

**OFFICE OF INSPECTOR GENERAL**

# **TSA's Human Capital Services Contract Terms and Oversight Need Strengthening**



Homeland  
Security

**January 29, 2016**  
**OIG-16-32**



# DHS OIG HIGHLIGHTS

## *TSA's Human Capital Services Contract Terms and Oversight Need Strengthening*

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**January 29, 2016**

### **Why We Did This Audit**

The Transportation Security Administration (TSA) awarded a human capital services contract valued at \$1.2 billion. We conducted this audit to determine the extent to which TSA is effectively monitoring and enforcing the terms and conditions of the contract.

### **What We Recommend**

We made five recommendations to address TSA's efforts for providing contractor oversight. These recommendations, when implemented, should improve the effectiveness of TSA's oversight in the future.

#### **For Further Information:**

Contact our Office of Public Affairs at (202) 254-4100, or email us at [DHS-OIG.OfficePublicAffairs@oig.dhs.gov](mailto:DHS-OIG.OfficePublicAffairs@oig.dhs.gov)

### **What We Found**

Although TSA ensures the contractor meets the terms and conditions of the human capital services contract, its oversight could be more effective. Specifically, TSA has limited options for holding the contractor accountable for performance deficiencies. There were instances in which TSA did not hold the contractor monetarily accountable for personally identifiable information violations. TSA also did not hold the contractor monetarily liable for noncompliance with statement of work requirements relating to veterans' preference.

Additionally, TSA needs to improve its assessment and monitoring of contractor performance. Performance metrics are not comprehensive. TSA inflates performance evaluation scores and those scores are not consistently affected by poor performance. Furthermore, TSA does not consistently conduct day-to-day independent monitoring of contractor performance. TSA's weak contract oversight resulted in performance awards that do not accurately reflect performance. In addition, award fees, totaling \$4.5 million, may not be justified, and TSA has no assurance it received the best value for its money.

### **TSA's Response**

TSA concurred with all five recommendations. We consider one recommendation resolved and closed and two recommendations resolved and open. However, for two recommendations, TSA needs to identify additional steps to address the findings and resolve the recommendations.



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Department of Homeland Security

Washington, DC 20528 / [www.oig.dhs.gov](http://www.oig.dhs.gov)

JAN 29 2016

MEMORANDUM FOR: Latetia Henderson  
Assistant Administrator  
Office of Acquisition  
Transportation Security Administration

Karen Shelton Waters  
Assistant Administrator  
Office of Human Capital  
Transportation Security Administration

FROM: Mark Bell *Mark Bell*  
Assistant Inspector General for Audits

SUBJECT: *TSA's Human Capital Services Contract Terms and Oversight Need Strengthening*

Attached for your action is our final report, *TSA's Human Capital Services Contract Terms and Oversight Need Strengthening*. We incorporated the formal comments provided by your office.

The report contains five recommendations to address TSA's efforts for providing contractor oversight. Your office concurred with five recommendations. Based on information in your response to the draft report, we consider recommendation 3 resolved and closed. We consider recommendations 1 and 5 unresolved and open. As prescribed by the Department of Homeland Security Directive 077-01, *Follow-Up and Resolutions for the Office of Inspector General Report Recommendations*, within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

We consider recommendations 2 and 4 resolved and open. Once your office has fully implemented the recommendations, please submit a formal closeout letter to us within 30 days so that we may close the recommendations. The memorandum should be accompanied by evidence of completion of agreed-upon corrective actions and of the disposition of any monetary amounts.





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Please send your response or closure request to  
[OIGAuditsFollowup@oig.dhs.gov](mailto:OIGAuditsFollowup@oig.dhs.gov).

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Don Bumgardner, Deputy Assistant Inspector General for Audits, at (202) 254-4100.

Attachment



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**Abbreviations**

COR	Contracting Officer’s Representative
DHS	Department of Homeland Security
OHC	Office of Human Capital
OIG	Office of Inspector General
PFP	Personnel Futures Program
PII	personally identifiable information
SOW	statement of work
TSA	Transportation Security Administration



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### **Background**

The Transportation Security Administration (TSA) comprises nearly 60,000 security officers, inspectors, air marshals, and managers who protect the Nation's transportation systems. They accomplish this by screening for explosives at checkpoints in airports, inspecting rail cars, patrolling subways with law enforcement partners, and working to make all modes of transportation safe. The Office of Human Capital (OHC) is responsible for hiring, retaining, and optimally deploying a qualified workforce that supports the agency's counterterrorism mission and provides risk-based security for the Nation's transportation systems.

In 2008, TSA awarded a human capital services contract (HR Access) for recruiting and hiring of the TSA workforce. The contract also included personnel and payroll processing services; position management and classification services; associated help desk services; and systems integration services to support the performance of all human capital services. It was solicited in accordance with the Acquisition Management System, which was TSA's acquisition authority at the time.

The HR Access contract started with a 6-month transition period in July 2008, followed by a 1-year base period. TSA has the option of renewing the contract for up to 7 additional years, totaling 8-1/2 years of performance. The value of the contract, including option years, was estimated at \$1.2 billion, with most services structured as firm-fixed-price contract line items. As of September 2015, TSA had expended about \$1 billion on the HR Access contract, which expires January 1, 2017.

In May 2013, TSA's OHC established the Personnel Futures Program (PFP), based on an acquisition plan (the plan) for replacing the HR Access contract. According to the plan, TSA will insource a portion of the human resource activities—currently outsourced under the HR Access Contract. Additionally, TSA will continue to outsource the remaining activities. These outsourced activities are projected to include recruitment and hiring; personnel actions, benefits, and payroll processing; and a customer service center. The plan reduces performance risks associated with a single service provider by diversifying the requirements into separate procurements. (See appendix C for more detailed information about the Personnel Futures Program.)



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### Results of Audit

TSA's oversight of the HR Access contract needs improvement. Specifically, TSA has limited options for holding the contractor accountable for performance deficiencies. There were instances in which TSA did not hold the contractor monetarily accountable for personally identifiable information (PII) violations. Had TSA consistently applied the terms and conditions of the contract, the agency could have saved approximately \$4.2 million. TSA also did not hold the contractor monetarily liable for noncompliance with statement of work (SOW) requirements relating to veterans' preference.

