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AUD-CGI-16-34

Office of Audits

May 2016

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# Audit of Time and Material Expenses and Performance Incentive Payments Under the Bureau of Information Resource Management, Vendor Management Office Vanguard Program

## CONTRACTS, GRANTS, AND INFRASTRUCTURE DIVISION

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# OIG HIGHLIGHTS

AUD-CGI-16-34

UNCLASSIFIED

May 2016

OFFICE OF AUDITS

Contracts, Grants, and Infrastructure Division

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### What Was Audited

Acting on the Office of Inspector General's (OIG) behalf, Kearney & Company, P.C. (Kearney), an independent public accounting firm, conducted this audit to determine whether (1) time and material (T&M) expenses for the Vanguard Program were allowable and supported and (2) performance incentive payments were made in accordance with the terms and conditions of the contract.

The Vanguard Information Technology Consolidation Program is a Department of State (Department) initiative to consolidate and centralize all IT service contracts under the umbrella of one performance-based contract with multiple task orders.

### What OIG Recommends

OIG made seven recommendations to the Bureau of Information Resource Management (IRM) and one recommendation to the Bureau of Administration to address \$567,071 in questioned costs and improve the Department's review process for invoices submitted under the Vanguard Information Technology Consolidation Program.

IRM and the Bureau of Administration concurred with the recommendations. OIG considers five of the eight recommendations resolved, pending further action, and three recommendations unresolved. Management responses and OIG replies are presented after each recommendation in the Audit Results section of this report.

IRM's and the Bureau of Administration's comments to a draft of this report are reprinted in Appendix B and Appendix C, respectively.

### What Was Found

Kearney found that T&M expenses were generally allowable according to the terms of the Vanguard Program task orders and Federal and Department guidance. However, Kearney questions \$560,486 in expenses that were not adequately supported. The \$560,486 in questioned costs represents 6.5 percent of the total \$8.6 million of T&M expenses tested. One reason this occurred is that IRM did not have an adequate document retention policy. Specifically, IRM did not have clear requirements for transferring documentation to a new Contracting Officer's Representative (COR) or maintaining electronic documentation in a shared location. As a result, it is unclear that the unsupported funds paid to contractors benefited the Vanguard Program.

Kearney also found that IRM did not document that all contract employees met the requirements of billed labor categories, as required. Specifically, Kearney found that CORs were generally unaware of the requirement to validate contractor qualifications against labor categories. Because of this, the Department may be relying on an unknown level of service.

In addition, Kearney found that performance incentive payments were generally made in accordance with contract criteria. However, Kearney identified \$6,585 in unallowable performance incentive payments. The \$6,585 in unallowable performance incentive payments represents less than half a percent of the total \$3.2 million of performance incentive payments tested. This occurred, in part, because the Department has more than 300 different metrics that must be tracked to calculate performance incentive payments. In addition, the processes used by IRM employees to calculate and validate the amount of performance incentive payments are inconsistent, time consuming, and manual in nature. As a result, Department employees are spending a significant amount of time and effort tracking and administering performance incentive payments, the cost of which could potentially exceed the low dollar amount of the payments themselves (the amount of performance incentive payments is less than 1 percent of the total Vanguard Program payments).

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1701 Duke Street, Suite 500, Alexandria, VA 22314  
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

Audit of Time and Material Expenses and Performance Incentive Payments Under the Bureau of Information Resource Management, Vendor Management Office Vanguard Program

Office of Inspector General  
U.S. Department of State  
Washington, D.C.

Kearney & Company, P.C. (Kearney), has performed an audit of time and material expenses and performance incentive payments under the Bureau of Information Resource Management, Vendor Management Office Vanguard Program. This performance audit, performed under Contract No. SAQMMA14A0050, was designed to meet the objective identified in the report section titled "Objective" and further defined in Appendix A, "Purpose, Scope, and Methodology," of the report.

Kearney conducted this performance audit from May 2015 through December 2015 in accordance with *Government Auditing Standards*, 2011 Revision, issued by the Comptroller General of the United States. The purpose of this report is to communicate the results of Kearney's performance audit.

Kearney appreciates the cooperation provided by personnel in Department of State offices during the audit.

A handwritten signature in blue ink that reads "Kearney &amp; Company". The signature is written in a cursive, flowing style.

Kearney & Company, P.C.  
Alexandria, Virginia  
May 3, 2016

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## OBJECTIVE

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The overall objective of this audit was to determine whether (1) time and material (T&M)<sup>1</sup> expenses for the Vanguard Program were allowable and supported and (2) performance incentive payments were made in accordance with the terms and conditions of the contract.

## BACKGROUND

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The Office of Management and Budget requires agencies to pool their purchasing power for IT items across their entire organization to drive down costs and improve service.<sup>2</sup> In response to this requirement, the Bureau of Information Resource Management (IRM) established the Vanguard Information Technology Consolidation Program (Vanguard Program).

### Vanguard Program

According to IRM, one of the objectives of the Vanguard Program is to consolidate and centralize IT services so that IRM can increase accountability and transparency, and create operational efficiencies and cost savings. Some of the anticipated benefits of the Vanguard Program are:

- Administrative and management efficiencies.
- Performance improvement.
- Cost efficiencies.
- Transparent and coordinated IT service management across the enterprise.
- Project management process improvement.
- Enterprise alignment.
- Improved reporting.

To implement the Vanguard Program, IRM consolidated and replaced approximately 120 IT contracts and task orders with approximately 10 performance-based task orders procured through the General Services Administration's Government-wide Acquisition Contract.<sup>3</sup> The first Department of State (Department) task order,<sup>4</sup> Vanguard 2.2.1, was awarded in FY 2011. IRM anticipates that it will spend approximately \$3.5 billion over 10 years for the Vanguard Program.

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<sup>1</sup> Under the Federal Acquisition Regulation (FAR) 16.601 (b), in time and materials contracts, contractors are reimbursed for (a) direct labor costs, including wages, overhead, general and administrative expenses, and profit, and (b) actual costs for materials.

<sup>2</sup> OMB Memorandum M-11-29, "Chief Information Officer Authorities."

<sup>3</sup> The General Services Administration Government-wide Acquisition Contract is a pre-competed, multiple-award, indefinite delivery, indefinite quantity contract that agencies can use to acquire IT solutions. See <http://www.gsa.gov/portal/content/104874>.

<sup>4</sup> A task order is a request for services placed against an established contract vehicle (for example, General Services Administration Alliant Government-wide Acquisition Contract).

IRM has created and tracks information on more than 300 performance metrics.<sup>5</sup> For example, one performance metric measures the average amount of time it takes for a contractor to respond to an IT help desk call while another performance metric measures the network availability during a given time frame.

### *Vanguard Program Task Orders*

The Vanguard Program covers a number of IT services, as shown in Table 1.

**Table 1: Services Provided for the Vanguard Program Task Orders**

Task Number	Services Provided
2.1	Help desk and desktop support services.
2.2.1	Servers, mainframes, network devices, network perimeter, Anti-Virus Engineering, Public Key Infrastructure Biometrics/Encryption, Monitoring Tools, Telephony, Mobile Computing Platform, Virtual Environment, and Enclave Design/Security Engineering.
2.2.2	IT Change Control Board Support, Enterprise Licensing, Anti-Virus Operations/Purchasing, Video Teleconferencing Center and Enterprise Server Room Operations.
2.2.3	Hardware/software supply chain and logistics management. This covers the procurement, warehousing, shipping, installation, and cabling for the worldwide IT infrastructure.
2.2.4	Telecommunications, Wireless and Data Services Cabling.
2.2.5	Telephone procurement.
2.3.1	Enterprise systems development/operations and maintenance, data management and governance, enterprise application integration, e-Diplomacy, and knowledge management tools support.
2.3.2	Enterprise messaging systems development State Messaging and Archive Retrieval Toolset, legacy messaging support, and enterprise collaboration services.
2.3.3	Enterprise data center management and hosting services.
2.3.4	Remedy configuration and development support, and remedy operations and maintenance support.

**Source:** Kearney prepared based on information from IRM, the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, and Vanguard Program task orders.

Each type of IT service is supported by a separate task order, with the exception of Vanguard 2.2.4, which was awarded as an indefinite delivery, indefinite quantity contract<sup>6</sup> that includes

<sup>5</sup> Performance metrics are measures of quantitative assessment used for measurement, comparison, or to track performance or production.

<sup>6</sup> Indefinite delivery, indefinite quantity is a type of contract that provides for an indefinite quantity of supplies or services during a fixed period of time. As noted in FAR 16.501-2(a), the appropriate type of indefinite-delivery contract may be used to acquire supplies and/or services when the exact times and/or exact quantities of future deliveries are not known at the time of contract award. The Government issues task orders under an indefinite delivery, indefinite quantity contract to specify the exact delivery times and quantities and to provide funding for the task.

multiple task orders. The Vanguard Program task orders are firm fixed priced (FFP)<sup>7</sup> or hybrid task orders. Hybrid task orders are contracts that contain more than one expense type. For example, a task order that contains both FFP and T&M expenses is a hybrid task order. With the exception of Vanguard 2.2.4 and 2.2.5, all task orders are performance-based with performance incentives<sup>8</sup> or award fees<sup>9</sup> to encourage vendors to achieve performance goals.

The Department awarded the largest Vanguard Program task order, Vanguard 2.2.1, on December 22, 2010, to Science Applications International Corporation (SAIC) for \$2.5 billion. SAIC is responsible for engineering and designing, securing, and operating and maintaining critical IT infrastructures. Under this task order, SAIC serves as the lead systems integrator and IRM business partner for the Vanguard Program. The task order is FFP and T&M with performance incentives and a 10-year period of performance. Details on the 10 task orders, as of October 2015, are reflected in Table 2.

