>11/18/05</td>
<td>DCAA evaluated five (5) contract cost proposals verifying proposed labor rates and T&amp;M rates, comparing proposed indirect rates to the established forward pricing rate agreement, verifying support for the proposed indirect costs, and evaluating the DI value of accounting, billing and other systems of financial capability. DCAA reviewed PFS’ her and the Cost of Money rate, and took no exceptions to the proposed labor rates and other direct costs.</td>
</tr>
<tr>
<td>Shaw Environmental &amp; Infrastructure, Inc.</td>
<td>11/18/2005</td>
<td>Contractor incorrectly applied two (2) labor rates under Task Order 15 and one (1) labor rate under Task Order 17. Under 15 rate for Project Manager B - Field and rate for Field HBS Tech II - Field. Under 17 rate for Administrative Assistant II. No other exceptions were noted.</td>
</tr>
<tr>
<td>Bechtel National Inc. (BN)</td>
<td>11/16/2005</td>
<td>DCAA evaluated BN’s construction fee proposals for Group Site Design Services to obtain the basis of estimate, verified the mathematical accuracy of the proposal, and traced proposed costs to supporting documentation. DCAA took exception to BN’s if indirect costs and subcontractor indirect costs to which BN agreed and submitted revised proposals to correct the error.</td>
</tr>
<tr>
<td>Bechtel National Inc</td>
<td>11/12/2005</td>
<td>Audit revealed significant differences in proposed over $160 million, including indirect rate. Inadequate analysis. Contractor proposed and revised proposal.</td>
</tr>
<tr>
<td>Shaw Environmental &amp; Infrastructure, Inc.</td>
<td>11/14/2006</td>
<td>Forecasted FY 2008 building rates were reviewed and approved by CIAC. Contractor did not include appropriate adjustments. According to CIAC, the contractor admitted error and agreed that cost of money should be included in total cost identified as task under 12. Offer was not determined to be satisfactory.</td>
</tr>
<tr>
<td>MILR</td>
<td>11/31/2005</td>
<td>DCAA evaluated MILR’s certified indirect cost proposal, revised schedules, and related invoices and records for reimbursement of FY 2003 incurred costs. The purpose of the examination was to determine allowability of direct and indirect costs and recommend contracting officer-accepted indirect cost rates. DCAA questioned the proposed indirect costs income taxes costs. DCAA also questioned proposed indirect corporate areas allocations.</td>
</tr>
<tr>
<td>Michael Baker Jr., Inc. (MBJ)</td>
<td>12/20/2005</td>
<td>DCAA evaluated MILR’s certified indirect cost proposal, revised schedules, and related invoices and records for reimbursement of FY 2003 incurred costs. The purpose was to determine allowability of direct and indirect costs and recommend contracting officer-accepted indirect cost rates. MILR's indirect rates were acceptable as adjusted by the examination. The claimed direct rates were acceptable and provisionally approved. MILR did not in analyzing other direct costs as authorized costs.</td>
</tr>
<tr>
<td>CH2M Hill Construction, Inc.</td>
<td>11/17/2005</td>
<td>Report limited to direct labor rates, indirect rates, equipment and ODC. Except for qualifications, audit found offerer submitted adequate cost or pricing data. Qualifications: non receipt of the requested technical evaluation regarding proposed labor hours and related quantities (considered essential for review of labor and material costs) results qualified related to proposed CIC indirect rate (proposed was submitted prior to FEMAA effort, which would significantly affect proposed indirect rates).</td>
</tr>
<tr>
<td>Rock Federal Services, Inc.</td>
<td>11/18/2005</td>
<td>Audit determined difference in labor rates, specifically in the FEMAA Hours Rate schedule.</td>
</tr>
<tr>
<td>NVL</td>
<td>12/30/2005</td>
<td>The contractor’s accounting system is not acceptable for the award of the final contract. The significant issues noted by the auditors included: 1) accounting system is not configured to allocate indirect costs to contracts; 2) contractor’s bookkeeping system for employees ticked accountability; 3) contractor's accounting system is not configured for segregating and accounting allowable costs; 4) inadequate traceability applied over billing procedure.</td>
</tr>
<tr>
<td>Covenant Additions Inc.</td>
<td>9/30/2005</td>
<td>DCAA reviewed Covenant’s final indirect cost proposal and revised indirect rates for reimbursement of incurred costs to determine allowability of direct and indirect costs and recommend contracting officer-determined indirect cost rates. DCAA found Covenant’s accounting systems adequate for accounting, reporting, and billing costs on government contracts. DCAA questioned Covenant’s overhead costs and other indirect costs.</td>
</tr>
<tr>
<td>Siemens Maintenance Services, LLC</td>
<td>9/30/2005</td>
<td>DCAA questioned costs were a result of large subcontract being recalculated as other direct costs and significant decline in the costs of leasing/leasing the warehouse rather than subcontracting this out. Also questioned surcharge variable and the application of proposed G&amp;A rate to the G&amp;A base. Siemens does not believe this contract is subject to full CAS coverage because the CAS issue is not in the contract, DCAA believes this contract is subject to full CAS coverage because the GOI informed Siemens that because the options were not competitive the options were subject to full CAS coverage.</td>
</tr>
<tr>
<td>Siemens Maintenance Services, LLC</td>
<td>9/30/2005</td>
<td>The auditor questioned a subcontract being recalculated as other direct costs. They also questioned a section in the costs of leasing/leasing the warehouse because the contractor operated the warehouse rather than subcontracting this out.</td>
</tr>
<tr>
<td>Envision, Inc.</td>
<td>9/29/2005</td>
<td>DCAA reviewed Envision’s indirect costs on the system’s design was acceptable for the award of a prospective contract. DCAA found Envision’s system was acceptable for the award of a contract. Envision does not allocate indirect costs based on a statistical relationship to revenue and other contract objectives. Envision has not proposed a FY 2005 budget with a written description of the contracts and the basis costs.</td>
</tr>
</tbody>
</table>

