STATEMENT OF CHARLES K. EDWARDS

DEPUTY INSPECTOR GENERAL

DEPARTMENT OF HOMELAND SECURITY

BEFORE THE

SUBCOMMITTEE ON TRANSPORTATION SECURITY

COMMITTEE ON HOMELAND SECURITY

U.S. HOUSE OF REPRESENTATIVES

CONCERNING

"TSA PROCUREMENT REFORM: SAVING TAXPAYER DOLLARS THROUGH SMARTER SPENDING PRACTICES"

May 8, 2013

Good afternoon Chairman, Ranking Member and distinguished Members of the Subcommittee.

I am Charles K. Edwards, Deputy Inspector General of the Department of Homeland Security (DHS). Thank you for inviting me to testify today about improvements that DHS can make to procurement and acquisition practices, specifically to those at the Transportation Security Administration (TSA).

As you know, the DHS Office of Inspector General (OIG) was established in January 2003 by the *Homeland Security Act of 2002*, which amended the *Inspector General Act of 1978*. DHS OIG seeks to promote economy, efficiency, and effectiveness in DHS programs and operations and reports directly to both the DHS Secretary and Congress. We fulfill our mission primarily by issuing audit, inspection, and investigative reports that include recommendations for corrective action, and by referring criminal cases to the United States Attorney General for prosecution.

Major Acquisition Programs

DHS has made important strides in recent years toward improving its acquisition process. Nevertheless, DHS continues to face challenges in implementing a fully integrated acquisition process, which requires an effective acquisition management infrastructure. Acquisition management is a complex process that goes beyond simply awarding a contract. It begins with the identification of a mission need and continues with the development of a strategy to fulfill that need while balancing cost, schedule, and performance. The process concludes with contract closeout, after satisfactorily meeting the terms. Acquisition management includes managing operational and life cycle requirements — from formulating concepts of operations, developing sound business strategies, and exercising prudent financial management to assessing tradeoffs and managing program risks.

In fiscal year (FY) 2011, the Department restructured and strengthened its oversight process of all major acquisition programs by creating the Program Accountability and Risk Management (PARM) office. PARM reports directly to the Under Secretary for Management. It manages and implements *Acquisition Management Directive (MD) 102-01*, serves as the Executive Secretariat to the Acquisition Review Board (ARB) and the Component Acquisition Executive Council, and guides managers of major investments through the acquisition governance process. PARM also provides independent assessments of major investment programs and works with DHS partners to enhance business intelligence to inform ARB decisions. It monitors programs between formal reviews to identify emerging issues that DHS needs to address. Further, the Department developed the Decision Support Tool to aid in monitoring and oversight and also created Centers of Excellence to assist in improving performance.

In December 2011, the Department also issued the Program Management & Execution Playbook (Playbook) to the acquisition workforce. The Playbook is the Department's vision for strengthening program management and execution capabilities, and for maturing the acquisition management system. It addresses several management priorities:

- Increasing the expertise and capabilities of the acquisition and program management workforce;

- Improving program execution;
- Increasing access to expert guidance and best practices; and
- Increasing access to reliable and useful program performance data.

In addition to managing the day-to-day oversight of acquisition programs, PARM developed and implemented a business intelligence tool to monitor the operational status of each acquisition program. The Decision Support Tool is a web-enabled tool that provides DHS leaders, governance boards, and program managers with a central dashboard for assessing and tracking the health of major acquisition projects, programs, and portfolios. The tool creates graphs, charts, and other views of key indicators of program health, such as cost, funding, and schedule. The Department's goal is to improve program accountability and to strengthen the ability to make sound strategic decisions throughout the lifecycle of major acquisitions.

On October 1, 2011, the Decision Support Tool became the official source of Acquisition Decision Event (ADE) information and data; it is used to provide ARBs with standardized information. On February 13, 2012, DHS issued a memorandum to all Components and programs to ensure that, on a monthly basis, all acquisition program information reported in the Department's existing data systems is complete, accurate, and valid.

DHS envisions becoming more data-driven, with emphasis on the criticality of maintaining quality data within DHS source systems. The Department created the Comprehensive Acquisition Status Report (CASR), which provides the status of DHS major acquisitions listed in the *Department of Homeland Security Major Acquisition Oversight List*. The new CASR format increases the quality of information and can be produced more quickly. As the Department's business intelligence capability and data fidelity efforts continue to mature, the condensed timeline will leverage Decision Support Tool automation data to feed the CASR in real time.

