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United States Government Accountability Office
Washington, DC 20548

July 15, 2008

The Honorable Arlen Specter
Ranking Member
Committee on the Judiciary
United States Senate

Subject: *Financial Management: FBI Has Designed and Implemented Stronger Internal Controls over Sentinel Contractor Invoice Review and Equipment Purchases, but Additional Actions Are Needed*

Dear Senator Specter:

In February 2006, we reported on significant internal control deficiencies related to contractor payments and property accountability associated with the development of the Federal Bureau of Investigation's (FBI) Trilogy information technology (IT) modernization project.¹ In that audit, we found FBI's invoice review and approval process did not provide an adequate basis to verify that goods and services billed were actually received and that amounts billed were appropriate. We also found that FBI relied extensively on Trilogy contractors to purchase and account for Trilogy equipment without controls or data to verify the accuracy and completeness of the contractor records. Additionally, once FBI took possession of the Trilogy equipment, it did not have adequate controls to safeguard those assets. FBI is now acquiring and deploying a new automated case management system, known as Sentinel, to replace the case management system that was to be delivered as part of the Trilogy project. Sentinel is being developed in four phases at an estimated cost of \$425 million and is scheduled to be completed in May 2010. Phase 1 of the project was completed in June 2007.

In light of the problems we found concerning the predecessor Trilogy project, you asked us to review the internal controls over expenditures related to the development and implementation of Sentinel. Specifically, you asked us to assess the design and implementation of FBI's internal controls over the Sentinel project for (1) preventing or detecting improper payments to project contractors and (2) maintaining proper accountability for equipment purchased for the project. Further, to the extent weaknesses were found, you asked us to determine whether those weaknesses resulted in improper payments or missing equipment.

¹GAO, *Federal Bureau of Investigation: Weak Controls over Trilogy Project Led to Payment of Questionable Contractor Costs and Missing Assets*, [GAO-06-306](#) (Washington, D.C.: February 2006).

To assess the design and implementation of FBI's controls over Sentinel contractor invoice review and equipment purchases, we obtained and reviewed the Sentinel contracts, purchase orders, and statements of work; the internal control policies and procedures developed by the Sentinel Program Management Office (PMO); and the invoices and accompanying supporting documentation submitted by Lockheed Martin, the system development contractor, and the five companies assisting the PMO in managing the project. We analyzed labor, overhead, and general and administrative expense (G&A) rates billed by the contractors; and examined property management records including purchase orders, Lockheed Martin's database established to track equipment purchased for Sentinel, and FBI's official property management records. We also reviewed FBI's final reconciliation of all property acquired for Phase 1 of the Sentinel project. We reviewed approved contractor invoices and equipment purchases for Phase 1 of the project, covering the period from May 2005—when contractors began billing for Sentinel activities—through November 2007, when Lockheed Martin submitted its final Phase 1 invoice. We also discussed with FBI, PMO, and contractor officials the policies, procedures, and practices used to review contractor invoices and account for purchased equipment. Enclosure I provides additional details on our scope and methodology.

We conducted this performance audit from August 2006 through May 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

FBI has designed and implemented internal controls over the review and approval of Sentinel contractor invoices that have reduced the risk of improper contractor payments. FBI established the Sentinel PMO to provide day-to-day oversight over both the technical and financial aspects of the project. The PMO designed policies and procedures that assign invoice-review responsibilities and require Sentinel contractors to provide detailed support for all invoiced amounts and to obtain advance approval from the PMO for travel, overtime, and other direct costs. The PMO's policies also require contractors to provide monthly progress reports that link invoiced amounts to tasks completed and explain any anomalies with the invoice. The PMO Business Management Team (BTM) is also assigned the task of assessing each submitted contractor invoice to determine whether invoiced costs are mathematically accurate and adequately supported. Our testing of these controls determined that the PMO had effectively implemented them. We did not identify any questionable contractor payments.

The Sentinel PMO has also taken steps to improve the design and implementation of internal controls over purchased Sentinel equipment. In April 2007, the PMO hired a full-time Sentinel property manager to oversee the property management process. The property manager is responsible for maintaining accountability (physical and financial) over equipment purchased for the Sentinel project. The PMO established

policies and procedures to help ensure equipment purchases are properly authorized and that received property is timely inspected and entered into FBI's Property Management Application (PMA) to be tracked and inventoried. Overall, with additional enhancements to these controls to address the issues noted below, the PMO's established policies and procedures would help ensure accountability over Sentinel equipment. Specifically, our testing of the implementation of the PMO property controls found opportunities for the PMO to improve controls by

- establishing procedures to ensure the accuracy and completeness of the Lockheed Martin database used to establish the official FBI property record in PMA. Our initial testing of this contractor database found that it was corrupted and did not agree with either PMA or the supporting vendor invoices;
- reconciling its asset records to the underlying source documents as part of the monthly invoice review and approval process. We found asset values had to be adjusted at the end of Phase 1 because assets were initially recorded in PMA using estimated costs rather than actual costs;
- establishing policies and procedures to document the initial inspection of Sentinel assets and verification of the barcodes assigned to the property; and
- capturing the date property was received so that the PMO could monitor compliance with its policy to record all accountable property in PMA within 27 days of receipt.

