

DHS Management Challenges

Fundamental management challenges continue to plague the Department of Homeland Security (DHS) as it strives to transform itself into an integrated and self-sustaining agency. Over one year after its creation, DHS still has administrative functions excessively tied to legacy components, financial systems that do not enable managers to exercise fiscal responsibility, and a proposed human capital system that could demoralize employees. Recognizing many of these challenges, the Government Accountability Office (GAO) continues to designate the DHS and its transformation as “high risk”, thus susceptible to waste, fraud, abuse and mismanagement. Failure to address these deficiencies could result in a department that remains a collection of separate legacy programs incapable of uniformly fulfilling its current mission and taking on new initiatives. Unless DHS has a management structure that works, well-integrated financial and information systems that enable managers to administer programs and control spending, and a highly skilled and motivated workforce, the agency will not have the ability to effectively protect our homeland.

Perhaps the biggest challenge facing DHS is integrating 22 separate components into a single, effective and efficient department. The Department must combine the work of 180,000 employees specializing in various disciplines -- including law enforcement, border security, biological research, computer security, and disaster mitigation. Building an effective department will require sustained leadership from top management to ensure the transformation of disparate agencies, programs and missions into an integrated organization. The GAO has estimated that such a large-scale agency transformation could take anywhere from 5 to 7 years. As a result, GAO has designated the implementation and transformation of DHS as high-risk based on three factors: (1) the enormity of the task and the time needed for its completion, (2) components merged into DHS already faced a wide array of existing challenges, and (3) failure to fulfill the mission would expose the nation to very serious consequences.

The DHS Management Division is at the forefront of the department's transformation activities and efforts to address its management challenges. The President's FY 2005 budget requests \$651 million for departmental operations, up 61 percent from FY 2004. Of the FY 2005 total, \$405 million is targeted to departmental management (of which \$102.5 billion is for the development of a new human capital system) and \$226 million to department-wide technology investments.

Department-wide Management Issues

While DHS has made some progress in addressing its department-wide management challenges, major progress remains. Issuance of the department's first Strategic Plan earlier this year was a much needed step. As required by the Government Performance and Results Act, the plan articulates DHS's vision for integrating programs and administrative functions and provides a blueprint for efficiently and effectively managing resources while providing optimal public service. Additionally, the department has taken steps to consolidate many support service operations, including financial management, contracting, and human resources.

Despite these efforts, DHS needs to do more work to improve its large-scale planning and consolidation efforts. According to one assessment, the agency's Strategic Plan only contains vague goals and objectives for all its mission areas, and discussion of annual goals are missing. Development of more specific goals is needed for important topics, including intelligence, so that the Congress and the agency can gauge progress. To further articulate the goals laid out in the Strategic Plan, the department should develop an action-oriented annual performance plan with specific tasks, metrics, and completion timelines. These issues should be addressed in order to move the agency's planning efforts forward.

The Department also needs to address agency-wide administrative and resource problems. DHS is still not performing some major support functions, but continues to operate under several Memoranda of Agreements with legacy agencies. Under the Homeland Security Act of 2002, legacy agency functions were to be transferred to DHS within one year of the department's creation. Nonetheless, as GAO reports, at least 50 such agreements remain in effect covering a variety of sources, such as mail and passenger services, payroll processing, computer network services, and building services. The Department's lack of total control over key functions may hinder its efforts to operate effectively and efficiently. Compounding matters, staffing issues pervade in the information technology and contracting areas among senior executives, with turnover of divisional Chief Information Officers (CIO's) at 45 percent since DHS opened its doors. Maintaining a stable workforce also appears problematic within the key area of Customs and Border Protection where attrition is reportedly high. This level of staff instability, particularly among the senior ranks, calls into question whether the department has the management continuity to lead the transformation.

