Office of Inspector General

January 2007
Report No. 07-004

Interagency Agreement With the General Services Administration for the Infrastructure Services Contract

AUDIT REPORT

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Background and Purpose of Audit

In March 2004, the FDIC entered into an interagency agreement with the General Services Administration (GSA) for information technology (IT) support services. Under GSA's Federal Systems Integration Management Center (FEDSIM) Millennia contract, GSA issued the Infrastructure Services Contract (ISC) to SRA International, Inc. (SRA) for IT support services for the Corporation. According to the Board Case approved by the FDIC's Board of Directors, the contract consolidated 37 FDIC infrastructure support contracts. The ISC's approved total value, including four 1-year contract option periods, is $357 million.

FEDSIM is to provide acquisition support for the ISC, while the FDIC's Division of Information Technology (DIT) has assumed responsibility for contract management and oversight.

Our audit objective was to determine whether (1) controls are adequate to ensure that work performed under the ISC complies with the contract's terms and conditions and (2) this contracting method has produced the intended results.

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Results of Audit

The ISC has substantially achieved the Corporation's desired results, as presented in the Board Case. Most notably, the ISC establishes a single point of accountability and responsibility for IT infrastructure support, enabling DIT to better manage that aspect of its operations. Also, the FDIC has established mechanisms to promote improved infrastructure performance and service, and the Corporation has rated the contractor's mid-term performance as excellent in that regard.

Although DIT's analyses showed there had been savings on labor and procurement, DIT needed to improve its methodology for measuring ISC labor costs and the savings resulting from implementing this contracting method. Such improvements would provide DIT with enhanced performance evaluation and decision-making ability.

The combination of controls established by the FDIC and those assigned to FEDSIM through the interagency agreement were adequate to ensure that work under the ISC complied with the contract terms and conditions. Also, DIT and FEDSIM had established controls over labor costs that focused on ensuring total spending on each ISC task area was within pre-approved spending plans. We concluded, however, that the Corporation should consider providing additional oversight to decisions regarding significant contract modifications involving a reallocation of contract funding. Additionally, the Corporation should consider employing additional risk-based, cost-effective controls to monitor the hours worked by highly-paid staff, labor rates being charged, and the mix of labor categories being billed. Employing additional cost-effective, risk-based controls in this area could help the Corporation avoid incurring unreasonable costs.

Recommendations and Management Response

The report makes three recommendations for DIT to strengthen its monitoring and oversight by developing a more structured methodology for evaluating ISC's performance; strengthening the oversight process for proposed contract modifications; and establishing additional cost-effective, risk-based controls to ensure the reasonableness of labor costs. DIT management concurred with the recommendations and will document the activities to provide a more structured methodology for evaluating ISC's performance; establish a process for presenting and obtaining senior management approval for contract line item allocations; and develop a process for conducting periodic program-wide reviews to assess the reasonableness of the ISC staffing and management plans. Management's planned actions are responsive to our recommendations.

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Federal Deposit Insurance Corporation
3501 Fairfax Drive, Arlington, VA 22226

Office of Audits
Office of Inspector General

DATE: January 10, 2007

MEMORANDUM TO: Michael E. Bartell
Chief Information Officer and Director
Division of Information Technology

FROM: Russell A. Rau [Electronically produced version; original signed by Russell A. Rau]
Assistant Inspector General for Audits

SUBJECT: *Interagency Agreement With the General Services Administration for the Infrastructure Services Contract*
(Report No. 07-004)

This report presents the results of the FDIC Office of Inspector General's (OIG) audit of the Division of Information Technology's (DIT) efforts to provide consolidated information technology (IT) infrastructure support for the Corporation. The consolidation was accomplished under an Interagency Agreement with the General Services Administration (GSA), through which a task order was issued to SRA International, Inc. (SRA) under GSA's Federal Systems Integration Management Center's (FEDSIM) Millennia[1] contract. The objective of the audit was to determine whether controls are adequate to ensure that work performed under the SRA task order, the *Infrastructure Services Contract* (ISC), complies with contract terms and conditions and that this contracting method has produced the desired results. Details on our objective, scope, and methodology are presented in Appendix I.

BACKGROUND

In March 2004, the FDIC entered into an interagency agreement (Purchase Order 04-00125-T-DY) with FEDSIM to provide assistance in obtaining IT support services. Through its Millennia contract, FEDSIM awarded a performance-based contract for managing the FDIC's infrastructure facilities, hardware, software, and systems, including, but not limited to, help desk operations, network operations, data center support, and security operations. DIT's overall objectives in entering into the agreement were to have a single point of accountability to produce an efficient and cost-effective IT infrastructure and to align its infrastructure management and

[1] The Millennia contract is a government-wide acquisition contract program consisting of nine indefinite delivery/indefinite quantity contracts accessible to all federal government agencies. Millennia contractors provide a broad range of IT support. SRA participates as one of the nine Millennia contactors under Contract No. GS00T99ALD0211.

support strategy with industry best practices, including the use of a performance-based contracting structure. For this effort, on June 28, 2004, the FDIC's Board of Directors approved expenditure authority for $357 million for consolidating no less than 36[2] existing contracts and for obtaining hardware and software maintenance and software and equipment. The Board approved an additional $5 million to noncompetitively extend the periods of performance of selected infrastructure support contracts that were already in use, thus allowing these contracts to be transitioned to the Millennia contractor chosen by FEDSIM.

Interagency Agreement

According to the interagency agreement, FEDSIM is to provide acquisition and project management support to ensure that current and planned FDIC IT requirements are met. Under the agreement, FEDSIM is responsible for overseeing the planning and implementation of a solicitation process, proposal evaluation and award, contract administration, quality assurance, process improvement, and IT tools procurements. FEDSIM recommended that the FDIC use the Millennia contract.

The FDIC's interagency agreement with FEDSIM gives FEDSIM full responsibility for:

- Awarding and administering all contracts/delivery orders/task orders issued to contractors.
- Directing and monitoring the contractor's work, providing technical assistance and advice to the contractor, attending status meetings, and conducting detailed reviews of all deliverables.

The terms also indicated that FEDSIM may require client assistance and participation for these activities.

Infrastructure Services Contract

On September 20, 2004, on behalf of the FDIC, FEDSIM issued the ISC[3] to SRA. The ISC was awarded in accordance with the Federal Acquisition Regulation (FAR) under GSA's Millennia contract for the purpose of consolidating support provided under numerous FDIC IT infrastructure contracts. Funding was allocated as shown in Table 1.

Table 1: Funding Allocation for SRA

Interagency Agreement	FDIC Approval Date	Amount
Initial Funding[a]	03/02/04	$300,000
Additional Funding[b]	07/16/04	$3,000,000
Additional Funding[c]	01/13/05	$341,541,035
Total		**$344,841,035**

Source: FEDSIM Interagency Agreement/Amendment.
[a] FEDSIM's initial fee included services for all phases of the acquisition process, including presolicitation planning through contract award; post-award contract administration; and the issuance of delivery orders under the contract.
[b] FEDSIM was also to receive a processing fee equal to one-half of 1 percent of all payments made to FEDSIM up to a maximum of $100,000 per payment. At the FDIC's request, FEDSIM agreed to limit the transaction fee to $100,000 for the life of the ISC with the understanding that FEDSIM will continue to manage the ISC for the FDIC to contract completion and that FEDSIM shall receive revenue from the FDIC for these services.
[c] The total task order ceiling is based on funding information amended on January 13, 2005.

[2] The Board Case for the ISC identified 9 labor contracts to be consolidated and 28 "optional contracts" to be evaluated for consolidation, for a total of 37 contracts. Ultimately, more than 37 contracts were consolidated.
[3] The ISC was issued by FEDSIM as Task Order GST0004AJM061.

FEDSIM Billings to the FDIC

FEDSIM bills the FDIC monthly for the actual labor and travel costs associated with providing acquisition and project management support to ensure that current and planned FDIC IT requirements are met. FEDSIM charges include costs for planning and implementing a solicitation process, proposal evaluation and award, contract administration, quality assurance, process improvement, and IT tools procurement. For the 12-month period ended December 31, 2005, the FDIC paid FEDSIM $281,492 for its services.