Additionally, TSA needs to improve its assessment and monitoring of contractor performance. Performance metrics are not comprehensive. TSA inflates performance evaluation scores, and those scores are not consistently affected by poor performance. Had TSA not inflated performance scores and given the contractor positive scores for work that was not completed, the agency could have saved approximately \$350,000 in performance awards paid. Furthermore, TSA does not consistently conduct day-to-day independent monitoring of contractor performance. TSA's lack of contract oversight resulted in performance awards that do not accurately reflect performance. In addition, award fees, totaling \$4.5 million, may not be justified, and TSA has no assurance it received the best value for its money.

### Option for Performance Accountability

The contract does not provide monetary repercussions for performance deficiencies except for PII violations. Specifically, the only direct effect to the contractor for performance deficiencies, as stated in the contract, is that TSA may withhold an entire periodic award fee because of a PII violation.<sup>1</sup> The contract requires a semiannual evaluation of contractor performance to identify an award amount when warranted. In two performance periods, TSA withheld the earned award fee due to unauthorized disclosure of PII. However, in three other performance periods TSA paid the contractor for the award amount despite having PII violations. Specifically, figure 1 shows the semiannual award periods that could have been withheld due to PII issues.

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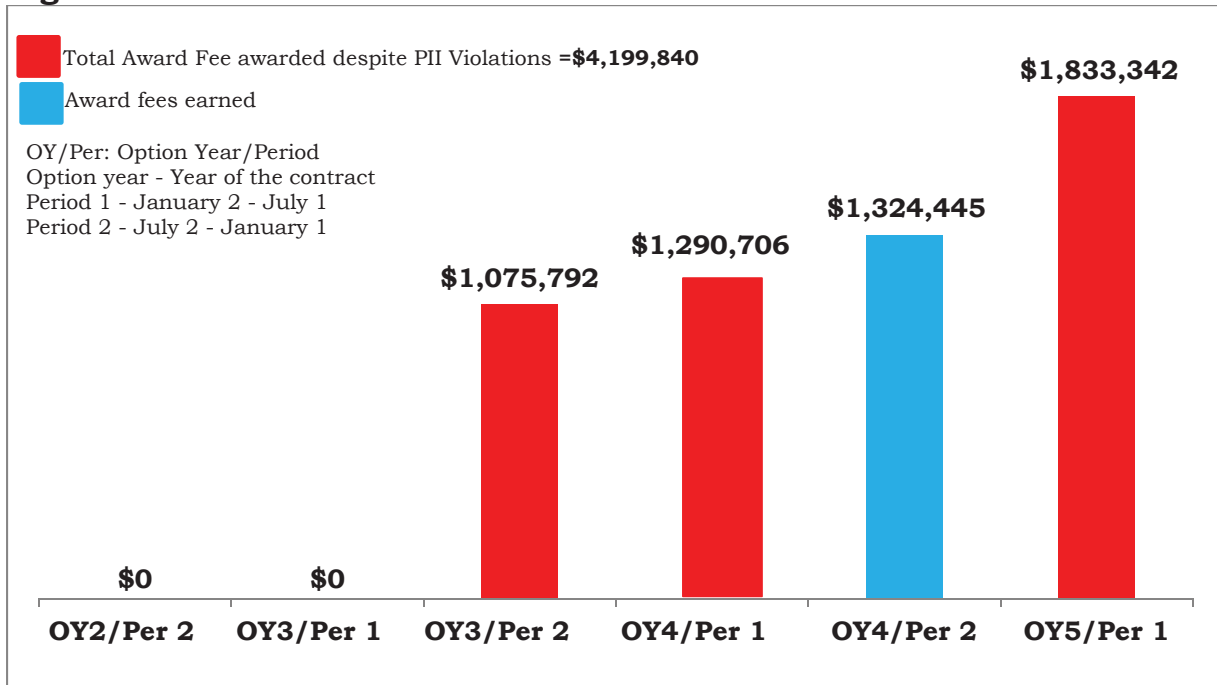
<sup>1</sup> Section H.12 of the contract specifies, "For any portions of this contract that involve an award fee, the contractor may be awarded no award fee for any evaluation period in which there is a breach of privacy or security, including any loss of sensitive data or equipment containing sensitive data. Lost award fee due to a breach of privacy or security, may not be allocated to future evaluation periods." According to Section H.12 of the contract, "[t]he term 'breach' is defined as loss of control, compromise, unauthorized disclosure, access for an unauthorized purpose, or other unauthorized access, whether physical or electronic."



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**Figure 1: Semiannual Awards Received That Could Have Been Withheld**



Source: Department of Homeland Security (DHS) Office of Inspector General (OIG) analysis of TSA data.

TSA issues performance letters for significant contract performance deficiencies. For example, in one award period, TSA issued three performance letters for the following PII violations:

- Documents containing incorrect TSA personnel PII were sent to an outside agency.
- Twenty-four Federal Air Marshal Service personnel action letters that included PII were visible to unauthorized personnel.
- A wage garnishment letter containing PII was sent to the wrong employee.

These violations prompted the contracting officer to recommend to the fee determining official that TSA withhold the award. However, the program manager recommended awarding the full earned award fee to encourage exceptional support and collaboration for upcoming transition activities. This recommendation conflicted with the purpose of the award program, which is to incentivize the contractor to either meet or exceed the defined exceptional service levels during a given evaluation period. After reviewing both recommendations, the fee determining official authorized the award, totaling more than \$1.8 million. During option year 5, period 1, the contractor received multiple performance letters for PII violations, yet received the largest award for