Acquisition Lifecycle Framework

The Department classifies acquisitions into three levels to define the extent and scope of required project and program management and the specific official[1] who serves as the Acquisition Decision Authority. The Department oversees level 1 and level 2 acquisition programs. For level 1 acquisitions, that is acquisitions more than or equal to $1 billion, the Acquisition Decision Authority is the Deputy Secretary. For level 2, acquisitions of $300 million to $1 billion, the Acquisition Decision Authority is the Chief Acquisition Officer. Components are responsible for the oversight and controls for acquisition programs below the $300 million threshold.

DHS adopted the Acquisition Lifecycle Framework (ALF) to assure consistent and efficient acquisition management, support, review, and approval throughout the Department. The ALF is designed to ensure stable and well managed types of acquisition. It is designed to ensure that the program manager has the tools, resources, and flexibility to execute the acquisition; delivers a product that meets the user's requirements; and complies with applicable statutes, regulations, and policies.

[1] The Acquisition Decision Authority may designate his or her responsibilities to other officials.

The DHS acquisition lifecycle process is structured to operate in a series of acquisition phases, each leading to an ADE. The ALF is a four-phase process that DHS uses to determine whether to proceed with an acquisition. The four phases are:

1. Need – identifying the need to be addressed by the acquisition;
2. Analyze/Select – analyzing the alternatives to satisfy the need and selecting the best option;
3. Obtain – developing, testing, and evaluating the selected option and determining whether to approve production;
4. Product/Deploy/Support – producing and deploying the selected option and supporting it throughout the operational lifecycle.

Each phase leads to an ADE, a predetermined point within an acquisition phase at which the acquisition will undergo a review prior to commencement of the next phase. The review is designed to ensure the alignment of needs to strategic DHS direction, along with adequate planning for upcoming phases of the acquisition.

Prior to every ADE, components are required to submit acquisition documents to the ARB for review, including:

- Mission Needs Statement: Synopsizes specific functional capabilities required to accomplish the Department's mission and objectives, along with deficiencies and gaps in these capabilities.

- Capability Development Plan: Defines how critical knowledge to inform decisions will be obtained, defines the objectives, activities, schedule, and resources for the next phase.

- Acquisition Plan: Provides a top-level strategy for future sustainment and support and a recommendation for the acquisition approach and types of acquisition.

Each phase ends with a presentation to the ARB, which is the cross-component board in the Department composed of senior-level decisionmakers at either the Department or Component level, depending on the total cost estimate of the programs. The ARB determines whether a proposed acquisition meets the requirements of key phases in the ALF and is able to proceed to the next phase and eventual full production and deployment.

The Acquisition Review Process is followed to prepare for an ARB and to ensure appropriate implementation of the ARB's decisions.

Accountability and Controls

DHS implemented an ALF that includes the ARB to support consistent and efficient acquisition management, support, review, and approval throughout the Department. In FY 2011, the Department maintained about 160 acquisition programs with estimated life cycle costs of more than $144 billion. Our report, *DHS Oversight of Component Acquisition Programs*, OIG-11-71, recognized that the Department had made progress in its acquisition oversight process and

controls by implementing a revised *Acquisition Management Directive*, 102-01 (Directive 102-01). In January 2010, the Department issued Revision Number 01 of the interim *Acquisition Management Directive,* 102-01, which prescribed guidance over the Acquisition Review Process, the ALF, and the ARB. It also issued a supplemental *Acquisition Instruction/Guidebook*, 102-01-001, Version 1.9 (November 7, 2008) to the interim directive that provided detailed instructions on implementing and managing acquisitions. Directive 102-01 and guidebook addressed many of the previously identified oversight and control problems in acquisition management. The directive and guidebook were positive steps, but there are opportunities for improvement.

The Department needed to refine policies further in some areas and strengthen oversight in others. Some components were creating program management offices to manage simple procurements, not properly reporting programs in the standard system, or not applying strategic sourcing strategies to support program development. Additionally, not all components developed Component-level acquisition policies and procedures to manage their programs. As a result, some components created unnecessary acquisition programs that potentially increased administrative costs without adding value. In addition, the Department did not always know what was in its acquisition portfolio.