SRA Billing to FEDSIM

Under the ISC, SRA is reimbursed monthly for its costs (actual salaries and pass-through costs in addition to an overhead rate). SRA's invoice is submitted to FEDSIM for payment and is reviewed by both FEDSIM and the FDIC. The labor portion of the ISC is a cost-plus-award-fee task order for a 5-year period of performance (1-year base period and four optional 1-year extensions through September 20, 2009.) The FDIC chose a 5-year-performance period to provide operational continuity and encourage the stability of contractor personnel. SRA's monthly invoices are paid by FEDSIM with funds allocated by the FDIC. Costs associated with the ISC consist of a base amount capped at the inception of the ISC and detailed in a spending plan.

SRA Award Fee

SRA is also paid an award fee based on meeting specific performance standards. The award fee amount is based on a judgmental evaluation by the government and is intended to provide sufficient motivation for excellence in contract performance. The maximum award fee for each 6-month evaluation period over the 5-year term of the contract is set at about $1 million. To encourage improved contractor performance, the ISC provides that any portion of the unearned award fee may be rolled into the next evaluation period for the contract. An award fee of $1,015,382 was paid to SRA for the 6-month evaluation period ended September 30, 2005. SRA billings for services for that period totaled $17,375,670. SRA was also paid $62,619 of the $70,977 rolled over from award period 1 for a total award of $1,078,001.

Contract Oversight Roles and Responsibilities

The FDIC has delegated to FEDSIM the authority to act as the Contracting Officer with overall responsibility for contract management, while DIT is assigned certain contract oversight responsibilities. To provide oversight, DIT established an ISC Oversight Committee, a Program Lead/Program Management Officer, a Quality Assurance Coordinator, Technical Monitors, and Subject Matter Experts. The duties of each are defined in the September 5, 2005, *Technical Monitor and Subject Matter Expert Designations, Duties, and Responsibilities.*

The ISC Oversight Committee consists of the FDIC Chief Information Officer (CIO) and Deputy CIO. This committee is responsible for approving or obtaining approval for all contract modifications and all reallocations of funds. The committee also addresses or resolves issues that cannot be resolved by the project management team, require business concurrence, affect corporate policies, and affect organizational structure.

The Program Lead is responsible for the overall management/oversight of the ISC program. The Lead assures that ISC project goals are in line with the corporate strategy and performs ISC Program Management Officer functions and strategic planning. Additionally, the Lead serves as a voting member of the Award Fee Evaluation Board (AFEB) and makes decisions regarding ISC issues.

The Program Management Officer (PMO) serves as the Technical Monitor for the ISC Program Management Task Area. The PMO is responsible for the overall coordination of the ISC Oversight Team and acts as liaison to FEDSIM regarding task order planning, oversight, modifications, and issues. The PMO also serves as the Lead Point of Contact to the contractor and facilitates problem resolution and reviews and approves contract deliverables. The PMO submits award fee evaluation reports and provides information to the Oversight Committee, DIT management, FEDSIM Project Team, and AFEB. Further, the PMO conducts duties as an AFEB Chairperson and voting member.

The Quality Assurance Coordinator coordinates information and data collection with Quality Assurance Subject Matter Experts and Technical Monitors. The Coordinator tracks performance, reviews and approves contract deliverables, submits award fee evaluation reports, and provides information to the FDIC's ISC PMO and AFEB. The Coordinator also serves as a voting member of the AFEB.

Technical Monitors, with input from the Subject Matter Experts, are responsible for:

- coordinating with the Contractor Task Leads,
- monitoring day-to-day performance,
- reviewing and approving contract deliverables,
- reviewing monthly invoices,
- submitting award fee evaluation reports (mid-term and final), and
- providing information to program management and the AFEB, as requested.

The Technical Monitors also may serve as rotating voting members or non-voting members of the AFEB and may approve, through delegated authority, expenditures for IT goods costing less than $25,000.

Additionally, the FDIC Division of Administration's (DOA) Acquisition Services Branch (ASB) is to observe the process on infrastructure-specific performance contracting with the expectation that, in the event the interagency agreement with the FEDSIM is not renewed, ASB will be able to assume direct responsibility for the solicitation and administration of the successor contract. To prepare for future events and to ensure the FDIC's contracting interests are protected, ASB has assigned a Principal Contract Specialist to provide oversight and advice on matters pertaining to the interagency agreement, ISC, task order, and modifications.

RESULTS OF AUDIT

The ISC, as of September 2005, has substantially achieved the Corporation's desired results, as presented in the Board Case. For example, a single point of accountability and responsibility exists for IT infrastructure support, enabling DIT to better manage that aspect of its operations. In addition, the FDIC has established mechanisms to promote improved infrastructure performance and service, and the Corporation has rated the contractor's mid-term performance as excellent in that regard **(Achievement of Desired Results)**.

Although DIT's analyses showed there had been savings on labor and procurement, DIT needed to improve its methodology for measuring ISC labor costs and the savings resulting from implementing this contracting method. Such improvements would provide DIT with enhanced performance evaluation and decision-making ability **(Measuring Costs and Savings)**.

The combination of controls established by FDIC and those assigned to FEDSIM through the interagency agreement were adequate to ensure that work under the ISC complied with the contract terms and conditions. Also, DIT and FEDSIM had established controls over labor costs that focused on ensuring total spending on each ISC task area was within pre-approved spending plans. We concluded, however, that the Corporation should consider additional oversight for decisions on significant contract modifications involving reallocation of contract funding to ensure funds are used for their intended purposes. Additionally, the Corporation should consider employing additional risk-based, cost-effective controls to monitor the hours worked by highly-paid staff, labor rates being charged, and the mix of labor categories being billed. Employing additional risk-based, cost-effective controls in this area could help the Corporation avoid incurring unreasonable costs **(Internal Controls)**.

ACHIEVEMENT OF DESIRED RESULTS

As summarized in Table 2, on the next page, the ISC had substantially achieved the Corporation's desired results, as presented in the Board Case. With regard to cost reduction, DIT's analyses showed there had been savings on labor and procurement. However, DIT needed to improve its methodology for measuring ISC labor costs and the savings resulting from implementing this contracting method. We discuss DIT's analysis of cost savings in detail in the next section of this report.

Table 2: Summary of Achievement of Desired Results

Intended Result	Result Achieved
1. Single point of accountability and responsibility for contractor performance.	**Yes**. SRA was accountable for all aspects of IT infrastructure support, thus facilitating DIT's ability to manage ISC as a performance-based contract. FEDSIM was accountable for providing acquisition and project management support.
2. Results-based contract administration, including performance metrics.	**Yes**. The FDIC contracted for results-based contract administration. The FDIC has assumed the FEDSIM's responsibility for technical monitoring and subject matter expertise, thereby reducing the FEDSIM's hourly oversight charges.
3. Improved infrastructure performance and service.	**Yes**. SRA was awarded for improved infrastructure performance and service through semiannual award fee evaluations conducted jointly by the FDIC and FEDSIM. The most recent mid-term evaluation, dated August 17, 2006, credited SRA with identifying best practices and process improvements and making strategic recommendations. It also noted that SRA had improved system stability and decreased down time while being proactive in developing and implementing solutions. Further, the evaluation noted that SRA's Help Desk performance, according to an independent assessment, continued to be higher than the industry average.
4. A long-term relationship that shares risk, motivates the contractor, and identifies and implements industry best practices.	**Yes.** The contracting period with renewal options is for 5 years. The award fee program serves to motivate contractor performance. For the mid-term rating period, April 1, 2006 through June 2006, the FDIC rated SRA's overall performance as "Excellent."
5. Continuing technology refreshment and innovation in response to contract incentives.	**Yes**. SRA's overall performance was rated above average with no serious nonconformance, delays, or cost issues. Innovation was rated as improving during the first year of the 5-year contract.
6. Reduced contractor turnover and longer-term retention of knowledgeable contractor staff.	**Yes.** Prior to the ISC, multiple contracts were issued predominately as short-term (1 base year, 2 option years) contracts that terminated at various times. DIT expects there will be individual turnover in areas as SRA strives to find the best fit of talent to meet the FDIC's requirements and as technology progresses.
7. Cost reduction resulting from increased purchasing power and elimination of inefficiencies in overlapping contract scopes.	**Partially.** DIT prepared a cost-savings analysis for equipment and an analysis of contract labor. However, we could not verify DIT's claimed cost savings. DIT planned to prepare a cost-savings analysis to show projected staff reductions for DIT and ASB associated with managing the consolidated Millennia contract compared to managing the 36 individual contracts.