**Table 2: Vanguard Program Task Orders**

Task Number	Vendor	Performance Period	Contract Value (in millions)	Allowable Expense Types
2.1	Digital Management, Inc.	7 years	\$241.5	FFP, T&M, performance incentives
2.2.1	SAIC	10 years	\$2,512	FFP, T&M, performance incentives
2.2.2	Advanced Alliant Solutions Team/Intercom	7 years	\$62.3	FFP, T&M, performance incentives
2.2.3	DynCorp	5 years	\$275	FFP, performance incentives
2.2.4	Moss Cape*	4 years	\$28.5	FFP, T&M
2.2.5	AT&T	5 years	\$275	FFP
2.3.1	Buchanan & Edwards	5 years	\$77.4	FFP, T&M, award fee
2.3.2	Buchanan & Edwards	5 years	\$59.9	FFP, award fee
2.3.3	ValidaTek Inc.	5 years	\$34.7	FFP, T&M, performance incentives
2.3.4	ClearAvenue	5 years	\$17.2	FFP, T&M, award fee

\* Task 2.2.4 was originally awarded to Copper River, but Moss Cape is the current vendor. Both vendors provided services under the Vanguard contract during the scope of this audit.

**Source:** Kearney prepared based on information from IRM, the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, and Vanguard Program task orders.

### *Time and Materials Tasks*

<sup>7</sup> As noted in FAR 16.202-1, FFP contracts provide a price that is not subject to adjustment on the basis of the contractor's cost experience in performing the contract.

<sup>8</sup> Performance incentives relate profit or fee to results achieved by the contractor as defined by specified targets.

<sup>9</sup> As noted in FAR 16.404, award fees are used on fixed price contracts when the Government wishes to motivate a contractor and other incentives cannot be used because contractor performance cannot be measured objectively.

While the majority of each Vanguard Program task order is FFP, 7 of the 10 task orders have T&M components available for “surge labor support.” Surge labor support options are exercised at the discretion of the Department for additional work that falls within the original scope of the contract but was not included in the initial statement of work (SOW). For example, a system upgrade might fall under the scope of the contract but might not be included in the SOW because the level of effort required could not be easily estimated at the time the contract was executed. To initiate surge labor support, the responsible program office works with the Contracting Officer’s Representatives (CORs) to outline the necessary services in a technical direction letter or SOW. In response, the vendor prepares a technical proposal, which includes a schedule of costs to perform the requested services. Upon acceptance of the technical proposal, the Department issues a bilateral modification<sup>10</sup> to modify the contract terms and formally approve the option to exercise surge labor support.

Once the work under the T&M component is in process, the vendor submits invoices for the T&M services rendered to the COR for review and approval. The COR is responsible for reviewing and approving invoices after adequately verifying costs against supporting documentation.<sup>11</sup>

### *Performance Incentive Tasks*

The Department utilized performance incentives in 5<sup>12</sup> of the 10 Vanguard Program task orders to monetarily encourage vendors to perform a higher quality of work, above and beyond the minimum contractual performance levels. Additionally, these task orders assess disincentive penalties on the vendor for unsatisfactory performance.<sup>13</sup> In their technical proposals, each vendor proposed a performance incentive payment plan based on quantitative metrics that could be measured and reviewed to assess contractor performance. As stated in the Federal Acquisition Regulation (FAR),<sup>14</sup> the performance incentive payment plan should provide a reasonable opportunity to meaningfully affect the vendor’s work.

Each vendor’s performance incentive payment plan outlines the calculation of the vendor’s potential maximum incentive. This calculation varies across tasks and can be based on a percentage of revenue, a percentage of units of inventory, a percentage of the dollar-value of FFP labor, or a percentage of monthly invoice amounts. The vendor’s performance incentive payment plan determines how this pool will be linked to performance. The Department uses performance metrics to track and monitor vendor performance against Acceptable Quality Levels (AQLs). These metrics and AQLs were initially established in the performance incentive

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<sup>10</sup> A bilateral contract modification is a change instituted after the award of the contract and agreed upon by both the contractor and the Department.

<sup>11</sup> 14 Foreign Affairs Handbook (FAH) FAH-2 H-142 (b) (15), “Responsibilities of the Contracting Officer’s Representative (COR).”

<sup>12</sup> While 5 of the 10 task orders have performance incentive contract line item numbers, only 4 of the task orders had performance incentive payments made during the scope period.

<sup>13</sup> Disincentives are offset against any incentive earned by a vendor.

<sup>14</sup> FAR 16.403(b).”

payment plan but are retired, replaced, and revised as needed at the request of the vendor or the Department. The number of metrics used to measure performance varies between task orders and ranges from 7 to 28 per month. If an AQL for any of these metrics is not met, the vendor is assessed a disincentive penalty for its unsatisfactory performance.

Department<sup>15</sup> and Federal<sup>16</sup> guidance requires that CORs and government technical monitors (GTM) review and validate performance metrics on a monthly basis. Vendors are responsible for reporting a self-assessment against their performance metrics in a Program Performance Summation Report either monthly or quarterly, depending on the task order. The Program Performance Summation Report is based on a variety of reports, logs, email communication, and other types of raw data and contains the vendor's self-reported metric assessments and self-calculated performance incentive payment or disincentive amount. This information is reconciled through GTM validation and tracked by the Vendor Management Office (VMO).

The Vendor Performance Assessment Committee, which consists of VMO personnel and Vanguard Program CORs, evaluates the Program Performance Summation Report in order to validate the vendor self-reported data and provide a recommendation for the amount of the performance incentive payment to be awarded. This recommendation may include adjustments to the vendor reported scores and payment amount. The Vendor Performance Assessment Committee may increase or decrease the vendor-estimated amounts, at its discretion. The Vendor Performance Assessment Committee submits a memo to the Contracting Officer (CO) outlining its recommendation and includes a report of findings and recommendations. Upon receipt and review of the memo and Vendor Performance Assessment Committee findings report, the CO sends a memo to the vendor authorizing the vendor to submit an invoice for the agreed-upon performance incentive payment amount. Table 3 shows a summary of various categories of spending under the Vanguard Program for the period October 1, 2013, through March 31, 2015.

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<sup>15</sup> IRM, "GTM Roles and Responsibilities."

<sup>16</sup> FAR 16.402-2, "Performance Incentives."

**Table 3: Summary of Categories of Spending Under the Vanguard Program**

<b>Expense Type</b>	<b>Total Expenses</b>	<b>Percentage of Expenses</b>
Award Fee	\$336,186	0.07
Cost Reimbursable <sup>a</sup>	3,309,316	0.72
FFP	343,277,353	75.07
Performance Incentive, net <sup>b</sup>	3,442,001	0.75
Other Direct Costs <sup>c</sup>	84,570,047	18.50
Miscellaneous Other	3,803,946	0.83
T&M and Hybrid	18,542,543	4.06
<b>Total</b>	<b>\$457,281,392</b>	<b>100</b>

<sup>a</sup> Cost-reimbursement contracts establish a total cost ceiling against which expenses will be billed at costs incurred with approved indirect rates as established in the contract.

<sup>b</sup> Performance incentive expenses are shown net of any disincentives assessed for unsatisfactory vendor performance.

<sup>c</sup> Other direct costs are costs other than labor that can be attributed to a single contract (for example, travel).

**Source:** Kearney prepared based on expense detail obtained from the Global Financial Management System.

## Vendor Management Office

The VMO was established by IRM in 2013 to provide oversight and management of the Vanguard Program on behalf of IRM management. The VMO provides a formal means of communication with Vanguard Program vendors across task orders on behalf of IRM; provides visibility and transparency into vendor performance; and leads the alignment of services under the Vanguard Program with IRM's organizational structure, personnel skills, and mission requirements. The VMO is led by the VMO Director and is supported by a team of 4 full-time positions and 10 contractor positions. The VMO staff works in tandem with CORs and GTMs to support Vanguard Program goals. The VMO is comprised of three functional support areas with the following responsibilities:

- Contract Management's primary role is to establish and enforce the use of standardized, repeatable processes across all Vanguard Program task orders with respect to performance metric identification and tracking, issue identification and escalation, issue adjudication, and continual service improvement through corrective action.
- Service Performance Management provides transparency into vendor performance by establishing clear performance metrics and acceptable levels of quality; measuring the timely delivery of quality services; reporting progress; and establishing methods to reward good performance and correct under-performance for IRM's Vanguard Program and other technical services contracts/task orders.
- Enterprise Project Lifecycle Management plays a leading role in providing integrated program and project lifecycle management support, processes, tools, and reporting capabilities to drive successful project planning, execution, and completion.

## Vanguard Program Oversight

The CO assigned a COR to each Vanguard Program task order. In addition to the CORs, about 80 GTMs have been appointed to assist the CORs in monitoring and evaluating vendor performance. The CORs and GTMs are located throughout IRM. The CO is located in the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management.

The CORs are responsible for providing technical direction, clarification, and guidance with respect to the Vanguard Program specifications and SOWs of the various Vanguard Program task orders. The CORs track the funding and financial transactions for each task order. Additionally, CORs are responsible for reviewing and approving invoices.

In addition to the COR's responsibility to review and approve invoices, the Foreign Affairs Handbook (FAH)<sup>17</sup> states that the COR is required to maintain a COR file for each assigned contract. The details of the COR file requirements include a copy of the contract and all modifications and copies of all invoices for the contract. This file serves as a living record of contract activity and as a knowledge transfer tool to maintain continuity during COR turnover.

GTM's are responsible for monitoring the technical progress of Vanguard Program task orders. To do so, GTMs for each task define what vendor performance levels should be and perform periodic performance reviews to ensure the Government is receiving at least the minimum level of service outlined in the SOW. GTMs determine whether the vendor has earned a performance incentive payment or should be assessed a disincentive penalty. The GTMs are also responsible for reviewing and validating the performance incentive payment calculations and checking the source detail and system output that is used for measuring the quantitative metrics. CORs and GTMs track their review and approvals of performance metrics through a SharePoint site<sup>18</sup> managed by the VMO.