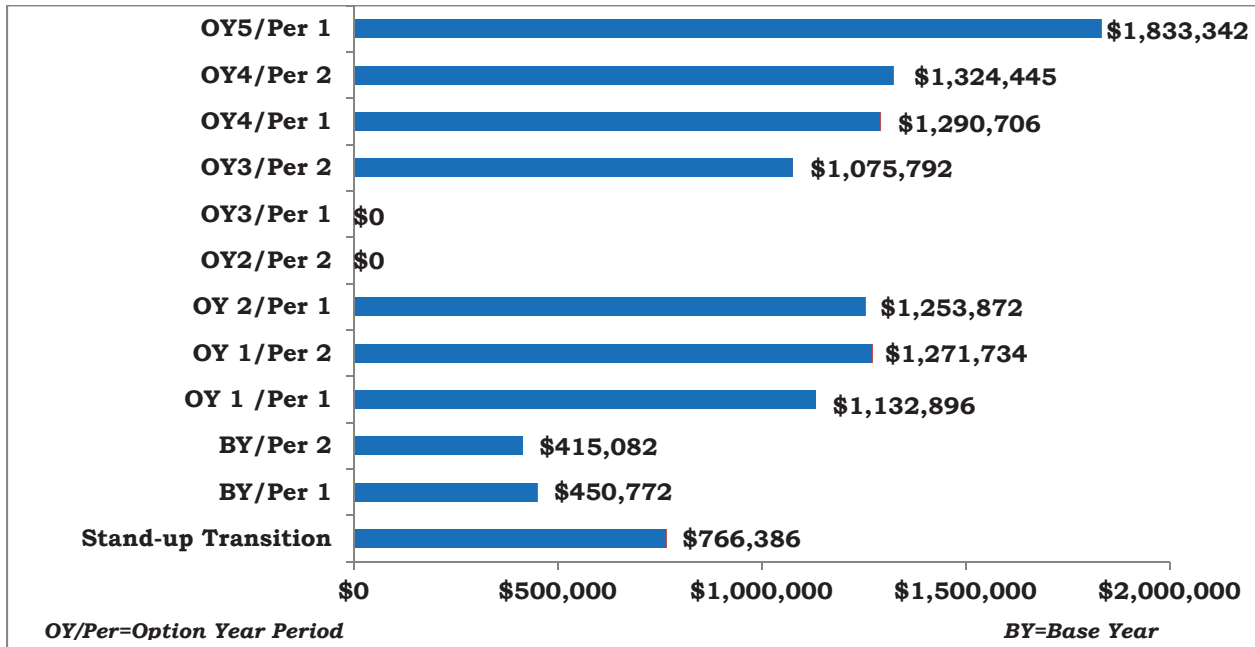




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the term of the contract. Specifically, figure 2 shows the semiannual award amount received by the contractor throughout the life of the contract.

**Figure 2: Amount of Semiannual Awards Received by the Contractor per Award Period.**



Source: DHS OIG analysis of TSA data.

Additionally, TSA issued a performance letter to the contractor for noncompliance with Federal regulations<sup>2</sup> and the contract related to veterans' preference. The contractor failed to consistently refer eligible veterans on job announcements. Specifically, after identifying one failure to refer an eligible veteran, TSA directed the contractor to further investigate this issue. The contractor confirmed that this was the only job announcement affected. However, upon further review, TSA discovered that the contractor failed to refer qualified veterans on additional job announcements. Ultimately, the contractor's hiring team reported a total of more than 150 veterans who were not referred on 6 different job announcements.

According to the SOW,

*Candidates must be properly certified on the selection certificate in accordance with TSA Management Directives and OPM Guidelines, to include veterans' preference rules, business rules, and assessment results.*

<sup>2</sup> 5 U.S.C. § 3313 Competitive service; registers of eligibles



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Despite this requirement, the contractor failed to refer veterans on job announcements and still received award fees during the performance period.

TSA could not always hold the contractor monetarily accountable for performance deficiencies because the terms and conditions of the HR Access contract are either weak or nonexistent. Specifically, it does not include language allowing monetary penalties for all performance issues, including violating Federal laws and regulations. The HR Access contract states that TSA may withhold an award fee because of a PII violation; this is TSA's only means to withhold funds from the contractor as a direct result of serious performance issues. These limited penalties for violations and performance deficiencies prevent TSA from monetarily reprimanding poor contractor performance. As a result, the contractor is not always monetarily accountable for all performance deficiencies, and award fees paid may be received despite contract violations and poor performance.

### **Incomplete and Inaccurate Assessment of Contractor Performance**

The majority (69 percent) of the HR Access SOW sections are not tied to corresponding performance metrics. According to TSA officials, there were originally 50 metrics designed as part of the HR Access Performance Evaluation Plan. TSA officials also said there were not enough resources available to evaluate those original metrics. Therefore, only 19 of the 50 objective performance metrics, covering 5 of 16 sections of the SOW, were implemented. However, the size of the contract's SOW increased over the life of the contract, from 12 sections to 16, without the benefit of additional metrics to hold the contractor accountable. TSA officials stated that they attempted to increase the amount of objective performance metrics to 30, but the cost was prohibitive. As a result, 11 of the 16 SOW sections do not have corresponding performance metrics. For example, one performance metric that relates to compliance with Federal laws specifically measures compliance in Federal Air Marshals recruitment and hiring. However, compliance with Federal law in the recruitment and hiring of all other TSA employees in other sections of the SOW, such as Transportation Security Officers, is not measured. This metric should be applicable to all areas of recruitment and hiring, regardless of job title, to ensure compliance with Federal laws is accounted for in all hiring actions and incorporated into the evaluation of contractor performance. As a result of these exclusions, poor performance may go undetected, and the contractor may not be held accountable for executing the terms and conditions of the contract as required.

TSA adjusted scores in multiple metrics throughout the time period reviewed. Although neither the contract nor the performance evaluation plan allows for



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adjustments, TSA inflated the contractor's numeric scores solely because the scores were close to a higher threshold. In addition, the contractor received positive scores in instances where there was no work to perform. Because of these erroneous adjustments and scores, the contractor received higher numeric scores that resulted in approximately \$1.2 million<sup>3</sup> in award fees.

Additionally, the performance evaluation plan fails to address certain significant performance deficiencies, such as violations identified in performance letters. For example, in one evaluation period, TSA sent the contractor a performance letter discussing security vulnerabilities, which prompted TSA to shut down an orientation system for 5 months. Although TSA mentioned the issue in the contractor's performance evaluation, the recorded score for that portion of the metric was "good," the second highest rating. By not factoring the issue into the performance evaluation, TSA may have awarded the contractor more in award fees than warranted.