A July 2004 GAO report, conducted at our request, further shows that each of the DHS Directorates could be doing more to address their individual management challenges. GAO revealed that as of June 28, 2004, DHS had fully implemented only 40 of 103 of the key recommendations GAO had made to the department and its legacy agencies for improving performance. The results for each Directorate are as follows:

DHS directorate or division	Number of recommendations implemented	Number of recommendations DHS is working to address	Totals
Border & Transportation Security	27	33	60
Emergency Preparedness & Response	3	3	6
Information Analysis & Infrastructure Protection	0	12	12
Science & Technology	9	10	19
Management	1	5	6
Totals	40	63	103

Failure to fully implement the GAO recommendations carries significant consequences for DHS in fulfilling its mission. For example, as the report notes, the remaining 33 recommendations for the BTS directorate could result in reducing current security vulnerabilities in such activities as passenger screening, border security and ports of entry. Similarly, implementing the 3 recommendations for EPR could better position the federal government to provide essential services in the event of a disaster.

The efforts of the Commission on the attacks of September 11, 2001, may place additional demands on an already strained management infrastructure. Its recommendations may lead to an expansion of important DHS functions in areas such as intelligence gathering and strategies for aviation and transportation security. The extent that these recommendations will be implemented is yet unknown. However, it is certain the DHS needs to have the appropriate management processes and systems in place to ensure the success of any new initiatives resulting from their adoption.

To address the significant management challenges and spearhead its transformation efforts, DHS would benefit from having a key executive in place with this focus, namely a Chief Operations Officer (COO). A COO may provide DHS with long-term view for management functions, such as human capital, financial management, information technology, acquisition management, and performance management. Additionally, the COO can be the driver for elevating, integrating, and institutionalizing accountability for transformation efforts. For years, the COO concept has been embraced by high-performing organizations in the private, public, and not-for-profit sectors. Although current legislative proposals seek to establish a COO at the Department and specify certain mechanisms to enhance the position, the DHS Secretary could create this position through their current authority without Presidential or Congressional approval.

Major Management Challenges

Financial Management Systems

DHS has made advancements toward developing a unified and effective financial management system by merging 18 legacy agency financial systems into 10 and created its first set of financial statements for audit. DHS also met the challenge of collecting more than \$22 billion in excise taxes, fines, and penalties. Moreover, the President's FY 2005 budget requests \$56 million for developing and implementing "eMerge," a single Department-wide financial management system (targeted for completion in FY2006) designed to integrate budget, accounting, procurement, grants, travel and other systems that are important to decision makers.

However, more work is needed to integrate and improve the Department's financial systems to avoid a possible disruption of services needed to protect the homeland. The problems of many of the 22 legacy agency systems now reside at DHS. The transformation resulted in DHS inheriting major financial management problems cited during audits at INS, FEMA,

Customs, Coast Guard, TSA, and other entities transferred in whole or in part to the new department.

Moreover, DHS still has three different pay systems that do not use the same budgeting principles and budget codes. The resulting confusion led DHS to impose a hiring freeze in Spring 2004 at the Bureaus of Immigration and Customs Enforcement (ICE) and Customs and Border Protection (CBP), two frontline units within Border and Transportation Security Directorate (BTS), because accounting staff were uncertain if a potential \$1.2 billion budget shortfall was real or an accounting irregularity. Several weeks after implementing the hiring freeze, BTS budget officials finally attributed the shortfall to an accounting error. Nonetheless, the ambiguity about staffing levels calls into question whether the department can be confident that there is sufficient manpower at our borders to prevent the unwanted entry of terrorist factions into this country.

Weaknesses in DHS financial systems also could expose the agency unnecessarily to excess waste, fraud, and abuse, a condition which could limit its progression toward becoming a high-performing entity. Despite successfully organizing its financial statements for its first annual independent audit, reviews have uncovered numerous problems that remain and the Department's failure to comply with key federal standards for financial management. During their assessment, the auditing firm of KPMG was unable to provide an opinion on several parts of the department-wide financial statements and expressed concerns about those relating to the Coast Guard's activities. GAO later validated the KPMG findings and identified instances where DHS was not in compliance with the Federal Financial Manager's Integrity Act, a major statute governing how records are kept and wasteful spending is controlled.