## AUDIT RESULTS

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### **Finding A: Time and Materials Expenses Were Generally Allowable But Some Lacked Supporting Documentation**

Kearney found that T&M expenses were generally allowable according to the terms of the Vanguard Program task orders and Federal and Department guidance. However, Kearney identified \$560,486 in expenses that were not adequately supported. The \$560,486 in unsupported costs represents 6.5 percent of the total \$8.6 million of T&M expenses tested. IRM did not have an adequate document retention policy. Specifically, IRM did not have clear requirements for transferring documentation to a new COR or maintaining electronic

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<sup>17</sup> 14 FAH-2 H-517 (a), "Standard Contracting Officer's Representative (COR) Working File."

<sup>18</sup> SharePoint sites are web-based sites where multiple users can access and store information, collaborate, and view shared documents. Access to the site can be controlled, information can be logged in a library, and document histories can be maintained.

documentation in a shared location. As a result, it is unclear that the unsupported funds paid to contractors benefited the Vanguard Program.

Additionally, IRM did not document that all contract employees met the requirements of billed labor categories, as required by the FAR.<sup>19</sup> Kearney found that CORs were generally unaware of the requirement to validate contractor qualifications against labor categories. As a result, the Department may be relying on an unknown level of service.

### *Time and Materials Expenses Were Generally Allowable But Not Always Adequately Supported*

Generally, Kearney found that T&M expenses were allowable and supported. To be allowable, T&M expenses must be in accordance with the terms of the Vanguard Program task orders and IRM guidelines. Each Vanguard Program task order<sup>20</sup> describes the funding and purpose of an approved T&M task. To be supported, the FAR states that a contractor must substantiate the hours billed on a T&M invoice with timekeeping records and that billed amounts are calculated by multiplying the hourly rate approved for use in the contract for the stated labor category by the number of direct labor hours worked in that category.

To test whether invoices were allowable and supported, Kearney selected a sample of 34 (16 percent) of 220 invoices amounting to \$8.6 million (46 percent) of \$18.5 million in T&M expenses. Kearney identified exceptions with 7 (21 percent) of the 34 invoices tested. Specifically, one of seven invoices contained unallowable costs, and all seven invoices contained unsupported costs. For the remaining 27 (79 percent) of 34 invoices tested, Kearney confirmed that the hours billed were consistent with supporting timesheets, and the amount invoiced was based on the hours invoiced and the labor category pricing. Table 4 presents the results of invoice testing.

**Table 4: Results of T&M Invoice Testing**

Requirement	Invoices Tested	Value of Invoices Tested	Invoices with Questioned Costs	Percentage of Invoices with Questioned Costs	Value Impact of Questioned Costs	Percentage Impact of Questioned Costs
Invoice Amounts Were Allowable	34	\$8,550,088	1*	3	\$764	<1
Invoice Amounts Were Supported	34	\$8,550,088	7	21	\$560,486	6.5

\* This invoice included both unsupported and unallowable costs.

**Source:** Kearney prepared based on the results of testing.

<sup>19</sup> FAR 52.232-7, "Payments Under Time and Materials and Labor-Hour Contracts."

<sup>20</sup> T&M tasks are funded and approved through issuance of a modification to the original task order. The terms of each task order are unique to the situation.

Table 5 provides additional information on the seven exceptions.

**Table 5: Invoices With Unallowable or Unsupported Costs**

<b>Invoice Number</b>	<b>Unallowable Costs</b>	<b>Unsupported Costs</b>	<b>Total Questioned Costs</b>
1826R	\$764	\$41,450	\$42,214
SAQMM-#207R	0	2,066	2,066
003003	0	148,299	148,299
003314	0	94,343	94,343
2014-123	0	43,453	43,453
03557	0	222,942	222,942
004008	0	7,933	7,933
	<b>\$764</b>	<b>\$560,486</b>	<b>\$561,250</b>

**Source:** Kearney prepared based on the results of testing.

Specifically, Kearney found:

- For invoice 1826R, one contractor employee's timesheet did not match the hours billed for that employee. The contractor employee's timesheet identified 80 hours worked while the invoice charged 152 hours (which included 8 hours that the employee was on leave) resulting in \$764 in unallowable costs.
- For invoice 1826R, the Department was unable to provide timesheets to support 318 hours charged for contractor employees, resulting in \$41,450 in unsupported costs.
- For four invoices (SAQMM-#207R, 003003, 003314, and 2014-123), the Department was unable to provide timesheets to support the amounts invoiced, resulting in \$288,161 in unsupported costs.
- For invoice 03557, the Department was unable to provide any of the contractor's supporting documentation, resulting in \$222,942 in unsupported costs.
- For invoice 004008, the Department was unable to provide support to allow Kearney to recalculate the invoice amount based on labor category, rate, and hours worked, resulting in \$7,933 in unsupported costs.

### ***Lack of Specific Document Retention Requirements***

One reason that CORs were unable to support some costs was because IRM did not have an adequate document retention policy in place to ensure contract files were transferred between CORs during a contract's life cycle. Additionally, IRM did not provide guidance to CORs on what documents should be maintained on its internal SharePoint site.

### ***CORs Transferred Incomplete Files***

IRM did not have an adequate policy in place to transition contract files from one COR to another during a contract's life cycle. Kearney found that five of the seven invoices with unallowable or unsupported amounts were related to task orders that had a COR rotation

during the task order life cycle. The FAH<sup>21</sup> requires that CORs maintain a COR file containing pertinent details and information about the contract, including copies of the contract, modifications, copies of invoices, and supporting documentation. Further, the FAH states that the COR must certify to the CO that files are being maintained appropriately<sup>22</sup> and that COR files will be verified upon COR transfer.<sup>23</sup> IRM does not have sufficient formalized guidance on how a departing COR should transfer supporting documentation on a task order to a replacement COR, including required timeframes for the transfer.

While the FAH<sup>24</sup> states that a COR's supervisor is responsible for ensuring the COR is maintaining contract files properly and verifying the status of COR contract files during a COR transition, IRM does not have a mechanism to ensure that the COR's supervisor is fulfilling these responsibilities. Further, the FAH does not indicate that the CO is also responsible for these items. The Department's Office of the Procurement Executive issued Procurement Information Bulletin (PIB) 2014-10<sup>25</sup> to clarify CO and COR responsibilities and requirements in a number of areas, including maintenance and transfer of contract and COR files. However, when we inquired whether CORs were aware of guidelines for invoice review and contract transfer responsibilities other than those contained in the FAH, Kearney found that none of the CORs cited PIB 2014-10 as a source. While PIB 2014-10 includes a checklist of mandatory documents that the COR must include in the COR File, PIB 2014-10 also encourages bureaus to note any special documentation requirements that may be unique to their programs. Kearney found that IRM did not have sufficient Vanguard-specific guidelines to hold employees accountable for ensuring supporting documentation was adequately transferred. Further, IRM did not have formal guidance on the extent of verification that should be performed to ensure supporting documentation being transferred was complete.

Kearney found that the files transferred from prior CORs were incomplete and did not include all the supporting documentation to support invoices. Three CORs stated they had noted improper or incomplete documentation in contract files after a prior COR had transferred but were unable to obtain additional information because prior CORs had either retired or left the Department.

### *VMO's SharePoint Site Was Not Fully Utilized*

The VMO created a SharePoint site for CORs to maintain required documentation; however, Kearney found that CORs were not using the SharePoint site consistently or to its full functionality. The VMO did not implement the SharePoint site until after the Vanguard Program was in place, meaning CORs did not all begin using the site at the same time. As a result, the

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<sup>21</sup> 14 FAH-2 H-517 (a), "Standard Contracting Officer's Representative (COR) Working File."

<sup>22</sup> 14 FAH-2 H-517 (c).

<sup>23</sup> 14 FAH-2 H-517 (d).

<sup>24</sup> 14 FAH-2 H-515 (d), "Supervisor's Participation in Contract Administration."

<sup>25</sup> PIB 2014-10 was issued May 7, 2014. This report evaluates invoices submitted between October 1, 2013, and March 31, 2015. While some of the invoices that Kearney reviewed were not subject to the requirements of PIB 2014-10, Kearney found that six of the seven invoices with unallowable or unsupported amounts were submitted after the effective date of PIB 2014-10 and were subject to the requirements of the bulletin.

completeness of the supporting documentation for task orders varies. IRM has not required CORs to load pertinent documentation obtained before the SharePoint site implementation to ensure that all relevant files and information are available

Further, IRM does not have clear guidelines for what documentation CORs are required to maintain on the SharePoint site. For example, Kearney noted that some CORs maintained all invoice supporting documentation on the site while other CORs maintained some information in other locations, such as other shared computer drives. Similarly, some CORs included contract modifications in their contract folders, while others included only the original task order documents. Kearney also noted information stored on SharePoint was not named or organized in a consistent manner.

### ***Insufficient Policies Led to Questioned Costs***

Without standardized policies for transferring files between CORs and maintaining required documentation in a centralized location, Kearney could not determine whether \$560,486 in costs were allowable.<sup>26</sup> If pertinent documentation such as actual contracts and executed modifications are not readily available, CORs will not have a basis for evaluating vendor invoices and future contracting actions. To the extent that CORs have transitioned out of their oversight position within the Vanguard Program, Department personnel with firsthand knowledge may no longer be available, which may impact the continuity of the Vanguard Program and the services provided. Without sufficient policies and procedures, employees may perform their work inconsistently or inefficiently. This increases the risk that unallowable costs could go unnoticed.

**Recommendation 1:** OIG recommends that the Bureau of Information Resource Management (a) determine whether the \$560,486 in questioned costs related to the Vanguard Information Technology Consolidation Program time and material expenses as identified by OIG are allowable or supported and (b) recover any costs determined to be unallowable or unsupported.

**Management Response:** IRM concurred with the recommendation, stating that it will work with the Bureau of Administration to identify options for validating whether outstanding costs are allowable or unallowable and will identify a process for recovering any costs that are determined to be unallowable.