Directive 102-01 establishes the overall policy and structure for acquisition management within the Department, but does not provide a decision-making tool to determine if an acquisition warrants the higher level of internal controls required by the ALF. According to the Guidebook's glossary, an acquisition program is the totality of activities directed at accomplishing a program to acquire, support, or sustain capabilities, funded through one or more investments. In contrast, the text of the Guidebook defines an acquisition as the conceptualization, initiation, design, development, test, contracting, production, deployment, logistics support, modification, and disposal of systems, supplies, or services (including construction) to satisfy DHS' needs. To complicate the definitions further, according to the body of the Guidebook, capital assets, enterprise/component-level service contracts, interagency agreements, and strategically sourced acquisitions are to follow Directive 102-01.

These definitions do not provide clear instruction for determining when an acquisition should become an acquisition program. In attempts to comply with the directive, components have over-classified programs. For example, the Federal Law Enforcement Training Center (FLETC) is automating many of its manual processes, such as student registration, class scheduling, planning and forecasting, and student records. The estimated total life cycle cost of this automation is approximately $30 million. FLETC personnel contracted out all of the requirements for the program, including requirements analysis, development, and maintenance of an automated system that used commercial off-the-shelf (COTS) equipment and custom software applications. Because the instructions did not provide clear guidance, instead of creating a simple procurement, FLETC created an acquisition program that may have unnecessarily increased program management administrative cost.

We reviewed several acquisition programs that did not clearly fit into the ALF process. Ten of the 17 (59 percent) programs we reviewed, with an estimated life cycle cost of about $5.3 billion, were acquisitions that identified COTS equipment or existing contracts to fulfill the needs

identified by the program office. Component personnel likely could have managed these as simple procurements rather than acquisition programs. For example, TSA classified renovation of an existing warehouse building as an acquisition program. It leased the 104,000-square foot building in 2003 and renovated approximately 89,000 square feet for about $42 million over the initial 10-year leasing period. In 2008, TSA primarily relied on existing contracts to complete 12,500 of the remaining 15,000 square feet of the warehouse building. According to TSA personnel, the renovation for the additional 12,500 square feet cost about $2.5 million and was completed in January 2010. For this small renovation project, TSA personnel could have used simple procurement rules but instead increased administrative costs by implementing the more complicated internal control structure prescribed in Directive 102-01.

Based on the definition of an acquisition program in the Guidebook, this renovation could possibly be an acquisition program. However, based on the processes and procedures specified in Directive 102-01's ALF and Acquisition Review Process, this renovation did not clearly meet the intentions of the existing guidance or present a high level of risk to warrant the increased costs of being managed as a program.

Components should not create acquisition programs to acquire products and services under a simple procurement because creation of such programs is outside the intent and spirit of Directive 102-01. The Department can reduce some of the conflicts at the Component level by developing a decision matrix that the Components can apply in the pre-planning phases of the purchasing process.

Department-wide Management of Detection Equipment

Our March 2011 audit report, *DHS Department-wide Management of Detection Equipment,* OIG-11-47, highlighted some of the acquisition challenges facing the Department when multiple Components have similar requirements or are buying the same type of equipment. We identified steps the Department could take to improve its acquisition processes. With improved management, DHS could streamline the acquisition process, improve efficiencies, and provide uniform equipment inventory information.

DHS has eight different procurement offices that purchase detection equipment. Seven of these offices are at the component level, and each has its own head of contracting. These components are as follows:

- U.S. Customs and Border Protection (CBP)
- Federal Emergency Management Agency
- FLETC
- U.S. Immigration and Customs Enforcement (ICE)
- Office of Procurement Operations[2]
- TSA
- United States Coast Guard

[2] In 2004, the Department created the Office of Procurement Operations to provide acquisition services to components that did not have a procurement office.

- United States Secret Service

Components maintain separate inventories for their detection equipment. For FY 2010, the components had a combined inventory of more than $3.2 billion worth of detection equipment, most of which was deployed. The components purchased an average of about $387 million worth of detection equipment in each of the last 3 years, ranging from about $280 million to $511 million. This equipment included metal detectors, explosive detection systems, and radiation detectors (including some personal protective safety equipment) for screening people, baggage, and cargo at airports, seaports, and land ports of entry, as well as Federal buildings. As of March 1, 2010, TSA's detection equipment accounted for 66 percent of the Department's total inventory.

