

# BRIEFLY...

**Highlights of Report Number: 05-05-005-07-720, to the Deputy Secretary of Labor.**

## WHY READ THE REPORT

This report discusses issues surrounding the Department of Labor's (DOL) efforts to purchase and implement encryption software, including:

- DOL's award and administration of a sole-source contract to the Meganet Corporation.
- DOL's decision not to use the Meganet software and services, purchased at a cost of \$3.8 million.
- DOL's purchase of Entrust encryption software through a contract with Videla International Corporation.
- The current status of DOL's file and e-mail encryption capability.

## WHY OIG DID THE AUDIT

In July 2003, a complainant raised concerns about a contract awarded by DOL to the Meganet Corporation for the purchase of encryption software and services. We initiated a preliminary review.

On August 4, 2003, DOL's Assistant Secretary for Administration and Management (ASAM) referred the Meganet contract to the DOL Inspector General for audit. The ASAM noted that the contract awarded to Meganet differed significantly in scope and value from the proposal reviewed and recommended by DOL's Procurement Review Board (PRB) and approved by the ASAM. In addition, the ASAM stated his concerns that the Meganet software did not perform as expected, that the award of the contract on a sole-source basis might have been inappropriate, and that the price paid by DOL may not have been "fair and reasonable."

## READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response, go to:

<http://www.oig.dol.gov/public/reports/oa/2005/05-05-005-07-720.pdf>

**March 2005**

## AWARD AND MANAGEMENT OF CONTRACTS FOR ENCRYPTION SOFTWARE WERE SIGNIFICANTLY FLAWED

### WHAT OIG FOUND

- Significant irregularities existed in DOL's award of a sole-source contract to Meganet, including the failure of the former Deputy CIO to disclose an apparent conflict of interest.
- Overall responsibility for the Information Technology (IT) and procurement functions are delegated to one executive, creating inadequate separation of duties
- The scope of the sole-source contract awarded to Meganet significantly exceeded the procurement proposal that was presented to DOL's Procurement Review Board (PRB) for consideration.
- DOL's decision to abandon the Meganet products, purchased for \$3.8 million, was not supported.

### WHAT OIG RECOMMENDS

We recommended that the Deputy Secretary of Labor:

- Remove the procurement function from OASAM and create an independent Acquisition Office that would report directly to the Deputy Secretary.
- Establish a process to independently review and approve decisions to (a) terminate contracts or (b) not use products or services already purchased.

We also recommended that the ASAM:

- Implement controls to ensure that preaward activities are completed before contract execution, including reconciliation of limits recommended by the PRB.
- Emphasize conflict of interest laws and regulations to all employees during annual ethics training, and remind them of the responsibility to report wrongdoing or suspicions of wrongdoing to the OIG.
- Direct IT staff to execute and document a test of the Meganet and Entrust products and determine whether and how to use them in meeting DOL's encryption needs.

DOL responded that it has already made some policy and staffing changes, plans to implement additional controls, and will consider separating the procurement function from program responsibilities.