**OIG Reply:** Although IRM concurred with the recommendation, OIG considers the recommendation unresolved because management did not provide a decision with respect to the validity of the \$560,486 in questioned costs identified.<sup>27</sup> The recommendation can be resolved when OIG receives IRM's determination on the validity of the \$560,486 in questioned costs. The recommendation will be closed when OIG receives and accepts

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<sup>26</sup> As a result of Kearney's audit findings, the Department has recovered \$764 from the vendor that Kearney identified as unallowable.

<sup>27</sup> Inspector General Act, as amended, Pub. L. No. 95-452 § 5(a)(8).

documentation demonstrating that IRM took appropriate action to recover all costs that were disallowed.

**Recommendation 2:** OIG recommends that the Bureau of Information Resource Management develop and implement guidelines specific to the Vanguard Information Technology Consolidation Program that adhere to Department policy, including Procurement Information Bulletin 2014-10, regarding outgoing and incoming Contracting Officer's Representative responsibilities during a Contracting Officer's Representative transfer.

**Management Response:** IRM concurred with the recommendation, stating that the VMO has created a COR transition and closeout process, along with a supporting documentation suite to include a COR transition and closeout user guide, a file review checklist, and a COR transition and closeout designation memo. The VMO continues to work with the Bureau of Administration to validate and codify these documents and the underlying process.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation will be closed when OIG receives and accepts documentation demonstrating that IRM has implemented a COR transition and closeout process, to include the COR transition and closeout user guide.

**Recommendation 3:** OIG recommends that the Bureau of Administration update the Foreign Affairs Handbook to clarify that the Contracting Officer is ultimately responsible for certifying that the Contracting Officer's Representative is maintaining contract files properly and verifying the status of those files during any transition of Contracting Officer's Representatives.

**Management Response:** The Bureau of Administration, Office of the Procurement Executive, concurred with the recommendation, stating that it will update the FAH accordingly.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration updated the FAH to clarify that the CO is ultimately responsible for certifying that the COR is maintaining contract files properly and verifying the status of those files during any COR transition.

**Recommendation 4:** OIG recommends that the Bureau of Information Resource Management develop and implement guidelines requiring the Vanguard Information Technology Consolidation Program Contracting Officer's Representatives and government technical monitors to use SharePoint to maintain all supporting documentation for the Vanguard Information Technology Consolidation Program task orders. Guidelines should include, at a minimum, the type and extent of documentation to be maintained, expectations for timeliness, standardized methods for organizing and naming documents, and guidance on the storage of documentation created prior to the existence of SharePoint.

**Management Response:** IRM concurred with the recommendation. IRM noted that VMO has created a SharePoint site that is being used by many Vanguard CORs, although it also noted difficulties in obtaining full compliance. IRM stated that it will work with the Bureau of Administration on a “path forward” for satisfying document management requirements.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation will be closed when OIG receives and accepts documentation demonstrating that guidelines were developed and implemented requiring Vanguard Program CORs and GTMs to maintain all supporting documentation for the Vanguard Program task orders.

### ***Insufficient Documentation on Contractor Employees’ Suitability Based on Labor Category Requirements***

The FAR<sup>28</sup> states that a contractor must substantiate that the hours billed on a T&M invoice are at the appropriate rate by maintaining documentation to demonstrate that the employees meet the qualifications for the labor categories specified in the task orders. For 2 (6 percent) of the 34 invoices tested, IRM provided documentation showing that the COR verified the contractor employees met labor category qualifications. However, for the remaining 32 (94 percent) of 34 invoices tested, the CORs confirmed that review of contractor qualifications was not done.

### ***CORs Were Unaware of Oversight Requirement***

CORs were generally unaware of the requirement to validate contractor qualifications against labor categories specified in Vanguard Program task orders. While Department guidance contains requirements for reviewing invoices based on the type of expense contained in the invoice, Kearney found that IRM did not provide any specific guidance or training to CORs related to invoice review and approval and how these activities should differ depending on the type of expense under review. Kearney found that CORs understood that T&M invoice review should include verifying hours and rates but were unaware of the additional responsibility to validate whether contractor employees met the qualifications to be billed in each labor category.

### ***Reliance on an Unknown Level of Service***

The Department might not be receiving the services it is paying for if contractor employees do not meet labor category requirements.<sup>29</sup> Similarly, the Department may be relying on an unreasonable expected level of service if contractor qualifications are not verified. A number of bureaus and offices throughout the Department rely on Vanguard Program support to perform necessary operational functions. These functions could be at risk if contractors performing tasks are not qualified to do so.

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<sup>28</sup> FAR 52.232-7, “Payments Under Time and Materials and Labor-Hour Contracts.”

<sup>29</sup> Each task order outlines minimum levels of education, experience, certification, or other relevant standard requirements that an employee must meet in order to be proficient to perform work in a specific labor category.

**Recommendation 5:** OIG recommends that the Bureau of Information Resource Management develop and implement training for Vanguard Information Technology Consolidation Program Contracting Officer's Representatives that clearly outlines the requirements for reviewing various types of invoices including the requirement to confirm contractors meet the labor category requirements specified in Vanguard Program task orders.

**Management Response:** IRM concurred with the recommendation, stating that VMO has already established training for CORs and GTMs specific to Vanguard contract management. IRM will work with the Bureau of Administration to introduce invoice management into that training and to ensure requirement coverage and consistent messaging.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation will be closed when OIG receives and accepts documentation demonstrating that IRM developed and implemented training that outlines the requirements for reviewing various types of invoices including the requirement to confirm contractors meet the labor category requirements specified in Vanguard Program task orders.

## **Finding B: Performance Incentive Payments Were Generally Made in Accordance With Contract Criteria**

While Kearney found that performance incentive payments were generally made in accordance with contract criteria, Kearney identified \$6,585 in unallowable performance incentive payments. Although Kearney generally determined that payments were made correctly, the Department has more than 300 different metrics that must be tracked to calculate performance incentive payments. Kearney found that the processes used by IRM employees to calculate and validate the amount of performance incentive payments are inconsistent and time consuming due to the manual nature of the process. As a result, Department employees are spending a significant amount of time and effort tracking and administering performance incentive payments, the cost of which could potentially exceed the low dollar amount of the payments themselves (the amount of performance incentive payments is less than half a percent of the total Vanguard Program payments).<sup>30</sup>

### ***Performance Incentive Payments Were Generally in Accordance With Contract Criteria***

Generally, Kearney found that performance incentive payments were made in accordance with contract requirements. The contract states that each vendor's technical proposal, "...incorporated by reference, lists the metrics for which contractor performance will be measured when performing work under a task order. The Government and the contractor may manually adjust these metrics and/or identify additional performance metrics as necessary."<sup>31</sup> To

<sup>30</sup> From October 1, 2013, until March 31, 2015, the Department spent approximately \$3.4 million for Vanguard Program performance incentive payments, from a total amount of \$457 million in Vanguard Program payments.

<sup>31</sup> Because each task order has its own contract, the performance incentive clause is in different sections in each of the contracts.

be in accordance with contract criteria, a performance incentive payment must be calculated based on the performance metrics and AQLs defined in the vendor's technical proposal for each task order.

Vendors designed performance metrics with the specific scope of their task in mind. Five<sup>32</sup> of the 10 Vanguard Program task orders allow performance incentive payments. Each of the five task orders contains distinctly different performance metrics. For example, performance metrics in one task order relate to customer satisfaction, while performance metrics in another task order relate to system capabilities and system security. To measure performance against customer satisfaction, the vendor uses system-generated reports to track the average amount of time it takes it to respond to customer calls and emails. To measure performance against system capabilities and system security, the vendor uses reports to track the number of threats or attacks against the system and network availability during a given time frame. For each metric, the vendor compares its results to the AQLs established in the technical proposal. To the extent that a vendor exceeds the AQLs, the Department pays a performance incentive. If a vendor fails to meet an AQL, it is charged a disincentive penalty.

To test whether performance incentive payments were made in accordance with contract criteria, Kearney tested 10 (63 percent) of 16 performance incentive payments totaling \$3.2 million (94 percent) of \$3.4 million. Kearney reviewed applicable contract criteria and recalculated each performance incentive payment. Kearney found 3 (30 percent) of 10 payments, totaling \$6,585 (less than half a percent) of \$3.2 million tested, had a portion of the performance incentive payment that was not in accordance with the metrics and AQLs established in the vendor's technical proposal because of vendor calculation errors. For the remaining 7 (70 percent) of 10 payments tested, Kearney confirmed that the payment was based on the metrics and AQLs outlined in the vendor's technical proposal. Table 6 provides additional information on the three exceptions.

**Table 6: Payments With Unallowable or Unsupported Costs**

Invoice Number	Unallowable Costs	Unsupported Costs	Questioned Costs
INV06-0255740R2	\$5,689	\$0	\$5,689
SAQMM-#204B	153	0	153
400212-R	743	0	743
	<b>\$6,585</b>	<b>\$0</b>	<b>\$6,585</b>

**Source:** Kearney prepared based on the results of testing.

Specifically, Kearney found:

- For invoice INV06-0255740R2, calculation errors resulted in \$5,689 being paid incorrectly for the performance incentive payment.

<sup>32</sup> While 5 of the 10 task orders have performance incentive contract line item numbers (CLINS), only 4 of the task orders had performance incentive payments made during the scope period.

- For invoice SAQMM-#204B, a division error resulted in \$153 being paid incorrectly.
- For invoice 400212-R, an addition error resulted in \$743 being paid incorrectly.

### ***Performance Incentive Payment Process Is Manual and Prone to Error***

Although Kearney generally determined that payments were made correctly, Kearney found that the Department has more than 300 metrics that must be tracked to calculate performance incentive payments by approximately 4 CORs<sup>33</sup> and 80 GTMs. The performance metrics varied across the task orders and required numerous people to track information to support performance. Further, IRM lacked a documented, standardized process to validate performance metrics and payments. Because performance incentive payment calculations were manual, complicated, and time consuming, the Department sometimes paid for unallowable costs.