Our audit work showed that DHS could manage the acquisition of detection equipment better by developing processes based on best practices such as strategic sourcing.

Strategic Sourcing

DHS had established a Strategic Sourcing Program and has applied strategic sourcing strategies for many common use items, such as firearms, ammunition, and office supplies; however, the Department was not managing its detection equipment through this program. According to DHS officials, components were encouraged but not required to use the Strategic Sourcing Program and generally did not coordinate and communicate when acquiring detection equipment. There was no process to standardize equipment purchases or identify common mission requirements among Components. For example, the Department's Joint Requirements Council was inactive, and components did not have the expertise of commodity councils or single-item managers to rely on when acquiring detection equipment. Further, Components viewed detection equipment as unique to their missions and did not attempt to identify common mission requirements among other components. This resulted in numerous inefficient purchases by individual components instead of consolidated purchases.

Standardizing Equipment Purchases

Some components did not standardize equipment purchases and purchased a variety of different detection equipment models. For example, U.S. Citizenship and Immigration Services (USCIS) had 24 and CBP had 21 different models of small x-ray equipment, and CBP and USCIS each had 14 different models of walk-through metal detectors. When components have multiple models of equipment to meet similar missions, DHS incurs higher procurement administrative costs and logistic support costs for maintenance, training, and support. In contrast, TSA, which uses and maintains the largest inventory of detection equipment in the Department, uses only seven different models of small x-ray equipment and three models of walk-through metal detectors. By limiting the number of models and types of equipment, TSA is in a position to increase efficiencies in procurement, maintenance, and personnel flexibilities.

Common Mission Requirements

We identified about $170 million worth of small x-ray machines, metal detectors, and personal and hand-held radiation detectors that DHS could acquire through strategic sourcing strategies. Although multiple components were using similar equipment to meet similar screening missions, each component purchased the equipment separately. Components did not coordinate with each

other to identify common requirements, consolidate purchases to gain buying power, or consolidate logistic support requirements.

DHS Management Directive 1405 established a Joint Requirements Council (JRC) as a senior-level requirements review board to identify cross-cutting opportunities and common requirements among DHS organizational elements for non-information technology investments. The JRC met periodically between FYs 2004 and 2006. Representatives on the JRC reviewed programs and processes for potential mission overlap and redundancies. Among the programs reviewed were TSA's Secure Flight and Registered Traveler and CBP's Consolidated Registered Traveler programs. In 2006, the JRC stopped meeting after the Department assigned other duties to the council chair. However, DHS indicated that it might revive the council or pursue another alternative to identify duplicate programs and processes across the Department. This undertaking should include an effort to identify common data elements and nomenclature within inventories and to establish a data dictionary for the Department's detection equipment.

In addition to the JRC, commodity councils are an integral element of developing an effective strategic sourcing program. Commodity councils include representatives from across the organization. The members act as the subject matter experts in the acquisition process and in establishing requirements for a specific commodity or service. Generally, the component purchasing the largest quantity of a particular item takes the lead in acquiring the commodity or service and may serve as that commodity's single-item manager.

DHS and other Federal agencies use the commodity council concept. For example, in 2003, DHS established the Weapons and Ammunition Commodity Council to create a department-wide strategy for consolidating requirements and gaining economies of scale for the acquisition of weapons and ammunition. The council, which includes representatives from each Component that uses weapons, developed requirements for firearms, ammunition, and body armor. ICE took the lead, using service-level agreements with other components to establish one overall contract, which is available to all DHS entities.

The Department agreed in principle with our two recommendations and took action to implement them. DHS was evaluating reestablishing the JRC and other alternatives to achieve the same goal. However, as of April 29, 2013, the Department had not reconstituted the JRC. DHS will perform a business case analysis of detection equipment and establish a commodity council or working group if it determines that this equipment can be strategically sourced.