Our testing did not identify any missing assets. However, we found 20 property records for which there were valuation discrepancies between the contractor database, PMA, and the supporting vendor invoices. We referred these records to the PMO to investigate and resolve.

We are making five recommendations to FBI to help strengthen the PMO's asset accountability policies and procedures. If properly implemented, these actions will help ensure that Sentinel property records are accurate, complete, and recorded timely in the PMA.

We received written comments from FBI on a draft of this report. FBI concurred with our recommendations regarding strengthening accountability for Sentinel equipment. FBI's comment letter is reprinted in enclosure II. FBI also provided separate technical comments which we have considered and incorporated into this report as appropriate.

Background

In May 2001, FBI initiated a major IT upgrade project known as Trilogy to modernize its IT infrastructure and systems and provide needed applications, including a modern investigative case management system, to help FBI agents, analysts, and others do their jobs. In March 2004, after scheduling delays, cost overruns, and a failure to deliver the envisioned case management system component which became known as the Virtual Case File (VCF), you asked us to audit the costs of the project, which then totaled approximately \$537 million. Our audit of Trilogy costs identified

significant internal control deficiencies over the processing, review, approval, and payment of invoices as well as the accountability and control over assets purchased under the Trilogy project.²

More specifically, with respect to invoice processing, we reported that FBI's review and approval process for Trilogy's contractor invoices did not provide an adequate basis for verifying that goods and services billed were actually received by FBI or that payments were for allowable costs. This occurred in part because responsibility for the review and approval of invoices was not clearly defined and because contractor invoices frequently lacked the detailed supporting documentation necessary to facilitate an adequate invoice review process. During our audit, we identified more than \$10 million in questionable contractor costs paid by the FBI. With respect to property, we reported that FBI (1) did not adequately maintain accountability for computer equipment; (2) relied extensively on contractors to account for Trilogy assets while they were being purchased, warehoused, and installed; (3) did not establish controls to verify the accuracy and completeness of contractor records it was relying on; (4) did not ensure that only the items approved for purchase were acquired by the contractors, and that it received all those items; and (5) did not establish adequate physical control over the assets. As a result of these deficiencies, we identified more than 1,200 pieces of missing equipment which we estimated to be worth more than \$7.5 million.

In March 2005, FBI discontinued the virtual case file component of its Trilogy project after VCF was determined to be infeasible and cost prohibitive to implement as originally envisioned. FBI's Sentinel project was approved in July 2005 to both succeed and expand the failed VCF component. The Sentinel project is intended to provide FBI with a modern, automated investigative case management system that will facilitate information sharing and help field agents and intelligence analysts perform their jobs more effectively and efficiently. The system is based on commercially available software and hardware components and is being acquired and implemented in four phases. The primary deliverables for each of the four phases include:

Phase 1: A Web-based portal that will provide access to data in FBI's existing Automated Case Support system (ACS) and other legacy systems and which eventually, through incremental changes in subsequent phases, will support access to the newly created investigative case management system.

Phase 2: Case document and records management capabilities, document repositories, improved information assurance, application workflow, and improved data labeling to enhance information sharing.

Phase 3: Updated and enhanced system storage and search capabilities.

²GAO-06-306.

Phase 4: Remaining case management system components, including reporting capabilities, and migration of closed case data from ACS to the new system and retirement of ACS.

Lockheed Martin was awarded the Sentinel development contract in March 2006 through a governmentwide acquisition contract. The contract is a cost-plus award fee contract under which task orders will be issued for each phase of the project to be completed. Under a cost-plus award fee contract, costs incurred by the contractor that are allowable, reasonable, and allocable to the contract are reimbursed and fees may be awarded to the contractor based on acceptable performance. Under this type of contract, the government assumes most of the cost risk. The Federal Acquisition Regulation (FAR) requires agencies to mitigate this risk through adequate government oversight during the performance of the contract. In addition, the contractor must have adequate accounting systems to record and bill costs.

The Sentinel project and PMO are supported by five other contracted firms. These companies are providing administrative and engineering services to support the requirements definition, acquisition, and development support for the Sentinel system. Two of these firms were awarded cost-plus award fee contracts while the other three were awarded time and material (T&M) contracts. Under a T&M contract, the government agrees to pay fixed per-hour labor rates and to reimburse other costs directly related to the contract, such as materials, equipment, or travel, based on cost. Again, the government assumes the cost risk because the requirement for the contractor is to make a good faith effort to meet the government's needs within a ceiling price. Accordingly, the government must monitor contractor performance to ensure efficient methods and effective cost controls are being used.

According to FBI officials and documents related to Sentinel, Phase 1 of the project was deployed in June 2007. Overall, FBI estimates that the Sentinel project will be completed in May 2010 and cost \$425 million, including \$305 million for system acquisition and development costs and \$120 million for contractor support and PMO costs.