To initiate a performance incentive payment, the vendor must manually compile and calculate data associated with each performance metric for the task order. For example, if a performance metric related to average response time to a help desk call, the vendor would need to review call logs and other supporting documentation to calculate the average response time. Based upon the calculation, the vendor assigned itself a score. Additionally, the vendor assigned each metric a weighted percentage based on its relative importance to the task order's goals. Since a monthly performance incentive payment could include anywhere from 7 to 28 metrics, the vendor had to do this anywhere between 7 to 28 times each month, which resulted in a significant number of manual data inputs.

To adequately validate performance metrics, CORs and GTMs needed to re-perform the vendor's entire process for calculating each metric. While Kearney found that some CORs and GTMs validated all performance metrics, Kearney found that other CORs and GTMs did not. Additionally, Kearney found that the reports provided by vendors to document the results of their metric validations often did not show all of the calculations performed by the vendor, thus limiting a COR or GTM's ability to validate the performance incentive payment requested. To re-perform the vendor's calculations, CORs and GTMs would need to create, maintain, and manually update templates to calculate each performance incentive payment using input from the vendor's technical proposal, or subsequent modifications and source documentation for each performance metric, or require that the vendor submit detailed reports that enable the CORs or GTMs to validate the performance incentive payment calculations. The reports that vendors submit are already lengthy and require a significant amount of time for the vendors to prepare. Kearney found that CORs and GTMs performed varying levels of review over the vendor's reports.<sup>34</sup> While some of these reviews were documented, CORs and GTMs performed the reviews manually and did not have standardized, automated procedures on how to perform

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<sup>33</sup> Each Vanguard task order has one COR. Four of the 10 task orders had performance incentive payments made during the scope period.

<sup>34</sup> In an October 2015 OIG Inspection Report, *Inspection of the Bureau of Information Resource Management, Operations, Vendor Management Office* (ISP-I-16-03), OIG noted that Vanguard GTMs failed to validate a large number of performance metrics each month. OIG recommended that IRM require that the CORs and GTMs validate all performance metrics. In its December 9, 2015, response to the inspection report, IRM concurred with the recommendation. Specifically IRM stated that "VMO has put into production a new enhanced Vanguard Performance

the reviews. CORs and GTMs indicated that the process to review the reports provided by vendors and validate performance incentive payments is manual, cumbersome, and takes a significant amount of their time.

***Significant Efforts to Validate a Small Percentage of Spending Under the Vanguard Program***

Vendors and Federal employees are spending a significant amount of time calculating and validating performance metric scores that result in payments totaling less than 1 percent of the spending under the Vanguard Program. COR and GTM efforts might be put to better use validating other areas of spending under the Vanguard Program. The Department's manual and cumbersome process is time consuming, limiting the COR and GTM's capacity to validate performance metrics and increasing the risk that errors will go undetected. As a result, the Department is potentially incentivizing vendors for a level of service it did not receive.

**Recommendation 6:** OIG recommends that the Bureau of Information Resource Management (a) determine whether the \$6,585 in questioned costs related to Vanguard Information Technology Consolidation Program performance incentive payments as identified by OIG are allowable or supported and (b) recover any costs determined to be unallowable or unsupported.

**Management Response:** IRM concurred with the recommendation.

**OIG Reply:** Although IRM concurred with the recommendation, OIG considers the recommendation unresolved because management did not provide a decision with respect to the validity of the \$6,585 in questioned costs. The recommendation can be resolved when OIG receives IRM's determination on the validity of the \$6,585 in questioned costs. The recommendation will be closed when OIG receives and accepts documentation demonstrating that IRM took appropriate action to recover all costs that were disallowed.

**Recommendation 7:** OIG recommends that the Bureau of Information Resource Management (a) formally analyze the cost and benefits of the performance incentive payment for the Vanguard Information Technology Consolidation Program, including the cost of reviewing hundreds of metrics to determine the amount of the performance incentive payments; (b) implement the findings from the cost and benefits analysis; and (c) revise the Vanguard Information Technology Consolidation Program as needed.

**Management Response:** IRM concurred with the recommendation, stating that it will develop a report and share the results with OIG.

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Measurement database that provides the ability to run real-time GTM compliance reports." Based on IRM's response, OIG considered this recommendation resolved, pending further action.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation will be closed when OIG receives and accepts documentation demonstrating that (1) the costs and benefits of the performance incentive payment for the Vanguard Program, including the cost of reviewing hundreds of metrics to determine the amount of the performance incentive payments were analyzed; (2) findings from the analysis were implemented; and (3) the Vanguard Program was revised, as needed.

**Recommendation 8:** OIG recommends that the Bureau of Information Resource Management develop and implement policies and procedures for Contracting Officer's Representatives and government technical monitors to use to validate the calculation of performance incentive payments performed by the Vanguard Information Technology Consolidation Program contractors. As part of this effort, the Bureau should identify opportunities for automation and standardization that would reduce the manual nature of the current process and the time needed to process performance incentive payments.

**Management Response:** IRM concurred with the recommendation, stating that the Service Performance Management unit of the VMO has been addressing continual service improvement across all of its performance metric process. The VMO transitioned from Excel spreadsheets to a newly constructed Vanguard Performance Measurement database in August 2015, which eliminates manual processes and computes large volumes of performance metrics activity more reliably and quickly. In addition, the VMO is in the planning phase for improvements to its performance management database that include a three-release deployment of a Microsoft SQL Server implementation, with the complete automation of metrics lifecycle management as the foundation of the initial release.

**OIG Reply:** Although IRM concurred with the recommendation and provided details on the new database, OIG considers the recommendation unresolved because management did not specify it would develop and implement policies and procedures that CORs and GTMs could use to validate the calculation of performance incentive payments performed by the Vanguard Program contractors. The recommendation can be resolved when IRM agrees to develop and implement policies and procedures to validate the calculation of performance incentive payments. The recommendation will be closed when OIG receives and accepts documentation demonstrating that IRM has developed and implemented policies and procedures to validate the calculation of performance incentive payments and has adopted an improved process for performance incentive payments.

## RECOMMENDATIONS

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**Recommendation 1:** OIG recommends that the Bureau of Information Resource Management (a) determine whether the \$560,486 in questioned costs related to the Vanguard Information Technology Consolidation Program time and material expenses as identified by OIG are allowable or supported and (b) recover any costs determined to be unallowable or unsupported.

**Recommendation 2:** OIG recommends that the Bureau of Information Resource Management develop and implement guidelines specific to the Vanguard Information Technology Consolidation Program that adhere to Department policy, including Procurement Information Bulletin 2014-10, regarding outgoing and incoming Contracting Officer's Representative responsibilities during a Contracting Officer's Representative transfer.

**Recommendation 3:** OIG recommends that the Bureau of Administration update the Foreign Affairs Handbook to clarify that the Contracting Officer is ultimately responsible for certifying that the Contracting Officer's Representative is maintaining contract files properly and verifying the status of those files during any transition of Contracting Officer's Representatives.

**Recommendation 4:** OIG recommends that the Bureau of Information Resource Management develop and implement guidelines requiring the Vanguard Information Technology Consolidation Program Contracting Officer's Representatives and government technical monitors to use SharePoint to maintain all supporting documentation for the Vanguard Information Technology Consolidation Program task orders. Guidelines should include, at a minimum, the type and extent of documentation to be maintained, expectations for timeliness, standardized methods for organizing and naming documents, and guidance on the storage of documentation created prior to the existence of SharePoint.

**Recommendation 5:** OIG recommends that the Bureau of Information Resource Management develop and implement training for Vanguard Information Technology Consolidation Program Contracting Officer's Representatives that clearly outlines the requirements for reviewing various types of invoices including the requirement to confirm contractors meet the labor category requirements specified in Vanguard Program task orders.

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**Recommendation 7:** OIG recommends that the Bureau of Information Resource Management (a) formally analyze the cost and benefits of the performance incentive payment for the Vanguard Information Technology Consolidation Program, including the cost of reviewing hundreds of metrics to determine the amount of the performance incentive payments; (b) implement the findings from the cost and benefits analysis; and (c) revise the Vanguard Information Technology Consolidation Program as needed.

**Recommendation 8:** OIG recommends that the Bureau of Information Resource Management develop and implement policies and procedures for Contracting Officer's Representatives and government technical monitors to use to validate the calculation of performance incentive payments performed by the Vanguard Information Technology Consolidation Program contractors. As part of this effort, the Bureau should identify opportunities for automation and standardization that would reduce the manual nature of the current process and the time needed to process performance incentive payments.

## APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

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The Office of Inspector General (OIG) for the Department of State (Department) and Broadcasting Board of Governors initiated this performance audit to determine whether time and material (T&M) expenses for the Vanguard Program were allowable and supported, and to determine whether performance incentive payments were made in accordance with the terms and conditions of the contract. An external audit firm, Kearney & Company, P.C. (Kearney), acting on behalf of the OIG, performed this audit.

Kearney conducted this performance audit from May to November 2015 in Washington, D.C. Kearney planned and performed the audit in accordance with performance audit requirements in the Government Accountability Office's *Government Auditing Standards*, 2011 revision. These standards required Kearney to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions. Kearney evaluated sufficiency and appropriateness of evidence based on the objectives and scope of the audit. Kearney believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives.

To obtain background information for this audit, Kearney researched and reviewed the Foreign Affairs Handbook, Foreign Affairs Manual, and the Federal Acquisition Regulation. Kearney also reviewed Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," as well as the terms and conditions of each Vanguard Program task order.

Kearney met with the OIG Inspection team that conducted an inspection of the Vendor Management Office (VMO) in 2015 to discuss its preliminary findings and to leverage information obtained during the inspection.<sup>1</sup> Kearney also met with VMO personnel and Contracting Officer's Representatives (CORs) responsible for Vanguard Program task orders in order to obtain additional details regarding their processes related to both T&M expenses and performance incentive payments. Additionally, Kearney met with personnel from the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, for assistance in obtaining a complete listing of Vanguard Program task orders.