Even more severe, some senior staff at headquarters and 3 major field offices within DHS' Immigration, Customs, and Enforcement (ICE) unit have expressed deep concern the inability of financial systems to meet their needs. They contend that systems do not adequately track budgets and procurement funds. Consequently, financial officers must use ad-hoc manual systems to identify the total amounts in various accounts-- practices that are archaic and prone to error. They also have argued that when managers are unclear about the size of their budgets due to defective financial systems, they are at risk of over-spending, thus violating Federal standards that prohibit agencies from exceeding their appropriated funds. Further, the staff added that because financial systems are not user friendly and incapable of allowing procurement personnel to make vendor payments, some smaller companies have reportedly threatened to cut off services. Some staff said they believe that our homeland security is placed at risk when major vendor services are delayed because of slow payment processes. The conditions identified by the staff are inconsistent with well-established standards for sound financial management practices in the federal government. GAO takes the position that when financial data are not useful, relevant, timely, or reliable, procurement and other agency functions are at risk of inefficient or wasteful business practices. DHS should improve financial systems at ICE and other units if it intends to emerge as a high-performing agency and effective steward of tax payer dollars.

Information Technology (IT) Management

The DHS CIO made some progress toward starting to integrate disparate systems of legacy agencies. Among DHS' major efforts is its development of an enterprise architecture (EA), as required by the Clinger-Cohen Act and OMB guidance, to be DHS's primary strategic guide for addressing IT issues. The EA is meant to describe all existing IT systems and assets; describe desired future systems, functions, and design; and provide a migration path to move from present to future. DHS released a first draft of the EA document in October 2003 and released a revised version in Spring, 2004.

Despite progress on developing the EA, serious IT challenges confront DHS. These challenges fall into the following critical categories:

- *Organizational alignment and leadership:* The DHS CIO is organizationally weak and does not have sufficient authority over divisional CIO's within the Department and the hundreds of disparate legacy systems and projects they manage.
- *System capability:* The Enterprise Architecture effort being pursued may be insufficient to address IT issues facing the Department. Among all federal agencies, fewer than ten percent have moved past writing EA plans to actually implementing the plans with tangible products and projects. There is reason, therefore, to be skeptical of the ability of EAs to achieve the kinds of substantial and rapid IT transformation needed at DHS. While relying on EAs to drive IT strategy may make sense for Federal agencies in a normal operating environment, DHS's EA may not be adequately robust tool to achieve the kinds of IT integration and levels of investment that are urgently needed in the near-term for DHS to meet its security mission.
- *Human capital:* DHS technology management suffers from high attrition. According to the DHS Office of the Inspector General, turnover among divisional CIOs since the Department opened its doors has been 45 percent. It is critical that DHS have a "strong and stable implementation team" to manage DHS's integration.
- *Transformation:* DHS suffers from the lack of a dedicated information-technology integration team. According to the GAO, it is important to dedicate an implementation team to manage the transformation process" and that such a team have direct access and be accountable to top leadership. Without such an integration team, organizational fragmentation, technological impediments, or ineffective collaboration will blunt the nation's collective efforts to prevent or minimize terrorist acts. Efforts to streamline or merge DHS systems are likely to be hampered by bureaucratic infighting as managers seek to preserve particular programs or systems in which they have invested or with which they have become accustomed. The DHS CIO has acknowledged the problem:

Instead of a dedicated integration team with clear authority to initiate and implement projects anywhere within the Department, DHS has a three-tiered investment-management board to review technology projects based largely on project cost. This structure may not be optimally organized to address critical integration issues with the speed and attention they deserve. Factors other than dollar size may be significantly more important when deciding which projects to pursue and with what level of urgency. Furthermore, only the top level board, which looks at

information-technology projects with life-cycle costs above \$200 million, includes senior DHS leadership with de-facto department-wide authority. The two “lower” boards, which review projects smaller than \$200 million, lack sufficient Department-wide authority to prioritize and rapidly implement information-technology projects that are important to the integration of DHS as a whole.

Human Capital Management

The vital mission of protecting the homeland depends on maintaining a highly skilled and motivated workforce at DHS. The department’s billion-dollar investments in technology and its most well thought-out strategies to combat terrorism cannot alone ensure the safety of our homeland. Instead, the nation’s security relies largely on the skill and dedication of the people on the frontlines, doing the hard work of homeland security on a daily basis. Unless employees are appropriately compensated, have a meaningful voice in their employment, and experience high job satisfaction, the nation’s security will be compromised.

