



U.S. Securities and Exchange Commission
Office of Inspector General
Office of Audits

**The SEC Can Better Manage Administrative Aspects
of the ISS Contract**



May 31, 2019
Report No. 554

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OFFICE OF
INSPECTOR GENERAL

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

MEMORANDUM

May 31, 2019

TO: Kenneth Johnson, Chief Operating Officer

FROM: Carl W. Hoecker, Inspector General 

SUBJECT: *The SEC Can Better Manage Administrative Aspects of the ISS Contract,*
Report No. 554

Attached is the Office of Inspector General (OIG) final report detailing the results of our audit of the U.S. Securities and Exchange Commission's (SEC or agency) management of funds obligated to and spent on the agency's infrastructure support services contract. The report contains five recommendations that should help improve the SEC's internal control environment over the contract.

On May 20, 2019, we provided management with a draft of our report for review and comment. In its May 28, 2019 response, management concurred with our recommendations. We have included management's response as Appendix III in the final report.

Within the next 45 days, please provide the OIG with a written corrective action plan that addresses the recommendations. The corrective action plan should include information such as the responsible official/point of contact, timeframe for completing required actions, and milestones identifying how management will address the recommendations.

We appreciate the courtesies and cooperation extended to us during the audit. If you have questions, please contact me or Rebecca L. Sharek, Deputy Inspector General for Audits, Evaluations, and Special Projects.

Attachment

cc: Jay Clayton, Chairman
Lucas Moskowitz, Chief of Staff, Office of Chairman Clayton
Sean Memon, Deputy Chief of Staff, Office of Chairman Clayton
Peter Uhlmann, Managing Executive, Office of Chairman Clayton
Robert J. Jackson Jr., Commissioner
Prashant Yerramalli, Counsel, Office of Commissioner Jackson
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Mr. Johnson
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Executive Summary

The SEC Can Better Manage Administrative Aspects of the ISS Contract Report No. 554 May 31, 2019

Why We Did This Audit

On January 25, 2016, the U.S. Securities and Exchange Commission (SEC or agency) awarded a combination-type contract (time-and-materials [T&M] and fixed-price) for infrastructure support services (ISS) for all SEC divisions and offices, including the agency's 11 regional offices. Services provided under the contract (the agency's largest active contract) comprise key aspects of the SEC's information technology program. As of July 2018, the contract's total potential value, including all exercised and unexercised options through April 2026, was more than \$297 million. Moreover, between August 2016 and July 2018, the SEC incurred almost \$74 million in labor costs under the contract.

We conducted this audit to assess the SEC's management of funds obligated to and spent on the ISS contract. Specifically, we sought to (1) determine whether the SEC obtained and properly reviewed plans for converting any contract task area(s) from T&M to other pricing structures, (2) evaluate the SEC's decision to waive the requirement for using the agency's Contractor Time Management System, and (3) assess the agency's management of contractor time and approval of contractor invoices.

What We Recommended

We made five recommendations, including that the SEC develop mitigating controls to ensure the contractor is using efficient methods and effective cost controls, reassess plans to rely on the contract's historical cost information before converting any task areas, and further clarify and communicate roles and responsibilities for pre-approving contractor requests for additional hours. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action. This report contains non-public information about the SEC's information security program. We redacted the non-public information to create this public version.

What We Found

Under T&M contracts, payments to contractors are made based on the number of labor hours billed at hourly rates and, if applicable, other direct costs. Because of the risk they pose to the Government, their use is supposed to be limited to cases where no other contract type is suitable. Shortly after award of the SEC's ISS contract, responsible officials became aware of concerns with the ISS contractor's invoices. Specifically, invoices were routinely submitted months late and included multiple periods of performance, frequent back billing, and adjustments from prior periods of performance already paid. Despite these issues and the inherent risk posed to the Government by T&M contracts, the SEC waived, or did not enforce, certain administrative contract requirements. Specifically, the SEC:

- waived the requirement to use the agency's Contractor Time Management System without requesting or reviewing relevant information, or establishing mitigating internal controls;
- did not consistently enforce requirements for pre-approval of labor hours outside the contractor's normal hours of performance; and
- did not ensure all contractor employees—including those responsible for performing information technology assessments, managing data networks, and administering servers and systems, among other essential information technology tasks—met minimum labor category requirements.

These conditions—particularly when combined with the known invoicing delays and other complexities—further weakened the contract's overall internal control environment; affected the agency's ability to effectively monitor contractor costs; and increased the risk of errors, fraud, waste, and poor contractor performance in key areas supporting the SEC's information technology program. Consistent with generally accepted government auditing standards, we performed tests to gain reasonable assurance of detecting fraud in the areas we reviewed. Although we did not detect likely instances of fraud in the areas we reviewed, we identified nearly \$3 million in unsupported contractor costs and an additional \$42,801 in questioned costs. As a result, the SEC may not be able to (1) rely on the contract's historical cost information to ensure a fair and reasonable price for any task areas converted from T&M to other pricing structures, as planned, or (2) meet its stated goal of cost-reduction in the out years of the ISS contract.

We also identified three other matters of interest that did not warrant recommendations; however, we discussed the matters with agency management for their consideration. These matters involved the prevalence of T&M contracts at the SEC, the ISS contract's statement of determination and findings, and a lack of agency policies and procedures for converting T&M contracts to other pricing structures.

For additional information, contact the Office of Inspector General at (202) 551-6061 or <http://www.sec.gov/oig>.

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ABBREVIATIONS

CO	contracting officer
COR	contracting officer's representative
CS	contract specialist
CSRA or contractor	SRA International Inc.
CTMS	Contractor Time Management System
DAS	Data and Analytic Solutions, Inc.
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
D&F	determination and findings
FAR	Federal Acquisition Regulation
ISS	infrastructure support services
IT	information technology
OA	Office of Acquisitions
OIG	Office of Inspector General
OIT	Office of Information Technology
SEC or agency	U.S. Securities and Exchange Commission
SECR	SEC Administrative Regulation
SME	subject matter expert
T&M	time-and-materials

Background and Objectives

Background

The U.S. Securities and Exchange Commission's (SEC or agency) Office of Information Technology (OIT) supports the SEC and its staff in all aspects of information technology (IT). OIT has overall management responsibility for the agency's IT program, including infrastructure operations and engineering, user support, security, and enterprise architecture. To help address its business needs, OIT relies on third-party services and maintains a strong partnership with the Office of Acquisitions (OA), which is responsible for the execution and management of all SEC contracts. On January 25, 2016, the SEC awarded a combination-type contract (time-and-materials [T&M] and fixed-price) for infrastructure support services (ISS) for all SEC divisions and offices, including regional offices.¹ The SEC awarded the ISS contract to SRA International Inc. (CSRA or the contractor),² requiring CSRA to support OIT in the following four task areas that compose the SEC's IT program:

- Task Area 1.0: Enterprise Operations, which includes service desk support, end user computing, and the SEC's network operations center.
- Task Area 2.0: Enterprise Infrastructure, which includes managed network support, servers and storage support, electronic data warehouse support, audio/video conferencing services, data center operations support and engineering, and contingency planning support.
- Task Area 3.0: Enterprise Architecture, which includes enterprise engineering, preproduction environment, and testing and development.
- Task Area 4.0: Common Services, which includes asset management, transition support, other project and operations support, audit remediation, eDiscovery, infrastructure delivery management, and overarching process support.

¹ Most contractor employees are located at the SEC's headquarters in Washington, DC, although some are at each of the SEC's 11 regional offices and other locations, such as the agency's data centers.

² In November 2015, SRA International Inc. merged with Computer Sciences Corporation – North American Public Sector to become CSRA. In April 2018, General Dynamics acquired CSRA, although the ISS contract continues to reflect SRA International Inc. as the contractor.

At the outset of our audit, the ISS contract was the SEC’s largest active contract. As Table 1 shows, as of July 2018, the contract’s total potential value, including all exercised and unexercised options through April 2026, was more than \$297 million. In addition, Table 4 shows that, between August 2016 and July 2018, the SEC incurred almost \$74 million in labor costs under the ISS contract.

Table 1. ISS Contract Total Potential Value as of July 2018³

Contract Phase	Period of Performance	Total Value
Transition Period	4/4/16 – 8/2/16	\$1,167,443
Base Year 1	8/3/16 – 8/2/17	\$23,686,474
Base Year 2	8/3/17 – 8/2/18	\$55,196,201
Option Year 1	8/3/18 – 8/2/19	\$26,007,563
Option Years 2-8	8/3/19 – 4/3/26	\$175,551,050
Additional Projects	Varies	\$15,641,741
TOTAL		\$297,250,472

Source: Office of Inspector General (OIG)-generated based on ISS contract documents.

