



OFFICE OF  
**INSPECTOR GENERAL**  
U.S. DEPARTMENT OF THE INTERIOR

**THE SACRAMENTO COUNTY SHERIFF'S  
DEPARTMENT CLAIMED HIGHER LABOR  
RATES THAN ALLOWED ON CONTRACT  
No. R17PC00051 AND IGNORED  
TRAINING REQUIREMENTS FOR  
CONTRACT No. R12PC20015 WITH  
THE BUREAU OF RECLAMATION**

This is a revised version of the report prepared for public release.



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**INSPECTOR GENERAL**  
U.S. DEPARTMENT OF THE INTERIOR

Memorandum

**MAR 26 2019**

To: Diana Terrell  
Bureau Procurement Chief, Bureau of Reclamation

From: Chris Stubbs *Chris Stubbs*  
Director, Office of Financial and Contract Audits

Subject: Final Report – The Sacramento County Sheriff’s Department Claimed Higher Labor Rates Than Allowed on Contract No. R17PC00051 and Ignored Training Requirements for Contract No. R12PC20015 With the Bureau of Reclamation Report No. 2017-FIN-066

This report presents the results of our audit of Contract Nos. R17PC00051 and R12PC20015 between the Bureau of Reclamation (BOR) and the Sacramento County Sheriff’s Department (SCSD). Attachment 1 provides our audit scope and methodology.

The objectives of our audit were to determine whether:

1. The interim costs of \$1,266,887 claimed by the SCSD under Contract No. R17PC00051 between July 1, 2017, and September 30, 2017, were allowable and allocable under applicable Federal regulations, BOR policies and procedures, and contract terms and conditions
2. The SCSD complied with applicable Federal regulations, BOR policies and procedures, and contract terms and conditions on both contracts

We identified questioned costs totaling \$314,565 on Contract No. R17PC00051<sup>1</sup> and found deficiencies in the SCSD’s management of Contract No. R12PC20015. Across four Notifications of Findings and Recommendations (NFRs), we offered a total of seven recommendations to the SCSD to address these deficiencies. Based on the SCSD’s responses to our NFRs, we revised our recommendations, and in this final report we offer seven recommendations to improve the SCSD’s compliance with applicable Federal regulations, BOR policies and procedures, and contract terms and conditions.

## **Background**

After the terrorist attacks on September 11, 2001, the BOR implemented a number of security measures at the Folsom Dam in Folsom, CA. After an initial contract awarded to the SCSD expired in 2011, the BOR awarded two follow-on contracts for security services, Contract

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<sup>1</sup> We did not audit costs for Contract No. R12PC20015 because it was a firm-fixed-price contract, and generally costs on those types of contracts cannot be audited.

Nos. R12PC20015 and R17PC00051. The purpose of both contracts was to provide year-round armed and uniformed security services at Folsom Dam. The statements of work required the SCSD to provide dedicated labor, equipment, and support for the security guard force.

On December 28, 2011, the BOR awarded the SCSD a firm-fixed-price contract (No. R12PC20015) for an eventual value of \$30,297,055. The period of performance was January 1, 2012, to December 31, 2016. Modification No. 13 to the contract increased the value to \$33,528,796 and extended the period of performance through June 30, 2017.

On June 29, 2017, the BOR awarded the SCSD a time-and-materials contract (No. R17PC00051) for \$3,006,688. The period of performance was July 1, 2017, to December 31, 2017. The contract was later extended and the value increased to \$5,654,496.

## **Findings**

We found that the SCSD did not comply with applicable Federal regulations, BOR policies and procedures, and contract terms and conditions in the following areas:

- Incorrectly charged indirect labor hours to the contract, resulting in questioned costs of \$214,296 on Contract No. R17PC00051
- Charged hourly rates different from those that were ratified, resulting in questioned costs of \$100,269 on Contract No. R17PC00051
- Did not correctly account for labor hours worked on the billed invoices for 5 of the 50 timesheets reviewed for Contract No. R17PC00051
- Did not conduct the required annual IT training for Contract No. R12PC20015
- Did not conduct the required ethics training for Contract No. R12PC20015
- Did not maintain internal controls for ethics procedures for Contract No. R12PC20015

We questioned a total of \$314,565 on Contract No. R17PC00051.