FBI Designed and Implemented Stronger Internal Controls over the Review of Sentinel Contractor Invoices

We found FBI has taken a number of actions to strengthen the design and implementation of internal controls over the review and approval of Sentinel contractor invoices, including the establishment of the Sentinel PMO to oversee on a daily basis all technical and financial aspects of the Sentinel project and the development of Sentinel-specific invoice processing policies and procedures. We determined that these policies and procedures, if properly implemented, should reduce the risk of improper payments to Sentinel contractors. In testing the implementation of these controls, we found the PMO had effectively implemented its invoice-processing controls. We did not identify any questionable contractor payments.

Policies and Procedures Issued for Sentinel Invoice Processing

Standards for internal control in the federal government state that management is responsible for developing internal control activities to help ensure that management's directives are achieved.³ Control activities are the policies, procedures, and mechanisms that enforce management's directives. Control activities include a wide range of diverse activities such as approvals, authorizations, verification, reconciliations, and the creation and maintenance of related records that provide evidence that these activities have been executed and documented.

Based on our review of Sentinel invoice processing policy and procedures, examples of underlying documentation, and interviews with PMO staff, we found the PMO has established requirements for the Sentinel project that meet internal control standards for invoice review and approval. These requirements are responsive to the recommendations for correcting the invoice-processing deficiencies we identified in our prior Trilogy work and, if implemented properly, will help to ensure accurate and proper payments for goods and services purchased for the project.

For example, the PMO's Sentinel invoice-processing policy specifies the roles and responsibilities for the parties involved in the review and approval of Sentinel invoices. Specifically, the Contracting Officer's Technical Representative (COTR) and the PMO Business Management Team (BMT) have responsibility for reviewing the invoices to ensure that billed work has been performed and is within the scope of the contract; that sufficient funds are available to pay the amounts billed; and that the work has not been previously invoiced. The Sentinel Unit Chiefs (UC) are responsible for validating invoice charges to ensure that labor hours billed, travel expenses, and other direct charges (ODCs) are appropriate, reasonable, and have been delivered in accordance with the contract statement of work. The BMT records and tracks invoice charges and vendor payments against purchase orders and compares actual expenditures against planned expenditures. The Sentinel Program Manager or Deputy Program Manager is responsible for final approval of invoices for payment after verification of invoice charges by the UCs and invoice certification by the COTR. The Contracting Officer processes and forwards approved invoices to the FBI's Commercial Payments Unit. In addition, the Sentinel PMO has a staff auditor to perform detailed analyses of all contractor invoices.

Further, the Sentinel invoice-processing policy requires verification that contractor invoices provide detailed supporting information, including documentation for invoiced labor, travel, subcontractor services, equipment, and other charges. The PMO staff auditor makes an assessment of this documentation and when necessary, recommends that the COTR obtain additional supporting documentation or withhold payment for unsupported costs. The policy also requires advanced approval for overtime, travel, and other direct costs.

³GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

Also, the Sentinel policy establishes monthly reporting requirements for the contractors. The policy also requires contractors to provide a detailed analysis of any labor rate variances, verification of receipt for any equipment or software, and a report describing any unusual invoiced amounts such as previously suppressed charges that are now being billed. The monthly reporting requirements help to establish a link between amounts invoiced and the contractor's performance. Finally, the PMO has established an invoice-review checklist to help ensure that all key invoice-review requirements have been met.

Implementation of Sentinel Invoice Processing Controls

We obtained and reviewed each of the 15 Lockheed Martin and all of the 142 PMO support contractors' monthly invoices submitted for Phase 1 of Sentinel. These invoices totaled approximately \$83 million and included Lockheed Martin's \$60.3 million for system development and implementation costs and \$22.9 million in costs for the five PMO support contractors. Based on our review of these 157 invoices and the supporting documentation, we found that the PMO has effectively implemented the invoice-review procedures established for Sentinel.

Specifically, except for a few instances, the contractor invoices had the required PMO officials' approval and the supporting documentation included the required monthly status reports. We found that the PMO BMT staff is, as specified in the Sentinel invoice-processing policy and procedures, routinely performing mathematical checks of accuracy and tracing invoiced direct costs back to detailed support in the invoice package, such as vendor invoices for equipment, labor detail reports, or travel detail reports or vouchers. Additionally, according to PMO management, the BMT is periodically, as required, selecting contractor employees, obtaining time sheets from the contractor, and comparing time sheet data to the hours charged to Sentinel to verify that the charges are reasonable and supported by the relevant time sheet data. For the invoices containing equipment purchases, we saw that all equipment purchased and invoiced had been traced back (mapped) to the Bill of Material (BOM) to verify the purchase had been authorized.