Risks Associated With T&M Contracts. The Federal Acquisition Regulation (FAR), Subpart 16.6, *Time-and-Materials, Labor-Hour, and Letter Contracts*, states that a T&M contract “provides no positive profit incentive to the contractor for cost control or labor efficiency. Therefore, appropriate Government surveillance of contractor performance is required to give reasonable assurance that efficient methods and effective cost controls are being used.”⁴ Because of the risk they pose to the Government, their use is supposed to be limited to cases where no other contract type is suitable.

In response, SEC Administrative Regulation 10-17, *Time-and-Materials, and Labor-Hour Contracts* (Rev. 1; August 20, 2015) (SECR 10-17), requires a surveillance plan for all SEC T&M contracts above the simplified acquisition threshold (\$150,000), although the level and detail of the surveillance plan may depend on the contract value, criticality of services, and complexity of the contract. SECR 10-17 further states that T&M and labor-hour contracts are “the least preferred of all contract types and expose the Government to the greatest amount of risk because the Government pays the contractor for time delivered rather than a measurable product with measurable quality attributes.” As such, the SEC’s policy is to limit, to the maximum extent possible, the use of such contracts, and SEC employees involved in the award or administration of

³ This table reflects the adjusted periods of performance established in contract modification 1. Moreover, the total value shown reflects the total potential value of the contract and all option years, including the initial award and the 16 contract modifications executed through July 2018.

⁴ Under T&M contracts, payments to contractors are made based on the number of labor hours billed at hourly rates and, if applicable, other direct costs.

such contracts are expected to work together to ensure compliance with the requirements of the contract, applicable policies, the FAR, and relevant statutes.

We confirmed that the SEC prepared a surveillance plan for the ISS contract. In its plan, the SEC identified the following three methods to monitor contractor performance:

1. surveillance techniques including random monitoring, periodic inspection, customer input, and status meetings and reports;
2. customer feedback; and
3. acceptable service levels.

Roles and Responsibilities. Responsible for all aspects of a contract, Contracting Officers (CO) are the only ones who can authorize changes to a contract’s terms and conditions. The CO for the ISS contract appointed a contract specialist (CS) to help administer the contract, and a contracting officer’s representative (COR)⁵ and an alternate COR to assist with ISS contract management. The COR verifies invoices and oversees the activities of almost 300 CSRA employees assigned to the contract.⁶ The COR is assisted by (1) a program manager, who oversees the contract’s budget and helps the COR approve or disapprove charges to the contract; and (2) 12 task area leads, who monitor technical aspects of the contract and provide the COR with recommendations regarding acceptance of deliverables and proposed contractor employee labor category designations and changes. The ISS contract includes 19 tasks in 4 task areas; therefore, some task area leads oversee multiple tasks. Contractor employees may be assigned to more than one task area and, therefore, more than one task area lead.

Conversion to Other Pricing Structures. The SEC’s initial combination-type award to CSRA called for a 3-month firm-fixed-price transition period and a 24-month base period T&M contract. Attachment 20 of the ISS contract requires the contractor to submit plans to convert selected task areas from T&M to other pricing structures (fixed-price, cost per user, or other offeror suggestions) with the goal of reducing costs for the remaining years of the contract. As Table 2 shows, the conversions (which have not occurred) were to occur within 12 to 24 months after the firm-fixed-price transition period ended in August 2016. Section H.2, *Type of Contract*, of the ISS contract states that conversions will be based on the contractor’s established labor rates and historical data gathered during the performance of the contract.

⁵ The original COR served from January through September 2016. The second COR served from September 2016 until the appointment of the current COR in December 2017.

⁶ The number of contractor employees may fluctuate from month to month; however, in June 2018 (the month for which we conducted detailed testing) 253 CSRA employees charged labor hours to the contract.

Table 2. ISS Contract Conversion Timelines

Area of Work	Timeline for Submitting Conversion Plan After Transition Period	Timeline for Implementing Conversion Plan After Transition Period
Service desk, end user computing, and network operations center	Within 6 months (Not later than February 2017)	Within 12 months (Not later than August 2017)
Managed network support, server and storage support, enterprise data warehouse support, data center operations support and engineering, and contingency planning support	Within 12 months (Not later than August 2017)	Within 18 months (Not later than February 2018)
Asset management, audit remediation, and infrastructure deliver management	Within 18 months (Not later than February 2018)	Within 24 months (Not later than August 2018)

Source: OIG-generated based on Attachment 20 of the ISS contract.

Hours of Performance and Approval of Additional Hours. Section F.1.1, *Hours of Performance*, of the ISS contract states that, unless otherwise agreed upon, CSRA employees shall be available between 7:00 AM and 6:00 PM Eastern Time Monday through Friday, excluding Government holidays.⁷ In addition, the contract requires the COR to approve contractor employees’ daily start and stop times,⁸ and recognizes that, periodically, contractor support may be required outside the normal hours of performance. In such instances, the contract states, “Exceptions may be made on a case-by-case basis and must be pre-approved by the Government COR . . . All Contractor personnel shall obtain pre-approval by the designated COR or Contracting Officer, in writing, prior to working any additional hours for all labor hour contracts.”

Contractor Time Management System. The ISS contract included clause 6010.05, *Contractor Time Keeping* (May 2013), which requires all contractor employees working on-site to record their hours by daily signing in and out of the SEC’s Contractor Time Management System (CTMS). Among other information, CTMS reports allow CORs to view all chargeable time for all contractor employees by contract, day, month, and year. Clause 6010.05 makes clear that, “The CTMS is not a replacement for the Contractor’s own time keeping process, but will be used by the SEC to verify contractor submitted invoices.” Moreover, the SEC’s March 2019 CTMS training materials affirm that CTMS provides internal controls and “greater accountability.”

⁷ At the SEC’s regional offices, CSRA employees generally work during SEC business hours, but the contractor and the SEC negotiate and mutually agree on the hours.

⁸ The current COR indicated that she did not approve daily start and stop times of CSRA employees.

According to a former ISS COR, CTMS reports for the ISS contract often required significant reconciliation, in part, because CSRA employees did not always sign in and/or out of the system as required. As discussed further in the Results section of this report, at the contractor’s request, the SEC modified the ISS contract in March 2018 by removing the requirement for CSRA employees to use CTMS.

Invoices. The ISS contract included clause 5003.00, *Submission of Invoices* (April 2012), which requires contractors to submit invoices on a monthly basis. However, after the contract’s award, CSRA fell behind in invoicing. SEC officials indicated that invoicing delays occurred primarily because of corporate buyouts and accounting system changes, as well as poor internal processing of subcontractor invoices.⁹ The SEC also experienced delays in processing CSRA’s invoices because of questions regarding invoice accuracy. To help the contractor submit monthly invoices, in 2018, OIT and OA officials worked with CSRA to develop the adjusted invoice plan shown in Table 3.

Table 3. ISS Contract Adjusted Invoice Plan

Invoice Period	Number of Months in Single Invoice	Date Invoice Submitted to SEC
July 2017 – December 2017	6 months	April 2018
January 2018 – March 2018	3 months	July 2018
April 2018 – June 2018	3 months	September 2018
July 2018	1 month	October 2018

Source: OIG-generated based on data from SEC personnel and the agency’s financial accounting system.

According to the SEC, after contract award, CSRA officials informed the SEC that it would be difficult to timely submit monthly invoices without adjustments (that is, back charges and corrections to prior periods of performance). As Table 4 shows, delayed invoicing and adjustments required the COR and task area leads to verify hours that contractor employees had worked, in some cases, several months earlier. For example, invoices for the period ended March 30, 2018, covered 3 months, were not submitted to the SEC until July 2018, and included adjustments to labor hours charged throughout most of 2017.¹⁰

⁹ The CS stated that the contractor’s accounting periods changed from bi-monthly to bi-weekly labor charging. We did not identify any other relevant accounting changes.

¹⁰ Because each invoice covers work performed under a different contract line item number, there may be more than one invoice for any one period of performance.