### *The SCSD Charged Indirect Hours Incorrectly as Direct Labor Hours: Questioned Costs of \$214,296*

The SCSD charged indirect labor—such as sick, vacation, training, and administrative hours—as direct labor on Contract No. R17PC00051. For the 3 months we reviewed, we questioned \$214,296 in labor costs because the employees were not on the job at the time of these charges. The Federal Government does not pay for hours charged to a time-and-materials contract that are not direct.

The Federal Acquisition Regulation (FAR) § 16.601(b) requires calculation of costs for a time-and-materials contract to be based on “direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit.” By charging indirect hours as direct labor, the SCSD did not properly apply this regulation.

The SCSD did this because it believed that the BOR gave it permission to do so, but the BOR did not issue a modification to the contract changing the pricing terms from those negotiated. Instead, the SCSD maintained that the BOR effectively approved a pricing change in meetings held with the SCSD and by approving the claimed costs submitted on invoices. The SCSD [REDACTED] maintained, “Given the preapproval of the billed costs, along with the detailed review and approval process, I do not agree that the contract was overcharged for services.”

BOR acquisition management was not aware of the SCSD’s position on the nature of the contract. The BOR regarded the contract as a time-and-materials contract, although it acknowledged it must take some responsibility for the confusion because the CO approved the invoices without commenting on the change in pricing.

*The SCSD Charged Hourly Rates Different From Those Specified in the Contract: Questioned Costs of \$100,269*

The SCSD invoices for Contract No. R17PC00051 did not present labor rates on a per-hour basis as required by FAR § 52.232-7. They provided total labor costs and total hours, but did not divide costs by hours to establish a per-hour labor rate. For the 3 months we reviewed, we calculated the per-hour labor rate and determined that it was based on actual costs per month instead of the agreed-upon personnel cost line items in the contract. We therefore questioned costs of \$100,269 due to the SCSD using higher rates than allowed on the contract.

The SCSD did this because it believed it had the Government’s permission to charge actual costs. There was, however, no modification to the contract changing the pricing terms from those negotiated to actual costs.

*The SCSD Incorrectly Accounted for Labor Hours Worked on the Billed Invoices for 5 of the 50 Timesheets Examined*

The SCSD did not correctly account for labor hours worked on its invoices for Contract No. R17PC00051. As part of our internal control testing, we selected a sample of the SCSD’s labor costs to review. We selected 50 timesheets from July 2017 through October 2017, and traced the hours from the timesheet support to the payroll support and to the activity log submitted as part of the invoice. We found five instances where the hours on the payroll did not match those on the invoice activity log, and the SCSD indicated that the invoice activity log was wrong.

These errors occurred because the SCSD did not communicate to the BOR any differences identified when the labor activity logs, approved by the lieutenant on duty, were reconciled with the accounting records. The activity logs in the invoices were never corrected. The SCSD believed that the BOR wanted to see the activity logs signed by the lieutenant and did

not want to see any later adjustments. SCSD management should have communicated these errors to the BOR in order to establish the correct hours worked on the contract. On a time-and-materials contract, the hours provided determine the basis of claimed costs. If the hours are wrong, then the claimed costs will be wrong.

#### *The SCSD Did Not Conduct Required Annual IT Training*

The SCSD did not conduct the required annual IT training for Contract No. R12PC20015, which requires the SCSD to ensure that its employees receive annual training on BOR IT security policies and procedures, computer ethics, and best practices according to the U.S. Department of the Interior's IT security policy. Contract No. R17PC00051 is silent about IT training.

Proper IT training safeguards against the unauthorized release of classified information or the unauthorized use of computers. The SCSD told us that the BOR never provided the training. The SCSD never followed up on the need for training because it relied on the contracting officer (CO) to provide it.