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## DCAA Audit Findings

<table>
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<tr>
<th>Contractor</th>
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</tr>
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<tbody>
<tr>
<td>Battle Creek</td>
<td>DCAA</td>
<td>9/26/2005</td>
<td>DCAA examined Battle Creek’s accounting system to assess the system was acceptable for the award of a prospective contract. DCAA found Battle Creek’s accounting system was unacceptable as it failed to comply with the award of a contract.</td>
</tr>
<tr>
<td>FirstLight Aviation</td>
<td>DCAA</td>
<td>9/24/2005</td>
<td>DCAA examined FirstLight’s indirect cost rate proposal and related records for reimbursement of incurred costs to determine the allowability of intermediate home office costs and recommended intermediate home office subcontracts. The indirect rate and subcontracts were acceptable as allowed by DCAA examination.</td>
</tr>
<tr>
<td>DMAI Aviation, Inc.</td>
<td>DCAA</td>
<td>9/25/2005</td>
<td>DCAA determined indirect rates are acceptable as proposed. Direct labor rates are acceptable and generally approved. Commissary Allowable Cost Worksheet represents costs that are considered allowable under the listed contract and therefore reimbutable.</td>
</tr>
<tr>
<td>SMS Holdings Corp.</td>
<td>DCAA</td>
<td>9/25/2005</td>
<td>DCAA examined SMS’ revised FSC indirect cost proposal and related books and records for reimbursement of FY 2002 incurred home office costs and allocations. DCAA found SMS accounting system to be inadequate because of the risk of unallowable costs being incurred. The audit also included some findings to provide a reasonable basis for DCAA opinion.</td>
</tr>
<tr>
<td>Whelan Security Co.</td>
<td>DCAA</td>
<td>9/26/2005</td>
<td>This subcontractor is not acceptable because it does not comply with ANSI/ASSI E-700 Administration Acquisition Management System. This can adversely affect (a) award, process, and management, and report costs in a manner that is inconsistent with government contract laws and regulations.</td>
</tr>
<tr>
<td>Jackson Hole Airport Board</td>
<td>DCAA</td>
<td>9/23/2005</td>
<td>FARS submitted a proposed indirect rate of GY 2004 costs. DCAA questioned direct labor for fuel and travel. The contractor did not correct.</td>
</tr>
<tr>
<td>Siemens Defense Corp.</td>
<td>DCAA</td>
<td>9/25/2005</td>
<td>DCAA examined Siemens’ compliance with the requirements of CAS 409, Depreciation of Tangible Capital Assets to determine if the contractor complied with the requirements of CAS 409, and any applicable FAR Part 21 requirements during FY 2004. DCAA found Siemens complied, in all material respects, with the requirements of CAS 409.</td>
</tr>
<tr>
<td>Siemens Defense Corp.</td>
<td>DCAA</td>
<td>9/20/2005</td>
<td>DCAA examined Siemens’ compliance with the requirements of Cost Accounting Standards to determine if they complied with the requirements of CAS 409, and any applicable FAR Part 21 requirements during FY 2003. DCAA found Siemens complied, in all material respects, with the requirements of CAS 409, and any applicable FAR Part 21 requirements during FY 2003.</td>
</tr>
<tr>
<td>Whelan Security</td>
<td>DCAA</td>
<td>8/10/2005</td>
<td>DCAA examined Whelan’s accounting system to determine whether the system’s design was acceptable for the award of a prospective contract for security guard services. DCAA determined that the design was not acceptable for the award of a prospective contract because employees do not verify their time sheets and Whelan does not identify and segregate unallowable costs as required by contract provisions.</td>
</tr>
<tr>
<td>GC Johnson</td>
<td>DCAA</td>
<td>8/10/2005</td>
<td>GC Johnson is acceptable to the award of a prospective contract for security guard services.</td>
</tr>
<tr>
<td>Beta Service Company</td>
<td>DCAA</td>
<td>8/4/2005</td>
<td>DCAA examined Beta’s accounting system to determine whether the system’s design was acceptable for the award of a prospective contract for security guard services.</td>
</tr>
<tr>
<td>ATEC</td>
<td>DCAA</td>
<td>9/20/2005</td>
<td>The auditors found that the accounting system was not acceptable for the award of the prospective contract. Also, there were two significant deficiencies in the accounting system that could result in misstated costs.</td>
</tr>
<tr>
<td>Executive Security</td>
<td>DCAA</td>
<td>9/20/2005</td>
<td>The contractor’s accounting system is not acceptable. There were significant deficiencies in the accounting system. Although there was no comprehensive examination of the system, auditors determined that the deficiencies could adversely affect the contractor’s ability to record, process, summarize, and report costs.</td>
</tr>
<tr>
<td>Firealp Systems, Inc. (FIS)</td>
<td>DCAA</td>
<td>8/25/2005</td>
<td>Multi audit differences in labor, direct labor rates, negative differences in comparison of subcontractor’s proposed direct labor and FDC labor rates versus direct labor and FDC labor rates were lower than the rates to G. Negative differences in comparison of subcontractor’s proposed direct labor and FDC labor rates were lower than the rates to G. Negative differences in comparison of subcontractor’s proposed direct labor and FDC labor rates were lower than the rates to G. Negative differences in comparison of subcontractor’s proposed direct labor and FDC labor rates were lower than the rates to G. Negative differences in comparison of subcontractor’s proposed direct labor and FDC labor rates were lower than the rates to G. Negative differences in comparison of subcontractor’s proposed direct labor and FDC labor rates were lower than the rates to G.</td>
</tr>
<tr>
<td>United Systems and Infrastructure, Inc.</td>
<td>DCAA</td>
<td>8/19/2005</td>
<td>Audit found indirect cost and allocation base projections and evaluated cost allocation methods. During May 2005 review, audit found that costs and indirect rate was $5.87 to 2005 forecast significantly increased in 2005 Long Term breast program and bonus paid to executives over the $500,000 amount. BSI significantly underestimated its evaluation of specifically allowables labor costs. In excess of the statutory salary cap. BSI concerned with the findings and agreed to recompute the executive salary cap and bonus amount. Further found the audit, 2005 indirect cost was acceptable.</td>
</tr>
</tbody>
</table>