OIG-10-72, Transportation Security Administration's Acquisition of Support Contracts

TSA did not provide adequate management and oversight of acquisitions for support services for transportation security programs. Contractors were performing inherently governmental functions or roles that closely supported the performance of inherently governmental functions, acquisition staff did not follow acquisition guidance, and support services contracts contained vague statements of work. This occurred because the Component did not have an adequate number of properly trained core acquisition staff to administer contracts and oversee support services contractors' performance. As a result, TSA did not have reasonable assurance that contractors were performing as required, that it contracted for the services it needed, that it received the services for which it paid, or that taxpayers were receiving the best value.

Background

Since its creation, TSA has relied on support services contractors to help accomplish its mission. TSA's decision to contract for services such as acquisition support, invoice review, strategic planning, and administrative support was largely driven by the need to stand up programs and operations quickly after the events of September 11, 2001.

TSA's contracting officers and contracting officer's representatives (COR) provide contract oversight and monitoring. Contracting officers and CORs are Federal employees who represent the Government's interests in negotiating and administering contracts. TSA assigns a contracting officer and a COR to handle each support services contract from contract award to closeout. The contracting officer is responsible for providing contract administration and oversight. Due to the technical nature of TSA contracts, contracting officers delegate many of their contract administration and oversight responsibilities to CORs, who serve as technical experts in the contract areas to which they are assigned. Each COR works with the contracting officer and the program office to oversee and monitor contractor performance and deliverables.

Federal acquisition guidance highlights the risks inherent in service contracting, particularly for support services. According to the Office of Management and Budget, the closer contractor services come to supporting inherently governmental functions, the greater the risk of their influencing the Government's control over and accountability for decisions. Inherently governmental functions require discretion in applying Government authority or value judgments in making decisions for the Government. A Government Accountability Office panel stated that increasing reliance on contractors to perform services for core Government activities challenges the capacity of Federal officials to supervise and evaluate the performance of these activities.

According to the *Federal Acquisition Regulation* (FAR), Subpart 37 and Subpart 7, and the Office of Federal Procurement Policy Letter 93-1, services that tend to affect Government decisionmaking or program management require a greater level of scrutiny and an enhanced degree of management oversight to prevent abuse. Such scrutiny includes assigning a sufficient number of qualified Government acquisition staff to provide oversight and ensure that agency officials retain control over and remain accountable for policy decisions, based in part on a contractor's performance and work products.

Contractors Are Performing Inherently Governmental Functions

Contractors performed inherently governmental functions or roles that directly support the performance of inherently governmental functions. Although the FAR establishes contract administration as an inherently governmental function, TSA's support services contractors performed contract administration in 3 of the 13 contracts we reviewed. Specifically, these three contractors reviewed invoices to determine whether they were reasonable, correctly charged, and allowable, and then recommended the invoices for approval and payment. These three contracts represented 40 percent ($265 million) of the total support services contracts for FY 2009.

In addition, one of these three contractors performed COR support for its own contract, along with reviewing its own invoices. When we brought this to the attention of TSA management, they took immediate action to correct the problem.

Although program officials generally acknowledged that their professional and management support services contracts closely supported the performance of inherently governmental functions, they believed that contracts for such services were common practice within the Government. However, the FAR requires that agency officials retain control over and remain accountable for contract administration, approval, and payment of invoices. Until TSA provides greater scrutiny and enhances management oversight of support services contracts, it will continue to risk transferring Government responsibility to contractors.

Contracting Officers Are Not Following TSA Acquisition Guidance

Contracting officers and CORs did not follow TSA's internal acquisition guidance for contract administration, oversight, and monitoring to ensure that contractors were completing the contracted work. For example, for all 13 contracts, the contracting officers' contract files were missing COR delegation forms, modifications notifying the contractor of changes in the contracting officer, documentation of suspension and debarment reviews, base contracts, and performance and monitoring reports. CORs' administrative files were missing invoices, COR delegation forms, COR training forms, contract modifications, and other oversight documentation. Although TSA's guidance requires that COR nomination forms and departmental approval forms be completed before CORs assume their duties, our review of the contracts showed that 6 (46 percent) of the 13 contracts did not include the nomination forms and 2 (15 percent) of the 13 contracts did not include the departmental approval forms before the CORs began performing COR duties. Without adequate documentation, there is no assurance that contractors are meeting contract provisions or that TSA is making appropriate payments for services provided.