Source: Board Case and OIG Analysis.

The intended results expected to be derived from using the GSA Millennia contract, the methodology DIT uses to measure those results, and whether the results have been achieved are detailed in Appendix II.

MEASURING COSTS AND SAVINGS

Although DIT's analyses showed there have been savings on labor and procurements, DIT needed to improve its methodology for measuring ISC costs and the savings resulting from implementing this contracting approach. The methodology for cost analyses needed to establish: a baseline that could be adjusted for changing requirements, an analysis of costs attributable to overseeing the ISC compared to the costs for the prior contracts, and an analysis of procurement savings solely attributable to the ISC. Such improvements would provide DIT with enhanced performance evaluation and decision-making ability.

Projected Savings in the ISC Board Case

In the Board Case for *Consolidated Infrastructure Contract Expenditure Authority Request*, dated May 24, 2004, DIT reported that consolidation of the IT infrastructure contracts into the single ISC was projected to save approximately $1.6 million annually or $8.5 million on a net-present-value basis over the 5-year life of the contract. Savings were categorized as reduced contract expenses and FDIC staffing costs.

- Reduced Contract Expenses – DIT estimated that vendor efficiencies resulting from contract consolidation would result in a reduction in direct infrastructure contract expenses of approximately $1.3 million annually, or at least $6.7 million on a net-present-value basis over the 5-year life of the contract. These savings were based on the projected contractor staffing reductions made possible by contract consolidation.

- Reduced FDIC Staffing Costs – DIT projected staff savings for DIT and ASB of about 2 to 5 staff years annually due to the reduced workload associated with contract solicitation and contract administration/oversight in a single-contract environment. DIT estimated that this would result in a reduction in salary and benefits expenses of approximately $365,000 annually, or $1.8 million on a net-present-value basis over the 5-year life of the contract.

Other potential savings were included in the Board Case for the contract. Specifically, DIT noted that the contract consolidation effort applied only to existing contracted work (as of May 24, 2004), not work performed by FDIC staff. At the time the Board Case was presented, DIT was analyzing the infrastructure work being performed by FDIC staff to decide whether to outsource some of the infrastructure functions.

FAR Requirements for Cost Control

FEDSIM awarded the Millennia contract under the FAR, which specifies in sections 16.301-3 and 16-405-2(c) that cost-reimbursement-type contracts, including cost-plus-award-fee contracts, may be used only when appropriate government surveillance will provide reasonable assurance that efficient methods and effective cost controls are used. Additionally, FAR section 16.401 emphasizes that incentive contracts should discourage contractor inefficiency and waste.

Further, FAR section 34.201 states, in general, that an Earned Value Management System (EVMS), as described below, is required for major acquisitions for development. The government may also require an EVMS for other acquisitions, in accordance with agency procedures.

Earned Value Management

Earned Value Management (EVM) is a principled approach to establishing and managing acquisition and project performance metrics. It is a method of determining a project's status by comparing the time-phased value of work planned to the value of the work achieved and actual costs expended. The key to an effective EVMS is the ability to allocate the budgeted cost of work to be performed over the scheduled period of performance for a cost account that, in turn, is directly related to the contract work breakdown structure. EVM integrates the evaluation of the project scope of work, schedule, and budget to optimize project planning and control. EVM is one method to monitor a project's progress in terms of cost and schedule, which provides insights into performance.

OMB issued Memorandum M-05-23, *Improving Information Technology (IT) Project Planning and Execution*, dated August 4, 2005, which required most federal agencies to use an EVMS for all new major IT projects, ongoing major IT developmental projects, and high-risk projects to better ensure improved execution and performance as well as promote more effective oversight. The OMB memorandum required agencies to develop EVMS policies no later than December 31, 2005. The memorandum also offered information on resources and training to assist in developing and implementing EVMS policies. We confirmed that the FDIC is not required to follow the OMB memorandum. However, EVM is an effective way to manage and assess project performance.

DIT Cost Measurement and Savings Analysis

At the time we began our audit, DIT had not performed an analysis of ISC costs and cost savings. While mindful of measuring the benefits of the ISC, DIT stated that the contract was just over 1 year old and that an early analysis would not be completely reliable because contractor staffing and task requirements needed to stabilize. However, during the audit, DIT and SRA prepared analyses for the labor and procurement costs for the first year of the contract. DIT had also planned to perform an analysis of labor costs incurred for oversight and procurement personnel before and after the consolidation of the 36 contracts. DIT prepared two analyses to determine the savings derived from the first year of the ISC. The analyses showed that without considering anticipated reductions in FDIC staffing, first-year cost savings exceeded projected annual savings of $1.3 million, as set forth in the Board Case, for labor expenses and purchases. A discussion of DIT's analysis and methodology follows.

<u>Analysis of First-Year Labor Costs</u>

DIT prepared an analysis to compare the ISC's 2005 actual labor costs with the applicable portion of DIT's 2004 infrastructure operations budget to determine whether the contract had achieved the $1.3 million in projected annual savings set forth in the Board Case. According to the analysis, subsequent to budget formulation, DIT estimated there would be $2.6 million in additional labor costs for outsourcing various infrastructure activities. In addition, DIT incurred actual costs of approximately $1.0 million on new or special items such as establishing a new disaster recovery facility in Richmond, Virginia; support for the Hurricane Katrina call center; and the initiation of FDIC*connect* Help Desk activities. Therefore, DIT adjusted the baseline for comparing actual 2005 labor costs to the 2004 infrastructure operations budget from $23.3 million to about $27.0 million.

When DIT compared the adjusted baseline to the actual labor expenses for 2005, DIT determined that the estimated savings totaled $1.8 million (adjusted baseline of $27.0 million less actual expenses of $25.2 million). DIT's estimate of actual labor cost savings exceeds the projected savings in the Board Case by about $500,000 ($1.8 million less $1.3 million). However, DIT did not allocate the $3.6 million in estimated costs for the unanticipated activities to specific task areas in its budget or track the actual costs of those activities against those task areas. As a result, DIT's analysis did not allow for a full comparison of budgeted and actual costs. Further, the precise nature and cost of activities within specific task areas was not readily apparent. We were thus unable to validate DIT's estimated savings. An EVMS or alternative, structured means used to measure actual costs to a baseline budget that would be adjusted as requirements changed would facilitate a more efficient and effective assessment of the ISC's impact on efficiency.

We also reviewed SRA's original and revised spending plans. Actual labor costs increased for the base year, and an increase totaling $23 million had been budgeted for all option years. The maximum amount of the ISC had not increased, but costs were reallocated among task areas. Without a comparison of original budgets and amounts spent to activities planned and accomplished, DIT could not determine whether the ISC contractor was efficiently performing the work. Further, DIT ran the risk of (1) running out of funds for other tasks through reallocation of costs and (2) expending all of the allocated funding for the ISC prior to the end of the 5-year performance period if the division cannot effectively judge the contractor's efficiency.

DIT's Analysis of Labor Costs for Procurement and Oversight Costs

DIT planned to conduct an analysis of labor costs for procurement and oversight staff before and after contract consolidation. The Board Case contained a projected annual savings of $365,000 for managing the ISC, or $1.8 million over 5 years, due to the reduction in DIT and ASB procurement and oversight staff. DIT stated that the planned analysis could not be completed as part of the 2005 cost analysis because the DIT reorganization and staffing realignment was not completed until September 2005. At the time of our review, DIT had planned to prepare this analysis in 2006 but recognized the difficulty in doing so because the costs associated with managing the individual contracts that preceded the SRA contract had not been captured for comparison purposes.