We also traced invoiced costs (i.e., labor, material and travel costs) back to the supporting documentation accompanying the invoice and found the support to be adequate to validate the charges. (The lack of adequate supporting documentation was a significant deficiency identified during our prior work on Trilogy.) In a few cases, we found that the PMO denied payment of certain charges that it determined were either not adequately supported, had been previously billed, had not been pre-approved, or represented over billings. We also compared the direct labor rates and other indirect cost rates charged on the invoices (i.e., overhead, general and administrative, cost of money, and fees) back to the contracts and other supporting documentation provided to us and found that the contractors had charged the appropriate rates. We also found that the PMO kept a log to track the invoice deficiencies it identified and their resolution. This can offer valuable insights into recurring issues and thus a basis for assessing the need for enhancements to invoice-processing policies and procedures. We did not identify any questionable contractor payments in our review of the invoices.

FBI Has Designed and Implemented Policies to Strengthen Accountability Over Sentinel Equipment but Opportunities to Further Strengthen Controls Remain

We found the Sentinel PMO has taken steps to design and implement effective internal control over purchased Sentinel equipment. These steps include hiring a Sentinel property manager in April 2007 and issuing Sentinel-specific policies and procedures on how to account for Sentinel equipment. These policies and procedures should help ensure that equipment purchases are properly authorized and that received property is timely inspected and entered into PMA to be tracked and inventoried. However, we did identify some opportunities to further enhance both the design and implementation of controls in this area including:

- controls to ensure the asset tracking database is accurate and complete and that records in it and PMA are reconciled and adjusted as necessary,
- controls to document that property shipments have been promptly inspected and accepted, and
- controls to ensure that property is recorded in PMA in a timely manner.

In addition, while we did not identify any missing assets as part of our testing of the PMO's property controls, we referred records for 20 assets with valuation concerns to the PMO to research and resolve.

Policies and Procedures Issued for Accountability over Sentinel Equipment

Standards for internal control in the federal government require that internal controls be designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use, or disposition of an agency's assets.⁴ Further, an agency must establish physical control to secure and safeguard vulnerable assets (such as computers or sensitive equipment). Such assets should be periodically counted and compared to control records, with adjustments made as necessary.

For the Sentinel project, FBI established the Sentinel PMO to manage all aspects of the project, including maintaining accountability for purchased equipment. In turn, the PMO established specific internal control policies and procedures to account for purchased equipment, including accountable property items. According to FBI policy, accountable property (i.e., assets valued at \$2,500 or more, as well as certain sensitive items) must be accounted for in PMA, an automated management system that allows FBI to track the cost, location, and history of its accountable assets. The specific policies for the Sentinel project require the PMO to

- establish its own database for tracking equipment purchases under the Sentinel project,
- verify that all invoiced equipment was authorized under the BOM,

⁴ [GAO/AIMD-00-21.3.1.](#)

- compare received property with the packing lists or invoice,
- affix all accountable property with a bar code for tracking,
- enter accountable property in PMA within 27 days of receipt, and
- conduct an annual inventory of all accountable Sentinel equipment.

The PMO hired a full-time Sentinel property manager in April 2007 to provide additional oversight for Sentinel assets and to ensure that the PMO's asset management policies and procedures are effectively implemented. Until the property manager was hired, the Business Management Unit Chief and a temporarily detailed FBI Asset Management Unit employee tracked and managed purchased Sentinel assets. The Property Manager has now assumed these responsibilities. The PMO has issued updated Sentinel asset policies and procedures which include additional controls. In addition, a new BOM Deviation policy has been established in response to a prior finding by the Department of Justice Office of Inspector General (DOJ IG).

Implementation of Sentinel Asset Accountability Controls

For Phase 1 of Sentinel, more than 750 pieces of accountable property were purchased by Lockheed Martin or directly by FBI. Total property purchased for Phase 1 of Sentinel was valued at \$26.3 million. Lockheed Martin procured more than 490 of these assets valued at \$24.1 million. We performed detailed tests on assets comprising about 85 percent of equipment costs invoiced by Lockheed Martin and additional detailed tests on the property acquired directly by FBI. As discussed in the following sections, our testing identified opportunities for further enhancement of property controls.

Asset-Tracking Database

The PMO did not establish its own asset-tracking database, as required by its policies and procedures, to track Sentinel equipment purchased by Lockheed Martin. Instead, the PMO decided to utilize, with some modification, the asset-tracking database developed and administered by Lockheed Martin. Using a contractor to create and maintain the asset-tracking database can be an effective control mechanism provided that appropriate managerial and oversight measures are taken to independently verify that all equipment has been accurately recorded in the database. The PMO uses this contractor database to create FBI's official property record in PMA.

To test the accuracy and completeness of this database, we attempted to match the records in it with FBI's official PMA records and vendor invoices. At the time of our test, most of the records we reviewed from the database contained discrepancies. The bar codes, serial numbers, cost, and other key information for the accountable property items recorded in the database did not agree to PMA records and vendor invoices. Furthermore, these discrepancies had not been detected by the PMO, indicating that it did not have adequate procedures for independently monitoring the accuracy and completeness of the contractor records upon which it was relying to create FBI's official property record.

