



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Washington, DC 20528

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Controls over Procurements and Grants

Two areas that DHS needs to get control of early to minimize waste and abuse are the procurement and grant (federal assistance) management functions. Getting the right leadership and systems in place for both functions should be made a high priority. To assist the department in this regard, and per your request, I asked my audit staff to identify some specific controls and other issues that need to be addressed right away, as follows.

Procurement Management

DHS will be integrating the procurement functions of many constituent programs and missions, some lacking important management controls. For example, as reported by GAO, Customs has not begun to establish process controls for determining whether acquired software products and services satisfy contract requirements before acceptance, nor to establish related controls for effective and efficient transfer of acquired software products to the support organization responsible for software maintenance. At TSA, the Transportation OIG found that procurements were made in an environment where there was no pre-existing infrastructure for overseeing contracts. TSA had to rely extensively on contractors to support its mission, leading to tremendous growth in contract costs. A recent Transportation OIG review of one TSA contractor found that, out of \$18 million in expenses, between \$6 million and \$9 million appeared to be attributed to wasteful and abusive spending practices.

Also, some agencies have major procurement programs under way that need to be closely managed. For example, Customs' Automated Commercial Environment (ACE) project will cost \$5 billion, and Coast Guard's Deepwater Capability Replacement Project will cost \$17 billion and take two to three decades to complete. Both projects will continue to receive OIG and, most likely, GAO attention. GAO identified a performance and accountability challenge of enhancing Coast Guard acquisition management to maximize returns from investments of public funds in large, complex, high-cost procurements. Further, some contracts, regardless of their earlier merits, may no longer be necessary in accomplishing DHS' mission.

Early attention to strong systems and controls for acquisition and related business processes will be critical both to ensuring success and maintaining integrity and accountability. OIG would suggest the following:

- Review all contracts transferring to DHS to ensure they are relevant to DHS' mission and, particularly for systems development contracts, will not be affected by or conflict with DHS systems integration efforts. For example, TSA issued a 7- year, \$1 billion task order to Unisys Corporation for enterprise operations center deployment and field/headquarters infrastructure deployment. Needless to say, close attention must be paid to a contract of this size and scope.
- Ensure that contracting officers and contracting officers' representatives are properly warranted, trained, and supervised, and that they maintain proper documentation in the contract files.
- Establish a robust and effective contract oversight function. Construction contracts and contracts for local guard services have been shown to be subject to waste and abuse if not closely monitored.
- Establish effective systems and controls for managing purchase and travel cards, including issuance of appropriate written guidance for card use, effective monitoring of card use and appropriate handling of card abuse, and elimination of excessive numbers of card holders.

Grants (Federal Assistance) Management

DHS will be inheriting major grant programs from FEMA and Justice. Both agencies' programs will be problematic.

FEMA plans to award about \$7.9 billion in grants this fiscal year. FEMA OIG reports on audits of grantees demonstrate that FEMA has not adequately accounted for or monitored its grant activities. These reports have identified shortcomings in the pre-award process, cash management, monitoring, and the grant closeout process. For example, FEMA does not have a comprehensive grants management tracking system, many grantees do not make required cost-share payments and draw down million of dollars in federal funds in excess of immediate needs, and some grantees were not spending mitigation funds according to established time periods. Grant closeouts are also problematic; for example, FEMA still has a Disaster Field Office for the 1994 Northridge earthquake.

The DOJ Office of Justice Programs will be transferring the Office of Domestic Preparedness (ODP) to DHS. ODP is responsible for awarding grants to state and local governments to prepare for and respond to incidents of domestic terrorism involving chemical and biological agents, radiological and explosive devices, and other weapons of mass destruction. Between FY 1998 through FY 2001, ODP was appropriated \$243 million to provide these grants. As of March 2002, approximately \$141 million still had not been awarded. In FY 2002, ODP's appropriation was \$651.5 million, but its FY 2003 budget is \$3.5 billion, the increase attributable to a new First Responder program. DOJ OIG has reported weak monitoring of grants by the Office of Justice Programs, and the size of the new program will severely test ODP's grant management systems.

OIG would suggest early attention to the following key controls:

- A comprehensive grants management system that complies with Grant Financial System Requirements issued by the Joint Financial Management Improvement Program (JFMIP). The JFMIP document (JFMIP-SR-00-3) provides functional requirements for eleven functions, namely: (1) commitments, (2) de-commitments, (3) obligations, (4) payments, (5) cost accruals, (6) financial reports, (7) interest collections, (8) grant closeout, (9) records retention, (10) general system requirements, and (11) information technology in the grants process. In addition, DHS must ensure compliance with the Federal Financial Assistance Management Improvement Act of 1999, which requires, among other things, use of electronic application and reporting by grantees via the internet (E-Grants).
- Adequate monitoring of and assistance to states and other grantees in all phases of the grants management life cycle (i.e., from award to closeout)
- Assurance that grant closeouts (and required audits) are within established time periods, and extensions are adequately justified, approved, and documented.
- Adequate training and supervision of the grants management workforce.

In addition to conducting audits and evaluations of the procurement and grant functions, OIG would be happy to advise those officials establishing or enhancing controls in these areas. If you have any questions, or would like to discuss this matter further, please call me at 6-8310, or ask your staff to call J. Richard (Dick) Berman, Acting Assistant Inspector General for Audits, at 6-2125.