At our exit conference, DIT officials indicated that SRA has been instrumental in establishing a process for requesting and conducting procurement of IT goods and services that has resulted in lower costs, faster delivery, and quantity discounts. In addition, DIT provided information dated October 23, 2006 from SRA regarding the average processing times for carrying out procurements. Although the information does not compare current processing times to those that existed prior to the ISC, it does show that the average procurement time for micro-procurements over the 6-month period ending September 30, 2006 was less than 10 days, and the average time for competitive procurements was less than 15 days.

DIT's Analysis of Procurement Costs

DIT also prepared an analysis of costs for procurements completed for the period May-December 2005. DIT identified savings of $964,866 attributable to SRA for recurring procurements such as software licenses, deactivated services, wireless services, and maintenance renewals. (See Appendix III for additional details on the DIT-identified savings.) Based on our review, a majority of these savings had been achieved through the ordinary course of requirements analysis, competition, and contract negotiation. Nevertheless, it was DIT's view that the savings were largely attributable to the synergy of SRA's technical, asset management, and procurement knowledge.

Use of EVMS for the ISC

Although the ISC, as originated, required SRA to use an EVMS, FEDSIM deleted the requirement as part of Modification PS01, dated November 05, 2004. The DIT PMO stated that DIT considered using EVM but determined that the EVM methodology applies more appropriately to development projects rather than ongoing infrastructure support services provided under the ISC. Additionally, DIT officials stated that they were more concerned with the overall cost reasonableness than in a comparison of costs to activities. DIT further noted that EVM would have added significant cost to the ISC contract.

In our view, applying EVM or another structured means of measuring costs and performance would enable DIT to better assess the ISC's effectiveness. An EVMS or similar system would provide a basis for comparing time-phased budgeted and actual costs for work planned and work performed, and DIT would be better able to assess ISC accomplishments.

Recommendation

We recommend that the Director, DIT:

1. Develop a more structured methodology for evaluating the performance of the ISC to ensure that the contract is meeting intended results. This methodology should include:

    - establishing a budgeted cost of labor, by activity, that is compared to actual labor costs over the scheduled period of performance of the activity, and
    - updating the baseline of budgeted cost as requirements change.

INTERNAL CONTROLS

The combination of controls established by the FDIC and those assigned to FEDSIM through the interagency agreement were adequate to ensure that work under the ISC complied with the contract terms and conditions. Further, DIT and FEDSIM have also established controls over labor costs that focused on ensuring total spending on each task area under the ISC was within pre-approved spending plans. However, we concluded that the Corporation should consider:

- providing additional oversight for decisions on significant contract modifications involving reallocations of contract funding, and
- employing additional risk-based, cost-effective controls to monitor the mix of labor categories and labor rates utilized to fulfill task order requirements and the need for, and use of, highly paid staff in each labor category.

These controls will help to ensure that contract funds are used for intended purposes and avoid incurring unreasonable costs.

Internal Control Standards and FAR Requirements

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* characterize internal control as a major part of managing an organization. Internal control comprises the plans, methods, and procedures used to meet mission, goals, and objectives and in doing so, supports performance-based management. Internal controls provide reasonable assurance that objectives are being achieved in relation to effectiveness and efficiency of operations, including the use of the resources and reliability of financial reporting, including reports on budget execution. Internal controls should be designed and implemented based on the related cost and benefits.

As stated earlier, FEDSIM awarded the Millennia contract under the FAR, which specifies in sections 16.301-3 and 16-405-2(c) that cost-reimbursement-type contracts, including cost-plus-award-fee contracts, may be used only when appropriate government surveillance will provide reasonable assurance that efficient methods and effective cost controls are used.

Consolidated Contracting Risks and Controls

DIT identified the following three risks in the Board Case, seeking approval of a consolidated infrastructure contract:

- little experience in managing or monitoring performance-based contracts,
- exacerbation of any performance issues by dependency on one contractor, and
- increased contract costs because DIT has to reimburse actual costs.

DIT relied on the FEDSIM's extensive experience with large-scale, performance-based award fee contracts to provide the support and guidance for establishing and monitoring the FEDSIM performance-based contract. With assistance from the FEDSIM, DIT had established controls that provide oversight of the contractor's performance and limit the risk of dependency on one contractor. With regard to increased contract costs, DIT had implemented the controls described below.

Project Management Plan

The ISC required SRA to develop a Project Management Plan (PMP) that was based on SRA's proposal for accomplishing the requirements of each required task. The plan was required to contain project management information such as milestones, levels of effort, organization, risk mitigation strategy, and budget information. SRA submitted budget information in the form of a spending plan that, on a monthly basis, compares planned costs to actual costs. The PMP was used as the foundation for the Monthly Status Report, which is described below.

Reports, Meetings, and Other Controls

Much of DIT's oversight activity, in addition to its daily contact with SRA staff, was carried out through the review of monthly and quarterly reports prepared by SRA and submitted to DIT, and through recurring meetings   Depending on the task, such reports and meetings could include the following:

- *Monthly Project/Activity Status Report*. These reports included the project activity, status, and issues for each task area.

- *Monthly Status Report*. The reports contained summaries of the management and technical progress to date and provided the current task order accounting information, including milestones and cost, total billed hours, burdened cost, award fee, items purchased for the government, software purchased and all costs associated with providing infrastructure security. The reports also contained the proposed spending plan for the following month, which, among other information, included labor-hour estimates and rates for individuals expected to work on the contract.

- *Quarterly Program Reviews (QPR)*. The QPR focuses on a high-level presentation of information already discussed and presented in other reports. The QPR included current task order financial status, anticipated task order financial status, current task order performance metrics, mitigation plans for under-performing areas, and other issues and concerns.

- *Monthly Budget Meetings*. SRA provided a management and financial analysis that shows the underlying detail data and calculations regarding performance under the task order.

- *Problem Notifications*. SRA submitted Problem Notification Reports to notify the Contracting Officer of all task order issues such as potential cost overruns/impacts and changed or incorrect assumptions for task orders.

Contract Funding

DIT had established adequate controls over SRA's schedule and performance and ensuring total spending was within proposed spending plans. However, DIT and FEDSIM could improve controls for monitoring contract funding. Significant reallocations have already been made to the total contract spending plan to cover unexpected labor cost increases. For example, we observed that DIT processed Modification 05 to the ISC in August 2005 to reallocate $23 million in contract funding from contract line item numbers (CLIN) for hardware and software maintenance and technical refresh[4] to contractor and subcontractor labor categories. Table 3 presents information about the modification.

Table 3: CLIN Impact of Modification 05 (in millions)

CLINs	Original Contract (September 2004)	Modification 05 Changes (August 2005)	Rationale for Change
CLIN 0001 Labor	$99.5	$12.9	Information security staffing level of effort was greater than SRA anticipated.
CLIN 0004b New category for subcontract labor not subject to cost award fee	$0	$10.2	Local temporary support for short-term special projects, surge support for technology deployments.
CLIN 0005 Technology Refresh	$75	($11)	Level of effort implied in initial ceilings was less than originally determined. DIT anticipated that the FDIC would gain significant cost savings on hardware/software over the life of the ISC.
CLIN 0006 Hardware/Software Maintenance	$124.5	($12.1)	
All other CLINs	$42.7	$0	
Total Contract	**$341.7**	**$0**	

Source: DIT.

Section G.10 of the ISC allows for the modification of CLINs provided there is adequate justification and authorization for such change. In this regard, DIT provided a July 19, 2005 Memorandum for the Record (*M061 MOD 05 CLIN 0001 Ceiling Realignment Justification and Explanation*) that presented a detailed rationale for the increased labor requirements.