The creation of DHS provided a historic opportunity for the federal government to fundamentally transform how the nation will protect itself from terrorism and other threats. As allowed under the Homeland Security Act of 2002, the Department is currently developing final regulations for a pay and performance management system for employees, which replaces the General Schedule grade and step configuration with pay bands (and performance-based pay increases) that will be applied to newly-formed job categories. Additionally, as now proposed, the system imposes new requirements on collective bargaining and the Department’s procedures for handling of employees involved in adverse actions. The President’s FY 2005 budget requests \$102.5 million to fund training, development of a performance management and compensation system, and another \$10 million for a performance pay fund in the first phase of implementation affecting some 8,000 employees.

The stable organizational infrastructure that is needed to implement such a program currently does not exist at DHS. The agency has not demonstrated that its administrative functions and information systems have the capacity for successful transformation to the new system. Advancement toward developing this infrastructure has been noted by GAO, which credits DHS for beginning to forge a nexus between the new human capital program and the department’s recently issued strategic plan. Nonetheless, such a massive overhaul of human capital management should be implemented only when an agency has the capability to develop a new system effectively and a credible performance management system that includes adequate safeguards to prevent abuse of employees. The consequences of not doing so could be significant. For example, in forming a new human capital program, the Federal Aviation Administration’s (FAA) failed to fully incorporate elements that were important to effective human capital management into its overall reform effort. FAA had not gone far enough in establishing linkage between reform goals and overall program goals of the organization. DHS must set a strong relationship between the new human capital system and its broader agency-wide goals as stated in its strategic plan.

Even with an appropriate infrastructure, some observers argue that the proposed the human capital system could undermine employee rights, resulting in a demoralized workforce.

To keep employees motivated and dedicated to protecting our homeland, the human capital program should adhere to the following basic principles-- which many believe could be compromised under the proposed system:

- A Fair and Transparent Performance-Based Pay System. The method for determining pay bands must be clearly articulated to all employees. Safeguards must be in place for fairness in moving within and between bands. In order for this to happen, managers should be appropriately trained, and the system should allow employees to fluctuate between assignments to demonstrate competencies. Moreover, the system must have appropriate oversight to ensure that supervisors do not abuse their discretion in making pay decisions.
- Access to Collective Bargaining. Collective bargaining provides employees with a voice in employment decisions, which promotes the job satisfaction and effectiveness of the workforce. Under the proposed regulations, fewer issues will be subject to collective bargaining. The scope of collective bargaining should remain as wide as possible as the Department continues to exercise management flexibilities that bear directly on security.
- Due Process for Adverse Actions and Appeals. Maintaining a strong and satisfied workforce requires that all employees be treated fairly. Failure to provide meaningful due process could lead to favoritism and management abuse, thus corroding the ability to achieve results.

DHS employees and groups representing the federal workforce have been highly vocal in their concerns that the new system would limit collective bargaining for the department on matters that do not bear directly, or even indirectly, on security. For example, the proposed regulations (1) practically wipe out full collective bargaining rights by allowing DHS to set working conditions through non-negotiable department regulations and (2) severely curtail if not eliminate collective bargaining rights over most core day-to-day operational decisions, such as the assignment of work, the deployment of personnel, and the use of new technology by DHS personnel. Other issues would need to have a “significantly effect a substantial portion of the bargaining unit” in order for management to fully consider them. Finally, collective bargaining disputes would be reviewed by an internal DHS board, rather than the independent Federal Labor Relations Authority, possibly without judicial review. Independent review of labor-management disputes is both proper and consistent with national security needs.

Critics also point to the new system’s likely adverse affect on employee rights. They contend that the proposed rules (1) limit due process for employees by enabling the Secretary to create a list of Mandatory Removal Offenses, which is believe to give the Secretary undue discretion, and (2) lower the standard of proof required for DHS to justify serious adverse employment actions from “a preponderance” to “substantial” evidence, a change which would place DHS employees on a different footing than any other federal employees without justification. Moreover, in adverse action appeals, the Merit System Protection Board, the Federal Government’s appellate body for federal employees, would no longer be able to reduce a penalty imposed on an employee; rather, it would be required to either uphold or reverse the

punishment in its entirety. Failure to treat employees fairly will result in low morale and undermine DHS' efforts to secure our homeland.