These conditions existed because of budget limitations, not following guidelines in some instances, and a lack of guidelines in other instances. In 2012, TSA recognized the need for further assessment of the contractor's performance and made an effort to increase the performance metrics. However, because of budget limitations, TSA decided not to increase the metrics. OHC senior management did not follow the guidelines in place for determining the overall performance scores. Furthermore, in instances where no work was performed, there were no guidelines in place for excluding those metrics in that evaluation period. Additionally, there are no guidelines for factoring performance letter deficiencies into performance evaluation and award determinations.

As a result of these deficiencies, poor performance may go undetected, and the contractor may not be held accountable for executing the terms and conditions of the contract as required.

### **Monitoring of Contractor Performance Needs Improvement**

TSA does not have written policies and procedures in place to conduct independent monitoring of contractor performance; therefore, day-to-day monitoring of contractor performance is not formalized. For example, site visits to the contractor and performance escalation processes lack methodology and are not documented. Furthermore, there are no guidelines for how and when to initiate performance letters. As a result, the extent and depth of the monitoring depends on the individual division's subject matter experts.

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<sup>3</sup> Only \$353,331 was added to the questionable costs total because the remainder of the award fees was included in the questionable PII violations.



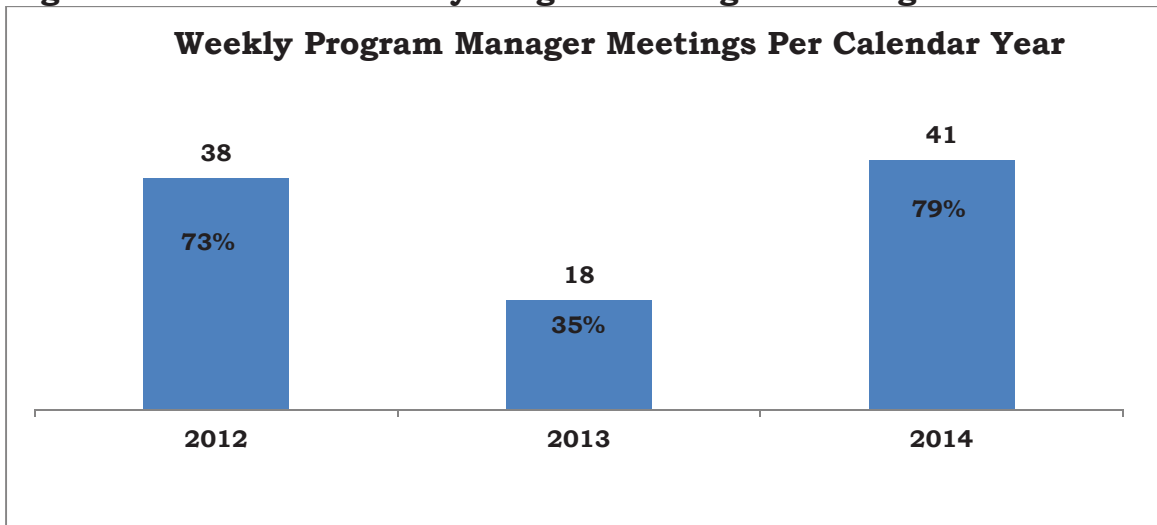
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Additionally, TSA's OHC did not have a Quality Assurance Specialist consistently assigned to the HR Access contract. The specialist is responsible for developing and implementing quality assurance policies that support contract surveillance management. Without an assigned specialist, monitoring is sporadic and not always documented.

TSA also does not have written policies and procedures in place to conduct validation of contractor performance. Most validation of corrective actions that the contractor takes consists of self-reporting. TSA relies on the contractor to self-report most performance issues through weekly program manager meetings. Weekly meetings are for the contractor and TSA OHC personnel to review and discuss current tasks, progress, and issues with the HR Access contract. However, TSA officials provided documentation showing that these meetings did not always occur weekly. Specifically, figure 3 shows the number of weekly meetings held per year from 2012 through 2014.

**Figure 3: Number of Weekly Program Manager Meetings 2012–14**



Source: DHS OIG analysis of TSA data.

The percentage of weekly meetings held by TSA dropped from 73 percent in 2012 to approximately 35 percent in 2013 and subsequently grew to 79 percent in 2014.

Once the contractor reports issues during weekly meetings, TSA does not always obtain documentation or independently take action to verify timely work progress of the contractor. For example, TSA could not provide documentation of the corrective actions that the contractor had taken to address those reported issues. We asked TSA to provide documentation on the actions taken, and TSA forwarded the request to the contractor. As a result, the contractor provided TSA with the documentation requested.





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TSA does not always obtain documentation or independently verify timely actions taken by the contractor to correct deficiencies identified in performance letters. For example, TSA requested an official report from the contractor regarding PII mailing issues, solutions, and a timeframe for correcting the issues. However, TSA officials could not provide documentation of a report or that they followed up with the contractor for resolution. Additionally, TSA identified the loss of a document containing 64 individuals' PII by a subcontractor of the HR Access contract. As part of the reconciliation process, the contractor was required to provide self-certified confirmation that each subcontractor was aware of the appropriate contract clauses and requirements. However, TSA could not provide evidence that the contractor completed this requirement.

In another example, a contract employee sent an email containing an unencrypted report with 9,177 social security numbers to a personal email account. As part of the reconciliation of this issue, the contractor was to ensure deletion of the email and that the email did not reside on any commercial servers. There is no documentation in the file verifying that the sensitive PII forwarded to the personal email account did not reside on any commercial email server(s). As reported by TSA, the contractor contacted the internet provider and was told that if the email was deleted within a certain timeframe it would not be backed up on their server and no copy would be retained. Neither the contractor nor TSA received any confirmation of this statement in writing from the provider.

### **Other Matters**

Because of a miscommunication between the TSA contracting officer and program manager, OHC allowed an unauthorized employee to act as a contracting officer's representative (COR) for the HR Access contract. The employee was allowed to review contractor invoices and arrange vetting through the TSA badging office. According to *The Department of Homeland Security Acquisition Workforce Policy*,<sup>4</sup> the contracting officer appoints CORs in writing. The COR performs the duties as specified in the appointment letter. An alternate COR may be nominated by the program office and then appointed by the contracting officer to act in the absence of, or in support of, the primary COR. The employee acted as a COR without the proper authority until October 1, 2015, which was a violation of Federal regulations.