DIT representatives explained that DIT did not use the ISC to purchase IT equipment until June 2005 (9 to 10 months into the ISC) because: (1) the National Treasury Employees Union (NTEU) received a 60- to 90-day period to evaluate labor issues associated with having contract employees (SRA) perform equipment purchase functions that FDIC employees had previously performed, and (2) it took DIT and SRA an additional 6 months to implement ISC equipment purchase procedures and processes. Instead, DIT stated that equipment purchases, including purchases for technical refresh, were made outside of the ISC on other contracts. In October 2005, 1 year into the ISC, FEDSIM reported that the FDIC had $14.6 and $10.7 million

[4] The infrastructure modernization component, or technical refresh, is the life-cycle replacement of various major components in the FDIC's technical infrastructure, including the mainframe, midrange servers, local area network servers, storage, workstations, telephone and video systems, and data wide-area network.

remaining for 2005 in the technical refresh and hardware/software maintenance CLINs, respectively. DIT concluded that because it had not used the ISC to purchase IT equipment, technical refresh and hardware/software maintenance funding was effectively made available for reallocation to cover increased labor costs. Further, as shown above, DIT concluded that the reallocation had no impact on the total contract amount on the ISC contract. However, since requirements were met through the use of other contracts, an alternative to this reallocation would have been to reduce the total price or ceiling on the ISC. We saw no evidence that FDIC management had considered this approach.

Due to the significance of the funding involved in this contract modification, we also analyzed the controls associated with processing such a modification. Table 4, on the next page, describes each of those control points.

Table 4: DIT Control Points Over ISC Funding

Control Point	Description
Infrastructure Oversight Committee	Among other things, the ISC Oversight Committee approves, or obtains approval for, all contract modifications and all fund reallocations among CLINs. DIT stated that the decision to reallocate contract estimates between CLINs had been discussed by the ISC Oversight Committee.
Contract Modification Process	The ISC requires "proper contractor justification and Government approvals" and documentation of the rationale for reallocating contract funds between CLINs. DIT officials noted that the reallocation was supported by a contract modification approved by FEDSIM.
Procurement Planning and Management Framework (Framework)	SRA developed the Framework to ensure that IT purchases that SRA makes on the Corporation's behalf reflect FDIC management's priorities and needs. The primary objective of the Framework is to compile and maintain lists of hardware, software, and other non-labor IT items that the FDIC plans to acquire to support its business mission. The lists, known as Procurement Rosters, are intended to help senior managers plan for upcoming purchases and ensure that budgetary resources are spent in a planned and organized fashion.
Procurement Management Board (PMB)	The PMB is composed of DIT and ISC senior managers. The PMB maintains the Procurement Rosters and meets monthly to decide which IT items should be procured by the FDIC in the near term and to decide the relative priority of items within a particular Procurement Roster.
Infrastructure and Technology Refreshment Plan (Plan)	SRA also developed this 5-Year Plan for the FDIC. The purpose of the Plan is to (1) define a standard FDIC methodology for technical refresh; (2) establish key milestones for engineering, examination of technology, and allocation of resources for orderly and cost-effective technical refresh; and (3) provide a basis for budget estimates and strategic budget planning.
Contract Award Fee Evaluation Process	The FDIC and FEDSIM have established the AFEB consisting of a chairman, who is the FDIC PMO; FDIC functional area representatives; and the FEDSIM Contracting Officer's Representative. The FEDSIM Contracting Officer is a non-voting advisory member of the AFEB. Additional non-voting members may be a Secretariat/Recorder and Technical Monitors, as deemed appropriate by the AFEB Chairman. This process helps to monitor contract costs and ensure that SRA meets service-level agreements related to infrastructure performance. Changes to the ISC are discussed at quarterly award fee evaluation board meetings, which are attended by ASB representatives and the CIO. Periodically, the CIO, Deputy CIO, and ASB also brief the Chief Operating Officer (COO) about the status of the contract. Additionally, DIT is required to inform the FDIC's Board of Directors if the contract ceiling or the contract duration significantly changes.
Corporate Budget Process	DIT's corporate budget is approved by the Chief Financial Officer (CFO), COO, and the Board and is closely monitored by the Division of Finance (DOF). DIT noted that if the division budgets an amount for equipment purchases and then does not expend that amount, DIT could lose the ability to spend those funds in future budget years.

Source: DIT officials.

DIT officials contended that sufficient controls were in place over ISC funding and technical refresh decisions. While we agree that the controls discussed in Table 4 should help to ensure that contract funds are expended in a planned and organized manner, there is an opportunity to further strengthen these controls to ensure funds are used for intended purposes.

Governance Structure Over Labor Cost Increases

Although the FDIC has a detailed governance structure for IT investments, it does not have a corresponding process for reviewing proposed contract modifications for significant reallocations of contract funding, including increases in contract labor. For example, the FDIC has two primary oversight bodies for significant IT investments: the Capital Investment Review Committee (CIRC) and the CIO Council. The CIRC monitors IT and non-IT projects valued at $3 million or more. At its discretion, the CIRC may extend its review authority to projects below the $3 million threshold. The CIRC is co-chaired by the CFO and CIO, and its members include the Deputy to the Chairman, General Counsel, and FDIC division directors. The CIRC oversees investments throughout their life cycle and provides quarterly reports to the Board of Directors on project finances, milestones, and performance. The CIO Council, which includes executive representatives from most divisions and offices, meets monthly to deliberate matters relating to the use of IT within the FDIC. Council members advise the CIO on IT matters and work together on cross-cutting issues such as enterprise architecture management and IT investment management.

In addition, DIT has made the Board aware of significant equipment purchases under the ISC. In this regard, in May 2006, DIT worked through DOA to issue an April 2006 memorandum entitled, *Supplemental Information to the Contract Assessment Report,* to the FDIC Board, notifying the Board of DIT's intent to expend $6 million to purchase a large number of desktop personal computers and computer monitors. This memorandum also noted that "[t]he approved expenditure authority and resulting [infrastructure services] contract include the purchase of replacement equipment totaling an estimated $75 million over the five-year period. The replacement of this equipment was outlined in DIT's Infrastructure Technology Refresh Plan."

However, DIT did not have a similar oversight process for the reallocations of contract funding on the ISC contract. Through Modification 05, DIT increased contract and subcontract labor funding by $23 million and decreased existing technology refresh and hardware/software maintenance funding by a corresponding amount. These labor increases were for enhanced IT security and expenses related to the Richmond Disaster Recovery site. However, had this increase been for a new system development project or IT equipment, it likely would have been subject to CIRC and CIO Council reviews or subject to DIT's delegated payment approval authority limits.[5] As a line item reallocation involving significant contract funding, however, the contract modification resulting in the reallocation was not subject to the same oversight.

Adding controls related to contract modifications involving significant funding reallocations on the ISC could strengthen the oversight process by ensuring that funds are used for their intended purposes. Further, including independent divisional and office representatives on certain oversight committees for the ISC would benefit the FDIC by providing a balanced corporate perspective on significant contract-funding decisions.

Controls Over the Reasonableness of Labor Charges

DIT has established controls over the reasonableness of labor charges by ensuring the charges stayed within monthly spending estimates for various task areas and by monitoring whether average hourly rates being billed for each labor category were within the ceiling rates established in the ISC. DIT has determined this was an appropriate approach because the ISC is a performance-based contract, and SRA has some flexibility in staffing, organization, and

[5] Division directors had payment approval authority for non-procurement-related expenses up to $2 million.

implementation. However, these controls would not always identify instances in which the FDIC is paying labor rates that are not commensurate with task order requirements.

Spending Plan Control

DIT, FEDSIM, and SRA had established an overall spending plan for the contract period that allocates the total contract dollars into 10 task areas. This spending plan is broken down by year, and for the current year, included labor hour estimates and rates for personnel expected to work on the contract. DIT receives monthly invoices and monthly status reports that include current charges and spending to date. DIT reviews this information with SRA at monthly meetings.

The monthly report shows the current month and a cumulative annual total of labor hours and costs for personnel used on the contract but does not show the variance from individual and labor category estimates in the annual spending plan. Further, the contractor provides only a brief explanation of any dollar variances between actual and planned total expenditures for each task area. DIT reviews the monthly invoices and status reports, but the review does not focus on the hours worked by highly-paid staff, the labor rates paid to individuals, or the mix of labor categories used. Instead, DIT uses the spending plan and monthly reports to monitor the total spending on each task area and for determining whether incremental funding will be needed for work that may be added.