We identified two causes for the discrepancies: (1) the Lockheed Martin database (an Excel spreadsheet) had become corrupted, most likely as a result of an unintended sorting error, resulting in misaligned data fields that could not be matched to the vendor invoices or PMA and (2) many asset costs had been initially entered into PMA at estimated values based on the BOM or using other methods of estimating the cost. PMA requires a cost amount to be entered to create a property record in the system. PMO officials told us that they used estimates so that they could more timely establish a record of the property for tracking purposes. Actual costs – obtained from the Lockheed Martin monthly invoices and accompanying supporting documentation – may not have been available until a month or more after property was received. Actual costs were accumulated in a work-in-progress account to be assigned later.

Once the final Lockheed Martin invoice for Phase 1 was received in December 2007, FBI attempted to reconcile all sources of data to ensure an accurate final costing of materials, and performed a comprehensive review of the BOM, the Lockheed Martin invoices, the asset database, and FBI data contained in PMA to produce an accurate asset database that supported FBI's property records. This effort was completed at the end of March 2008. As part of this process, asset values were adjusted to reflect actual invoiced costs. We analyzed the reconciled property records and found them to generally be in agreement, although we found 20 property records for which there were valuation discrepancies between the revised database, PMA, and the vendor invoices. We referred these records to the PMO for investigation.

Authorization and Receipt of Sentinel Equipment

To determine whether each purchase has been authorized, the PMO's invoice review procedures include a requirement that the COTR and the BMU support staff, including the staff auditor, "map" or trace all equipment that Lockheed Martin had invoiced FBI for back to the BOM. The BOM, which was part of Lockheed Martin's accepted proposal, detailed the equipment that would need to be purchased to build and implement the Sentinel system. We reviewed the PMO staff auditor's documentation of this procedure and found sufficient evidence to indicate this control had been effectively implemented. Related to this control, the DOJ IG, as part of its oversight of the Sentinel project, reported in August 2007 that there was a significant flaw in the PMO's policy with regard to obtaining required approvals for changes to the original BOM.⁵ They reported that although the BOM Deviation Policy stated that a deviation is any addition or deletion to the BOM, the policy did not require FBI approval for these additions or deletions. At the time of our review, the PMO was revising its BOM deviation policies to address the IG's finding. The revised BOM Deviation policy was issued in January 2008.

To verify the property shipped to Lockheed Martin was received and properly bar coded, PMO and Lockheed Martin officials told us that for every property shipment, a PMO official visits Lockheed Martin's facilities to physically inspect the equipment

⁵ U.S. Department of Justice, Office of the Inspector General, *Sentinel Audit III: Status of the Federal Bureau of Investigation's Case Management System*, Audit Report 07-40 (August 2007).

and verify it has been properly bar coded. We accompanied the PMO Sentinel property manager on one visit and saw these procedures performed. We also saw where the PMO staff auditor (who performed this step prior to the Sentinel property manager's coming on board) had written down the bar codes assigned to many of the property items during his visits to inspect the property and kept this in his working copy of the Lockheed Martin invoices, which we reviewed. However, we observed that there is no consistent means of documenting that this control procedure had been performed and when it was performed. The PMO's policies and procedures do not specify how the performance of this control activity should be documented.

Timely Entry and Accurate Recording of Sentinel Assets into PMA

During our audit of the Trilogy project, we found that accountable assets were not entered into PMA in a timely manner. Because PMA is used to track the location of FBI's accountable property, delay in entering a property record exposes the assets to a greater risk of loss or theft. In response to this finding, the Sentinel PMO established a policy of entering accountable property into PMA within 27 days of receipt. We attempted to test the implementation of this policy for all accountable Sentinel property. However, because neither PMA nor the Lockheed Martin database date-of-receipt field captured the actual receipt date of the property by Lockheed Martin we could not determine the extent to which the PMO complied with its 27-day requirement for recording assets in PMA. Instead, by applying alternative procedures, we looked at records for 198 pieces of equipment for which we could approximate the receipt date (based on supplier invoices that listed asset serial numbers) and compared these estimated receipt dates to the dates captured in PMA when the asset records were created. We found that about two-thirds of the 198 assets had been recorded within or very near the 27-day target. The remaining one-third did not meet the target. Using this procedure, we found examples of accountable Sentinel assets that had not been recorded in PMA for up to 150 days.

Timeliness is one key element of recording accountable property. The data must also be recorded accurately. As discussed above our analysis of PMA records, the Lockheed Martin database, and vendor invoices identified many discrepancies that called into question the accuracy of the data entered into PMA. The PMO's reconciliation of the Phase 1 purchases, discussed above, was an important step in correcting the deficiencies we identified. However, without additional steps going forward to help ensure that the Lockheed Martin database -- the source document for entries into PMA -- is accurate and complete at the time the PMA entry is made, there is an increased risk that Sentinel property will not be properly recorded. Further, internal control objectives for asset control anticipate that property will be recorded in a timely manner to afford visibility over the assets and minimize the risk of their loss or unauthorized use.