#### *The SCSD Did Not Conduct Required Ethics Training*

The SCSD did not conduct the required ethics training for Contract No. R12PC20015. The contract terms refer to FAR § 52.203-13(c), which requires contractors to provide periodic ethics training to employees and have an internal control system that facilitates timely discovery of and corrective measures for improper conduct in connection with Government contracts. These requirements do not apply to contracts valued under \$5,500,000. Contract No. R17PC00051 was not expected to exceed that threshold when issued and therefore the FAR requirement did not apply. Modification 3, however, raised its value above the threshold.

Ethics training ensures that employees understand their responsibilities under the contractor's code of ethics. The SCSD told us that the BOR never provided the training. The SCSD never followed up on the need for training because it relied on the CO to determine whether training was necessary.

#### *The SCSD Did Not Maintain Internal Controls for Ethics Procedures*

The SCSD did not maintain any internal controls for ethics procedures for Contract No. R12PC20015. When we asked about the internal controls for ethics procedures required by FAR § 52.203-13(c), the SCSD referred to accounting internal controls and not ethics-related internal controls. Without proper internal controls, violations of ethics rules may go undetected and uncorrected.

### **Conclusion and Recommendations**

We questioned a total of \$314,565 claimed on Contract No. R17PC00051 and found that the SCSD did not conduct required IT and ethics trainings for Contract No. R12PC20015.

During fieldwork, we issued four NFRs to the SCSD, two on April 19, 2018, and two on May 18, 2018. Across these NFRs we made a total of seven recommendations to improve compliance with applicable Federal regulations, BOR policies and procedures, and contract terms and conditions. Based on the SCSD's responses to our NFRs, received on April 23, 2018, and May 30, 2018, we revised our recommendations to the seven presented below in this final report. (See Attachment 2 for the status of recommendations.)

We recommend that the BOR work with the SCSD to:

1. Resolve the \$214,296 in indirect labor costs on Contract No. R17PC00051 in view of FAR § 16.601 and the guidance it provides.

**SCSD Response:** The SCSD did not concur with our finding and recommendation. The SCSD stated that the BOR had confirmed the indirect costs and related overtime were allocable to the contract and therefore the charges were reasonable.

**OIG Reply:** For a time-and-materials contract, indirect costs must be included in the negotiated rates. Furthermore, Contract No. R17PC00051 did not include an overtime rate, and therefore overtime could not be billed to the contract. The BOR and the SCSD must follow contract terms and FAR guidance and cannot change how costs are charged without a modification to the contract. Based on the SCSD's response, we consider this recommendation to be unresolved and not implemented.

2. Resolve the \$100,269 difference between what was billed on Contract No. R17PC00051 and what was approved in the contract.

**SCSD Response:** The SCSD did not concur with our finding and recommendation.

**OIG Reply:** We developed this recommendation based on our review of the SCSD response to NFR No. 1 and other conversations. We discovered that if the costs billed to Contract No. R17PC00051 were converted to hourly rates per labor position, then the rates exceeded those approved in the contract. Based on the SCSD's response, we consider this recommendation to be unresolved and not implemented.

3. Review all invoices submitted by the SCSD under Contract No. R17PC00051 to determine if the billings were accurate, and take appropriate action if necessary.

**SCSD Response:** The SCSD did not concur with our finding and recommendation.

**OIG Reply:** We developed this recommendation because our audit covers only the first 3 months of Contract No. R17PC00051. The BOR needs to review the remaining period of performance to determine whether later costs were billed appropriately. Based on the SCSD's response, we consider this recommendation to be unresolved and not implemented.

4. Review the invoice activity logs for all invoices on Contract No. R17PC00051 to determine if the hours were accurately recorded on the invoices and take appropriate action.

**SCSD Response:** The SCSD agreed with our finding but not our recommendation. According to the SCSD, it was instructed by the BOR to bill actual costs associated with the contract, which included all allocable personnel hours, labor, materials, supplies, equipment, and other direct costs.

**OIG Reply:** We developed this recommendation based on our review of timesheet internal controls. (it was not included in an NFR). Time-and-materials contracts acquire services on the basis of direct hours at specified rates. If the hours billed are incorrect, then the amount owed by the contractor will be incorrect. Based on the SCSD's response, we consider this recommendation to be unresolved and not implemented.