Millennia Contract Criteria

GSA provided Millennia contractors the latitude to assign staff with various skill levels to a labor category if they met the minimum requirements. The Millennia contract contains 17 labor category descriptions.

The Millennia contract, Section B, *Services and Prices/Costs*, paragraph B.2.2.3, *Ceiling Rates*, defined ceiling rates as the **maximum** direct labor rates (contractor site) to be proposed and/or billed under this contract. These ceiling rates apply to cost-reimbursable orders and proposals for fixed-price orders. The ceiling rate should anticipate the **maximum** technical expertise needed over the life of the contract and is not necessarily bound by current staff.

The Millennia contract, Section B, paragraph B.2.2.4, *Composite Rates*, defined composite rates as the average burdened hourly labor rate experienced by the offeror for a similar scope of work and shall be based on current personnel in labor category descriptions. The composite rate is the **average rate** based on current staff and similar tasking.

Calculation of Individual Labor Rates

Neither the Millennia contract nor the ISC provide clear guidance on the determination of whether labor charges are reasonable. SRA computes the average rate on its monthly billing by dividing the “Inception to Date Dollars” by the “Inception to Date Hours” to arrive at a “Billing Rate” average for each labor category. FEDSIM and the FDIC compare the average hourly rate for a labor category to the ISC ceiling rate for that category to determine whether billing rates are less than the ceiling rate. We determined that the SRA billing rate average for each labor category was below the applicable ceiling rate for the period we reviewed. However, we found instances where the hourly charges for SRA employees varied by as much as $121 within a particular labor category and where hourly charges for certain employees exceeded the ceiling rates.

<u>Variances in Labor Rates Within Labor Categories</u>

DIT stated that it worked with SRA to ensure that skills and resources employed are appropriate and that DIT has challenged SRA in the past regarding personnel who do not appear to have the appropriate skills. However, with regard to reviewing labor rates and hours billed, FEDSIM and DIT officials acknowledged that they focused on ensuring that total labor charges were within annual spending plan limits and that the average labor rates for individual labor categories did not exceed the labor category ceilings.

As shown in Table 5, the hourly rates charged within labor categories varied substantially.

Table 5: Comparison of Contract Ceiling Rates to Hourly Rates Paid

[redacted]

Material Redacted

The FEDSIM Project Manager explained the variance in individual labor rates by stating that vendors control the assignment of employees to Millennia labor categories, and the large variance in rates was due to salary differences. The ISC Program Lead stated that because there were minimum qualifications for each labor category in the Millennia contract, it was possible to have a wide range of acceptable skill levels and hourly rates within a specific category. The FEDSIM Project Manager stated that the flexibility contractors have to assign staff at various skill levels, as long as they meet the minimum requirements outlined in the ISC, ensured that contractor staff were available to satisfy FDIC requirements.

The ISC PMO stated that the application of the labor rate structure allowed for specialized contractor staff paid at higher labor rates to be assigned to complex or high-priority tasks on an as-needed basis. DIT believed that the FDIC benefited from the higher level of technical knowledge and experience through these assignments.

We acknowledge the potential benefits of having more experienced, skilled, or qualified staff assigned to specific labor categories as indicated by the higher labor rates. However, our analysis showed that there was a wide range of rates charged in each labor category, and 40 percent of SRA personnel were paid 80 percent more than the ceiling rate for their labor category. Additionally, 90 percent of SRA's staff was billed at 60 percent more than the ceiling rate. Therefore, over the long-term, DIT must be mindful of the risk that the FDIC may be incurring unnecessary costs because SRA was using staff with higher salary rates than necessary for certain task order requirements, particularly when it had implemented an invoice review process that does not focus on individual rates and hours being paid.

Table 6 illustrates how staffing the ISC with employees compensated at higher labor rates that may not be commensurate with task order requirements can result in higher costs to the FDIC.

Table 6: Rates for Highly-Compensated Employees

[redacted]

Material Redacted

<u>Ceiling Rates</u>

We compared individual hourly labor rates to the ceiling rates for each labor category for the 3-month period ended September 30, 2005. The labor rates for some personnel were higher than the ceiling rates for that labor category. Table 7, on the next page, illustrates the hourly charges that exceeded the ceiling rates for 16 employees for the July 2005 billing period.

Table 7: Summary of Charges that Exceeded Ceiling Rates for July 2005

[redacted]

Material Redacted

In total, we identified about $30,000 paid for labor costs above the ceiling rates for the 3-month period we reviewed. This amount projected over the 5-year life of the SRA contract could result in payments totaling about $600,000 ($30,000 per quarter for 4 quarters per year for 5 years).

DIT stated that most of the SRA employees who had been paid rates that exceeded ceiling rates either have been replaced with lower-paid personnel or are no longer assigned to the ISC. To verify that corrective action had been taken, we compared a June 2006 invoice to the September 2005 invoice that was part of our initial review. We found that two employees included in our earlier analysis were still employed at rates that exceeded the ceiling rates. We also found five additional employees whose hourly rates exceeded the ceiling. In total, the seven employees accounted for $8,548 in total charges over the ceiling rates on the June 2006 invoice. Compared to our analysis of the invoices for September ($11,308), August ($3,277), and July 2005 ($15,478.59), the amount spent in June for labor that exceeds the ceiling rates, on average

($10,021), was about the same amount charged for labor exceeding the ceiling rates for the initial period we reviewed.

DIT stated that it was very concerned about cost and that DIT and FEDSIM reviewed invoices to ensure cost reasonableness. However, as discussed previously, DIT stated that it focused on ensuring the average rate being paid was within the contract ceiling rate—consistent with its interpretation of the contract terms. The Millennia contract is subject to interpretation on how the ceiling rate is to be applied to contract billing. Paragraph B.2.2.3 of the Millennia contract defines "Ceiling Rates" as the maximum direct labor rates to be proposed and/or billed.

We contacted GSA and determined that some Millennia contractors submit bills comparing each employee's labor rate to the ceiling rate for each labor category, while other contractors, like SRA, will bill at an average rate for each labor category with the intent that the average for the month must be below the ceiling rate for each labor category. The GSA representative stated they take no exception to either method of computing actual labor rates.

Further, DIT stated that the FDIC was benefiting from contractor employees who may be more highly qualified to accomplish tasks assigned within each labor category. Nevertheless, this cost-plus-award-fee contract requires sound control of costs. Employing additional risk-based, cost-effective controls in this area could help the Corporation avoid incurring unreasonable labor costs.

Recommendations

We recommend that the Director, DIT:

2. Strengthen the oversight process for proposed contract modifications involving significant reallocation of contract funding to provide control similar to that which the Corporation has established for IT investment and major equipment purchase decisions.

3. Establish additional risk-based, cost-effective controls to assure that labor costs are reasonable for the work performed. Such controls could address monitoring:

   - the mix of labor categories and labor rates utilized to fulfill task order requirements and
   - the need for, and use of, highly-paid staff in each labor category.

CORPORATE COMMENTS AND OIG EVALUATION

On January 4, 2007, the Chief Information Officer and Director, DIT, provided a written response to this report. DIT's response is presented in its entirety in Appendix IV. Overall, DIT agreed to take corrective actions that are responsive to the recommendations and are planned to be completed by January 31, 2007. Appendix V contains a summary of management's response to the recommendations. The recommendations are resolved but will remain open until we have determined that the agreed-to corrective actions have been completed and are effective.

In response to recommendation 1, DIT stated that in order to develop a more structured methodology for evaluating the performance of the ISC for 2006 and 2007, the Infrastructure Services Branch (ISB) has aligned the ISB budget and the ISC spending plan for labor by activity. In addition, the ISB has established a process, to capture cost estimates for new work, that can be used to adjust the budget baseline.

In response to recommendation 2, DIT stated that a process will be established for presenting and obtaining senior management approval for contract line item reallocations over $5 million.