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## DCAA Audit Findings

<table>
<thead>
<tr>
<th>Contractor</th>
<th>DCAA Date</th>
<th>Conclusion</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>SeraCare Inc.</td>
<td>8/12/2009</td>
<td>DCAA analyzed the direct labor and indirect expense rates of SeraCare to determine if the amount of the proposed subcontract is acceptable to a base or negotiated fair and reasonable contract price. DCAA recommended an overall upward adjustment to the proposed labor overhead and the base general and administrative costs to account for questioned indirect expenses and an error in the general and administrative pool costs.</td>
<td></td>
</tr>
<tr>
<td>Shaw Environmental &amp; Infrastructure, Inc.</td>
<td>7/19/2009</td>
<td>Offered to submit adjusted rates or pricing data. Proposal acceptable as a basis for negotiation of a fair and reasonable contract price.</td>
<td></td>
</tr>
<tr>
<td>Turner Construction Company</td>
<td>6/27/2009</td>
<td>Based on evaluation of incurred cost submission, audit questioned following rates: (1) Overhead (SAC rate). 5% of proposed overhead, questioned overhead was subject to allow a written agreement with the awarding government agency. (2) Indirect costs. 10% of the proposed L&amp;I rate, questioned the indirect costs were subject to allow a written agreement with the awarding government agency.</td>
<td></td>
</tr>
<tr>
<td>Select, Inc.</td>
<td>6/10/2009</td>
<td>DCAA examined billed, estimated indirect costs and indirect costs report. DCAA found Select a requesting system was not acceptable for the award of a contract. Budget does not include a job cost system.</td>
<td></td>
</tr>
<tr>
<td>Care Core LLC</td>
<td>6/8/2009</td>
<td>DCAA determined the care center was acceptable for the award of a contract.</td>
<td></td>
</tr>
<tr>
<td>NAC, U.S. Manor Corp.</td>
<td>6/8/2009</td>
<td>DCAA examined the indirect cost rates for the award of a contract.</td>
<td></td>
</tr>
<tr>
<td>Shaw Environmental &amp; Infrastructure, Inc.</td>
<td>5/17/2009</td>
<td>DCAA examined the indirect cost rates for the award of a contract.</td>
<td></td>
</tr>
<tr>
<td>Turner Construction Co.</td>
<td>5/19/2009</td>
<td>DCAA examined the indirect cost rates for the award of a contract.</td>
<td></td>
</tr>
<tr>
<td>Shaw Environmental &amp; Infrastructure, Inc.</td>
<td>5/15/2009</td>
<td>DCAA examined the indirect cost rates for the award of a contract.</td>
<td></td>
</tr>
<tr>
<td>S-1 Communications</td>
<td>3/29/2009</td>
<td>DCAA examined the indirect cost rates for the award of a contract.</td>
<td></td>
</tr>
<tr>
<td>Cooperate Personnel Services</td>
<td>2/2/2009</td>
<td>DCAA examined the indirect cost rates for the award of a contract.</td>
<td></td>
</tr>
<tr>
<td>United Corporation</td>
<td>3/1/2009</td>
<td>DCAA examined the indirect cost rates for the award of a contract.</td>
<td></td>
</tr>
<tr>
<td>SII Communications</td>
<td>3/15/2009</td>
<td>DCAA examined the indirect cost rates for the award of a contract.</td>
<td></td>
</tr>
<tr>
<td>Shaw Environmental &amp; Infrastructure, Inc.</td>
<td>3/15/2009</td>
<td>DCAA examined the indirect cost rates for the award of a contract.</td>
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| Corgen Associates, Inc. | 12/12/2005 | Contractor's indirect rate is acceptable. Claimed direct costs are acceptable. Auditor adjusted direct costs proposed under government contracts. Negative questioned costs will increase the proposed amount. Questioned direct costs by element within specific contracts are presented in notes. Direct costs not questioned are proposed as increased.

| Robert Lloyd Electric Company, Inc. | 12/20/2005 | Subcontractor's indirect rate is acceptable. Subcontractor's indirect rate is limited on direct costs incurred through August 11, 2005. Subcontractor's indirect rate on direct costs incurred effective August 12, 2005. Claimed direct costs are acceptable. Costs of cumulative allowable costs are considered allowable under federal government contracts.

| Riorcio & Associates, Inc. | 1/17/2006 | Determination of cost proposal for FY 2005 disclosed questioned 2nd tier subcontract costs and questioned overhead costs. Auditor questioned direct travel costs to subcontractor costs and questioned direct labor costs to overhead costs. The incurred costs established are acceptable as a basis for determination of indirect costs. However, questions issues in Appendix 3 - Cumulative Allowable costs for FY 2002 and FY 2003.

