



OFFICE OF
INSPECTOR GENERAL

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

July 2, 2026

TO: Vance Cathell, Director, Office of Acquisitions

FROM: Kevin B. Muhlendorf, Inspector General

SUBJECT: *Final Management Letter: Contract Management Concerns Identified During OIG Evaluation of Enforcement's Collection and Distribution of Disgorgements and Penalties*

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This letter serves to advise you of contract management concerns identified during an Office of Inspector General (OIG) evaluation of the Division of Enforcement's collection and distribution of disgorgements and penalties. As part of our evaluation, we reviewed the services C2 Alaska, LLC (hereafter "contractor") provided to the Division of Enforcement's offices of Collections and Distributions under contract number 50310221D0010, task order number 50310222F0082 (hereafter, "contract" and "TO," respectively). Because it was not our objective to do so, we did not fully assess management of the contract in accordance with generally accepted government auditing standards or the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. However, we are bringing to management's attention those matters we observed in a limited sample of invoices, and requesting additional information to help us determine whether further action by the OIG is warranted.

Background

The contractor provides a variety of services, including legal and administrative services, to the Division of Enforcement. According to *usaspending.gov*, as of May 5, 2026, the U.S. Securities and Exchange Commission (SEC) had obligated \$130.2 million to the contract, of which \$75.1 million was obligated to the TO. The contract (awarded in 2021 for a 10-year period) includes a general and administrative (G&A) rate that should not be exceeded.¹ Additionally, although designated firm-fixed-price, the TO (awarded in 2022 for a one-year base period with nine option years) allows the contractor to bill for reimbursement of "extended hours" (that is, overtime) and other direct costs, provided those costs are preapproved. Proper government oversight is necessary to ensure contractor costs comply with negotiated terms.

Results

We assessed the SEC's payment of nine invoices approved by the Division of Enforcement's contracting officer's representative and determined that the contractor charged and the SEC paid a G&A rate that exceeded the contract limit. Additionally, until we raised concerns, the contractor did not provide and the SEC did not request adequate support for overtime and other direct costs, including travel costs. We also found that the SEC paid for unapproved

¹ G&A expenses include any management, financial, and other expense which is incurred by or allocated to a business unit and which is for the general management and administration of the business unit as a whole. See 48 CFR 9904.410-30(a)(6).

overtime. In total, we identified \$5,463.31 in questioned costs based on a review of only 9 of 82 invoices paid as of March 3, 2026, and associated with the TO that supports the Division of Enforcement's collection and distribution programs.² Notably, the contract includes 37 other TOs. Because the practices we observed are not new, the concerns we identified may be more widespread and other invoices the SEC paid since contract award may have also included excessive G&A expenses, unsupported overtime and other direct costs, and/or unapproved overtime.

Payment of G&A Rate That Exceeded the Contract Limit. Two of the invoices we reviewed included a G&A rate 0.59 percent above what the SEC agreed to. The additional G&A resulted in the contractor overcharging the SEC by \$67.56. When asked, the responsible contracting officer's representative explained that the template the contractor used to invoice the SEC automatically applied the contractor's most recent G&A rate instead of ensuring the rate complied with the terms in the SEC's contract.

Payment of Unsupported and Unapproved Overtime Charges. Four of the invoices we reviewed included overtime charges and, for three of them, the contractor did not provide and the SEC did not request adequate support before payment. Specifically, we could not match the overtime charged for six contractor employees to the employees' timesheets. This occurred either because of discrepancies between the timesheets and the amounts invoiced, or because the timesheets did not clearly separate regular hours (built into the TO's fixed price) from overtime hours (billed as additional reimbursable costs), resulting in the government paying \$4,337.26 in unsupported costs.³ We also found that overtime charged for two contractor employees on two of the invoices exceeded the amount approved by the contracting officer's representative. Nevertheless, the SEC paid the unapproved amount of \$534.00.

Payment of Unsupported Travel Costs. Two of the invoices we reviewed included other direct costs, including travel costs, and both were supported by incomplete information at the time of payment. Supporting documentation for hotel stays and mileage amounts lacked the detail needed to support the total costs, resulting in the government paying \$524.49 in unsupported costs.

We discussed our observations with the responsible contracting officer's representative and contracting officer, who acknowledged our findings and stated that they are working with the contractor to:

- correct the G&A rate and recoup amounts overcharged to the SEC,
- determine whether the SEC paid additional unallowable overtime charges and/or other direct costs, and
- provide better oversight of future invoices submitted by the contractor.