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Table 4. Summary of ISS Contract Invoices Between August 2016 and July 2018

A. Item No.	B. Invoice Amount	C. Invoice Period of Performance	D. No. of Months Invoiced	E. Date Invoice Submitted to SEC	F. No. of Months Elapsed between C. and E.	G. Months Outside of Invoice Period of Performance Included on Invoice Because of Adjustments
1	\$2,531,072	8/1/16 – 8/31/16	1	3/3/17	6	-
2	\$15,517,448	9/1/16 – 2/28/17	6	3/24/17	1	Aug. 2016
3	\$3,157,467	3/1/17 – 3/31/17	1	6/2/17	2	Aug. 2016 to Feb. 2017
4	\$428,110	4/1/17 – 4/30/17	1	11/2/17	6	Aug. to Nov. 2016 and Jan. to March 2017
5	\$776,748	4/1/17 – 4/30/17	1	11/2/17	6	March 2017
6	\$552,078	5/1/17 – 6/30/17	2	2/8/18	7	Aug. 2016 to April 2017
7	\$671,321	5/1/17 – 6/30/17	2	2/8/18	7	-
8	\$81,142	7/1/17 – 12/29/17	6	4/20/18	3.5	May to June 2017
9	\$40,196	1/1/18 – 3/30/18	3	7/27/18	4	March 2017, May to June 2017, and Dec. 2017
10	\$1,371	3/31/18 – 6/30/18	3	8/27/18	2	May 2017
11	\$8,045	7/1/18 – 7/29/18	1	10/2/18	2	-
12	\$1,544,826	4/1/17 – 4/30/17	1	11/2/17	6	Sept. 2016 and Jan. to March 2017
13	\$4,822,933	5/1/17 – 6/30/17	2	2/8/18	7	Jan. to April 2017
14	\$13,745,782	7/1/17 – 12/29/17	6	4/20/18	3.5	Jan. to June 2017
15	\$5,979,447	8/16/17 – 12/29/17	4.5	4/20/18	3.5	-
16	\$563,105	1/1/18 – 3/30/18	3	7/26/18	4	Feb. to Dec. 2017
17	\$10,354,983	1/1/18 – 3/30/18	3	7/26/18	4	March 2017 and Aug. to Dec. 2017
18	\$10,081,906	3/31/18 – 6/30/18	3	9/26/18	3	Dec. 2017 to March 2018
19	\$2,841,795	7/1/18 – 7/27/18	1	10/24/18	3	Jan. to June 2018
TOTAL	\$73,699,775					

Source: OIG-generated based on ISS invoices and SEC and contractor financial data.

According to the CO, the SEC anticipated adjustments to prior periods of performance throughout the life of the ISS contract based on a number of factors, including the contractor's billing cycle, acceptance requirements of services provided, and "the general complexities of the circumstance." Based on these factors, in November 2018, OA executed contract modification 22, removing the requirement for CSRA to submit monthly invoices. The updated contract requires CSRA to submit invoices after the COR accepts the contractor's Monthly Status Report and Monthly Service Level Report.

Objectives

Our overall objective was to assess the SEC’s management of funds obligated to and spent on the ISS contract from the time of contract award on January 25, 2016, through July 31, 2018. Specifically, we sought to:

- determine whether the SEC obtained and properly reviewed plans for converting any contract task area(s) from T&M to other pricing structures,
- evaluate the SEC’s decision to waive the requirement for using CTMS, and
- assess the agency’s management of contractor time and approval of contractor invoices.

To address our objectives, among other work performed, we (1) reviewed the FAR, OA policies and procedures, and SEC administrative regulations relevant to contract management, invoice review, internal controls, and oversight of the ISS contract; (2) interviewed OIT and OA personnel; (3) reviewed the ISS contract, contract modifications, and invoices; (4) verified support for labor categories used; and (5) analyzed the contractor’s additional hours and associated costs, including evidence that the SEC pre-approved, in writing, additional hours invoiced for June 2018. Although we performed detailed testing of June 2018 costs charged to and approved for the ISS contract, we reviewed non-monetary administrative aspects of the contract between August 2018 and May 2019 to ensure our work considered the current state of the contract, including the internal control environment. Appendix I includes additional information about our objective, scope, and methodology; our review of relevant policies, procedures, and internal controls; and prior coverage. Appendix II includes our calculation of monetary impacts (that is, unsupported costs and questioned costs) we identified during our audit.¹¹

Because of the size and complexity of the SEC’s ISS contract, we focused only on the agency’s controls over monetary and administrative aspects of the contract. In the future, we may pursue a separate audit to assess areas of contractor performance.

¹¹ As stated in Appendix II, we relied on the Inspector General Act of 1978, as amended (Public Law 95-452; 5 U.S.C. App.), to define monetary impact terms.

Results

Finding. The SEC Waived, or Did Not Enforce, Certain Administrative Contract Requirements, Weakening the ISS Contract Internal Control Environment and Increasing Risks

The FAR and SEC policy recognize that T&M contracts expose the Government to the greatest amount of risk. The ISS contract was the SEC's largest active T&M contract, and the agency established basic internal controls and administrative requirements such as appropriate contract terms, specific policies, and assigned roles and responsibilities. However, for the aspects of the ISS contract we reviewed, responsible officials did not fully recognize and respond to the inherent risk associated with a T&M contract as large and complex as the ISS contract. Although officials were aware of concerns with the contractor's invoices, the SEC waived, or did not enforce, certain administrative contract requirements. Specifically, the SEC:

- waived the requirement to use CTMS without requesting or reviewing relevant information, or establishing mitigating internal controls;
- did not consistently enforce requirements for pre-approval of labor hours outside the contractor's normal hours of performance; and
- did not ensure all contractor employees—including those responsible for performing IT [REDACTED] assessments, managing data networks, and administering servers and systems, among other essential IT tasks—met minimum labor category requirements.

These conditions—particularly when combined with CSRA's known invoicing delays and other complexities—further weakened the overall internal control environment; affected the agency's ability to effectively monitor contractor costs; and increased the risk of errors, fraud, waste, and poor contractor performance in key areas supporting the SEC's IT program. We performed tests to gain reasonable assurance of detecting fraud and, although we did not detect likely instances of fraud in the areas we reviewed, we identified nearly \$3 million in unsupported contractor

costs and an additional \$42,801 in questioned costs.¹² As a result, the SEC may not be able to (1) rely on the contract's historical cost information to ensure a fair and reasonable price for any task areas converted from T&M to other pricing structures, as planned; or (2) meet its stated goal of cost-reduction in the out years of the ISS contract.

The SEC Waived the Requirement To Use CTMS Without Requesting or Reviewing Relevant Information, or Establishing Mitigating Internal Controls.

On October 30, 2017, CSRA requested that the SEC waive the requirement for ISS contractor employees to use CTMS, arguing, among other things, that CTMS was redundant, did not establish payment by the SEC, and would cost the agency an estimated \$1 million. The contractor acknowledged that CTMS helps meet auditing requirements when a Government-approved contractor system is unavailable but stated that CTMS provided no value with respect to the ISS contract because CSRA had a "Defense Contract Audit Agency (DCAA)-approved time-keeping" system.¹³ In response, on March 9, 2018, the SEC modified the ISS contract by removing the requirement to use CTMS (retroactive to January 31, 2018) without requesting or reviewing relevant information; namely, a September 2014 DCAA audit report regarding the contractor's accounting system and practices. Moreover, the SEC did not establish any mitigating internal controls, as further discussed below.

Relevant Information About the Contractor's Accounting System and Practices Was Available but Was Not Requested or Reviewed. On November 25, 2014, the Defense Contract Management Agency (DCMA) issued a letter based on a September 2014 DCAA audit report, concluding that the accounting system used by the contractor was acceptable.¹⁴ The letter stated that, [REDACTED]

[REDACTED] OA officials stated that they relied on DCMA's letter when considering and approving CSRA's request for a waiver regarding CTMS. However, the CO acknowledged that OA officials did not request or review the DCAA audit report that informed DCMA's opinion. Therefore, OA officials were not aware of the scope and

¹² U.S. Government Accountability Office, *Government Auditing Standards 2011 Revision* (GAO-12-331G, December 2011), paragraph 3.68 states, "Absolute assurance is not attainable due to factors such as the nature of evidence and the characteristics of fraud." Moreover, paragraph 6.30 states, "Whether an act is, in fact, fraud is a determination to be made through the judicial or other adjudicative system and is beyond auditors' professional responsibility."

¹³ When DCAA audits a contractor's accounting system, auditors typically review the contractor's time-keeping system to determine whether the system can track employees' time spent on each work activity.