Inventory of Sentinel Assets

In 2007, FBI conducted an agencywide "wall-to-wall" inventory of all accountable property, including sensitive property items (e.g., laptop computers and weapons which are susceptible to theft), recorded in PMA. Sentinel assets were included in

this inventory. We obtained and reviewed reports from FBI's PMA that indicated that all accountable and sensitive Sentinel assets recorded in the system were successfully inventoried. To obtain assurance that the PMA records were complete, we matched the records in the corrected Lockheed Martin asset-tracking database to the records in PMA and found six accountable property items that were captured in the database but not recorded in PMA. When assets are not recorded in the property system, there is no record of their existence when physical inventories are performed. This limits the effectiveness of the physical inventory in detecting missing assets. We provided a list of these six assets to the PMO to research and resolve. PMO officials provided us an explanation for each of the six items on the list. One asset was improperly bar coded and one was not an accountable property item. The PMO was in the process of uploading the other four assets into PMA. These assets will be included in the 2008 inventory of Sentinel equipment which began in early 2008.

Conclusions

FBI has designed and implemented improved internal controls for the processing of Sentinel invoices and for maintaining accountability over Sentinel equipment. As a result, the risk of making improper payments to Sentinel contractors and the risk of misuse, loss, or theft of Sentinel equipment has been significantly reduced. However, additional procedures to strengthen accountability over Sentinel equipment are still needed in order to enhance FBI's ability to account for and control project assets. If effective corrective actions are taken and properly implemented for these remaining areas of risk, we believe that the design and implementation of internal controls for the Sentinel project could serve as a model for FBI's invoice and property control in other projects involving contractors.

Recommendations for Executive Action

We recommend that the Director of the FBI direct the Sentinel Program Manager to modify existing Sentinel policies and procedures to:

- require the Sentinel property manager to verify for every property shipment that data in the Lockheed Martin database are complete and accurate before using these data to create or update FBI's official property records in PMA;
- require that the Sentinel property manager perform monthly reconciliations of the key property records (i.e., the BOM, the vendor invoices, the Lockheed Martin database, and PMA) throughout each subsequent phase of Sentinel rather than a single close-out reconciliation at the completion of a phase;
- require the Sentinel property manager to document the initial inspection of property as it is received, including verification that the property was properly barcoded;
- require the Sentinel property manager to record in the Lockheed Martin database the date Sentinel property is received to allow for assessments of whether Sentinel property was timely recorded into PMA; and
- require the Sentinel property manager to follow up on and document actions taken with respect to the 20 property records we identified as having valuation

discrepancies, including any adjustments to the valuations in either FBI's or the contractor records.

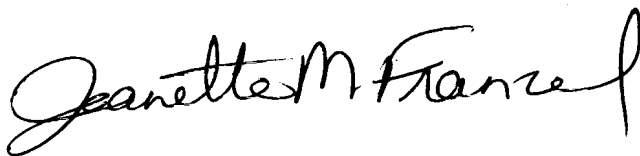
Agency Comments and Our Evaluation

In written comments on a draft of this report, FBI's Executive Assistant Director/ Chief Information Officer stated that FBI concurs with our recommendations regarding strengthening accountability for Sentinel equipment. In his comments, he stated that the PMO asset accountability policies and procedures have been adjusted based on lessons learned from Phase 1 and that steps are now being taken to ensure that the Lockheed Martin database is accurately populated before entering data into FBI's PMA. He also stated that the PMO has been working to resolve the asset valuation discrepancies that we identified. FBI's comment letter is reprinted in enclosure II. FBI also separately provided technical comments which we have considered and incorporated into the final report as appropriate.

We are sending copies of this report to the Chairman of the Senate Judiciary Committee, the Attorney General, the Director of the Federal Bureau of Investigation, and other interested congressional committees. We will also provide copies to others on request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9471 or by e-mail at franzelj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in Enclosure III.

Sincerely yours,



Jeanette M. Franzel
Director, Financial Management and Assurance

Enclosure I: Scope and Methodology

We assessed the design and implementation of the Federal Bureau of Investigation's (FBI) internal controls over the Sentinel system development and implementation effort to determine whether (1) these controls provided a reasonable level of assurance that improper payments to Sentinel contractors would be prevented or detected in the normal course of business and (2) FBI maintained adequate accountability over equipment purchased for the Sentinel system. In addition, we designed our work so that if we found current weaknesses in internal control, we would determine whether those weaknesses resulted in improper payments or missing equipment. Our work focused on the recently completed Phase 1 of the Sentinel project and included all 157 contractor invoices submitted and equipment purchased for this phase of the project. The initial contractor invoices were for planning activities for Phase 1 that began in May 2005. The final invoice for this phase, dated November 30, 2007, was submitted and processed in December 2007. We reviewed the invoices submitted by Lockheed Martin, the Sentinel development contractor, which began work in March 2006, as well as the five firms assisting FBI's Sentinel PMO in its planning for and oversight of the project.

We used our *Standards for Internal Control in the Federal Government*⁶ as overarching criteria and also considered specific policies and procedures developed by FBI's Sentinel PMO as discussed below. In performing our work, we also considered the weaknesses we had identified in our prior work on Trilogy and FBI's efforts to ensure similar weaknesses were not present in the Sentinel project. We did not make an assessment of invoice-processing controls or equipment accountability on an FBI-wide basis. Our assessment was for the Sentinel project only.