Kearney used a risk-based approach to review T&M expenses. Kearney identified risks associated with the audit objective to determine if T&M expenses included in invoices for Vanguard Program task orders were allowable and supported in accordance with the terms and conditions of the task orders. Additionally, Kearney identified the controls in place to address those risks. To assess the design and operating effectiveness of these controls, Kearney performed process walkthroughs and obtained relevant supporting documentation. Kearney then performed procedures to test and verify that the T&M expenses included in invoices for

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<sup>1</sup> OIG, *Inspection of the Bureau of Information Resource Management, Operations, Vendor Management Office* (ISP-I-16-03, October 2015).

Vanguard Program task orders were allowable and supported in accordance with the terms and conditions of the task orders.

Kearney also used a risk-based approach to review performance incentive payments. Kearney identified risks associated with the audit objective to determine to what extent performance incentive payments associated with the Vanguard Program were made in accordance with the contract criteria. Additionally, Kearney identified the controls in place to address those risks. To assess the design and operating effectiveness of these controls, Kearney performed process walkthroughs and obtained relevant supporting documentation. Kearney then performed procedures to test and verify that performance incentive payments associated with the Vanguard Program were made in accordance with the contract criteria.

### **Prior OIG Reports**

In 2015, OIG issued an inspection report<sup>2</sup> that identified concerns related to the VMO's authority. Specifically, the report states that the VMO operates without authority to require compliance with its procedures. Additionally, the inspection report states that the VMO performs contract administration duties without formal delegation from the Contracting Officer as required by the Federal Acquisition Regulation.

The inspection report also mentions that Vanguard government technical monitors failed to validate a large number of performance metrics each month, as well as recounts concerns related to the use of the iSchedule<sup>3</sup> project management application.

### **Work Related to Internal Controls**

Kearney performed steps to assess the adequacy of internal controls related to the audit objectives. First, Kearney gained an understanding of controls relating to invoice processing. This included centralized controls performed by the Bureau of Information Resource Management and controls implemented by individual CORs. Kearney tested controls intended to ensure that T&M expenses included in invoices for Vanguard Program task orders were allowable and supported in accordance with the terms and conditions of the contract. Additionally, Kearney tested the controls intended to ensure performance incentive payments for Vanguard Program task orders were made in accordance with the contract criteria. Work performed on internal controls during the audit is detailed in the "Audit Results" section of the report.

### **Use of Computer-Processed Data**

Kearney used computer-processed data from the Department during this audit. Kearney obtained reports from the Global Financial Management System (GFMS) detailing Department

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<sup>2</sup> OIG, *Inspection of the Bureau of Information Resource Management, Operations, Vendor Management Office* (ISP-I-16-03, October 2015).

<sup>3</sup> iSchedule was created to help establish a clearly defined and standardized process for integrated schedule management across all of the Bureau of Information Resource Management.

expenditures from October 1, 2013, through March 31, 2015, to assist in identifying and selecting a sample of T&M expenses and a sample of performance incentive payments for testing. The Department has controls in place to ensure that the expenses recorded in GFMS are accurate and complete. Kearney performed procedures to evaluate the accuracy and completeness of the expenditure reports during the audits of the FY 2014 and FY 2015 financial statements and concluded that the listings were sufficiently reliable for sample selection purposes.

Although Kearney concluded that the reports obtained from GFMS were reliable, key information relevant to the objectives of this audit was obtained from sources other than GFMS. This included the task orders and their associated contract line item numbers (CLIN),<sup>4</sup> which were reviewed as either hard-copy documents in contract files or scanned copies of original contract documents maintained on the VMO's SharePoint site.<sup>5</sup>

## Detailed Sampling Methodology

Kearney's sampling objectives were to test T&M expenses and performance incentive payments to determine if they were allowable, supported, and in accordance with the terms and conditions of the Vanguard Program task orders. In order to determine the universe of T&M expenses and performance incentive payment under the Vanguard Program, Kearney first obtained a complete listing of Vanguard Program task orders. Kearney then manually reviewed each task order to identify the CLINs associated with T&M expenses and performance incentive payments. Kearney isolated universes of T&M expenses and performance incentive payments. From each of the universes, Kearney selected samples for testing.

### *Identification of Vanguard Program Task Orders Within Scope Period*

Kearney requested that the VMO provide a list of all tasks orders and modifications for the life of the Vanguard Program as well as a listing of the CORs for each task order, details of which are included in Table A.1.

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<sup>4</sup> A CLIN is used in Federal Government contracts for accounting classification purposes to specify what services or supplies are being acquired.

<sup>5</sup> Kearney performed a number of manual processes to obtain and confirm the CLIN types, which were needed to select the audit samples for testing. These manual processes are documented in the *Manual Identification of CLINs for in-Scope Expense Types* and *Extraction of Expense Transactions Relating to Vanguard Task Order* sections of this appendix. For sampling purposes, the manual identification of task orders and CLINs was determined to be sufficient based on information provided by officials from the Bureau of Information Resource Management and the Bureau of Administration.

Table A.1: Vanguard Program Task Orders

Task Number	Vendor	Task Order Number	Number of Task Orders
2.1	Digital Management, Inc.	SAQMMA12F1424	1
2.2.1	Science Applications International Corporation	SAQMMA11F0233	1
2.2.2	Advanced Alliant Solutions Team/ Intercom	SAQMMA12F0405	1
2.2.3	DynCorp	SAQMMA14F0756	1
2.2.4 <sup>a</sup>	Moss Cape (9/30/2014 – present)	SAQMMA14D0107	24
2.2.4 <sup>b</sup>	Copper River (9/12/2011 – 9/29/2014)	SAQMMA11D0114	55
2.2.5	AT&T	SAQMMA14F1811	1
2.3.1	Buchanan & Edwards	SAQMMA13F2905	1
2.3.2	Buchanan & Edwards	SAQMMA13F2651	1
2.3.3	ValidaTek Inc.	SAQMMA13F2583	1
2.3.4	ClearAvenue	SAQMMA13F2906	1
<b>Total</b>			<b>88</b>

<sup>a</sup> This is the original contract for Moss Cape. There are 29 task orders in total issued under this contract. However, only 24 of the 29 task orders incurred expenses during the scope of the audit.

<sup>b</sup> This is the original contract created for Copper River. There are 127 task orders in total issued under this contract. However, only 55 incurred expenses during the scope of the audit.

**Source:** Kearney prepared based on information provided by the VMO.

In order to corroborate the completeness of the list provided by the VMO, Kearney requested that the COR for each task provide Kearney with a listing of task orders for that task. Kearney was able to verify that the COR-provided listing agreed with the list provided by the VMO for all but one task. The COR for task number 2.2.4 explained that, unlike the other tasks, the Department issued an indefinite delivery, indefinite quantity contract to execute the objectives of this task. Accordingly, each request for services was issued as a separate, specific task order under the indefinite delivery, indefinite quantity contract. The COR indicated that the current definite delivery, indefinite quantity contract had replaced a previous definite delivery, indefinite quantity contract to perform similar work. Kearney obtained a listing of all task orders issued under the previous contract for task number 2.2.4 from the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management. There were a total of 88 task orders, 79 related to task order 2.2.4 and 1 for each of the other 9 task orders, as shown in Table A.1.

### ***Manual Identification of CLINs Relating to in-Scope Expense Types***

Within the 88 task orders, there was a total of 126 CLINs. In order to determine the type of allowable expenses under each CLIN, Kearney obtained and reviewed contract documents. Based on this manual review, Kearney categorized each CLIN into one of these expense types: Award Fee, Cost Reimbursable, Firm Fixed Price (FFP), Performance Incentives, Other Direct Costs, T&M, Miscellaneous Other, or a hybrid.<sup>6</sup> CLINs identified as hybrids with a T&M

<sup>6</sup> Hybrid CLINs are those that can have more than one type of allowable expense within the CLIN. For example, a CLIN could include both FFP and T&M components.

component were included in the T&M category for purposes of compiling the sampling universe. By including the hybrid CLINs in the sampling universe, Kearney ensured that all potential T&M expenses were subject to sampling procedures.

Finally, Kearney confirmed that their categorization of each CLIN was accurate with personnel from the Bureau of Information Resource Management and the Bureau of Administration. Table A.2 shows the number of CLINs by payment type.

**Table A.2: Number of CLINs Associated With Each Payment Type**

Payment Type	Number of CLINs
Award Fee	5
Cost Reimbursable	12
Firm Fixed Price	60
Performance Incentive	8
Other Direct Costs	11
Miscellaneous Other	5
T&M and Hybrid	25
<b>Total CLINs</b>	<b>126</b>

**Source:** Kearney prepared based on expense detail obtained from GFMS.

### *Extraction of Expense Transactions Relating to Vanguard Task Orders*

Kearney obtained the Department's GFMS expenditure reports detailing all expenses for the period October 1, 2013, through March 31, 2015.<sup>7</sup> Using the "Referenced\_Document\_Number" field in GFMS (which is the same as the task order number), Kearney extracted all expenses related to the task orders under the Vanguard Program. Kearney then removed transactions that net to zero<sup>8</sup> to prevent these records from being selected for testing. This resulted in a universe of all expense transactions related to Vanguard Program task orders within the scope period.

Next, Kearney used a combination of the "Document\_Number" and "Accounting\_Line\_Number" fields to identify the CLIN associated with each expense. Kearney determined the payment type for each expense, based on its CLIN, to determine the total amount and number of Vanguard Program expense transactions for each payment type during the audit scope period, as shown in Table A.3.

<sup>7</sup> Scope period of the Vanguard Program audit.

<sup>8</sup> There are scenarios where a transaction is entered into GFMS with an incorrect attribute. In order to correct this, a transaction is processed in GFMS to reverse the balance of the original transaction. Additionally, a new transaction is processed in GFMS with the correct attributes. In order to prevent such occurrences from being over-represented in the population subject to sampling, transactions that net to zero (the original transaction and the reversal of the original transaction) are removed from the population subject to sampling. In this scenario, the transaction that was re-entered will remain in the population subject to sampling.