| DMUAV Aviation, Inc. | 12/13/2004 | DCAA reviewed DMUAV direct labor and other direct costs under its Boeing subcontract. In total, the subcontract costs are in compliance with applicable provisions of the 1AF and the subcontract. DCAA found 1AF Part 25 and 26 costs claimed on the subcontract invoices were overstated in QFY 2003 and understated in QFY 2002.

| DMUAV Aviation, Inc. | 12/23/2004 | DCAA examined DMUAV's third indirect cost proposal and related books and records for reimbursement of FY 2003 direct costs only on a Boeing Services Company subcontract. DCAA questioned DMUAV's direct labor and DMUAV's other direct costs, but otherwise found DMUAV's claimed direct costs acceptable as adjusted.

| The Boeing Company | 11/17/2004 | Boeing's control environment is inadequate in part. Examination disclosed significant deficiencies that impact Boeing's control environment. These deficiencies may result in a decreased control consciousness of employees and misclassification of costs at the Boeing segment. Significant issues: (1) Ineffective internal control.; (2) Inconsistent application of policies and procedures in relation to Boeing employees and new employees; (3) Inadequate and ineffective controls and procedures related to Boeing employees and new employees; (4) Inappropriate controls and procedures relating to Boeing employees and new employees; (5) Inconsistent control environment.

| NCNR Technical, Inc. | 12/20/2004 | Applying agreed upon procedures, the audit resulted in Labor costs being increased from $84,959,510 to $91,052,856. In indirect costs, the audit increased from $10,401,186 to $15,973,712. Subcontractor's indirect rates were not provided at the time of the audit.

| Siemens Dematic Corp. | 12/23/2004 | DCAA reviewed Siemens' Air Cargo & Security division's billing system and related internal controls to ensure it complied with applicable laws and regulations, and was adequate and operating effectively. DCAA found the billing system and related internal control policies are adequate.

| DMUAV Aviation, Inc. | 8/21/2004 | DCAA examined DMUAV's indirect cost proposal and related books and records for reimbursement of FY 2004 direct costs only. In total, the subcontract costs are in compliance with applicable provisions of the 1AF and the subcontract. DCAA found the indirect cost proposal and related books and records are adequate and operating effectively.

| Siemens Dematic Corp. | 8/29/2004 | DCAA reviewed Siemens' Air Cargo & Security division's indirect cost proposal and related books and records for reimbursement of FY 2004 direct costs only. In total, the subcontract costs are in compliance with applicable provisions of the 1AF and the subcontract. DCAA found the indirect cost proposal and related books and records are adequate and operating effectively.

| GFTI-WS (Yanco) | 8/24/2004 | DCAA questioned Yanco's proposal for consulting services. Specifically, DCAA questioned Yanco's proposal costs for direct labor, overhead, and travel expenses.

| Siemens Dematic Airport Cargo & Security Operations, Inc. | 8/28/2004 | DCAA reviewed Siemens' Air Cargo & Security Division's indirect cost proposal and related books and records for reimbursement of FY 2004 direct costs only. In total, the subcontract costs are in compliance with applicable provisions of the 1AF and the subcontract. DCAA found the indirect cost proposal and related books and records are adequate and operating effectively.

| Fluor Federal Services | 7/26/2004 | Audit discovered differences in proposed and actual composite direct labor rates. Contractor did not take current FFEI for their direct labor rates. Audit of subcontractor disclosed differences only for the proposed T5 subcontractor direct labor rates (chart). Differences in overhead (labor), in overhead (other), and in other direct costs included difference in labor. Contractor reserved comment.

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**Note:** Figures have been removed to protect disclosure of proprietary information.
## DCAA Audit Findings