¹⁴ DCMA makes the final determination on the adequacy of a contractor's accounting system based on DCAA's accounting system audits. Despite the mergers and acquisitions that occurred before and after award of the ISS contract, the accounting system discussed in DCAA's September 2014 report and in DCMA's November 2014 letter is the same accounting system used by CSRA for the ISS contract.

methodology of DCAA's audit and did not determine whether the [REDACTED], as described in DCAA's audit report, could affect the ISS contract.

We contacted DCMA and obtained DCAA's September 2014 audit report, observing that DCAA assessed the contractor's accounting system for the 12 months ended December 28, 2012—more than 5 years before CSRA requested the waiver regarding CTMS.¹⁵ In addition, DCAA's report noted that the contractor [REDACTED]

[REDACTED]. Nonetheless, DCAA determined that:

[REDACTED]

OA officials should have recognized these issues as risks to the ISS contract; however, they relied on DCMA's November 25, 2014, letter without requesting and reviewing information needed to fully understand the limitations of DCMA's conclusions and the risks the SEC was accepting when it waived the requirement to use CTMS. Ultimately, the [REDACTED] affected the SEC, [REDACTED]

[REDACTED] (further discussed on page 15).

Lack of Mitigating Controls. The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*, Principle 9, *Identify, Analyze, and Respond to Change*, states, "Management should identify, analyze, and respond to significant changes that could impact the internal control system . . . changing conditions often prompt new risks or changes to existing risks that need to be assessed."¹⁶ Waiving the CTMS requirement without establishing additional, mitigating controls eliminated one of the SEC's key controls for maintaining accountability and obtaining reasonable assurance that CSRA used efficient methods and effective cost controls. Although CTMS was not a replacement for the contractor's own time-keeping

¹⁵ U.S. Government Accountability Office, *CONTRACTOR BUSINESS SYSTEMS: DOD Needs Better Information to Monitor and Assess Review Process* (GAO-19-212, February 2019), states that DCAA should perform a review of contractor accounting systems every 3 years. Conditions may have materially changed (worsened or improved) since DCAA's 2014 audit. DCMA personnel told us that DCAA expects to commence a new audit of the accounting system in spring 2019.

¹⁶ U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014).

process, the SEC uses the system to manage its T&M contracts, verify contractor-submitted invoices, and ensure greater accountability for contractor labor hours.¹⁷ Also, although the ISS COR continued to analyze CSRA's draft and final invoices,¹⁸ verify labor categories, and perform back-billing validation to ensure charges were not duplicated in multiple invoices, the COR relied only on contractor-provided data when reviewing and approving invoices without assessing or validating the accuracy of the data. We noted that the ISS contract does not specify evidence needed to support invoices, but SECR 10-17 states that the COR may require the contractor to substantiate invoices by providing employees' daily timecards.

At our request, CSRA provided the company's daily time-keeping records corresponding to all labor hours invoiced to the ISS contract for June 2018. We engaged a contractor—Data and Analytic Solutions, Inc. (DAS)—to help determine whether these labor hours appeared reasonable. Specifically, a DAS analyst compared the June 2018 invoiced labor hour data to (1) employees' daily timecard data from CSRA's accounting system, (2) CSRA employee badge-in/badge-out records for all SEC locations, and (3) CSRA employee computer log-on/log-off records for all SEC facilities, creating scatterplots and histograms to identify outliers. Although the analyst identified some instances of missing or incomplete data,¹⁹ he concluded that CSRA's labor hours invoiced for June 2018 were generally reasonable.²⁰

Although our review of the contractor's June 2018 labor hours did not identify material systemic deficiencies or detect likely instances of fraud, a lack of mitigating controls in lieu of CTMS has resulted in the COR relying almost exclusively on contractor-provided data to monitor contractor costs. This further weakened the overall internal control environment and increased the risk of errors, fraud, and waste.

¹⁷ We verified that the SEC continues to require other contractors with T&M contracts to use CTMS.

¹⁸ CSRA submits draft invoices for the COR's review before submitting final invoices to ensure the SEC can comply with the Prompt Payment Act (Public Law 97-177), which requires Federal agencies to pay on time valid and proper invoices submitted by contractors.

¹⁹ DAS' analyst identified 14 instances in June 2018 in which CSRA invoiced employees' labor hours, although there was no evidence that the employees logged onto the SEC network on the days in question. According to the COR, the employees may have logged on through a [REDACTED]

[REDACTED]. We note that badge-in/badge-out records generally were available for these individuals and DAS' analyst determined that the labor hours invoiced for June 2018 were generally reasonable.

²⁰ "Generally reasonable" means that the hours invoiced generally aligned with the hours on daily timecards, badge-in/badge-out records, and/or computer log-on/log-out records. The DAS analyst did not opine on the efficiency of contractor time charges or the nature of the services performed.

The SEC Did Not Consistently Enforce Requirements for Pre-Approval of Labor Hours Outside the Contractor’s Normal Hours of Performance. Each month, the SEC calculates CSRA employees’ expected work hours based on an 8-hour workday multiplied by the number of business days in the month. Hours exceeding those expected are considered additional hours, which are invoiced at the stated labor rates contained in the contract. As previously stated, the ISS contract requires the COR or CO to pre-approve, in writing, all contractor requests for additional hours; however, the SEC did not consistently enforce this requirement.

Specifically, between August 2016 and February 2018, the COR was not involved in the process for approving additional hours. Instead, contractor employees coordinated with task area leads, who may have provided written or verbal approvals.²¹

Then, in March 2018, the program manager notified task area leads and CSRA management that task area leads must pre-approve, in writing, all requests for additional hours. The program manager stated this was done to, “get better accountability of contractors charging [additional hours] with justification for the [additional hours].” The program manager noted that, “Failure to get approval will result in rejection of the individual invoice.” As a result, beginning in March 2018, task area leads were required to review requests for additional hours and approve requests in writing, with a copy to the COR and program manager. Also, as part of the invoice review process, the COR calculated the number of expected work hours each month and began adding a 15-percent “buffer” to identify those time charges that warranted further review. In other words, rather than review *all* additional hours appearing on invoices, the COR asked task area leads to confirm that the leads had approved only those additional hours that exceeded the expected hours plus the 15-percent buffer.²² The contractor was aware of the SEC’s use of a 15-percent buffer.

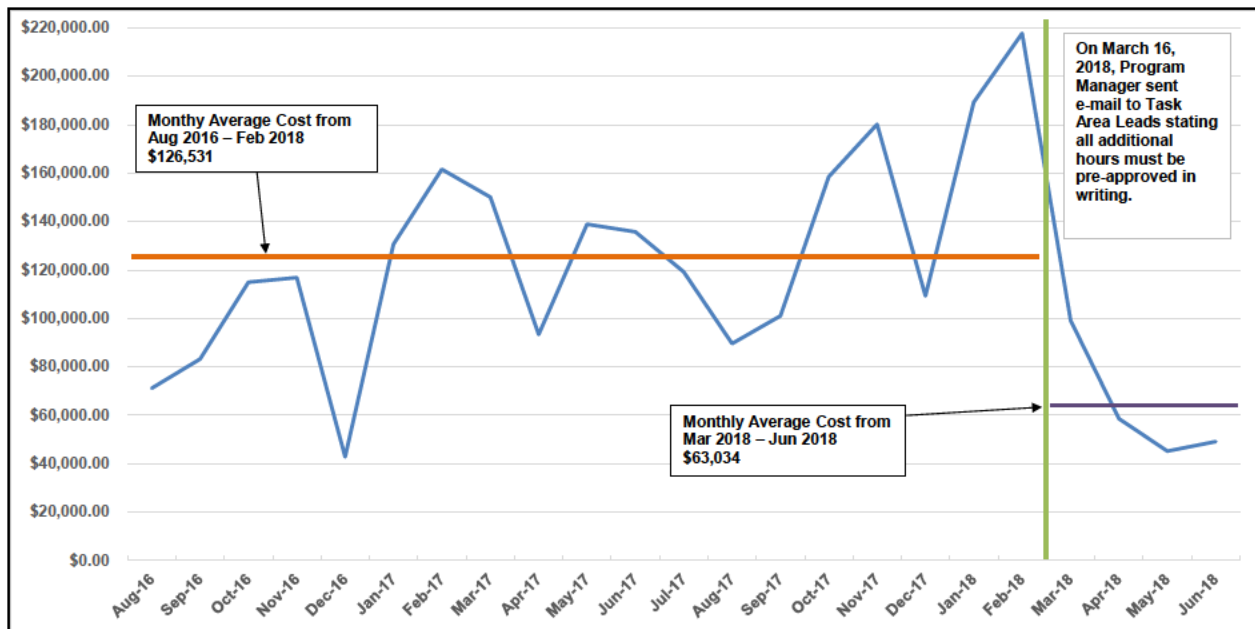
Finally, during our audit and between October 2018 and May 2019, the COR stopped applying the 15-percent buffer and began following up with task area leads on *all* additional hours included on CSRA invoices. In December 2018, OA provided training for the task area leads that stated that all requests for additional hours must be pre-approved by the COR or CO in writing—presenting this requirement as a new requirement. Moreover, the training noted that approval of additional hours after the fact is solely for unplanned emergencies. The training materials further made clear that additional hours are only for work that impacts the organization’s ability to meet mission requirements and not “cleanup work that did not happen during the normal day.”