Assessment of the Design and Implementation of Internal Controls over Sentinel Invoice Processing

To understand and assess the design of internal controls over Sentinel invoice processing, we obtained and reviewed the relevant internal control policy and procedures that had been developed by the Sentinel PMO. This included the specific policy and procedures dealing with the PMO's invoice processing, contractor time card reviews, and the documentation requirements contractors were expected to follow when submitting their monthly invoices. We held discussions with PMO officials involved in the financial management aspects of Sentinel including the program manager, deputy program manager, contracting officer, contracting officer's technical representative, business management unit chief, and internal auditor to determine and understand their roles in the invoice-review process. We also obtained and reviewed the contracts, statements of work, purchase orders, and cost proposals for Lockheed Martin and the five PMO contractors as well as Phase 1 contractor invoices with accompanying supporting documentation.

To evaluate the implementation of controls over Sentinel invoice review and approval, we performed tests and analysis of the five areas discussed in detail below.

⁶[GAO/AIMD-00-21.3.1](#).

Invoice Approval and Adequacy of Supporting Documentation

We obtained and reviewed all 157 contractor invoices submitted during Phase 1 of the Sentinel project by Lockheed Martin and the five PMO contractors to determine whether there was evidence that the invoices had been reviewed and approved in accordance with the PMO invoice-processing policy. We also examined the accompanying supporting documentation submitted by the contractors to determine whether significant charges on the invoices were adequately supported and contractors had submitted the required monthly status reports that link invoiced costs to work activities during the invoice period.

Invoiced Equipment and Software Costs

We reviewed the purchasing reports and supplier invoices that were included in the Lockheed Martin monthly invoice packages to determine whether the invoiced equipment costs were adequately supported. Lockheed Martin was the only contractor that purchased Sentinel equipment. We performed this procedure for every Lockheed Martin invoice that included equipment purchases.

Review of PMO's Time Card Audits

PMO policies require contractor time card audits to help substantiate invoiced labor costs. PMO management told us they had conducted these audits, which compared contractor time cards to the labor detail reports included in the monthly invoice packages submitted by Lockheed Martin and the five PMO contractors. The PMO internal auditor showed us copies of several contractor employees time cards that he had obtained and explained the tick marks he placed on the invoices to denote the completion of these audits.

Analysis of Labor Costs and Rates

To review labor charges included in each monthly invoice package submitted by Lockheed Martin and the PMO support contractors, we traced invoiced amounts back to the detailed supporting documentation included in the invoice packages that listed employees' labor category, hours worked, hourly rates, and total labor cost. We also analyzed the hours and rates billed by Lockheed Martin and the five PMO contractors. Based on this analysis, we selected a nonstatistical sample of 12 contractor and subcontractor employees whom we determined had either charged significant hours to the Sentinel project, had higher than average labor rates, or charged multiple labor categories. There was at least 1 employee selected from each of the five PMO contractors and 6 employees selected from Lockheed Martin and its subcontractors. For the selected employees, we requested salary information, resumes, time and attendance records, and personnel actions. Using these data, we determined whether the employees' hourly rates were consistent with the rates billed to the Sentinel project and inline with the rates for individual labor categories specified in the contracts or cost proposals. We also compared data on the

individuals' resumes to the skill and experience requirements specified in the contracts for the labor categories in which their time was reported.

Analysis of Overhead, G&A, and Fees

Using the contractors' monthly invoices, we calculated the rates the contractors charged for overhead, general and administrative (G&A) expenses, and Cost of Money fees. We then compared the calculated rates to the rates specified in the contracts or approved by the Defense Contract Audit Agency for the applicable time periods.

Assessment of the Design and Implementation of Internal Controls for Sentinel Equipment

We obtained and reviewed the Sentinel PMO's policies and procedures for authorizing the purchase of and accounting for Sentinel equipment and reviewed procedures carried out by the property manager to account for purchased equipment including the process used to bar code equipment and physically verify its receipt. We also met with FBI, PMO (including the Sentinel property manager), and Lockheed Martin officials with responsibility for asset accountability to better understand the policies and procedures and their implementation. We visited the Lockheed Martin facilities where property is received and stored and conducted a walk-through of the process Lockheed Martin has established to account for and safeguard Sentinel assets.

In order to assess the accuracy and completeness of the Lockheed Martin database and to determine whether the PMO had created an appropriate corresponding record in PMA, FBI's official property management system, we performed the following:

- obtained and analyzed the database to identify any irregularities such as duplicate bar codes or missing information;
- compared the vendor invoice number and item description, cost, and serial number (taken from supporting documentation) to the Lockheed Martin database for six Lockheed Martin invoices that together represented billings for approximately 85 percent of the total material⁷ purchased and billed by Lockheed Martin;
- compared the bar codes recorded on Lockheed Martin's database to PMA to identify any bar codes not recorded in PMA and investigated any discrepancies.
- compared the data (e.g., serial number, asset description, and asset cost) for each bar coded property item in the Lockheed Martin database to the PMA record and followed up on any discrepancies; and
- obtained and reviewed FBI's reconciliation of all Sentinel assets purchased by Lockheed Martin and billed on their monthly invoices to the Sentinel Bill of Material (BOM) to determine whether the purchase was authorized.