<table>
<thead>
<tr>
<th>Contractor</th>
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<tbody>
<tr>
<td>Turner Construction Company</td>
<td>DCAA found the company's cost proposal was not sufficient to cover the costs incurred for the project. The cost proposal was submitted to the government for approval and was subsequently approved.</td>
</tr>
<tr>
<td>Siemens Dematic Corp.</td>
<td>DCAA determined Siemens's proposed costs were not reasonable and were not supported by evidence of actual costs. The proposal was not accepted by the government.</td>
</tr>
<tr>
<td>IBM Global Srvc. Inc.</td>
<td>DCAA found the proposed costs were not reasonable and were not supported by evidence of actual costs. The proposal was not accepted by the government.</td>
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<td>Attornees Corp.</td>
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<tr>
<td>Covington &amp;Associates</td>
<td>DCAA found the company's cost proposal was not sufficient to cover the costs incurred for the project. The cost proposal was submitted to the government for approval and was subsequently approved.</td>
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<td>Siemens Dematic Airport Cargo &amp; Security Operations Del.</td>
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<td>Heidelberg Security Corp.</td>
<td>DCAA found the company's cost proposal was not sufficient to cover the costs incurred for the project. The cost proposal was submitted to the government for approval and was subsequently approved.</td>
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<tr>
<td>Robert Lloyd Electric Company, Inc.</td>
<td>DCAA found the company's cost proposal was not sufficient to cover the costs incurred for the project. The cost proposal was submitted to the government for approval and was subsequently approved.</td>
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<tr>
<td>ETC Construction, LLC</td>
<td>DCAA found the company's cost proposal was not sufficient to cover the costs incurred for the project. The cost proposal was submitted to the government for approval and was subsequently approved.</td>
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<tr>
<td>Rodine Transportation</td>
<td>DCAA found the company's cost proposal was not sufficient to cover the costs incurred for the project. The cost proposal was submitted to the government for approval and was subsequently approved.</td>
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<tr>
<td>L-3 Security Detection</td>
<td>DCAA</td>
<td>3/15/2004</td>
</tr>
<tr>
<td>LVI A. Daly Company</td>
<td>DCAA</td>
<td>1/20/2004</td>
</tr>
<tr>
<td>Philip Williams &amp; Associates, Inc.</td>
<td>DCAA</td>
<td>1/20/2004</td>
</tr>
<tr>
<td>Avanti's Associates, Inc.</td>
<td>DCAA</td>
<td>12/4/2005</td>
</tr>
<tr>
<td>Leigh Fisher Associates, LLP (LFJ)</td>
<td>DCAA</td>
<td>12/1/2005</td>
</tr>
<tr>
<td>Decom Construction Co.</td>
<td>DCAA</td>
<td>1/20/2005</td>
</tr>
<tr>
<td>SOTMS, Inc.</td>
<td>DCAA</td>
<td>1/20/2005</td>
</tr>
<tr>
<td>Acceptance Inc. dba McShane</td>
<td>DCAA</td>
<td>1/20/2005</td>
</tr>
<tr>
<td>Turner Aviation Security</td>
<td>DCAA</td>
<td>1/20/2005</td>
</tr>
<tr>
<td>Worldwide Flight Services</td>
<td>DCAA</td>
<td>1/20/2005</td>
</tr>
<tr>
<td>Concorde Associates, Inc.</td>
<td>DCAA</td>
<td>1/20/2005</td>
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<tr>
<td>Harburg-Gosman Mission Systems (formerly Honeywell Systems)</td>
<td>DCAA</td>
<td>9/26/2000</td>
<td>DCAA examined the contractor's voucher no. 8 to determine the allocable cost under a T&amp;M subcontract for modeling, analysis and simulation support from June 17, 2002 to Dec 31, 2002. The contractor's voucher is not acceptable for preparing the T&amp;M subcontract which is otherwise allocable but not in excess of subcontracted services. The contractor states that they have been reassessed the additional funding will be forthcoming and they will be paid in good faith for the work performed.</td>
</tr>
<tr>
<td>State of Nebraska</td>
<td>DCAA</td>
<td>9/19/2000</td>
<td>There was no documentation to support the calculation of the indirect costs. The contractor states that the contractor's calculation of indirect costs was not reviewed by the auditors. The contractor states that the contractor's indirect costs were processed by the contractor's indirect cost allocable using the actual labor hours worked and the actual rates.</td>
