

**Statement before the Committee on Homeland Security,  
Subcommittee on Transportation Security**

***“CONTRACT SPENDING TRENDS IN THE  
DEPARTMENT OF HOMELAND SECURITY AND  
THE TRANSPORTATION SECURITY  
ADMINISTRATION”***

A Statement by

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Center for Strategic and International Studies (CSIS)

**October 13, 2011**  
**331 Cannon House Office Building**

“Contract spending trends in the Department of Homeland Security and the Transportation Security Administration”

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Chairman Rogers, Ranking Member Jackson Lee, and members of the Subcommittee, I appreciate the opportunity to appear before you this afternoon as part of this distinguished panel to offer my views on contracting trends in the Department of Homeland Security and the Transportation Security Administration. I would note that my statement draws on research undertaken at the Center for Strategic and International Studies (CSIS) but that the statements and conclusions are my own and do not necessarily represent the views of CSIS.

The Defense Industrial Initiatives Group (DIIG) at CSIS recently undertook a study on contracting trends in the Department of Homeland Security (DHS) between 2004 and 2010. Although DHS was enacted by law in 2002 and created as a separate entity in 2003, our analysis begins with the year 2004 as it was the first full fiscal year of DHS operations. We used the Federal Procurement Data System (FPDS) as our primary source of data. All dollar amounts in the report and in this testimony are obligated dollars as reported in FPDS and are in 2010 constant dollars.

In this testimony I plan to first provide an overall view of DHS contract spending on products, services and research and development (R&D), then present data for the Transportation Security Administration (TSA), and conclude with final comments.

Overall DHS contracting:

DHS has kept its overall contract spending levels steady at around \$13-\$14 billion per year since 2005 (with the exception of Katrina response in 2006). Responses to unexpected events such as natural disasters and attempted terrorist attacks have largely been funded by other outlays, including personnel accounts and grants to state and local governments.

This stability in contract spending enables DHS managers to conduct long-term planning and programming with the knowledge that, barring unexpected developments, they can accurately predict the funding levels in future years. A steady budget over several years also sends a clear signal to industry that, overall, there is stability and continuity in DHS spending that is contracted to the private sector. However, the fact that there has been no growth in contract spending also means that there is currently very little cushion in this category as the Department moves into a period of budget cuts and greater fiscal austerity.

The majority of DHS contracts—60 percent to 75 percent each year—are awarded for services. Within services, the majority of contract dollars—worth \$27 billion for the period 2004

to 2010—were spent on professional, administrative, and management services (PAMS). The second and third largest service categories, by value, were facility-related services (including construction) and information and communication technologies (ICT), at \$16 and \$14 billion, respectively. Total DHS spending on services for the years 2004-2010 increased by 85 percent, much more than it did for products. Between 2007 and 2010, annual spending on services stabilized at around \$10 billion.

#### DHS spending on R&D:

DHS spending on R&D contracts dropped, from \$675 million in 2004 (when it was 8 percent of contract spending) to some \$400 million in 2010 (when it was 3 percent of contract spending). In comparison, the Department of Defense in 2010 spent 11 percent of its contract dollars on R&D (not including classified R&D, which, if included, would significantly raise the R&D share). Note that as per the norm in all CSIS/DIIG research, R&D management and support contracts, though classified as R&D contracts in FPDS, are counted as service contracts and not R&D contracts.

This leads me to an important point on DHS R&D contract spending. From 2004 to 2010, a total of \$4.4 billion was spent on actual R&D contracts and \$1.7 billion was spent on R&D “management and support” contracts, i.e. contracts for the operation and maintenance of research laboratories and equipment. In other words, almost 30 percent of DHS dollars spent on R&D contracts between 2004 and 2010 was not spent actual R&D and should be excluded from R&D data for the purpose of assessing R&D funding.

#### Competition and contractor base:

In 2010, nearly half of DHS contracts were openly competed and received multiple offers, up from 38 percent in 2004. In parallel, contracts that were not competed have been on the decline at a rate of 18 percent per year, on average, to a share of 13 percent of total contract dollars.

DHS has been spreading its contracts to a wider contractor base. In 2010, the top 20 DHS contractors accounted for 34 percent of total contract spending, compared to 43 percent in 2005. DHS contracts with a significant number of commercial companies (primarily in the IT domain) in addition to the traditional defense and security contractors.

DHS has been consistently contracting with small and medium sized companies. In the past three years, about 40 percent of contract dollars have gone to large companies (those with annual revenue of \$3 billion or more), 30 percent have gone to medium sized companies, and 30 percent have gone to small companies. By comparison, the Department of Defense in 2010 spent 56 percent of its contract dollars on large companies, 30 percent on medium-sized companies, and 18 percent on small companies.

#### TSA:

Contract spending levels at TSA have been relatively steady from 2004-2010, with about \$2 billion spent each year. Of that amount, some \$500 million are spent each year on product

contracts (baggage screening technology, advanced imaging technology, etc.), some \$1.5 billion are spent on service contracts (screeners, maintenance of products procured, etc.).

R&D contract spending at TSA dropped dramatically, from \$381 million in 2004 to \$3.8 million in 2010. This drop is in part explained by a reclassification earlier this year of some \$170 million from R&D management and support contracts to services contracts. In addition, TSA spent \$1.8 million in 2010 on R&D management and support services, 32 percent of its total R&D contract spending.

Some 55 percent of TSA contracts were competed and received multiple offers, a share similar to that of DHS as a whole. The share of uncompleted contracts dropped from 38 percent in 2004 to 33 percent in 2010 yet remains higher than the DHS-wide share of 18 percent uncompleted.

Regarding the industrial base supporting TSA, 56 percent (\$1.1 billion) of TSA's contract dollars were awarded to large companies, 21 percent (\$410 million) were contracted to small companies, and 23 percent (\$450 million) went to medium-sized companies. Furthermore, the top 20 TSA contractors in 2010 accounted for 42 percent of contract dollars obligated, compared to 45 percent in 2004. Of the top 20 in 2004, 14 remained on the list in 2010.

#### Conclusion:

Mr. Chairman and Congresswoman Jackson Lee, distinguished members of the Subcommittee, I would like to close with two comments.

First, our research on DHS contract trends was not intended to answer a specific question or address a particular problem. Rather, it was intended to present the facts as they arise from publicly available data. Given that, we found that DHS contract spending was overall stable over time, with a majority of contracts openly competed and awarded across a broad industrial base that includes companies of varying competencies and size. TSA exhibited similar trends in budget stability and share of competed contracts, but has been awarding contracts to a less diverse industrial base.

Second, our findings raise several important questions that the data are unable to answer. With regard to R&D, the issue of how we can measure the outcomes of actual R&D contract spending deserves greater attention. A first step would be to separate R&D management and support services from actual R&D contracts. More importantly, measuring any kind of R&D spending is an input metric that says nothing about R&D productivity and innovation, which are the issues we are really interested in. For a better understanding of these issues, new analysis is needed that assesses TSA's success in delivering new capabilities to better undertake its missions.

With that, I conclude my remarks and look forward to your questions.