5. Fulfill the IT security training requirement on all present and future contracts.

**SCSD Response:** The SCSD did not concur with our finding and recommendation. The SCSD stated that our finding was based on incomplete information from SCSD staff and added, "The sheriff's employees at the Folsom Dam will gladly participate with any training that is offered by Reclamation. However, this training was not offered and not needed because sheriff's employees will never use the BOR computer network."

**OIG Reply:** For all present and future contracts, the SCSD must follow up with the BOR to resolve the IT training requirement. Based on the SCSD's response, we consider this recommendation to be unresolved and not implemented.

6. Fulfill the ethics training requirement on all present and future contracts.

**SCSD Response:** The SCSD concurred with our finding and recommendation. The SCSD stated that it will fulfill the ethics training requirement on all present and future contracts.

**OIG Reply:** For all present and future contracts, the SCSD must ensure that the required ethics training is offered and completed. Based on the SCSD's response, we consider this recommendation to be resolved but not implemented.

7. Work with the SCSD to develop effective internal controls over ethics procedures on all present and future contracts.

**SCSD Response:** The SCSD concurred with our finding and recommendation. The SCSD stated that it will work with the BOR to develop effective internal controls over ethics procedures.

**OIG Reply:** The SCSD must develop internal controls over ethics procedures. Based on the SCSD's response, we consider this recommendation to be resolved but not implemented.

Please provide us with your written response to this report by May 10, 2019. The response should provide information on the actions you have taken or planned to address the recommendations, as well as target dates and title(s) of the official(s) responsible for implementation. Please send your response to [aie\\_reports@doioig.gov](mailto:aie_reports@doioig.gov).

If you have any questions about this report, please contact me at 202-208-5745.

The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit, inspection, and evaluation reports issued; actions taken to implement our recommendations; and recommendations that have not been implemented.

Attachments (2)

## Scope and Methodology

### Scope

We audited interim costs claimed between July 1, 2017, and September 30, 2017, on Contract No. R17PC00051, as well as contract compliance on Contract Nos. R12PC20015 and R17PC00051 between the Sacramento County Sheriff's Department (SCSD) and the Bureau of Reclamation (BOR). We did not audit costs for Contract No. R12PC20015 because it was a firm-fixed-price contract, and generally costs on those types of contracts cannot be audited. We examined the SCSD's compliance with applicable Federal regulations, BOR policies and procedures, and contract terms and conditions.

### Methodology

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. The 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 work performed provides a reasonable basis for our conclusions and recommendations.

To accomplish our objectives, we:

- Interviewed the BOR contracting officer, SCSD staff, and other appropriate individuals for both contracts
- Reviewed the contracts' terms and condition for compliance requirements
- Reviewed SCSD and BOR supporting documentation related to contract compliance
- Reviewed SCSD responses to our standard internal control questionnaire
- Reviewed the applicable Federal regulations, BOR policies and procedures, and contract terms and conditions on both contracts
- Interviewed the SCSD office manager to understand SCSD internal controls for contract monitoring
- Reviewed invoices from July to September 2017 for Contract No. R17PC00051
- Reviewed the SCSD's policies and procedures related to internal controls
- Verified the SCSD's total labor costs billed with the general ledger
- Reviewed a sample of SCSD timesheets to test internal controls for compliance with policies and procedures (we did not project the results of the tests to the total population of recorded transactions)

The SCSD provided us with a general ledger from July 2017 through October 2017 for Contract No. R17PC00051. To test the accuracy and completeness of the computer-generated documentation provided, we analyzed the data by reviewing descriptive statistics and individual records of cost. We used the general ledger to select our sample for review of the internal controls related to labor costs and to verify the fixed assets purchased under the contract.

### Status of Recommendations

In response to our findings, the Sacramento County Sheriff's Department did not concur with five recommendations and concurred with two.

Recommendations	Status	Action Required
1 – 5	Unresolved and not implemented	We will refer these recommendations to the Assistant Secretary for Policy, Management and Budget for resolution and implementation tracking.
6 and 7	Resolved but not implemented	We will refer these recommendations to the Assistant Secretary for Policy, Management and Budget for implementation tracking.