</tr>
<tr>
<td>Lloyd Electric Company, Inc.</td>
<td>DCAA</td>
<td>9/26/2000</td>
<td>Contractor's indirect rate is acceptable as adjusted. Claimed indirect rates are acceptable and provably approved. Indirect costs are documented and subject to audits provided in FAR 52.242-2. Audited indirect costs are subject to the indirect rate. The contractor's indirect cost is subject to the indirect rate. The contractor was only allowed to bill the government for the government's allowable indirect rate. The contractor states that the contractor's indirect costs are acceptable and provably approved.</td>
</tr>
<tr>
<td>US Airways</td>
<td>DCAA</td>
<td>7/19/2000</td>
<td>Government contractor's indirect costs are subject to the indirect rate. The contractor's indirect rates are subject to the indirect rate. The contractor's indirect costs are subject to the indirect rate. The contractor's indirect rates are subject to the indirect rate. The contractor's indirect costs are subject to the indirect rate.</td>
</tr>
<tr>
<td>Oregon Associates, Inc.</td>
<td>DCAA</td>
<td>9/26/2000</td>
<td>The contractor's indirect costs are subject to the indirect rate. The contractor's indirect costs are subject to the indirect rate. The contractor's indirect costs are subject to the indirect rate. The contractor's indirect costs are subject to the indirect rate. The contractor's indirect costs are subject to the indirect rate.</td>
</tr>
<tr>
<td>LeC A. Daily Company</td>
<td>DCAA</td>
<td>8/22/2000</td>
<td>Certain bonding and labor charging practices require corrective action to improve the reliability of contractor's labor charging system. The contractor states that the contractor's labor charging system is subject to the indirect rate. The contractor's labor charging system is subject to the indirect rate. The contractor's labor charging system is subject to the indirect rate. The contractor's labor charging system is subject to the indirect rate. The contractor's labor charging system is subject to the indirect rate.</td>
</tr>
<tr>
<td>LeC A. Daily Company</td>
<td>DCAA</td>
<td>6/1/2000</td>
<td>Accounting system is adequate for accounting costs under government contracts. The contractor's accounting system is adequate for accounting costs under government contracts. The contractor's accounting system is adequate for accounting costs under government contracts. The contractor's accounting system is adequate for accounting costs under government contracts. The contractor's accounting system is adequate for accounting costs under government contracts.</td>
</tr>
<tr>
<td>Snowden &amp; Associates, Inc.</td>
<td>DCAA</td>
<td>6/17/2000</td>
<td>The contractor's accounting system is subject to the indirect rate. The contractor's accounting system is subject to the indirect rate. The contractor's accounting system is subject to the indirect rate. The contractor's accounting system is subject to the indirect rate. The contractor's accounting system is subject to the indirect rate.</td>
</tr>
<tr>
<td>Turner Aviation Security</td>
<td>DCAA</td>
<td>5/18/2000</td>
<td>Certain subcontracts to T&amp;A's accounting system for accounting costs under government contracts. The contractor's accounting system is subject to the indirect rate. The contractor's accounting system is subject to the indirect rate. The contractor's accounting system is subject to the indirect rate. The contractor's accounting system is subject to the indirect rate. The contractor's accounting system is subject to the indirect rate.</td>
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| United Airlines, World Headquarters | DCAA | 4/10/2006  | Audit resulted in downgraded adjustment. The auditor determined the amounts billed by USA did not include fees charged for work performed by USA employees. The auditor for work performed under inter-agency agreements did include fees. USA's bid was under the actual costs charged for the
|                                  | DCAA | 4/10/2006  | total direct labor costs claimed for the applicable GSA rate and held an overpayment of direct labor costs. The contractor's response was conveyed in a meeting but not received and disposition of the alleged adjustment was never established. |