Contract Management

DHS relies heavily on private contractors to implement programs and accomplish its mission. As of March 2004, contracting dollars totaled approximately \$4.3 billion, the bulk being devoted to functions of the Transportation Security Agency and U.S. Coast Guard. The sheer magnitude of taxpayer dollars involved makes it imperative that proper attention be given to the acquisition function by the highest levels at DHS and that adequate controls are in place.

DHS has made some progress in reducing the number of contract offices and in promoting effective and efficient procurement. For example, the department established (1) an Investment Review Board to conduct portfolio management and provide acquisition oversight over the department's investments of \$50 million or more and (2) a Strategic Sourcing Group to implement a department-wide approach to acquiring goods and services.

Nonetheless, formidable challenges remain for DHS, many of which it inherited from its legacy components. In a March 2004 report, the DHS Office of Inspector General (OIG) concluded that DHS still struggles to compile a detailed and accurate listing of its contracts and to keep track of spending by its agencies. Also, the department needs to begin integrating procurement functions of component organizations to ensure that proper management controls are consistently applied. For example, according to the OIG, during its first year of operation, the Transportation Security Agency (TSA) relied extensively on contractors to accomplish its mission, but some contracts were written without clearly defined deliverables, and TSA lacked staff to provide adequate oversight. As a result, the cost of contracts ballooned.

Other components of the department have large, complex, high-cost procurement programs under way that need to be closely monitored:

- the Coast Guard's \$17 billion Deepwater and replacement project will take two to three decades to complete;
- the US VISIT program, a \$10 billion effort, will be implemented over the next 10 years.
- the BTS Automated Commercial Environment project will cost \$5 billion;

The procurement function also lacks the basic infrastructure to effectively manage contracts. The Chief Procurement Officer does not have direct line authority over procurement operations for legacy agency components. Without a single authority to make decisions and set policy for contracting activities across DHS, it will be difficult for the Department to operate efficiently and curb duplication or redundancy among projects and spending across DHS divisions. The CPO estimates dollar savings of _____ from such a consolidation. Even as legacy components continue to handle their own contracting operations, their contracting managers lack leverage to effectively oversee this function. For example, in both TSA and ICE, procurement managers are too low within the organization and thus do not have the clout to hold employees accountable for compliance with procurement policies.

Moreover, the contracting function is understaffed. As of July, 2004, the CPO office had only three procurement operations officers. By the CPO's own estimate, that office should likely have an operational staff of 90-100. DHS procurement offices not under the CPO's direct control are short-staffed. For example, it is estimated that the Transportation Security Administration's contracting office is roughly 70 percent understaffed and Customs and Border Patrol by about 10-15 percent. DHS contracting offices should forge an effective partnership between the human capital function to develop and implement an acquisition workforce plan agency-wide. Such a collaboration with strengthen efforts to attract, develop, and retain the right talent to accomplish the contracting mission.

Grants Management

DHS has made strides in this area, particularly in consolidating preparedness grant programs. The department's merging of the Office of Domestic Preparedness (ODP) and the Office of State and Local Government Coordination addressed the need to tie all DHS terrorism preparedness programs together into a cohesive system. DHS is also creating a Grants Management Council, consisting of senior DHS managers, intended to identify innovative approaches to promote effective business practices that ensure timely delivery and proper stewardship of federal assistance funds.

Despite some successes, DHS is still a long way from developing an effective, integrated grants management and accounting system. Grants for several of DHS components are still managed by outside agencies: the Federal Aviation Administration processes TSA grants and the Department of Justice processes those for ODP, except for fire grants. DHS also needs to require more meaningful reporting by grantees and develop performance standards so that progress is tracked accurately, work with grantees to collect and identify best practices that speed up spending, and assist state efforts by accelerating the development of federal guidelines on first responder capabilities, equipment, training, and exercises.