²¹ According to meeting minutes, in April 2018, the CS, COR, program manager, and task area leads discussed “concerns over undocumented arrangements,” which the CS confirmed referred to the verbal approval of contractor employees’ additional hours.

²² For example, there were 21 workdays in June 2018, which equaled 168 expected hours (21 days x 8 hours). The buffer equaled 25 hours (168 hours x 15 percent). Therefore, the COR asked only for evidence of pre-approval for any hours exceeding 193 hours (168 expected hours + 25 hour buffer).

Using the COR's methodology for calculating expected monthly hours (number of workdays in the month x 8 hours), we reviewed the additional hours charged to the ISS contract between August 2016 and June 2018. As the following chart shows, we found that the monthly average cost for additional hours charged decreased by 50 percent once the SEC began enforcing the requirement for written pre-approval. Specifically, between August 2016 and February 2018, CSRA charged, on average, \$126,531 for additional hours worked each month. Beginning March 2018, the cost of additional hours decreased to a monthly average of \$63,034. We recognize that the contractor's additional hours may fluctuate from month to month based on business needs and mission requirements, potentially contributing to the decrease in additional hours we observed. However, the significant drop in additional hours charged to the ISS contract in the months immediately following the program manager's enforcement of the requirement for written pre-approval suggests a causal link. In total, we estimate with reasonable assurance that, between August 2016 and February 2018, the SEC paid \$2,404,092 in unsupported costs for additional hours charged to the ISS contract without evidence of the required pre-approval.²³

Chart. Cost of Additional Hours Charged to the ISS Contract between August 2016 and June 2018



Source: OIG-created based on data obtained from the ISS COR.

²³ Our estimate is based on OIT's analysis of additional hours as of August 2018. In October 2018, we reviewed the underlying data used for OIT's analysis. Although, we identified a minor difference because of OIT's use of the incorrect number of workdays for 1 month, we obtained reasonable assurance about OIT's analysis. Additionally, we noted that about 76 percent of the \$2,404,092 was attributed to additional hours that fell within the 15 percent buffer.

As previously stated, between March and September 2018, when reviewing CSRA invoices, the COR reviewed only additional hours that exceeded the expected hours plus the 15-percent buffer.²⁴ As such, additional hours and costs that fell within the buffer may not have been approved as required and, therefore, may be unsupported. To test adherence to the March 2018 requirement that task area leads pre-approve all additional hours in writing, we reviewed all 457 additional hours charged to the ISS contract in June 2018. We determined that neither the COR nor task area leads pre-approved, in writing, 250 of the 457 additional hours (or about 55 percent). By multiplying the total number of hours each contractor employee invoiced in June 2018 without evidence of written pre-approval by the employees' approved labor category rates, we determined that the SEC paid \$27,520 in unsupported costs for additional hours charged to the ISS contract in June 2018. Based on these results, the agency may have incurred other unsupported costs for additional hours invoiced between March and May 2018 that were not pre-approved in writing, as required.²⁵

As previously mentioned, during our audit, the SEC took steps to improve its oversight of the contractor's request for additional hours. However, for almost 2 years, the SEC not only relied on undocumented approvals of costs associated with the contractor's additional hours but also did not review additional hours or costs that fell within an arbitrarily established buffer. When combined with CSRA's known invoicing delays and other complexities, these conditions further weakened the contract's overall internal control environment, affected the agency's ability to effectively monitor contractor costs, and increased the risk of errors, fraud, and waste. As a result, the SEC may not be able to (1) rely on the contract's historical cost information to ensure a fair and reasonable price for any task areas converted from T&M to other pricing structures, as planned, or (2) meet its stated goal of cost-reduction in the out years of the ISS contract.

As Appendix II shows, we estimate that, between August 2016 and February 2018 and in June 2018, the SEC paid a total of \$2,431,612 in unsupported costs for additional hours charged to the ISS contract without evidence of the required SEC approval.

²⁴ In September 2018, CSRA submitted to the SEC an invoice for labor hours worked in April through June 2018. After approving the September 2018 invoice for payment, the COR stopped using the 15-percent buffer in her review of CSRA's invoices.

²⁵ For example, between March and May 2018, the SEC paid for 2,060 additional hours (at a cost of \$202,960), of which 1,801 hours (or \$172,469) were within the 15-percent buffer and, therefore, were not reviewed by the COR.

The SEC Did Not Ensure All Contractor Employees Met Minimum Labor Category Requirements. To determine whether contractor employees met the minimum requirements of their designated labor categories, we obtained the resumes submitted at the time of employee onboarding for all 253 CSRA employees who charged time to the ISS contract in June 2018 and compared their qualifications with requirements established in the contract.²⁶ We determined that 39 of the 253 employees (or about 15 percent) either did not, or potentially did not, meet minimum labor category requirements. Specifically, we verified that 5 of the 39 employees did not meet the requirements for their designated labor categories, yet were responsible for maintaining and repairing printers, performing IT [REDACTED] assessments, managing video teleconference infrastructure, responding to end user computing failures, and managing the SEC's data networks. Because of various factors, we could not determine whether the remaining 34 employees met minimum labor category requirements. These individuals were responsible for administering the SEC's servers and systems, managing IT system engineering and architecting processes, and serving as engineers and data center technicians. As previously mentioned, DCAA's September 2014 audit report identified instances in which the contractor did not adhere to [REDACTED] established in contracts.²⁷ Had the SEC requested and reviewed DCAA's report, management may have been able to prevent the circumstances we observed, which we further describe below and in Appendix II.

Five Employees Did Not Meet Minimum Labor Category Requirements. We verified that, as of their date of onboarding, five contractor employees did not meet the minimum requirements of the following labor categories:

1. Printer Engineer – Mid. This labor category required a minimum of 3 years of experience maintaining and repairing printers. We identified one employee in this labor category who charged hours to the ISS contract in June 2018 (at a cost of [REDACTED]) but did not have the required minimum experience. At the time, the employee had only 1 year of relevant experience as a desktop support intern, and his resume did not list any experience related to maintaining and repairing printers. When asked about this employee, the COR stated that the employee's qualifications were not accepted by the task area lead; however, the contractor stated that it would prepare a development plan for the employee. The COR did not have any documentation to support whether the SEC accepted or rejected the contractor's proposed development plan.

²⁶ Attachment 7, *Pricing Support Sheets*, establishes the duties, experience, and professional certifications required for each of the contract's labor categories.

²⁷ [REDACTED]

2. IT Auditor – Junior. This labor category required a minimum of 4 years of related experience as an IT auditor conducting [REDACTED] assessments and audit remediation, and experience using vulnerability scanners. We identified one employee in this labor category who charged hours to the ISS contract in June 2018 (at a cost of [REDACTED]) but did not have the required minimum experience. The employee’s resume did not list any experience relevant to the labor category, yet the contractor requested a waiver, stating that the individual had 17 months of work experience, a bachelor’s degree, and a relevant certification. When asked about this employee, the COR stated the task area lead had approved the contractor’s request for a waiver.

3. Audio/ Visual Engineer – Subject Matter Expert (SME). This labor category required a minimum of 10 years of related experience as a SME in backend video teleconference infrastructure and architecture, expertise in [REDACTED] systems, and a [REDACTED] certification. This labor category did not authorize equivalent experience or equivalent certification substitution. We identified one employee in this labor category who charged hours to the ISS contract in June 2018 (at a cost of [REDACTED]) but lacked the required certification. When asked about this employee, the COR stated that the task area lead had accepted the employee.

4. End User Technology Specialist – Team Lead. This labor category required a minimum of 9 years of related experience managing and leading incident management for end user computing failures. We identified one employee in this labor category who charged hours to the ISS contract in June 2018 (at a cost of [REDACTED]) but did not have the required minimum experience. At the time, the employee had no more than 2 years of relevant experience supporting end user technology, and her resume did not list any previous IT experience. When asked about this employee, the COR stated that the task area lead had accepted the employee.