Although TSA's internal acquisition guidance requires quality assurance plans or surveillance plans with specific measures for assessing contractors' performance, none of the contract or COR files we reviewed contained specific measures for assessing contractors' performance, plans outlining the specific contract requirements, or measurable outcomes of the support services provided. TSA documented monthly meetings with contractors to discuss performance, but TSA officials did not provide evidence that they independently validated the contractors' progress reports. As a result, TSA could not ensure that contractors were complying with contract performance requirements.

CORs submitted invoices to the contracting officers for payment without sufficient detail to support payment. We reviewed all of the contractors' August 2009 invoices, which totaled approximately $6 million for the 13 contracts. Each invoice listed the contract employee's name and the hours of work performed. However, the invoices did not include a detailed description of the work performed or the project completed. The contractors' invoices were not specific, so we could not determine whether the correct contract was charged or whether the work performed was required under the contract. Because CORs cannot provide adequate oversight and monitoring without reviewing detailed invoices that identify the specific work completed, TSA did not have reasonable assurance that contractors were performing as required and that full payment was justified on the invoices received.

We recommended that TSA include a contract review of inherently governmental functions as part of contract administration. TSA assigned a Quality Assurance Specialist to review every new Statement of Work for inherently governmental functions and coordinate with the initiating

program/office and Office of Acquisitions to revise the work assignments both internally to the government and with the contractor to ensure that inherently governmental functions are performed by the government parties. The contract review process for inherently governmental functions is now required for all Procurement Packages.

Contracts Contain Vague Statements of Work

TSA did not always define the requirements in the Statements of Work for support services contracts clearly. Nine of the 13 contracts we reviewed contained vague statements of work that did not outline the specific requirements or include key deliverables specifying the activities the contractor needed to complete. These nine contracts represented 79 percent ($523 million) of the total support services contracts for FY 2009. Although the FAR requires that contracts contain clearly defined Statements of Work, TSA program officials acknowledged that the Statements of Work did not always reflect program needs accurately or the work the contractors actually performed.

The vague Statements of Work also allowed acquisition personnel to add unrelated tasks to contracts. For example, the Statement of Work for a $10 million services contract for strategic planning was so vague that the contracting officer was able to use it to develop a SharePoint (data repository) system for the Passenger Screening Program without completing a separate contract modification. The development of a SharePoint system is unrelated to strategic planning and is not a support service. TSA should have contracted for the system through its Office of Information Technology under a separate contract.

Statements of Work should be clearly written to describe the services needed and detailed enough to ensure that personnel use a contract as intended. Without clear Statements of Work, TSA cannot be sure that contractors are providing the services needed or hold contractors accountable for the services they provide.

TSA often needed to create contract modifications to clarify the work it was asking contractors to perform. For the 13 contracts we reviewed, TSA executed 97 contract modifications to define more clearly the work the contractors were performing.

Contract modifications require extra work and sometimes add costs to contracts. TSA could have avoided extra costs and work for its already overburdened staff by clearly defining contract requirements before awarding contracts.

Further, contracts were missing key delivery tables that identified the task assignments and delivery dates contractors had to meet. Nine of the 13 (69 percent) contracts we reviewed were missing key delivery tables with specific requirements and due dates. Specific contract requirements and task assignments are critical to gauging contractor performance and ensuring that contractors are performing contracted services timely.

We recommended that TSA establish evaluation factors and a review process for requirements identified in the Statements of Work. TSA provided the necessary documentation describing the new procurement request submission on approval tools and processes. The newly developed tools and user guides provided sufficient information to identify each stakeholder's roles and responsibilities. TSA implemented its completed user guides on its new submission and

approval tool on October 1, 2011. This process improves the quality of all procurement request documents, especially Statements of Work, by causing all procurement request packages (not just service contracts) to be routed to, and reviewed by, multiple Office of Special Council stakeholders specific to the package program. Additionally, the tool documents all comments received with a version history. Training has been provided to most of Office of Special Council (submitters, reviewers, and approvers). The contracting officers and specialists are also part of the review cycle, which greatly improves the quality of the whole procurement request package.

TSA Does Not Have a Sufficient Number of Trained COR Staff

TSA did not provide sufficient management and oversight for its support services contracts because it did not have an adequate number of dedicated and properly trained CORs. As a result, TSA relied on contractors to perform work that is inherently governmental or directly supports the performance of inherently governmental functions.