In response to recommendation 3, DIT stated that established evaluation processes and day-to-day oversight activities assure that labor costs are reasonable for work performed. DIT intends to further enhance controls by developing a process for conducting periodic program-wide reviews to assess the reasonableness of the ISC staffing and management plans.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this audit was to determine whether:

- controls are adequate to ensure that work performed under the Millennia contract complies with the contract's terms and conditions and
- this contracting method has produced the intended results.

To accomplish our objectives, we reviewed:

- the Board of Directors-approved Consolidated Infrastructure Contract Expenditure Authority Request submitted by the former Division of Information Resources Management, now the Division of Information Technology (DIT);
- the Interagency Agreement between the FDIC and FEDSIM;
- the Millennia contract awarded to SRA;
- the ISC issued by GSA under the FEDSIM agreement to provide information technology services to the FDIC;
- documentation supporting monitoring of the contractor's performance;
- the award fee determination plan and a sample award fee determination;
- the FDIC's draft report on costs savings;
- a sample of billings submitted by the contractor, through GSA, and approved by the FDIC; and
- a sample of billings submitted by FEDSIM and approved by the FDIC.

Also, we interviewed the DIT PMO responsible for monitoring performance under the ISC and the FEDSIM Project Manager responsible for the general administration of the ISM.

We conducted our review from November 2005 to September 2006 in accordance with generally accepted government auditing standards.

Internal Controls

We evaluated the effectiveness of management controls by reviewing policies and procedures, contract documents, and documentation of contractor monitoring and by interviewing FDIC executives and employees directly involved with the management and oversight of the contract. Additionally, we discussed our audit results concerning FEDSIM management with representatives from GSA's OIG.

Validity and Reliability of Data from Computer-Based Systems

We assessed the reliability of the computer-based data provided to the FDIC from SRA's time and attendance system. We examined the billings for obvious errors, missing rates, rates outside the range of the ceiling rates, and dates outside of those normally worked. As a result of the tests, we believed we could rely on the validity of time and attendance data submitted by SRA for billing purposes. We compared the billing rates for one quarter, July to September 2005, to rates contained in the Millennia contract. We did not audit the billings but determined that the billing data were sufficiently reliable to meet our audit objectives.

Compliance With Laws and Regulations

We used the FAR provisions on performance-based contracting as criteria for evaluating how the FDIC had been monitoring the ISC. This report identifies ways in which the FDIC could strengthen its monitoring of the ISC and thus comply with the intent of such FAR provisions. We also considered provisions of the Small Business Act and related regulations regarding contract bundling. Contract bundling, in general, is the consolidation of smaller contracts into a larger contract that is unsuitable for award to small business concerns due to the diversity, size, specialized nature or geographic dispersion of the contracted work. We noted no significant deficiencies given our audit objective.

Government Performance and Results Act

The FDIC’s infrastructure facilities, hardware, software, and systems support the FDIC’s mission to preserve and promote public confidence in the U.S. financial system by providing tools for monitoring and addressing risk to the Deposit Insurance Fund. The FDIC’s 2005 Strategic Plan included a performance objective to complete contract consolidation, identify and realize cost reductions, and implement help desk improvements. A full and complete quality-driven infrastructure with support services is necessary to achieve the FDIC’s mission. The FEDSIM interagency agreement was to provide IT support through managing and operating all of the FDIC’s infrastructure facilities, hardware, and software.

We tested whether intended results were being achieved on the ISC. We based our assessment on our review of GSA’s and DIT’s contractor quality reviews, which concluded that SRA’s performance was acceptable. Additionally, we reviewed documents supporting award fee determinations and the contractor’s self-assessment. However, we could not fully determine whether cost savings were fully achieved as discussed in the report section entitled, *Measuring Costs and Savings*.

Fraud and Illegal Acts

We were alert for fraud as we performed our audit. No instances of fraud and illegal acts came to our attention during our audit.

INTENDED RESULTS AND MEASUREMENT CRITERIA

Intended Benefit	Measurement Criteria	Result Achieved Yes/No/Partially
1. Single point of accountability and responsibility for contractor performance.	Not measured. SRA was the single point of accountability responsible for all infrastructure functions. Under the interagency agreement, the FEDSIM functions as the single point of accountability for the contractor's performance.	**Yes**. SRA was accountable for all aspects of IT infrastructure support, eliminating at least nine labor services contracts and most of the other contracts supporting the FDIC's various infrastructure functions, thus facilitating DIT's ability to manage the ISC as a performance-based contract. FEDSIM was accountable for providing acquisition and project management support to ensure that current and planned FDIC IT requirements were met. FEDSIM oversaw the planning and implementation of the solicitation process, proposal evaluation and award, and contract administration, quality assurance, process improvement, and IT tools procurement.
2. Results-based contract administration, including performance metrics.	Award fee determination using a quality assurance surveillance plan that provides the FEDSIM with measurable inspection and acceptance criteria.	**Yes**. The FDIC contracted for results-based contract administration. The FDIC had assumed the FEDSIM's responsibility for technical monitoring and subject matter expertise, thereby reducing the FEDSIM's hourly oversight charges. DIT believed its monitoring would also ensure the highest level of performance and that the ISC met the FDIC's requirements. The FEDSIM was providing contract administration support such as processing contract modifications, ensuring compliance with the FAR, reviewing invoices in terms of contract labor rates, etc.
3. Improved infrastructure performance and service.	Award fee determination using a quality assurance surveillance plan that provides the FEDSIM with measurable inspection and acceptance criteria.	**Yes**. FEDSIM was the final approving authority for the award fee. However, the AFEB, comprised of FDIC and FEDSIM members, makes a recommendation based on technical-service-level agreements and subjective evaluations. FEDSIM's Award Fee Determination Official then reviews the recommendation to ensure that it is fair based on results achieved. The April through September 2005 award fee determination recommendation, prepared by the FDIC, noted "increased stability and improved performance" by SRA. The most recent mid-term evaluation dated August 17, 2006 credited SRA with identifying best practices, process improvements, and making strategic recommendations. The evaluation also noted that SRA had improved system stability and decreased downtime while being proactive in developing and implementing solutions. Further, the evaluation noted that SRA's Help Desk performance, according to an independent assessment, continued to be higher than the industry average

Intended Benefit	Measurement Criteria	Result Achieved Yes/No/Partially
4. A long-term relationship that shares risk and motivates the contractor and identifies and implements industry best practices.	Award fee determination coupled with a 5-year contract period.	**Yes.** The award fee was reduced pending anticipated improved performance. The FDIC participates in recommending an award fee. Based on the recommendations, the FEDSIM had final authority to award the fee.
	Award fee determination includes specific measurement criteria, including progress toward strategic goals, including proactive identification of areas of innovation.	**Yes.** Overall, SRA was rated "above average" bordering on excellent during the April 2005 through September 2005 rating period. DIT noted "proactive improvements" in performance and stated that SRA should "continue to progress in the proactive identification of process improvements, best practices, and strategic recommendations."
5. Continuing technology refresh and innovation in response to contract incentives.	The award fee determination plan includes specific measurement criteria, including progress toward strategic goals, including meeting business needs for capacity and functionality and proactive identification of areas of innovation.	**Yes**. In the April through September 2005 award fee determination, SRA's overall performance was rated above average with no serious nonconformance, delays, or cost issues. Innovation was rated as improving during the first year of the 5-year contract.
6. Reduced contractor turnover and longer-term retention of knowledgeable contractor staff.	The 5-year contract was evidence of reduced contract turnover to new vendors.	**Yes.** DIT stated that the intent of this goal was not to measure contractor employee turnover but to avoid total contractor turnover. Prior to the ICS, multiple contracts had been issued predominately as short-term (1 base year, 2 option years) contracts that terminated at various times. Significant time and resources were expended for the ongoing solicitation and award of replacement contracts, and turnover occurred if the contracts were awarded to new vendors.
	Qualified personnel are included in the evaluation criteria of the Award Fee Determination Plan.	**Yes.** DIT expects that there would be contractor employee turnover as SRA strives to find the best fit of talent to meet the FDIC's requirements and as technology progresses. The expectation was that performance and continuity would not be affected as this occurred. Although we noted several instances of negative feedback in the FDIC's performance award recommendations, the contractor was rated above average by GSA, and positive feedback on performance affected by knowledgeable staff was included in the performance award recommendation.
7. Cost reduction resulting from increased purchasing power and elimination of inefficiencies in overlapping contract scopes.	Award Fee Determination Plan Criteria	**Partially.** DIT prepared a cost-savings analysis for equipment and an analysis of contract labor. However, we could not verify DIT's claimed cost savings. DIT planned to prepare a cost-savings analysis to show staff reductions projected for DIT and ASB associated with managing the consolidated DIT contract compared to managing the 36 individual contracts.