5. Network Engineer – Senior. This labor category required a minimum of 5 years of related experience managing data networks and extensive skills and knowledge in network design, architecture, troubleshooting, and management. We identified one employee in this labor category who charged hours to the ISS contract in June 2018 (at a cost of [REDACTED]) but did not have the required minimum experience at the time of onboarding (March 2017). When asked about this employee, the COR stated that the task area lead had accepted the employee.

Thirty-four Employees Potentially Did Not Meet Minimum Labor Category Requirements. We could not determine whether an additional 34 contractor employees—who administered the SEC’s servers and systems, managed IT system engineering and architecting processes, and served as engineers and data center technicians—met the minimum requirements of their designated labor categories as of their date of onboarding because the ISS contract did not define “equivalent experience”

and “equivalent certification,” or identify the SEC official responsible for establishing such equivalents. Also, although the COR stated that task area leads were in the best position to determine contractor employee qualifications, task area leads did not always document acceptable equivalent experience or certifications.

For example, employees in the labor category [REDACTED] System Engineer – Mid” must have a minimum of 3 years of experience administrating servers and systems, specializing in [REDACTED] operating systems, and must possess a [REDACTED] certification or equivalent. We identified four employees in this labor category who charged hours to the ISS contract in June 2018 (at a total cost of [REDACTED]) but did not possess the required certification before onboarding.²⁸ No documentation was available to justify or explain acceptance of these employees.

Also, employees in the labor category “System Architect – Senior” must have 10 or more years of experience engineering and architecting enterprise IT systems and managing multi-discipline server and system operation teams. These employees must also possess a [REDACTED] Certification or equivalent relevant experience. We identified five employees in this labor category who charged hours to the ISS contract in June 2018 (at a total cost of [REDACTED]) but did not possess the required certification. According to the COR, task area leads accepted the employees, and two of the employees possessed a different certification. We noted that the contract did not authorize substitution of other certifications for the required certification.

Section H.9 6010.00, *Personnel*, of the ISS contract requires CSRA to provide skilled employees for the effective and efficient performance of the ISS contract. For all new employees assigned to the contract, or to change an existing employee’s labor category, CSRA must submit sufficient information using a Labor Category Designation Form for the SEC’s review and approval.²⁹ Task area leads, serving as SMEs, review and compare labor category requirements and contractor employees’ qualifications; however, FAR clause 52.212-4, *Contract Terms and Conditions – Commercial items, Alternate 1*, states that only the CO has the authority to accept contractor employees who do not meet the qualifications specified in the contract. In addition, OA’s December 2018 task area lead training materials make clear that task area leads do not have the authority to direct labor category changes without the COR’s approval.

²⁸ The COR stated one of the four employees (who began working on the ISS contract in August 2016) received the required [REDACTED] certification in March 2018.

²⁹ According to the form, an SEC representative reviews the form and will either approve or deny the designation of the individual to that labor category.

Overall, as Appendix II shows, the SEC paid a total of \$42,801 in questioned costs for work performed in June 2018 by contractor employees who we verified did not meet minimum labor category requirements. The SEC paid an additional \$545,767 in unsupported costs for work performed in June 2018 by contractor employees who potentially did not meet minimum labor category requirements, as available documentation did not clearly support the employees' qualifications. By allowing contractor employees who did not meet, or may not have met, contractual requirements to perform work under the contract, the SEC may not have received the level of services it paid for, and/or may have overpaid for the labor received. In addition, the SEC increased the risk of poor contractor performance in key areas supporting the agency's IT program.

Recommendations, Management's Response, and Evaluation of Management's Response

For the aspects of the ISS contract we reviewed, we believe the conditions observed occurred because responsible officials did not fully recognize or respond to the inherent risk associated with a T&M contract as large and complex as the ISS contract. To address the issues we observed and improve the SEC's management of funds obligated to and spent on the agency's infrastructure support services contract, we recommend that the Office of Acquisitions:

Recommendation 1: Coordinate with the Office of Information Technology to develop mitigating controls to ensure, as specified in SEC Administrative Regulation 10-17, *Time-and-Materials, and Labor-Hour Contracts* (Rev. 1; August 20, 2015), that the contractor is using efficient methods and effective cost controls. Such mitigating controls could include, but are not be limited to, periodically: (a) requesting and comparing contractor employee timesheets, or other supporting documentation, to invoiced labor hours; (b) reconciling additional hours charged against evidence of written pre-approval, and (c) comparing contractor employees' stated qualifications to minimum labor category requirements.

Management's Response. Management concurred with the recommendation. The Office of Acquisitions will coordinate with the Office of Information Technology to enhance the process of documenting the pre-approval of additional hours as a mitigating control. The Office of Information Technology has already started requiring contractor employee timesheets as part of the invoice review process, and the Office of Acquisitions will clarify the agency's reliance on the contractor's time and attendance system. Finally, the Office of Acquisitions and the Office of Information Technology will review contractor employee qualifications procedures. Management's complete response is reprinted in Appendix III.

OIG's Evaluation of Management's Response. Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

Recommendation 2: Reassess plans to rely on the contract’s historical cost information to ensure a fair and reasonable price before converting any contract task areas from time-and-materials to other pricing structures.

Management’s Response. Management concurred with the recommendation. The Office of Acquisitions will work with the Office of Information Technology to reassess plans to rely on the contract’s historical cost information to ensure a fair and reasonable price before completing the process to convert any contract task areas from time-and-materials to other pricing structures. Management’s complete response is reprinted in Appendix III.

OIG’s Evaluation of Management’s Response. Management’s proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

Recommendation 3: Further clarify and communicate roles and responsibilities for pre-approving (in writing) contractor employee requests for additional hours, and update the contract and relevant policies and procedures, as necessary.

Management’s Response. Management concurred with the recommendation. The Office of Acquisitions, in coordination with the Office of Information Technology, will clarify and communicate roles, responsibilities, and the process for pre-approving (in writing) contractor employee requests for additional hours. We will update the contract and relevant policies and procedures, as necessary. Management’s complete response is reprinted in Appendix III.

OIG’s Evaluation of Management’s Response. Management’s proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

Recommendation 4: Coordinate with the Office of Information Technology to update the contract’s labor category requirements to define “equivalent” certifications and experience, or identify the individual(s) who have the authority to determine and document equivalent certifications and experience when needed.

Management’s Response. Management concurred with the recommendation. The Office of Acquisitions will coordinate with the Office of Information Technology to update the contract’s labor category requirements to define “equivalent” certifications and experience and will document the role of the individual(s) who have the authority to determine equivalencies, when needed. Management’s complete response is reprinted in Appendix III.

OIG’s Evaluation of Management’s Response. Management’s proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

Recommendation 5: Update the Labor Category Designation Form to require a detailed explanation of how an individual meets, or will meet, their designated labor category.

Management's Response. Management concurred with the recommendation. The Office of Acquisitions will update the Labor Category Designation Form to require a documented, detailed explanation of how an individual meets, or will meet, their designated labor category. Management's complete response is reprinted in Appendix III.

OIG's Evaluation of Management's Response. Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

Other Matters of Interest

During our audit, other matters of interest that did not warrant recommendations came to our attention. We discussed these matters with agency management for consideration.

Use of T&M Contracts. The SEC’s March 2019 CTMS overview information states that T&M contracts—the least preferred contract type in the Federal Government because of risk—are “The *most prevalent* contract type at the SEC.” To follow up on this statement, we inquired with OA management and accessed publicly available spending information posted to *usaspending.gov*. Neither OA management nor *usaspending.gov* information support the statement in the CTMS overview. Using *usaspending.gov* information we determined that, in fiscal years 2015 through 2018, T&M contracts appeared to represent about 32 percent of all SEC contract actions.³⁰ As specified in FAR Subpart 16.6, “A time-and-materials contract may be used only when it is not possible at the time of placing the contract to estimate accurately the extent or duration of the work or to anticipate costs with any reasonable degree of confidence.” To help ensure T&M contracts are used only when appropriate and to minimize the risk to the agency, we encourage management to assess the SEC’s use of T&M contracts and formulate actions that will be taken to reduce the use of T&M contracts whenever possible. We also suggest management revise its CTMS overview information.

OA Did Not Properly Complete a Statement of Determination and Findings for the ISS Contract. Before executing a T&M contract and exercising each option period, FAR Subpart 16.6 and SECR 10-17 require COs to prepare and sign a determination and findings (D&F) statement, documenting that no other contract type was suitable. Furthermore, if the base period plus any option period exceeds 3 years, OA’s Director must approve the D&F statement for the base period before executing the contract.