**Table A.3: Summary of Vanguard Program Expenses by Payment Type Based Upon Initial Analysis**

<b>Payment Type</b>	<b>Amount of Expenses</b>	<b>Number of Expenses</b>	<b>Number of Invoices</b>
Award Fee	\$336,186	9	9
Cost Reimbursable	3,309,316	127	83
Firm Fixed Price	338,458,460	894	365
Performance Incentive, net <sup>a</sup>	3,442,001	25	16
Other Direct Costs	84,570,047	240	108
Miscellaneous Other	3,803,946	492	228
T&M and Hybrid	23,361,436	392	237
<b>Total</b>	<b>\$457,281,392</b>	<b>2,179</b>	<b>1,046<sup>b</sup></b>

<sup>a</sup> Performance incentive expenses are shown net of any disincentives assessed for unsatisfactory vendor performance.

<sup>b</sup> Because an invoice can include CLINs of different payment types, certain invoices were included in more than one category. As a result, the total number of invoices does not represent the actual number of invoices paid during the scope period.

**Source:** Kearney prepared based on expense detail obtained from GFMS.

Because the scope of the audit was limited to performance incentive payments and T&M expenses, Kearney isolated expenses in these payments types to create the universe of payments for audit sampling.

### *Sample Design*

Kearney selected two samples during the audit—a sample of T&M invoices and a sample of performance incentive payment invoices.

### *Time and Material Expense Sample*

Kearney initially identified the universe of payments made against T&M and hybrid CLINs during the period of 237 invoices totaling approximately \$23.4 million. Based on the objectives of the audit, Kearney used a statistical sampling methodology<sup>9</sup> for testing T&M invoices known as monetary unit sampling.<sup>10</sup> Using IDEA<sup>®</sup> Data Analysis Software,<sup>11</sup> Kearney selected a monetary unit sample with a 95 percent confidence level and a 5 percent expected error rate, resulting in a sample size of 46 invoices, totaling approximately \$12.8 million, as shown in Table A.4.

<sup>9</sup> A statistical sampling methodology includes a random selection of the sample items and the use of probability to evaluate sample results.

<sup>10</sup> Monetary Unit Sampling (MUS) is a statistical sampling technique used to select a sample based on the proportionate unit size of the sample to the overall population. For purposes of this audit, the unit is the dollar value of the transactions. This means that every dollar in the population has an equal chance of being selected. If a particular dollar unit is selected, the entire transaction that is associated to the dollar unit will be selected for testing. MUS determines the number of samples required to obtain the planned level of accuracy, precision, or confidence level, and determines the unit intervals necessary to generate the total number of samples needed for testing. Misstatements, whole or partial, in the sample population are projected over the population based on the proportion

**Table A.4: Initial T&M Invoice Sample Summary**

<b>Summary</b>	<b>Number of Invoices</b>	<b>Dollar Value</b>
Universe	237	\$ 23,361,436.41
Sample	46	\$ 12,783,587.61
<b>Percent Tested</b>	<b>19</b>	<b>55</b>

**Source:** Kearney prepared based on statistical sample selected in IDEA.

The T&M universe included expenses incurred on hybrid CLINs with T&M components. Of the 46 T&M invoices that Kearney selected for testing, 12 invoices, totaling approximately \$4.2 million, were identified as invoices that only contained FFP expenses.<sup>12</sup> Specifically, although these invoices related to CLINs had been appropriately designated as hybrid CLINs, the vendor had performed only FFP work during the scope of the audit. Kearney reviewed supporting documents to confirm that the vendor had not performed T&M work. Accordingly, Kearney removed all activity within this task order from the sample and the universe. This resulted in a revised expense summary in which a total of 17 invoices totaling \$4.9 million were reallocated from the T&M and hybrid payment type to the FFP payment type. Table A.5 shows the revised universe and sample as a result of this reallocation.

**Table A.5: Revised T&M Invoice Sample Summary**

<b>Summary</b>	<b>Number of Invoices</b>	<b>Dollar Value</b>
Universe	220	\$ 18,542,543
Sample	34	\$ 8,550,088
<b>Percent Tested</b>	<b>15</b>	<b>46</b>

**Source:** Kearney prepared based on statistical sample selected in IDEA.

The results of our T&M testing are included in Finding A of this report. Generally, the exceptions noted during testing were concentrated in task orders that had a COR rotation during the scope period. Since not all of the task orders under the Vanguard Program had a COR rotation during the scope period, the errors noted during testing were not considered representative of the remaining population of expenses.<sup>13</sup>

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of the misstatement in the selected sample. This sampling technique is used when overstatements or relatively few misstatements are expected in the population.

<sup>11</sup> IDEA® is an Audimation Services Inc., computer program used to analyze data and, based upon the parameters input by the user, select a sample to aid in evaluating the results of the sample.

<sup>12</sup> Kearney did not select replacement samples for the 12 invoices that did not contain T&M expenses because of the timing of our audit fieldwork. Further, based on the results of testing the other samples, Kearney determined that it had enough information to make conclusions and report its findings.

<sup>13</sup> The Government Accountability Office's Financial Audit Manual, Section 480.40 states that "The effects of any misstatements detected in a sample are projected to the population. In doing so, the auditor asks entity management

*Performance Incentive Payments Sample*

The total universe of performance incentive payments made during the period was 16 payments totaling approximately \$3.4 million. Kearney judgmentally<sup>14</sup> selected a sample of performance incentive payments to test whether the payments were made in accordance with contract criteria. Specifically, Kearney selected the seven largest invoices in the universe because those invoices represent more than 90 percent of the amount of the universe. Additionally, Kearney judgmentally selected three other performance incentive payments in order to ensure at least one payment was selected from each Vanguard Program task order that had performance incentive payments during the scope period. Kearney summarized key sample and universe data by task order in Table A.6. The results of our performance incentive payment sample testing are included in Finding B of this report.

**Table A.6: Performance Incentive Payments by Task Order**

Task Order	Payments in Universe	Payments in Sample	Value of Payments in Universe	Value of Payments in Sample
2.1	9	3 (33%)	\$ 574,116	\$ 376,412 (66%)
2.2.1	5	5 (100%)	2,827,238	2,827,238 (100%)
2.2.2	1	1 (100%)	26,532	26,532 (100%)
2.3.3	1	1 (100%)	14,115	14,115 (100%)
<b>Total</b>	<b>16</b>	<b>10 (63%)</b>	<b>\$ 3,442,001</b>	<b>\$ 3,244,297 (94%)</b>

**Source:** Kearney prepared based on data obtained from GFMS.

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to determine the cause of any misstatement found. The auditor should project all misstatements unless highly persuasive evidence is obtained that the misstatement is not representative of the entire population.”

<sup>14</sup> Judgmental sampling is a non-statistical sampling technique where the auditor selects transactions to be sampled based on their knowledge and professional judgment.

## APPENDIX B: BUREAU OF INFORMATION RESOURCE MANAGEMENT RESPONSE

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United States Department of State

Washington, D.C. 20520

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April 20, 2016

### INFORMATION MEMO FOR ASSISTANT INSPECTOR GENERAL BROWN (OIG/AUD)

FROM: IRM/PDCIO – Frontis B. Wiggins 

SUBJECT: Responses to Draft Report “Audit of Time and Material Expenses (TME) and Performance Incentive Payments for the Bureau of IRM’s, Vendor Management Office Vanguard Program”

Thank you for the opportunity to respond to the aforementioned report. The Bureau of Information Resource Management (IRM) concurs with recommendations one, two, and four thru eight where we have the lead. IRM is pleased to note that the OIG did not find any unallowable TME costs of the Vanguard Program and did not find systemic problems.

We ask that the OIG consider adding more context to the “What Was Found” section of the report. We recognize that any business process can always be improved; we ask that the findings be framed in terms of the overall value of the Vanguard Performance Management Program. As an example, the finding that addresses the \$6,585 in unallowable performance incentive payments is presented without context. The total incentive pool audited was \$3.2 million. Against the backdrop of this context, the amount being questioned is 0.2%. This figure actually validates that the existing process is 99.8% accurate, or perhaps that the current process has a 0.2% error rate. While we haven’t yet successfully eliminated all errors from the process, this context prompts a reconsideration of presenting this finding as a front page substantial issue. Additional examples of sections that would benefit from context are in the accompanying attachment.

IRM will strengthen our processes and work with A on the recommendations where they have the lead. Please coordinate with Jameela Akbari, Senior Management Advisor, at @state.gov if you have any questions.

Attachment:

Tab – IRM Response to the Draft Report

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**OIG Audit of Time and Material Expenses and Performance Incentive Payments Under the Bureau of Information Resource Management, Vendor Management Office Vanguard Program**

As noted in the accompanying Information Memo, IRM requests that the “What Was Found” section of the report expand on the finding that addresses the \$6,585 in unallowable performance incentive payment. This finding suggests that the issue occurred, in part, “...*because the Department has more than 300 different metrics that must be tracked to calculate performance incentive payments.*” This statement implies, without substantiation, that the current number of metrics may be too many. IRM currently has one metric for every \$1.5 million spent across the Vanguard support contracts. When stated in this manner, the implication may be that our current number of performance metrics is not sufficient to ensure that the Government is receiving the level of quality it should for all the services acquired across this suite of contracts. In either case, the implications are subjective. The truth is that striking the proper balance between the cost of maintaining a performance management program and the value it is meant to generate requires constant focus and adjustment. The number of metrics is continuously changing, as the return-on-investment of any given metric changes over time. Today, for example, there are 269 metrics being used to inform the incentive award program; down from the 300+ at the time of this audit.