| Continental Airlines, Inc.       | DCAA | 4/14/2006  | DCAA proposed a fee increase due to the contractor's failure to properly factor in direct labor costs for the applicable GSA rates. The contractor's response was conveyed in a meeting but not received and disposition of the alleged adjustment was never established. |
| U.S. Airways                     | DCAA | 4/11/2006  | DCAA interacted with the contractor regarding overcharges and provided a proposed adjustment amounting to $1,865,517. The contractor's response was conveyed in a meeting but not received and disposition of the alleged adjustment was never established. |
| Northwest Airlines               | DCAA | 4/12/2006  | DCAA proposed a fee adjustment of $972,504 for overcharges and provided a proposed adjustment amounting to $1,865,517. The contractor's response was conveyed in a meeting but not received and disposition of the alleged adjustment was never established. |
| America West Airlines            | DCAA | 4/6/2006   | DCAA proposed a fee adjustment of $972,504 for overcharges and provided a proposed adjustment amounting to $1,865,517. The contractor's response was conveyed in a meeting but not received and disposition of the alleged adjustment was never established. |
| Southwest Airlines               | DCAA | 5/6/2006   | Southwest Airlines, Inc. submitted a proposal for an adjustment to the contractor's fee. The contractor's response was conveyed in a meeting but not received and disposition of the alleged adjustment was never established. |
| Huntleigh USA Corporation        | DCAA | 5/1/2006   | The contractor billed for costs incurred. The significant issues included: 1) billed amounts were overstated for all elements when compared to recorded costs based on overseeing activity. 2) Labor dollars were underestimated because the contractor underestimated actual labor hours on the survey and actually incurred costs to record and oversee the activity. 3) BETA, FFTA, and worker compensation advertising were overstated. 4) The audit identified labor charges that were not billed or the charges were not billed for actual hours worked. 5) Labor costs were overcharged because the contractor did not bill for sheltered costs or chargeback errors were made. |
| Global Aviation Services Corporation | DCAA | 7/10/2005  | Audit of disclosed overcharges, including labor, sales tax, in Airport Fees, and in Harassment Payments.                                                                                                                                                                         |
| Proposed Airport Services        | DCAA | 12/11/2002 | Audit of proposed overcharges for labor costs including Labor-Oriented Labor Rate Adjustments and Other Labor Costs. Significant issues included labor hour adjustments, questions of uniform costs and labor cost - it is unclear if employees were paid for these costs without reimbursement from employers. Costs associated with the fees would not be acceptable for costs. |
| MANERO                           | DCAA | 12/24/2002 | MANERO, Inc. submitted a proposal for an increase in rates for surveying services to 4/10/2002. The auditor determined that the proposed rates were reasonable and acceptable for this purpose. |
| Olympic Security Services, Inc.  | DCAA | 12/20/2002 | DCAA proposed a fee increase of $2,434 for additional security services to 4/30/2002. The contractor's response was conveyed in a meeting but not received and disposition of the alleged adjustment was never established. |
| Aviation Services                 | DCAA | 11/24/2002 | Costs were questioned to determine if direct labor costs were recorded. The auditor determined that the proposed labor costs were reasonable and acceptable for this purpose. |
| Aviation Services                 | DCAA | 10/4/2002  | Aviation Services submitted a proposal for an increase in rates for surveying services to 4/10/2002. The auditor determined that the proposed rates were reasonable and acceptable for this purpose. |
| International Total Services, Inc.| DCAA | 11/18/2002 | International Total Services submitted a proposal for an increase in rates for surveying services to 4/10/2002. The auditor determined that the proposed rates were reasonable and acceptable for this purpose. |