TSA assigned COR responsibilities to technical experts in the area covered by the contract. However, CORs remained focused on the program offices in which they normally worked and were not available to monitor contractor performance, in part because of their workload demands. For this reason, TSA relied on contractors to perform many COR functions, including invoice review and maintenance of the COR administrative files. According to Federal guidelines, some of the COR duties include inherently governmental functions that contractors should not perform.

TSA should ensure that a core group of technical experts is dedicated exclusively to COR functions. By maintaining a core group of acquisition experts, TSA would be able to provide better contract administration, management, and oversight required by the Office of Management and Budget and the FAR. A core group would also reduce the continual need to train new staff on COR functions.

Although COR training is essential to develop skilled staff for contract administration, CORs on 85 percent (11 of the 13) of the contracts reviewed had not completed the required training. To maintain their certifications, TSA requires that CORs receive 40 hours of COR training initially, 40 hours of refresher training per 2-year cycle (including a minimum of 12 hours in each year), and annual ethics training. TSA should review the COR training records to ensure that all CORs complete the required training. TSA should also tailor COR refresher training to develop skills in contract administration, management, and oversight.

We recommended that TSA assign dedicated, trained, and certified CORs to manage and oversee the contract administration function. TSA provided the necessary training documentation showing it had trained and certified CORs assigned to administer contracts. The Office of Security Technology continued to analyze workload across all contract administration functions to ensure the appropriate staffing mix. In concurring with the recommendation, TSA Office of Acquisition noted plans to offer enhanced COR training courses to develop skills in contract administration, management, and oversight. OIG agreed that completed actions resolved its recommendation, and that the finding would be closed once TSA completed its proposed actions. On March 30-31, 2010, TSA conducted an Overview of Government Contracting Course for CORs. For the remainder of 2010, TSA had scheduled COR courses for Writing Performance-Based Statements of Work, Corrective Actions, Evaluating a Contractor's Performance, and

Contract Administration. For FY 2011 COR training, TSA was coordinating with DHS, which was going to contract for classes. Courses planned for FY 2011 included Inspection and Acceptance, Risk Management, Evaluating Contractor's Performance, and Critical COR Roles and Responsibilities.

OIG-13-82, *Transportation Security Administration Logistics Center – Inventory Management*

Our report, *OIG-13-82, Transportation Security Administration Logistics Center – Inventory Management* recognized that TSA improved its accountability of screening equipment at the Logistics Center. However, its plans and procedures for inventory management needed additional improvements. TSA stored unusable or obsolete equipment, maintained inappropriate safety stock levels, and did not develop an inventory management process that systematically deploys screening equipment. As a result, TSA may have been losing utility of equipment as it aged. Additionally, TSA did not use all storage space within the Logistics Center and might have been able to put approximately $800,000 per year, which was used to lease two warehouses, to better use.

Equipment in Storage

TSA operates three warehouses in Texas, collectively known as the TSA Logistics Center. The warehouses store various types of Government equipment used at airports to screen passengers and baggage, including x-ray units, metal detectors, explosive trace detection units, and explosive detection systems. As of May 2012, TSA had more than 17,000 items, valued at about $185.7 million, stored at the Logistics Center, including unusable, obsolete equipment and equipment that exceeded safety stock requirements.

The quantity of Transportation Secured Equipment stored in the warehouse for more than 2 years accounted for approximately one-half of 17,004 items in the warehouse, yet it represented almost $8 million, or 4 percent, of the dollar value recorded for all inventory in the warehouse. This illustrates that increased quantities of Transportation Secured Equipment stored at the warehouse may significantly increase the dollar value of inventory. Further, this may result in millions of dollars worth of screening equipment becoming obsolete or unusable while stored for an extended period.

With prolonged storage, TSA lost utility of equipment as it aged in storage. As of May 31, 2012, TSA had 12 automated explosive detection system (Auto EDS) units at the warehouse, including three new units stored at the warehouse for more than 3 years. According to one TSA official, the component did not plan to deploy the Auto EDS units that were in storage. In 2007, TSA awarded contracts to acquire Auto EDS units to provide baggage-screening technology for checkpoints. However, TSA officials explained that other checkpoint technology screened baggage faster and required less space than the Auto EDS units and, as of November 2012, TSA removed all Auto EDS units from airports. The recorded value of the eight Auto EDS units stored at the warehouse in November 2012 was approximately $307 million. Upgrades for the Auto EDS units in the warehouse cost about $1 million. The Auto EDS units became obsolete while aging in the warehouse.