² As defined by the Inspector General Act of 1978, as amended (Public Law 95-452; 5 U.S.C. Ch. 4), questioned costs include those costs questioned because of an alleged violation of a provision of a contract, costs not supported by adequate documentation, or expenditures of funds that are unnecessary or unreasonable.

³ As defined by the Inspector General Act of 1978, as amended (Public Law 95-452; 5 U.S.C. Ch. 4), unsupported costs are those costs questioned because, at the time of the audit, the costs were not supported by adequate documentation.

Conclusion

To help us determine whether further action by the OIG is warranted, we request that management provide the OIG, no later than August 17, 2026, a detailed description of any action(s) the SEC has taken or plans to take to:

1. Determine whether the concerns described in this letter extend to other invoices we did not review, including invoices submitted under the TO in question and other TOs associated with the contract.
2. Correct the G&A rate and recoup amounts overcharged to the SEC, by TO.
3. Ensure proper approval and adequate support for overtime hours and other direct costs, including travel costs, charged to the SEC, by TO.
4. Recoup amounts for costs that required but did not receive preapproval before payment, by TO.

In addition, we request management provide the OIG with responses from the contractor addressing the following:

5. Explain how the specific issues identified in this letter (invoices with improper G&A rates, submission of unapproved or unsupported overtime claims, and submission of unsupported travel expenses) occurred.
6. Describe the steps taken by the contractor to ensure future invoices submitted to the SEC are accurate and comply with contractual requirements.
7. For each of the *types* of issues identified in this letter (invoices with improper G&A rates, submission of unapproved or unsupported overtime claims, and submission of unsupported travel expenses), explain when the contractor first became aware of those types of errors and who identified those types of errors in billing to SEC contracts.
8. Describe in detail the contractor's compliance program as it relates to billing propriety and accuracy, including its process for reviewing invoices before submitting them to the SEC, and which contractor employees are responsible for assuring billing accuracy and propriety under the contract.
9. Identify any instances where the concerns described in this letter (invoices with improper G&A rates, submission of unapproved or unsupported overtime claims, and submission of unsupported travel expenses) have occurred in the contractor's dealings with other federal agencies from 2021 to the present.
10. Identify any mandatory disclosures made by the contractor to other federal agencies or OIGs addressing the concerns described in this letter from 2021 to the present.

We provided management with a draft of this letter for review and comment on May 27, 2026. On June 10, 2026, SEC officials stated that they would not be submitting an official management response, and they updated us on actions taken to address our concerns. After reviewing this information, we requested additional documentation to support the actions taken. We appreciate that agency officials timely responded to our request and provided additional documentation, including some documents newly provided by the contractor. We reviewed and discussed the documentation with the Division of Enforcement's contracting officer's representative, who is responsible for managing this TO, but found that the additional supporting documents did not fully address our concerns. Therefore, we will perform a final review of the agency's planned and completed actions once we receive the information requested above.

We appreciate management's cooperation as we proceed with our ongoing work. If you have questions, please contact me or Rebecca Sharek, Deputy Inspector General for Audits, Evaluations, and Special Projects.

cc: Paul S. Atkins, Chairman
Michael Friedman, Chief of Staff, Office of Chairman Atkins
Ugonna Eze, Deputy Chief of Staff, Office of Chairman Atkins
Peter Gimbrere, Managing Executive, Office of Chairman Atkins
Hester M. Peirce, Commissioner
Catherine Rowsey, Counsel, Office of Commissioner Peirce
Mark T. Uyeda, Commissioner
Ivan V. Griswold, Counsel, Office of Commissioner Uyeda
J. Russell McGranahan, General Counsel
Elizabeth McFadden, Deputy General Counsel General Law, Office of the
General Counsel
Erik Hotmire, Chief External Affairs Officer and Director, Office of Public Affairs
Graham Conlan, Acting Director, Office of Legislative and Intergovernmental Affairs
Charlene Arietti Gold, Acting Chief Operating Officer
Nick Chung, Competition Advocate, Office of Acquisitions
Shelly Luisi, Chief Risk Officer
Jim Lloyd, Assistant Chief Risk Officer/Audit Coordinator, Office of the Chief Risk
Officer
David Woodcock, Director, Division of Enforcement
Christy White, Acting Deputy Chief, Division of Enforcement, Offices of Bankruptcy,
Collections, Distributions and Receiverships
Frank Correll, Assistant Director, Division of Enforcement
Oscar McCullough, Management and Program Analyst, Division of Enforcement,
Office of Contract Planning & Oversight