Additionally, TSA's recordkeeping for all documents associated with the estimated \$1.2 billion HR Access contract is manually stored within 47 binders. In addition, a number of the binders' tables of contents and indexing

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<sup>4</sup> *The Department of Homeland Security Acquisition Workforce Policy Number: 064-04-003, Revision Number: 02, Issued August 8, 2012*



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are either non-existent or illogically labeled. As a result, the audit team found it difficult to readily obtain needed HR Access documentation. TSA personnel told OIG auditors that the program manager for the HR Access contract prefers hard copy files. TSA also relied on the contractor to provide certain documents to the audit team when requested. The paper-based recordkeeping system and missing HR Access contract documentation do not effectively allow for a proper audit trail. OIG auditors noted that a majority of the documents contained within the manual recordkeeping system were originally created electronically. Yet, the documents were subsequently printed and stored manually as opposed to being saved and indexed electronically.

### Conclusion

TSA's payment of \$4.5 million in awards may not be justified because they do not accurately reflect contractor performance and TSA has no assurance it received the best value for its money. However, TSA has taken actions to incorporate lessons learned into the upcoming PFP contracts, which will replace HR Access. According to the PFP acquisition plan,<sup>5</sup> TSA should be able to substantially reduce business risk through both procurement and insourcing. Instead of one contract, TSA plans to award multiple contracts and will insource certain functions of their human resources processes. TSA has also included required performance timeframes and prescriptive language throughout the SOWs. These added terms should allow TSA the ability to more effectively assess and monitor contractor performance.

### Recommendations

**Recommendation 1:** We recommend that TSA's Assistant Administrator for the Office of Acquisition ensure that PFP contracts contain lessons learned from the HR Access contract that include:

- developing and implementing policy guidance for administering award fee type contracts;
- monetary penalties for performance deficiencies including violating Federal law;
- performance timeframes and prescriptive language in the SOWs;
- performance metrics that correspond to the majority of sections in the SOWs;
- timeframes for correcting performance deficiencies; and

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<sup>5</sup> Acquisition Plan for Office of Human Capital Personnel Futures Program, Version 1.0, Approved March 20, 2015



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- requirements for initiating and issuing performance letters, and for factoring performance deficiencies addressed in those letters into performance evaluations and award determinations.

**Recommendation 2:** We recommend that TSA's Assistant Administrator for the Office of Acquisition take action to recover \$4.5 million in award fees or provide an explanation as to why this is not feasible.

**Recommendation 3:** We recommend that TSA's Assistant Administrator for the Office of Acquisition ensures written authority and communication between the Office of Acquisition and the Program Office on COR appointments for the HR Access and PFP contracts.

**Recommendation 4:** We recommend that TSA's Assistant Administrator for the Office of Acquisition develop and implement policies to ensure all documentation pertaining to human resources contracts is stored electronically.

**Recommendation 5:** We recommend that TSA's Assistant Administrator for the Office of Human Capital develop and implement formal guidance for conducting independent monitoring of contractor performance in the HR Access and PFP contracts. That guidance should include:

- specific procedures for program manager(s), subject matter experts, and quality assurance specialist(s);
- requirements for TSA to conduct periodic onsite and offsite monitoring of the contractors;
- requirements for written documentation of all monitoring activity;
- requirements for independently validating actions taken to correct deficiencies identified; and
- procedures for initiating performance letters.

### Management Comments

TSA provided comments to the draft report. A copy of TSA's response is included in its entirety in appendix B. Overall, TSA concurred with all of our recommendations.

**Recommendation 1:** We recommend that TSA's Assistant Administrator for the Office of Acquisition ensure that PFP contracts contain lessons learned from the HR Access contract that include:

- developing and implementing policy guidance for administering award fee type contracts;



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- monetary penalties for performance deficiencies including violating Federal law;
- performance timeframes and prescriptive language in the SOWs;
- performance metrics that correspond to the majority of sections in the SOWs;
- timeframes for correcting performance deficiencies; and
- requirements for initiating and issuing performance letters, and for factoring performance deficiencies addressed in those letters into performance evaluations and award determinations.

**TSA Response:** Concur. TSA officials stated that they have and will continue to include lessons learned from HR Access to improve the Human Capital Operations Program. They have tracked lessons learned from both an operational and contract standpoint, and have considered this information in the PFP actions. In the next iteration of the PFP program, TSA stated it will:

- execute performance-based requirements;
- identify performance metrics in adherence to Federal human resource processing timeframes;
- require performance timeframes and metrics, and prescriptive language to be included in the PFP SOWs; and
- use the Federal Acquisition Regulation to handle performance deficiencies and execute DHS policies on the usage of the Contractor Performance Assessment Report System.

Furthermore, TSA is developing guidance covering the application and use of incentive contracting, including award fee contracts. It is anticipated that this guidance will include policies and procedures for approval of incentive contracts, reviews of contractor performance, and required documentation. Estimated Completion Date (ECD): March 31, 2016.

**OIG Analysis:** TSA's planned corrective actions do not fully address the intent of the recommendation. Specifically, TSA's actions do not address:

- the need for monetary penalties for performance deficiencies;
- specific metrics that correspond to the majority of sections in the SOW;
- guidance that includes specific timeframe requirements for correcting performance deficiencies and initiating and issuing performance letters; and
- factoring in deficiencies addressed in the performance letters into evaluations and award determinations.

This recommendation is unresolved and will remain open until TSA provides documentation that supports implementing all parts of the recommendation.





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**Recommendation 2:** We recommend that TSA's Assistant Administrator for the Office of Acquisition take action to recover \$4.5 million in award fees or provide an explanation as to why this is not feasible.

**TSA Response:** Concur. TSA's Head Contracting Activity will review the Fee Determination Official's decision to provide incentive award fees to the contractor to determine whether it was consistent with the terms of the contract. If TSA determines the award was inconsistent, TSA will pursue a recovery of the applied fees. ECD: March 31, 2016.

**OIG Analysis:** TSA's planned corrective actions fully address the intent of the recommendation. This recommendation is resolved and will remain open until we receive support documenting that TSA has reviewed the Fee Determination Official's decision and has taken action to recover the applied fees if necessary.