TSA also stored nonscreening equipment in the warehouse for long periods. Specifically, TSA stored more than 3,200 furniture, fixtures, and equipment items in the warehouse for more than 2 years. Examples include conveyors (powers, exits, extensions, entries, brackets, extensions, and pedestals) for more than 5 years, and 41 empty equipment crates – used for various pieces of screening equipment – stored for more than 2 years.

TSA's warehouse inventory also included obsolete items. The inventory showed that TSA had 266 Threat Image Projection Ready x-ray units in the warehouse. The machine, used to screen carry-on baggage, is obsolete technology, being replaced by Advanced Technology and Advanced Technology 2 x-rays. TSA also warehoused five new whole body imager training simulators (laptop computers) for more than 3 years. TSA replaced the whole body imager with advanced imaging technology units and never used these laptop simulators.

Safety Stock

TSA did not have appropriate safety stock levels at the Logistics Center to meet its safety stock requirements. TSA relied on nondeployable equipment, had insufficient quantities of some equipment, and had excessive quantities of other equipment. TSA holds safety stock as insurance against uncertainties such as equipment failure, emerging requirements, or special events. Adequate safety stock levels permit TSA to respond to maintenance needs while minimizing the adverse effects on screening operations.

TSA relied on nondeployable screening equipment to meet safety stock requirements. For example, the target safety stock level for one type of bottle liquid scanner was 18 units. The warehouse inventory report for the third quarter of FY 2012 also showed 18 units designated as safety stock; however, 10 of the 18 units needed repair and were nondeployable. Based on the number of bottle liquid scanner units designated as safety stock in inventory and the condition codes assigned to them, only eight units were in redeployment condition. TSA officials said that safety stock quantities and levels are evaluated and updated every quarter in conjunction with the quarterly warehouse disposition process. We identified equipment that needed repair, designated as safety stock on consecutive warehouse inventory reports.

In February 2012, TSA evaluated safety stock inventory for nine types of explosive detection system and determined that the quantity of safety stock was deficient for six of the nine types. For example, TSA set the level of safety stock for one type of EDS actively under production and deployment at five units. Although TSA had 12 of these units in the warehouse, none was designated as safety stock. TSA's ability to respond to critical failures for this piece of equipment is affected by not having equipment available for safety stock.

TSA also assessed checkpoint technology safety stock in July 2012 and identified equipment with a shortage of warehouse safety stock, as well as equipment in inventory that exceeded the safety target. TSA also stored empty explosive trace detection cases in quantities that exceeded its stated level for safety stock. TSA's July 2012 review showed almost 1,400 more empty cases in inventory than were necessary to meet the target safety stock level of 459. TSA officials explained that after explosive trace detection units were placed in service, airports sent the empty cases to the warehouse for storage. Some of the empty cases were stored in the warehouse for almost five years. To optimize existing warehouse space, TSA could have recycled or removed the cases from inventory.

Without appropriate safety levels, TSA was not prepared to meet equipment emergencies that could affect field operations and national security, or increase travelers' time spent at passenger screening checkpoints.

We made two recommendations to TSA that, when implemented, should assist the component with managing inventory in its warehouses. TSA concurred with one recommendation and partially concurred with the other.

Transportation Security Administration's Acquisition of Support Service Contracts

In March 2010, we issued, *Transportation Security Administration's Acquisition of Support Service Contracts,* OIG-10-72, which included three recommendations to improve TSA's acquisition processes. In January 2012, based on information sent to us by TSA, we determined that all responses and corrective actions were sufficient to close our three recommendations, and that no other action was required.

In conclusion, as the reports I have highlighted illustrate, DHS and TSA are taking steps to implement our recommendations to strengthen and streamline their procurement and acquisition processes. However, they continue to face challenges that will require further time and effort to overcome. My office will continue to examine these processes at the Department and its components and to make recommendations designed to improve their efficiency and effectiveness.

Mr. Chairman, this concludes my prepared remarks. I welcome any questions that you or the Members of the Subcommittee may have.