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<td>Barrett &amp; Security Services, Inc.</td>
<td>1/23/2002</td>
<td>DCSS provided services of the security workforce (security teams) to Supervisor, including all employees and contractors, for the months of Jan and Feb 2002, as required by the contract.</td>
</tr>
<tr>
<td>OAL Global Services, Inc.</td>
<td>11/13/2002</td>
<td>OAL Global Services, Inc. proposed providing pre-boarding security screening at 15 commercial airports across the continental US from Feb 17, 2002 through Nov 19, 2002. DCAA questioned costs related to direct labor hours and indirect labor rates. The contractor responded with a revised proposal that included the rates and other matters for further negotiations.</td>
</tr>
<tr>
<td>Air Avionics Services, Inc.</td>
<td>1/23/2002</td>
<td>Air Avionics Services, Inc. (AAS) proposed providing pre-boarding security screening services at 11 commercial airports from Jan 17, 2002 through Nov 16, 2002. DCAA questioned costs related to the proposed labor hours and indirect labor rates. Air Avionics Services, Inc. provided a revised proposal that included the rates and other matters for further negotiations.</td>
</tr>
<tr>
<td>Rockwell Collins</td>
<td>1/23/2002</td>
<td>Rockwell Collins proposed providing pre-boarding security screening services at 11 commercial airports from Jan 17, 2002 through Nov 16, 2002. DCAA questioned costs related to the proposed labor hours and indirect labor rates. Rockwell Collins provided a revised proposal that included the rates and other matters for further negotiations.</td>
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