**Recommendation 3:** We recommend that TSA's Assistant Administrator for the Office of Acquisition ensures written authority and communication between the Office of Acquisition and the Program Office on COR appointments for the HR Access and PFP contracts.

**TSA Response:** Concur. TSA officials stated that currently, the Contracting Officer has formally appointed every HR Access COR. TSA has identified potential CORs for the PFP contracts. TSA will also roll out an automated COR nomination and appointment process, which enables each TSA office to initiate a COR nomination in the submission of the Procurement Request package. ECD: December 31, 2015.

**OIG Analysis:** TSA's corrective actions fully address the recommendation. TSA provided documentation supporting actions taken to address this recommendation, and as a result, this recommendation is resolved and closed.

**Recommendation 4:** We recommend that TSA's Assistant Administrator for the Office of Acquisition develop and implement policies to ensure all documentation pertaining to human resources contracts is stored electronically.

**TSA Response:** Concur. TSA officials stated that they would update current guidance supporting contract file documentation. This documentation will include information to ensure continued electronic storage and archival of contract documentation among all Office of Acquisition operational divisions within the iShare site. As a long-term process, TSA is exploring electronic signature usage to assist with electronic files and a writing system that will serve as an electronic repository for all system award documentation. ECD: March 31, 2016.



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**OIG Analysis:** TSA's planned corrective actions fully address the intent of the recommendation. This recommendation is resolved and will remain open until we receive documented support that TSA has developed policies and procedures for storing contracts electronically.

**Recommendation 5:** We recommend that TSA's Assistant Administrator for the Office of Human Capital develop and implement formal guidance for conducting independent monitoring of contractor performance in the HR Access and PFP contracts. That guidance should include:

- specific procedures for program manager(s), subject matter experts, and quality assurance specialist(s);
- requirements for TSA to conduct periodic onsite and offsite monitoring of the contractors;
- requirements for written documentation of all monitoring activity;
- requirements for independently validating actions taken to correct deficiencies identified; and
- procedures for initiating performance letters.

**TSA Response:** Concur. TSA officials stated that they follow established DHS guidance and protocols for conducting monitoring and oversight of the cost, schedule, and performance related to all HR Access contractor activities. Subject matter experts conduct daily monitoring of contractor performance across functional areas. In addition, TSA stated that there are other internal and external controls in place to ensure the contractor meet contractual requirements. ECD: December 31, 2016.

**OIG Analysis:** TSA's response does not address the recommendation. This recommendation is unresolved and will remain open until TSA provides documentation to support developing and implementing formal guidance for conducting independent monitoring of contractor performance in the HR Access and PFP contracts.



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### **Appendix A**

#### **Objective, Scope, and Methodology**

The Department of Homeland Security Office of Inspector General was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the Department.

We conducted this audit to determine the extent to which TSA is effectively monitoring and enforcing the terms and conditions of the Lockheed Martin HR Access contract. To answer this objective we obtained, reviewed, and evaluated TSA's processes and procedures, and related documentation for monitoring and assessing contractor performance. We reviewed a judgmental sample of HR Access SOW requirements, contract modifications, and weekly program manager meeting notes. Additionally, we reviewed all HR Access performance metrics, letters, and awards, as well as Personnel Futures Program SOW requirements. Our review primarily focused on fiscal years 2012-14; however, we expanded the timeframe when necessary.

We interviewed appropriate TSA personnel including the Assistant Administrators of the Office of Human Capital and the Office of Acquisition. We also interviewed TSA's program manager for the HR Access contract, and contracting officers and contracting officer representatives at TSA Headquarters in Arlington, VA. Additionally, we interviewed key contractor personnel responsible for the HR Access contract.

We conducted this performance audit between December 2014 and October 2015 under the authority of the *Inspector General Act of 1978*, as amended, and according to 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 upon our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objectives.



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**Appendix B**  
**TSA Comments to the Draft Report**

U.S. Department of Homeland Security  
601 South 12<sup>th</sup> Street  
Arlington, VA 20598



**Transportation  
Security  
Administration**

DEC 24 2015

MEMORANDUM FOR: Mark Bell  
Assistant Inspector General for Audits  
U.S. Department of Homeland Security  
Office of the Inspector General

FROM: Peter V. Neffenger *[Signature]* 12/24/15  
Administrator  
Transportation Security Administration

SUBJECT: The Transportation Security Administration's (TSA)  
Response to OIG Draft Report: "TSA's Human Capital  
Services Contract Terms and Oversight Need Strengthening."  
(Project No. 15-062-AUD-TSA)

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security (DHS) appreciates the work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report.

As reflected in the report, TSA's Office of Human Capital (OHC) Human Capital Services (HRAccess) contract is valued at \$1.2 billion and provides for comprehensive human resources services, including: personnel and payroll processing; position management and classification; systems integration; and, complete help desk services. The draft report identifies issues specifically related to contract oversight and contractor performance and the provision of award fee. Although not reflected in the draft report, this OIG audit initially included a review of 13 other TSA OHC contracts. In April 2015, the audit was re-scoped to focus on the extent to which TSA is effectively monitoring and enforcing the terms and conditions of the HRAccess contract. In re-scoping the audit, the OIG noted that they found no major issues with regard to the other OHC contracts that were reviewed.

Contract Oversight

Since award of the HRAccess contract in 2008, the TSA Office of Acquisition (OA) has worked closely with OHC in the oversight and administration of the contract through an internal and external joint review of program operations, contract, and financial status on a weekly basis to ensure the program is operating in conformance with governing laws, regulations, and DHS/TSA policies.





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These activities include a weekly program manager meeting, contract status meeting, operations meeting, quality assurance meeting, mission and objectives planning meeting, and other meetings as determined necessary for specific topics and/or systems. Recurring meetings/working sessions/touch point calls occur with the OHC Program Manager, Executive Directors, and subject matter experts (SMEs) for each functional area, including: Recruitment & Hiring (R&H); Personnel, Payroll and Benefits (PP&B); Help Desk; and Organizational Design. Collaboration and joint oversight occurs via scheduled meetings and daily interaction between the OHC Program Manager (PM) and the OA Contracting Officers and Contract Specialists. Additionally, bi-weekly meetings are held to discuss Information Technology (IT) systems changes, projects and activities, and Joint Change Control Board and special topic IT project meetings such as the Case Management Integrated Product Team. Lastly, monthly Security Plan of Action and Milestones Program Management Reviews (PMRs) are held to establish priorities, status against plans, and to discuss any new risks and mitigations.