We determined that OA’s Director did not approve, in writing, the D&F statement before awarding the ISS contract. According to the CO, SEC contracting personnel briefed the Director on the contract’s D&F statement, but they did not document the Director’s approval of the statement. Furthermore, the CO did not complete a T&M D&F statement to justify continuation of the contract as T&M when exercising an option year of the contract. The CO stated he was unaware of the requirement for a D&F statement when exercising an option year but that he would comply with the requirement in the future. We encourage management to reemphasize to all SEC COs the requirements for completing D&F statements for T&M contracts before award and before exercising any option years to ensure no other less risky contract type is suitable.

³⁰ This includes labor-hour contracts, which are a variation of T&M contracts and differ only in that materials are not supplied by the contractor.

The SEC Had Not Established Policies and Procedures for Converting T&M Contracts to Other Pricing Structures. To achieve the SEC’s cost-reduction goals in the out years of the ISS contract, as Table 2 shows, the contract required CSRA to submit, by February 2018, its final plan for converting certain task areas from T&M to other pricing structures. By August 2018, the SEC should have implemented the contractor’s final conversion plan. However, the SEC did not request conversion plans from CSRA until May 2018, and the contractor did not begin submitting such plans until June 2018. As of May 2019 (33 months after the contract’s transition period ended), the SEC had not converted any contract task areas from T&M to another pricing structure.

The CO indicated that the SEC was not ready to convert any task areas until the beginning of 2018 because of (1) efforts to resolve contractor performance issues, (2) the need to gather spend data to prepare for the conversions, and (3) changes in the program manager and COR. In addition, because of our audit, the agency should reassess plans to rely on the contract’s historical cost information to ensure a fair and reasonable price for any task areas converted from T&M to another pricing structure. Although it is unclear if, and when, the SEC will convert any ISS contract task areas, we noted that OA had not established policies and procedures for converting T&M contracts to other pricing structures. We encourage management to proactively establish such policies and procedures in the event that conversions occur in the future.

Appendix I. Scope and Methodology

We conducted this performance audit from August 2018 through May 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Scope and Objective. Our overall objective was to assess the SEC’s management of funds obligated to and spent on the ISS contract from the time of contract award on January 25, 2016, through July 31, 2018. We also reviewed non-monetary administrative aspects of the contract between August 2018 and May 2019 to ensure our work considered the current state of the contract, including the internal control environment. Specifically, we sought to:

- determine whether the SEC obtained and properly reviewed plans for converting any contract task area(s) from T&M to other pricing structures;
- evaluate the SEC’s decision to waive the requirement for using CTMS; and
- assess the agency’s management of contractor time and approval of contractor invoices.

We conducted fieldwork at the SEC’s headquarters in Washington, DC.

Methodology. To address our objectives, among other work performed, we:

- reviewed the FAR, OA policies and procedures, and SEC administrative regulations relevant to contract management, invoice review, internal controls, and oversight of the ISS contract;
- interviewed OIT and OA personnel, including OIT branch chiefs, the OA Director and Assistant Director, the CO, the CS, the program manager, the current and previous CORs, and task area leads;
- reviewed the ISS contract, contract modifications, CO and COR files, proposals for converting certain contract tasks to other pricing structures, and relevant DCAA and DCMA reports; and
- analyzed contractor invoices and supporting documents, and conducted a walkthrough of the COR’s invoice review process.

At the outset of our audit, the September 2018 invoice, which included labor hour charges for April, May, and June 2018 and prior months' corrections, was the latest invoice approved by the SEC. Although we reviewed aspects of the ISS contract and the SEC's contract management from the time of contract award, we judgmentally selected the June 2018 information from the September 2018 invoice for detailed testing of costs charged to and approved for the ISS contract. Our selection and testing of this information was not based on statistical methodologies; therefore, we do not project our results to other periods.

We also engaged a contractor (DAS) to compare labor hours invoiced to the ISS contract for June 2018 with CSRA-provided timecard data and employee badge-in/badge-out and computer log-on/log-off records to help determine whether labor hours invoiced to the ISS contract appeared reasonable. To prepare the data for analysis, DAS' analyst (1) loaded input files and collected records into a source input dataset; (2) standardized employee names in the format "Lastname, firstname;" (3) converted date-time fields into machine readable format; (4) excluded records outside the June 1 through June 29, 2018, date range; and (5) created a primary key to crosswalk and link records.

Additionally, we determined the reasonableness of contractor labor hours and costs by verifying that all 253 CSRA employees who charged time to the ISS contract in June 2018 had (1) completed required non-disclosure agreements and were approved to work on the contract, and (2) submitted resumes that supported their designated labor categories. We also reviewed the COR's calculation of additional hours charged to the contract between August 2016 and June 2018, and requested from the COR evidence of written pre-approval granted to each CSRA employee who charged additional hours to the contract in June 2018.

Internal Controls. To assess internal controls relative to our objectives, we reviewed OA's and OIT's management assurance statements and risk and control matrixes for fiscal years 2016 and 2017. Also, as noted throughout this report, we reviewed the general control environment and assessed specific controls relevant to the SEC's management of funds obligated to and spent on the ISS contract. As stated in the Results section, we determined that the agency established basic internal controls and administrative requirements such as appropriate contract terms, specific policies, and assigned roles and responsibilities. However, for the aspects of the ISS contract we reviewed, responsible officials did not fully recognize and respond to the inherent risk associated with a T&M contract as large and complex as the ISS contract. In fact, officials waived, or did not enforce, certain administrative contract requirements, which weakened the contract's overall internal control environment, affected the agency's ability to effectively monitor the contractor's costs, and increased the risk of errors, fraud, waste, and poor contractor performance in key areas supporting the SEC's IT program. Our recommendations, if implemented, should correct the weaknesses we identified.

Computer-processed Data. The U.S. Government Accountability Office’s *Assessing the Reliability of Computer-Processed Data* (GAO-09-680G, July 2009) states that “data reliability refers to the accuracy and completeness of computer-processed data, given the uses they are intended for. Computer-processed data may be data (1) entered into a computer system or (2) resulting from computer processing.” Furthermore, GAO-09-680G defines “reliability,” “completeness,” and “accuracy” as follows:

- “Reliability” means that data are reasonably complete and accurate, meet intended purposes, and are not subject to inappropriate alteration.
- “Completeness” refers to the extent that relevant records are present and the fields in each record are appropriately populated.
- “Accuracy” refers to the extent that recorded data reflect the actual underlying information.

As previously stated, we relied on (1) financial data from CSRA’s accounting system, (2) contractor employee badge-in/badge-out records for the SEC’s headquarters, and (3) contractor employee computer log-on/log-off records. To assess the reliability of CSRA’s financial data, we first reconciled the contractor’s invoice detail report for the period between August 2016 and March 2018 (which supported contractor-submitted invoices for that period) to the 19 invoices that the contractor had submitted as of July 2018. We were able to reconcile the data sets. Also, as previously described, DAS’ analyst took additional steps to assess the reliability of the four data sets before conducting any comparisons. Additionally, we compared all labor categories and rates invoiced for June 2018 to the labor categories and rates established in the contract. Based on these assessments, we found the computer-processed data we relied on to be sufficiently reliable for the purpose of the audit.

Prior Coverage. Between 2010 and 2016, the SEC OIG issued the following reports of particular relevance to this audit:

- *Management of the SEC’s Protective Security Force Contract Needs Improvement* (Report No. 536, June 22, 2016).
- *Audit of the SEC’s Contracting Officers’ Representative Program* (Report No. 530, September 18, 2015).
- *Review of Select Time-and-Materials and Labor-Hour Contracts* (Report No. 487, December 22, 2010).

These reports can be accessed at <https://www.sec.gov/oig>.

Appendix II. Monetary Impacts

As previously discussed, the SEC paid \$42,801 for work performed in June 2018 by four CSRA employees who we verified did not meet ISS contract minimum labor category requirements. We consider these costs to be questioned costs, as shown in Table 5.

Table 5. Questioned Costs³¹

Item	Cost
Line 1. Actual cost for four contractor employees who did not meet minimum labor category requirements in June 2018 (See Table 7 for calculations)	\$42,801
Total Questioned Costs	\$42,801

Additionally, to ensure CSRA labor hours outside the normal hours of performance were necessary and reasonable, the ISS contract required the SEC's written pre-approval. However, between August 2016 and February 2018 and in June 2018, we estimated that the SEC paid more than \$2.4 million for additional hours charged to the ISS contract without evidence of agency approval. We consider these costs to be unsupported costs, as Table 6 shows.