⁷Material charges include all software and hardware purchased by Lockheed Martin.

FBI also purchased several Sentinel assets directly.⁸ We performed the following procedures to help ensure that these assets were properly accounted for:

- obtained and reviewed a listing of all purchase orders issued by FBI for the Sentinel project along with copies of the vendor invoices related to those purchase orders that included the purchased Sentinel equipment; and
- compared the data, such as quantity, serial number, asset description, and asset cost for the items on the vendor invoices to the PMA listing of accountable property for the purchase orders identified and followed up on any discrepancies.

Finally, we reviewed the documentation provided to us by the Sentinel PMO following the completion of the overall asset reconciliation performed at the end of Phase 1. As part of this effort, PMO officials stated that they would reconcile the BOM, vendor invoices, the Lockheed Martin database, and PMA and make the necessary adjustments to ensure that the recorded costs of Sentinel equipment agrees with actual vendor invoice amounts.

We conducted this performance audit from August 2006 through May 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁸ The FBI issued purchase orders directly to vendors to purchase equipment, software, and other services related to the Sentinel project in addition to the goods and services purchased by Lockheed Martin.

Enclosure II: Comments From the Federal Bureau of Investigation



U.S. Department of Justice

Federal Bureau of Investigation

Washington, D. C. 20535-0001

June 23, 2008

Ms. Jeanette M. Franzel
Director, Financial Management and Assurance
Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Franzel:

Re: FBI RESPONSE TO GAO'S DRAFT REPORT,
"FINANCIAL MANAGEMENT: FBI HAS DESIGNED AND
IMPLEMENTED STRONGER INTERNAL CONTROLS OVER
SENTINEL CONTRACTOR PAYMENTS AND EQUIPMENT
PURCHASE, BUT ADDITIONAL ACTIONS ARE NEEDED,"
GAO-08-716R

Thank you for the opportunity to review and comment on the Government Accountability Office (GAO) draft report entitled "Financial Management: FBI Has Designed and Implemented Stronger Internal Controls over SENTINEL Contractor Payments and Equipment Purchase, but Additional Actions Are Needed" (hereafter referred to as "the Report"). The FBI appreciates the positive tone and recognition for its efforts to maintain stronger internal controls in the SENTINEL Program's financial management activities. The Report has been reviewed by the Federal Bureau of Investigation (FBI), Information and Technology Branch, and coordinated with the Finance Division (FD). This letter constitutes the formal FBI response.

Based on our review of the Report, the FBI concurs with the GAO's recommendation regarding strengthening accountability for SENTINEL equipment. The assignment of an FBI employee as the SENTINEL property manager was designed to provide the leadership and expertise necessary to maintain appropriate control over government assets. Additionally, the SENTINEL Program Management Office (PMO) has required Lockheed Martin (LM) to mirror the SENTINEL property manager position.

Ms. Franzel

Many of the SENTINEL PMO's policies and procedures were implemented as a result of the SENTINEL property manager's assignment and were adjusted based on lessons learned from Phase 1. For example, the GAO recommends (Recommendation #1) that the SENTINEL PMO verify that data in the LM Database is complete and accurate before using the data to create or update the FBI's official property record. The SENTINEL property manager verifies the data, maps it to the Bill of Materials, and ensures the LM Database is accurately populated before entering data into the FBI's Property Management Application. The SENTINEL PMO also requires LM to provide a copy of the mapping of the property to the LM Database and the invoice.


With regard to the fifth recommendation concerning the 20 assets with valuation discrepancies: the SENTINEL property manager, business management employee, and FD's financial analyst have been working closely with the GAO auditor to resolve all discrepancies and satisfy concerns described in this recommendation. Although the valuation discrepancies reported pertained to 20 items out of an estimated 1,200 items reviewed, the SENTINEL PMO is striving to be error free. The SENTINEL PMO and LM have a clear agreement on proper reporting and accountability procedures.

Again, thank you for the opportunity to respond to the Report. Should you or your staff have questions regarding our response, please contact me or one of my executives listed below:

Mr. Dean E. Hall
Deputy Chief Information Officer
Information and Technology Branch
202-324-2307

Mr. John M. Hope
Program Management Executive
Office of IT Program Management
202-324-9798

Sincerely yours,


Zalmay Chishti
Executive Assistant Director and
Chief Information Officer

Enclosure III: GAO Contact and Staff Acknowledgments

GAO Contact

Jeanette M. Franzel (202) 512-9471 or franzelj@gao.gov

Acknowledgments

In addition to the contact named above, Phillip W. McIntyre, Assistant Director; Ed Brown; Fred Evans; and Edward Tanaka made key contributions to this report.

(197015)

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