#### Contractor Performance and Fee

The Award Fee PMR evaluates and scores Lockheed Martin Integrated Systems, Inc.'s (LMIS) performance on the Full Operational Capability period according to the Performance Evaluation Plan (PEP) and the Quality Assurance Surveillance Plan. The purpose of the award fee is to incentivize LMIS to either meet or exceed the defined exceptional service levels as described with each of the identified factors in the PEP in accordance with contract requirements. The use of award fee has remained an effective tool to motivate the contractor to strive for exceptional full operational capability over the evaluation period. On a contract with such a large scope and end user population, the PEP provides TSA's performance standard and guidelines for the Government and the Contractor to monitor specific areas of performance to ascertain those which require attention and those which are thriving. The use of award fee motivates the contractor's overall performance in that it provides a quantifiable measurement of exceptional performance areas and identified areas of improvement to increase overall contract productivity and quality over the subsequent evaluation periods. The award fee also allows the Government to communicate the importance of identifying and maintaining exceptional operational areas. Additionally, the award fee communicates the importance of continuously identifying efficiencies and leveraging corporate capability to provide the Government with the best value as the contractor works on areas of improvement.

A comparison across Award Fee PMR evaluation periods reveals consistent improvement in performance areas. Since contract award in 2008, there has been an upward trend in the overall performance of the HRAccess contractor as evidenced in the Government's collection and review of the contractor's data related to their performance in the key operational areas for HRAccess. Through Option Year (OY) 5, Period 2, LMIS had the opportunity to earn \$41,765,178 in award fees. The Government determined that the contractor deserved only 29 percent of this amount, which equates to \$12,225,683.



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The draft report contained five (5) recommendations with which the Department concurs. Specifically:

**Recommendation 1:** That TSA's Assistant Administrator (AA) for OA ensures that Personnel Futures Portfolio (PFP) contracts contain lessons learned from the HRAccess contract that include:

- developing and implementing policy guidance for administering award fee type contracts;
- monetary penalties for performance deficiencies including violating Federal law;
- performance timeframes and prescriptive language in the SOWs;
- performance metrics that correspond to the majority of sections in the SOWs;
- timeframes for correcting performance deficiencies; and
- requirements for initiating and issuing performance letters and for factoring performance deficiencies addressed in those letters into performance evaluations and award determinations.

**Response:** Concur. TSA has and will continue to include lessons learned from HRAccess to improve the Human Capital Operations Program. Specifically, both OA and OHC have tracked lessons learned from both an operational and contract standpoint and have considered this information in the PFP actions. Additionally, through market research, industry feedback was sought with regard to performance standards and metrics. In the next iteration of the program, Personnel Futures, TSA will execute performance-based requirements which will identify performance metrics and adherence with, at a minimum, Federal human resource processing timeframes. As noted in the draft report, required performance timeframes and metrics, and prescriptive language will be included in the PFP SOWs. TSA will execute the Federal Acquisition Regulation in handling performance deficiencies as well as execute DHS policies on the usage of the Contractor Performance Assessment Report System. Further, the TSA OA Policy Division is currently developing an Internal Guidance and Procedure Memorandum (IGPM) covering the application and use of incentive contracting, including award fee contracts. It is anticipated that this IGPM will include policies and procedures for approval of incentive contracts, reviews of contractor performance, and required documentation. Estimated Completion Date (ECD): March 31, 2016.

These improvements will be executed in the awards of the Personnel Futures Program requirements.

**Recommendation 2:** That TSA's OA AA takes action to recover \$4.5 million in award fees or provide an explanation as to why this is not feasible.

**Response:** Concur. The contract's PEP authorizes the OHC AA as the Government Fee Determination Official who unilaterally issues the incentive fee decision. The TSA Head of Contracting Activity (HCA) will review the Fee Determination Official decision to determine if it was consistent with the terms of the contract. If not, TSA will pursue a recovery of inappropriately applied fees. ECD: March 31, 2016.





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**Recommendation 3:** That TSA's OA AA ensures written authority and communication between the OA and the Program Office on Contracting Officer Representative (COR) appointments for the HRAccess and PFP contracts.

**Response:** Concur. Currently, every HRAccess COR has been formally appointed by the Contracting Officer. With the PFP contracts, OHC has already identified potential CORs who are currently involved in the requirements development and procurement process. OA has developed and is implementing an automated COR nomination and appointment process, which enables each TSA program office to initiate a COR nomination in the submission of the Procurement Request package. This process will be rolled out in December 2015, and will allow for the automated nomination and appointment of CORs to each specific contract. Notification of this process was communicated to OHC during a Procurement Planning Conference conducted in November 2015. With regard to rollout, the OA Acquisition Support Division will communicate the automated process requirements to TSA offices along with a user guide, and also has outreach staff designated for each TSA program that can assist in system implementation. ECD: December 31, 2015.

**Recommendation 4:** That TSA's OA AA develop and implement policies to ensure all documentation pertaining to human resources contracts are stored electronically.

**Response:** Concur. In accordance with this recommendation, the OA Policy Division will update IGPM 0404, Contract File Documentation, to ensure continued electronic storage and archival of contract documentation among all OA operational divisions within the OA iShare site. In the long term, TSA is exploring electronic signature usage to assist with electronic files. Even more, DHS and TSA are in the process of developing and eventually implementing, via a Federal Shared Service Provider, a Financial Services Replacement that will include a more robust contract writing system. This writing system may possess the ability to serve as an electronic repository for all system generated award documentation which if proven upon implementation, may assist with electronic generation and storage of contract documentation. ECD: March 31, 2016.