The section continues to build on the theme of this finding by stating that, “. . .*the process used by IRM employees to calculate and validate the payments are inconsistent, time consuming, manual, and prone to human error.*” The roughly 300 current metrics requires that each GTM, on average, must validate 4 metrics per month in the online automated system. We feel this burden is neither onerous, nor inherently prone to error – as is highlighted by the 98.8% accuracy rate identified by the audit finding.

The section narrative ultimately leads to the assertion that the level of effort and complexity associated with the performance management validation process may be resulting in a cost, “. . .*which could potentially exceed the low dollar amount of the payments themselves.*” We agree that the cost/benefit analysis of such a program should be continually revisited, which is part of the continual service improvement process. However, the section language poses the wrong question. We should not be analyzing the cost of the performance management program against the cost of incentive payments made. We should be analyzing the cost of the program against the value of the performance received from each vendor. While true performance value is often challenging to quantify in dollars,

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we have been able to quantify the progress of performance in other meaningful ways. The Vanguard performance metric program is a mechanism by which IRM is able to measure its performance against the IT Service Level MOU between IRM and its consolidated customers. The program enables IRM to identify and address areas of concern when vendors may, at times, reflect a decrease in performance. For the last several years, IRM management and contractors have had access to online performance dashboards that highlight areas of exemplary, satisfactory, and poor performance. Leaders are thereby able to discuss and resolve issues impacting the quality of IRM's services in a timely manner. In short, we concur with the recommendation that we analyze the current costs of the performance management program against the value of performance received in return; however, we do not concur with the implication of the report that the current program is already clearly out of balance.

**Recommendation 1:** (U) OIG recommends that the Bureau of Information Resource Management (a) determine whether the \$560,486 in questioned costs related to the Vanguard Information Technology Consolidation Program time and material expenses as identified by OIG are allowable or supported and (b) recover any costs determined to be unallowable or unsupported.

**Management Response (April 2016):** (U) The Bureau of Information Resource Management (IRM) concurs with this recommendation, though asks that the following contextual language should be added to the report:

*“The \$560,486 in questioned costs represents 6% of the total \$8.6 million of T&M expenses audited.”*

IRM will work collaboratively with the Bureau of Administration to identify all options for appropriately validating whether the outstanding costs are allowable or unallowable, and will likewise identify a process for recovering any costs that are determined to be unallowable.

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**Recommendation 2:** (U) OIG recommends that the Bureau of Information Resource Management develop and implement guidelines specific to the Vanguard Information Technology Consolidation Program that adhere to Department policy, including Procurement Information Bulletin 2014-10, regarding outgoing and incoming Contracting Officer's Representative responsibilities during a Contracting Officer's Representative transfer.

**Management Response (April 2016):** (U) IRM concurs with this recommendation. The Vendor Management Office has been addressing this very issue as a product of last year's OIG Inspection process. The VMO has created a COR Transition and Closeout process, along with a supporting documentation suite to include a COR Transition and Closeout User Guide, A File Review Checklist, and a COR Transition and Closeout Designation memo. The VMO continues to work collaboratively with the Bureau of Administration with respect to validating and codifying these documents and the underlying process.

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**Recommendation 4:** (U) OIG recommends that the Bureau of Information Resource Management develop and implement guidelines requiring the Vanguard Information Technology Consolidation Program Contracting Officer's Representatives and government technical monitors to use SharePoint to maintain all supporting documentation for the Vanguard Information Technology Consolidation Program task orders. Guidelines should include, at a minimum, the type and extent of documentation to be maintained, expectations for timeliness, standardized methods for organizing and naming documents, and guidance on the storage of documentation created prior to the existence of SharePoint.

**Management Response (April 2016):** (U) IRM concurs with this recommendation. Leveraging the Procurement Information Bulletin NO. 2014-10, the VMO created a SharePoint site, along with its accompanying guidelines and standard operating procedure documents, to satisfy the contract file management requirements identified in the PIB for all Vanguard contracts. The site is operational, and many of our Vanguard CORs are leveraging the site. However, reaching full compliance across all Vanguard CORs has been a challenge that we are currently striving to overcome. This challenge stems from the dissemination of communications citing the release of a Department-wide contract documentation management tool by the Bureau of Administration in the near future, which in turn generate discussions around the efficiencies of migrating to an interim solution as compared to waiting for the enterprise solution. Regardless, IRM will work collaboratively with the Bureau of Administration to reach agreement on an agreed-to path forward for satisfying these document management requirements.

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**Recommendation 5:** (U) OIG recommends that the Bureau of Information Resource Management develop and implement training for Vanguard Information

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Technology Consolidation Program Contracting Officer's Representatives that clearly outlines the requirements for reviewing various types of invoices including the requirement to confirm contractors meet the labor category requirements specified in Vanguard Program task orders.

**Management Response (April 2016):** (U) IRM concurs with this recommendation. The VMO has already successfully established training materials for CORs and GTMs specific to similar Vanguard contract management processes. In order to introduce invoice management requirements into that training, IRM will need to work collaboratively with the Bureau of Administration to ensure proper requirement coverage and consistent messaging. The collaboration is strongly related to the collaboration that will need to occur in addressing Recommendation 1.

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**Recommendation 6:** (U) OIG recommends that the Bureau of Information Resource Management (a) determine whether the \$6,585 in questioned costs related to Vanguard Information Technology Consolidation Program performance incentive payments as identified by OIG are allowable or supported and (b) recover any costs determined to be unallowable or unsupported.

**Management Response (April 2016):** (U) IRM concurs with this recommendation. However, IRM requests that the following contextual language be added to the report:

*“The \$6,585 in questioned incentive payment funding represents 0.2% of the total \$3.2 million audited.”*

In addition, the language in the “What Was Found” Section, paragraph two, fourth sentence reads, *“In addition, the processes used by IRM employees to calculate and validate the amount of performance incentive payments are inconsistent, time consuming, manual, and prone to human error.”* IRM requests that this sentence be revised to strike the phrase *“prone to human error.”* The roughly 300 current metrics requires that each GTM, on average, validate 4 metrics per month in the online automated system. Whether or not this work load is burdensome or onerous may be up for individual interpretation; however, it seems clear that the process is not inherently prone to error, as is highlighted by the 98.8% accuracy rate identified by the audit finding.

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**Recommendation 7:** (U) OIG recommends that the Bureau of Information Resource Management (a) formally analyze the cost and benefits of the performance incentive payment for the Vanguard Information Technology Consolidation Program, including the cost of reviewing hundreds of metrics to determine the amount of the performance incentive payments; (b) implement the findings from the cost and benefits analysis; and (c) revise the Vanguard Information Technology Consolidation Program as needed.

**Management Response (April 2016):** (U) IRM concurs with this recommendation. We will develop a report and share the results with OIG.

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**Recommendation 8:** (U) OIG recommends that the Bureau of Information Resource Management develop and implement policies and procedures for Contracting Officer's Representatives and government technical monitors to use to validate the calculation of performance incentive payments performed by the Vanguard Information Technology Consolidation Program contractors. As part of this effort, the Bureau should identify opportunities for automation and standardization that would reduce the manual nature of the current process and the time needed to process performance incentive payments.

**Management Response (April 2016):** (U) As a result of recommendations stemming from the OIG Inspection of the VMO, the Service Performance Management unit of the VMO has been addressing continual service improvement across all of its performance metric management processes. The VMO transitioned from Excel spreadsheets to a relational database using Microsoft Access in August 2015. The newly constructed "Vanguard Performance Measurement" database eliminates manual processes, computes large volumes of performance metrics activity more reliably and quickly, and performs more advanced querying analysis for rapid metrics reporting. More specifically, the database streamlines the data intake and reporting processes for monthly contractor performance reports. All metrics activities are aggregated to normalize the data for efficient, accurate, and timely reporting. In addition, there are built-in validations to reduce errors, along with custom and ad hoc reports for instant metric status snapshots. In addition, the VMO is currently in the planning phase for the next wave of improvements to its performance management database system. The team is working towards a three-release deployment of a Microsoft SQL Server

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implementation, with the complete automation of metrics lifecycle management as the foundation of the initial release. Release 1 incorporates metrics change management, performance reporting, GTM validation, and dispute resolution. The team is targeting a go-live in October 2016. Release 2 focuses on issue escalation bringing increased transparency and more efficient communication between the VMO, COR, GTMs, and the vendor. Release 3 provides a direct link between metrics performance and GTM qualitative assessments, as well as tools to streamline quarterly incentive payment calculations and additional financial analysis.

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## APPENDIX C: BUREAU OF ADMINISTRATION RESPONSE

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United States Department of State

Washington, D.C. 20520

April 14, 2015

### MEMORANDUM

TO: OIG/AUD-Norman P. Brown

FROM: A/OPE-Corey M. Rindner *Corey M. Rindner*

SUBJECT: Report on *Compliance Follow-up Audit of Time and Material Expenses and Performance Incentive Payments for the Bureau of Information Resource Management, Vendor Management Office Vanguard Program* AUD-CGI-16-XX March 2016

The following status update is provided on the subject report. The point of contact for this report is Eric N. Moore.

**Recommendation 3:** OIG recommends that the Bureau of Administration update the *Foreign Affairs Handbook* to clarify that the Contracting Officer is ultimately responsible for certifying that the Contracting Officer's Representative is maintaining contract files properly and verifying the status of those files during any transition of Contracting Officer's Representatives.

**A/OPE Status Update:** A/OPE concurs with the recommendation and will update the *Foreign Affairs Handbook* (FAH) accordingly.

## ABBREVIATIONS

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AQL	Acceptable Quality Level
CLIN	Contract Line Item Number
CO	Contracting Officer
COR	Contracting Officer's Representative
FAH	Foreign Affairs Handbook
FAR	Federal Acquisition Regulation
FFP	Firm Fixed Price
GFMS	Global Financial Management System
GTM	Government Technical Monitor
IRM	Bureau of Information Resource Management
PIB	Procurement Information Bulletin
SAIC	Science Applications International Corporation
SOW	Statement of Work
T&M	Time and Material
VMO	Vendor Management Office

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