Source: Board Case and OIG Analysis.

OIG ANALYSIS OF SAVINGS ASSOCIATED WITH SRA CONTRACTING ACTIONS

Vendor	Product Description	Reported Action Resulting in Savings	Reported Savings [a]
[redacted]	Licensing	Analyzed licensing needs.	$658,021
[redacted]	Maintenance	Negotiated reduced price.	$9,688
[redacted]	Maintenance	Comparative shopping resulted in lower bid.	$2,085
[redacted]	Maintenance	Comparative shopping resulted in reduced rate.	$1,415
[redacted]	Onsite support	New agreement reached.	$21,571
[redacted]	Maintenance renewal	Eliminated maintenance through recommendations to the FDIC.	$2,134
[redacted]	Internet circuit provider	Negotiated lower monthly rate with same provider.	$23,060
[redacted]	Maintenance renewal	Questioned initial quote that included upgrade in service.	$46,354
[redacted]	[redacted]	Reduced cost to support software.	$19,754
[redacted]	Maintenance renewal	Vendor competition for best price.	$7,505
[redacted]	Wireless services	SRA moved services to shared plan. Negotiated lower prices on [redacted].	$149,100
	Deactivated services	SRA monitored wireless use. Initiated without the FDIC's knowledge.	$24,179
Grand Total Reported by DIT			**$964,866**

Source: DIT Analysis of Savings on Recurring Procurements and OIG Analysis.

[a] We reviewed the nature of the reported actions and noted that many of the actions had been achieved during the ordinary course of procurement activities. DIT was certain, however, that SRA had played an important role in each of the actions.

[b] Since this category represents the largest savings, the OIG reviewed this item in the greatest detail. We determined that the savings was attributed to a reduction in the number of licenses, and according to SRA, most of the costs reductions in this category had been realized because only Software Assurance (software maintenance) is purchased under the new contract rather than licenses and Software Assurance that had been purchased together under the previous contract. Each license that the FDIC procured for each product is owned in perpetuity by the FDIC. That is, once the license is purchased, the FDIC is entitled to use the purchased version of the product forever. The FDIC must purchase maintenance, termed Software Assurance, on a given product in order to secure version updates.

CORPORATION COMMENTS

FDIC
Federal Deposit Insurance Corporation
3501 Fairfax Drive, Arlington, VA 22226-3500
Division of Information Technology

January 4, 2007

MEMORANDUM TO: Russell A. Rau, Assistant Inspector General for Audits
Office of Inspector General

FROM: Michael E. Bartell, CIO and Director
Division of Information Technology

SUBJECT: Draft Audit Report Entitled, *Interagency Agreement with the General Services Administration for the Infrastructure Services Contract* (Assignment 2006-008)

Thank you for the opportunity to respond to the draft report entitled, *Interagency Agreement with the General Services Administration for the Infrastructure Services Contract.* The Division of Information Technology (DIT) appreciates the professional efforts of the FDIC Office of Inspector General (OIG) during this audit.

DIT further appreciates the OIG's recognition of the success and value of the Infrastructure Services Contract (ISC). As stated in the draft report, the ISC has substantially achieved the Corporation's desired results as presented in the Board Case. This includes a single point of accountability and responsibility for IT infrastructure support which enables DIT to better manage this aspect of our operations. As noted, the FDIC has also established mechanisms to promote improved infrastructure performance and service and the Corporation has rated the contractor's mid-term performance as excellent in the achievement of desired results. Further, the draft report notes that the combination of controls established by the FDIC and those assigned to FEDSIM through the interagency agreement were adequate to ensure that the work under the ISC complied with the contract terms and conditions.

Report recommendations: DIT has carefully considered each of the three OIG recommendations which suggest how the FDIC may further improve our measurement of ISC costs and savings resulting from the implementation of this type of contracting method; improve the oversight of decisions regarding funding reallocations; and improve our monitoring of hours and rates billed. The OIG draft report recommends that the Director, DIT should:

Recommendation #1:

- Develop a more structured methodology for evaluating the performance of the ISC to ensure that the contract is meeting intended results. This methodology should include:
  - establishing a budgeted cost of labor by activity that is compared to actual labor costs over the scheduled period of performance of that activity, and
  - updating the baseline of budgeted cost as requirements change.

Response to Recommendation #1:

- **Concur**. DIT agrees a more developed and structured methodology was required after the first year of the contract and believes that this has been achieved. For 2006 and 2007, the Infrastructure Services Branch (ISB) has aligned the ISB budget and the ISC spending plan for labor by activity. Additionally, ISB has established a process for capturing cost estimates for new work which can be used to adjust the budget baseline. Documentation of these two activities will be completed by January 31, 2007.

Recommendation #2:

- Strengthen the oversight process for proposed contract modifications involving significant reallocation of contract funding to provide control similar to that which the Corporation has established for IT investment and major equipment purchase decisions.

Response to Recommendation #2:

- **Concur.** DIT will establish a process for presenting and obtaining senior management approval for contract line item reallocations over $5 million. This process will be established and implemented by January 31, 2007.

Recommendation #3:

- Establish additional risk-based, cost-effective controls to assure that labor costs are reasonable for the work performed. Such controls could address monitoring:
  - the mix of labor categories and labor rates utilized to fulfill task order requirements and
  - the need for, and use of, highly paid staff in each labor category.

Response to Recommendation #3:

- **Concur.** DIT believes that this has been accomplished, to a large extent, through established evaluation processes and day-to-day oversight activities. However, to further enhance the current controls, DIT will develop a process for conducting periodic program-wide reviews to assess the reasonableness of the ISC staffing and management plans. This process will be established and implemented by January 31, 2007.

As is customary, we will be happy to further discuss with the OIG any of these responses, and thank you for sharing your conclusions of the audit team in assessing the Interagency Agreement with the General Services Administration for the ISC. We believe this report affirms the considerable success and value of the FEDSIM agreement and we look forward to continuing to build on that success in the coming year. Thank you.

cc: Rus Pittman (DIT)
Karen Keats (DIT)
James Angel, Jr. (OERM)

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MANAGEMENT RESPONSE TO RECOMMENDATIONS

This table presents the management response on the recommendations in our report and the status of the recommendations as of the date of report issuance.

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Monetary Benefits	Resolved:[a] Yes or No	Open or Closed[b]
1	DIT believes that a more structured methodology for evaluating the performance of the ISC has been achieved for 2006 and 2007. The ISB has aligned the ISB budget and the ISC spending plan for labor by activity. Additionally, ISB has established a process for capturing cost estimates for new work which can be used to adjust the budget baseline. DIT will document these two activities.	January 31, 2007	$0	Yes	Open
2	DIT will establish a process for presenting and obtaining senior management approval for contract line item reallocations over $5 million.	January 31, 2007	$0	Yes	Open
3	In addition to established evaluation processes and day-to-day oversight activities to assure that labor costs are reasonable for work performed, DIT will develop a process for conducting periodic program-wide reviews to assess the reasonableness of the ISC staffing and management plans.	January 31, 2007	$0	Yes	Open

[a] Resolved – (1) Management concurs with the recommendation, and the planned corrective action is consistent with the recommendation.
(2) Management does not concur with the recommendation, but planned alternative action is acceptable to the OIG.
(3) Management agrees to the OIG monetary benefits, or a different amount, or no ($0) amount. Monetary benefits are considered resolved as long as management provides an amount.

[b] Once the OIG determines that the agreed-upon corrective actions have been completed and are effective, the recommendation can be closed.