**Recommendation 5:** That TSA's OHC AA develop and implement formal guidance for conducting independent monitoring of contractor performance in the HRAccess and PFP contracts. That guidance should include:

- specific procedures for PMs, SMEs, and quality assurance specialist(s);
- requirements for TSA to conduct periodic onsite and offsite monitoring of the contractors;
- requirements for written documentation of all monitoring activity;
- requirements for independently validating actions taken to correct deficiencies identified; and
- procedures for initiating performance letters.

**Response:** Concur. The Level 3 Program Management Certified OHC PM follows established DHS guidance and protocols for conducting monitoring and oversight of the cost, schedule, and performance related to all HRAccess contractor activities.



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Additionally, as part of our operational business rhythm, the SMEs conduct daily monitoring of contractor performance across functional areas. As part of the contract, an annual statement of assurance (attached) is prepared by Lockheed Martin which provides a summary of meetings and the internal and external controls in place to meet the contractual requirements.

As part of TSA's Internal Control Program, the Financial Management Division, Internal Control Branch (ICB), has the responsibility to perform tests of internal controls. Via this program, the ICB independently conducts a review of the procedures and internal controls in place over the Quality Assurance Monitoring of HRAccess processes at the Human Resources (HR) Service Provider. Through these reviews, the ICB assesses the compliance with and adequacy of the procedures and internal controls in place at the HR Service Provider to ensure that: personnel actions are independently initiated and submitted for processing; personnel actions are timely and successfully uploaded to the National Finance Center (NFC) systems; personnel actions are reconciled between EmpowHR and NFC; PEP metrics are completed with corrective action recommendations, when appropriate; and corrective actions are reasonable and timely resolved. Additionally, TSA's Office of Finance and Administration's Chief Financial Officer utilizes KPMG, LLC. to perform annual independent service provider audits of the HRAccess contract to review and ensure financial compliance.

OHC Management and SME conduct on-site visits to the HRAccess local offices, and Shared Service Centers to monitor PP&B Processing and Help Desk Activities. On a bi-annual basis, the PEP metrics are used to capture and document the HRAccess contractor's performance and determine an appropriate Award fee. As part of this process, TSA has an Interagency Agreement with the Office of Personnel Management, which issues a bi-annual customer satisfaction survey that captures feedback and rates the HRAccess contractor's performance in terms of customer satisfaction. Areas surveyed include Recruitment & Staffing, Personnel, PP&B, and Help Desk.

PPF consists of R&H; PP&B; Customer Service Center, and Technical Assessments Platform (TAP). TAP has been awarded, and transition meetings with the new vendor have begun. TSA/OHC will receive a transition plan as well as a project management plan for the new contract. Following award of the PPF, OHC in conjunction with OA, will continue the current monitoring activities in place for the new contractor(s).

Weekly meetings have begun on TAP with the recent award to focus on transition from the current vendor. Transition is expected to last several months, but at the completion, regular engagement and meetings will continue between the TAP Vendor, the Government PM, SMEs and OA to discuss both program management and operational status and issues. Transition meetings are being documented with meeting minutes, and the intent is to continue this practice at the completion of the transition.

R&H, PP&B, and Customer Service Contract Awards are expected in 2016. At the time of these awards, TSA will receive transition plans and program management plans to detail the way forward as a result of the new acquisitions. Weekly meetings will





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commence following award to support information sharing, collaboration and perform contractor oversight. These will be documented with meeting minutes for all parties. ECD: December 31, 2016.

Again, thank you for the opportunity to review and comment on this draft report. Technical comments were previously provided under separate cover. Please feel free to contact me if you have any questions. We look forward to working with you in the future.



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### **Appendix C**

#### **Personnel Futures Program**

In May 2013, TSA's OHC began the strategic planning process to replace the HR Access contract, which expires on January 1, 2017. HR Access' replacement, known as the OHC Personnel Futures Program, is an acquisition strategy for human capital operations that will incorporate both lessons learned as well as human capital best practices. PFP will be procured as multiple separate contracts and will be procured in accordance with the Federal Acquisition Regulations.

According to TSA's approved Life Cycle Cost Estimate, dated January 16, 2015, PFP is expected to have a cost in excess of \$1.7 billion over 10 years. The PFP will be procured as multiple separate contracts to include Recruitment and Hiring; Personnel, Payroll, and Benefits; and Customer Service. The outsourced services contained within these contracts include recruitment and hiring; personnel actions, benefits and payroll processing; a customer service center; and non-migrated human resources information technology.

TSA decided to insource certain human capital functions that are currently outsourced under HR Access. In addition, TSA has decided to partner with the Office of Information Technology to migrate TSA-owned systems to a DHS data center.



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**Appendix D**  
**Potential Monetary Benefits**

<b>Potential Monetary Benefits – Recommendation #2</b>					
<b>Description</b>	<b>Finding</b>	<b>Award Period (Option Year/Period)</b>	<b>Questioned Costs – PII Violations</b>	<b>Questioned Costs – Performance Metrics<sup>6</sup></b>	<b>Total</b>
PII violation	1	OY3 / Per 2	\$1,075,792		\$1,075,792
No work for contractor (no authorized Federal Air Marshal hiring)	2	OY3 / Per 2		\$130,150*	
No issues to escalate to code blue	2	OY3 / Per 2			
PII violation	1	OY4 / Per 1	\$1,290,706		\$1,290,706
TSA changed the rating score	2	OY4 / Per 1		\$128,484*	
No work for contractor (no authorized Federal Air Marshal hiring)	2	OY4 / Per 1		\$139,191*	
No issues to escalate to code blue	2	OY4 / Per 1			
TSA changed the rating score	2	OY4 / Per 2		\$171,312	
No work for contractor (no authorized Federal Air Marshal hiring)	2	OY4 / Per 2		\$182,019	\$353,331
TSA changed the rating score	2	OY4 / Per 2			
No issues to escalate to code blue	2	OY4 / Per 2			
PII violation	1	OY5 / Per 1	\$1,833,342		\$1,833,342
TSA changed the rating score	2	OY5 / Per 1		\$406,790*	
TSA changed the rating score	2	OY5 / Per 1			
No issues to escalate to code blue	2	OY5 / Per 1			
<b>TOTAL</b>					<b>\$4,553,171</b>

Source: DHS OIG analysis of TSA data.

<sup>6</sup> \*Denotes amount already included in the questioned costs for PII violations.



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**Appendix E**  
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