The agency also paid \$545,767 for work performed in June 2018 by 33 CSRA employees who potentially did not meet ISS contract minimum labor category requirements. Because available documents did not clearly support the employees' qualifications, we consider these costs to be unsupported costs, as Table 6 shows.

Table 6. Unsupported Costs³²

Item	Cost
Line 1. Estimated cost for additional hours worked between August 2016 and February 2018 (\$2,404,092) and in June 2018 (\$27,520) without evidence of pre-approval (Estimation procedures described on pages 13-14)	\$2,431,612
Line 2. Actual cost for 33 contractor employees whose qualifications were not clearly supported in June 2018 (See Table 7 for calculations)	\$545,767
Total Unsupported Costs	\$2,977,379

³¹ As defined by the Inspector General Act of 1978, as amended (Public Law 95-452; 5 U.S.C. App.), questioned costs include those costs questioned because of an alleged violation of a provision of a contract and expenditures of funds that are unnecessary or unreasonable.

³² As defined by the Inspector General Act of 1978, as amended (Public Law 95-452; 5 U.S.C. App.), unsupported costs are those costs questioned because, at the time of the audit, the costs were not supported by adequate documentation.

Table 7: Details of Contractor Employees Who Did Not, or Potentially Did Not, Meet Minimum Labor Category Requirements on Their Onboarding Date

	Labor Category	No. of Employees	June 2018 Costs
Did Not Meet Minimum Labor Category Requirements	Printer Engineer – Mid	1	██████████
	IT Auditor – Junior	1	██████████
	Audio/Visual Engineer – SME	1	██████████
	End User Technology Specialist – Team Lead	1	██████████
	Network Engineer – Senior	1	\$0 ³³
Sub-Total (See Table 5, Line 1)		5	\$42,801
Potentially Did Not Meet Minimum Labor Category Requirements	██████████ System Engineer – Mid	4	██████████ ³⁴
	██████████ System Engineer - Senior	3	██████████
	Data Center Technician – Mid	4	██████████
	Data Center Technician – Senior	1	██████████
	System Architect – Senior	5	██████████
	System Architect – SME	3	██████████
	IT Infrastructure Project Manager – Senior	3	██████████
	██████████ System Administrator – Mid	1	██████████
	██████████ System Administrator – Senior	2	██████████
	██████████ System Administrator – SME	1	██████████
	Storage Engineer – Senior	2	██████████
	Storage Engineer – SME	1	██████████
	Remote Access Engineer – Senior+	1	██████████
	Wireless Engineer – Senior	1	██████████
	Messaging System Engineer – SME	1	██████████
Backup Storage Engineer – Senior	1	██████████	
Sub-Total (See Table 6, Line 2)		34	\$545,767
Total		39	\$588,568

Source: OIG-generated based on CSRA’s June 2018 invoice, employee resumes, ISS contract labor category requirements, and supporting documents, where available.

³³ Because the employee met the minimum labor category requirements by June 2018, we did not include the employee’s June 2018 labor costs (██████████) in our calculation of questioned costs shown in Table 5.

³⁴ Because one of four employees in this labor category met the minimum labor category requirements by June 2018, we did not include the employee’s June 2018 labor costs (██████████) in our calculation of unsupported costs shown in Table 6.

Appendix III. Management Comments

MEMORANDUM FOR REBECCA SHAREK, DEPUTY INSPECTOR GENERAL FOR
AUDITS, EVALUATIONS, AND SPECIAL PROJECTS

FROM: Kenneth A. Johnson, Chief Operating Officer

**KENNETH
JOHNSON** Digitally signed by
KENNETH JOHNSON
Date: 2019.05.28
16:26:33 -0400

DATE: May 28, 2019

SUBJECT: Response to Draft Report entitled “The SEC Can Better Manage Administrative Aspects of the ISS Contract”

Thank you for the opportunity to review and comment on the draft report entitled “The SEC Can Better Manage Administrative Aspects of the ISS Contract”. We take very seriously our obligation to effectively manage the agency’s information technology infrastructure support services and safeguard agency resources.

We appreciate the acknowledgement of the steps we have already taken to improve oversight of additional contractor hours. As noted below, we concur with all the recommendations in the draft report and have begun to implement them.

A response to each of the recommendations is provided below.

Recommendation 1: The Office of Acquisitions (OA) coordinate with the Office of Information Technology (OIT) to develop mitigating controls to ensure, as specified in SEC Administrative Regulation 10-17, *Time-and-Materials, and Labor-Hour Contracts* (Rev. 1; August 20, 2015), that the contractor is using efficient methods and effective cost controls. Such mitigating controls could include, but are not be limited to, periodically: (a) requesting and comparing contractor employee timesheets, or other supporting documentation, to invoiced labor hours; (b) reconciling additional hours charged against evidence of written pre-approval, and (c) comparing contractor employees’ stated qualifications to minimum labor category requirements.

Management Response: Management Concur. Although the Office of the Inspector General (OIG) did not identify evidence of inappropriate payments being made, we recognize that improving processes and documentation will provide for better contract management and help ensure the contractor is using efficient methods and effective cost controls. OA will coordinate with OIT to enhance the process of documenting the pre-approval of additional hours as a mitigating control. In addition, OIT has already started requiring contractor employee timesheets as part of the invoice review process for this contract. OA will schedule a follow up meeting with DCMA/DCAA to further clarify the SEC’s reliance on the contractor’s time and attendance system. Finally, OA and OIT will review the individual contractor employee qualifications procedures to ensure the contract is clear with respect to employee qualification equivalencies and that the waiver process is well-documented.

Recommendation 2: Reassess plans to rely on the contract’s historical cost information to ensure a fair and reasonable price before converting any contract task areas from time-and-materials to other pricing structures.

Management Response: Management Concur. OA will work with OIT to reassess plans to rely on the contract’s historical cost information to ensure a fair and reasonable price before completing the process to convert any contract task areas from time-and-materials to other pricing structures.

Recommendation 3: Further clarify and communicate roles and responsibilities for pre-approving (in writing) contractor employee requests for additional hours, and update the contract and relevant policies and procedures, as necessary.

Management Response: Management Concur. OA, in coordination with OIT, will clarify and communicate roles, responsibilities, and the process for pre-approving (in writing) contractor employee requests for additional hours. We will update the contract and relevant policies and procedures, as necessary.

Recommendation 4: Coordinate with the Office of Information Technology to update the contract’s labor category requirements to define “equivalent” certifications and experience, or identify the individual(s) who have the authority to determine and document equivalent certifications and experience when needed.

Management Response: Management Concur. OA will coordinate with OIT to update the contract’s labor category requirements to define “equivalent” certifications and experience. Also, we will work to document the role of the individual(s) who have the authority to determine equivalencies and the process for documenting certifications equivalencies and experience, when needed.

Recommendation 5: Update the Labor Category Designation Form to require a detailed explanation of how an individual meets, or will meet, their designated labor category.

Management Response: Management Concur. OA will update the Labor Category Designation Form to require a documented, detailed explanation of how an individual meets, or will meet, their designated labor category.

In addition, while not formal recommendations, the OIG encouraged OA management to: assess the SEC’s use of time and materials (T&M) contracts and formulate actions that will be taken to reduce the use of T&M contracts whenever possible; to reemphasize to all SEC Contracting Officers the requirements for completing determination and findings (D&F) statements for T&M contracts before award and before exercising any option years to ensure no other less risky contract type is suitable; and to proactively establish such policies and procedures in the event that conversions occur in the future. Management agrees to fully consider each of these suggestions.

Finally, we would like to express our appreciation for the courtesy you and your staff extended to us during this audit. If you have any questions or would like to discuss any of our comments, please let us know.

cc: Vance Cathell, Director, Office of Acquisitions
Charles Riddle, Acting Director/Chief Information Officer, Office of Information
Technology

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To Report Fraud, Waste, or Abuse, Please Contact:

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Office of Inspector General
100 F Street, N.E.
Washington, DC 20549

Comments and Suggestions

If you wish to comment on the quality or usefulness of this report or suggest ideas for future audits, evaluations, or reviews, please send an e-mail to OIG Audit Planning at AUDplanning@sec.gov. Comments and requests can also be mailed to the attention of the Deputy Inspector General for Audits, Evaluations, and Special Projects at the address listed above.