AUDIT OF PAYMENTS TO CIBER, INC.

Audit Report No. 00-021
June 2, 2000

OFFICE OF AUDITS

OFFICE OF INSPECTOR GENERAL

FDIC
Federal Deposit Insurance Corporation
Washington, D.C. 20434

Office of Audits
Office of Inspector General

DATE: June 2, 2000

MEMORANDUM TO: Arleas Upton Kea, Director
Division of Administration

Donald C. Demitros, Director
Division of Information Resources Management and
Chief Information Officer

FROM: David H. Loewenstein
Assistant Inspector General

SUBJECT: *Audit of Payments to CIBER, Inc*. (Audit Report Number 00-021)

The Office of Inspector General (OIG) has completed an audit of payments made to CIBER, Inc. (CIBER). As of March 1, 2000, the Federal Deposit Insurance Corporation (FDIC) had expended $17 million of $20.5 million in funds authorized under eight open delivery orders with CIBER. This review has identified billing allowability issues and offered contract administration-related suggestions to assist management in the completion of these eight delivery orders and three recently awarded delivery orders valued at $10.2 million. During the course of our audit we communicated our concerns and suggestions to management to enable more timely consideration of this information. This is one of four ongoing OIG audits of the Division of Information Resources Management (DIRM) delivery order-type contracts.

BACKGROUND

The General Services Administration (GSA) Federal Supply Service (FSS) leverages the government's buying power to help federal agencies save time by acquiring goods and services through pre-established contracts. The FDIC used GSA's pre-established contracts for IT services and competitively awarded eight delivery orders[1] to CIBER between April 7, 1998 and December 23, 1998. CIBER's contract with GSA (GS-35F-4541G) is effective for the period covering July 2, 1997 through March 31, 2002 and dictates experience requirements and hourly billing rates by labor category for CIBER personnel.

Through the delivery orders, CIBER is providing System Development Life Cycle support services for the Assessment Invoicing and Management System, the Multi-Tier Application Architecture Project, and the Electronic Travel Voucher Payment System. The delivery orders also engaged CIBER to support new and existing systems used by the Division of Resolutions and Receiverships (DRR), the Division of Supervision (DOS), and other DIRM clients, including

[1] Delivery orders are orders for supplies or services placed against an established contract or with government sources for supplies.

the FDIC's executive offices. CIBER is a provider of strategic management and information technology consulting, enterprise applications, enterprise and network integration, application hosting, and custom business solutions. The firm has 6,700 employees with offices in 45 cities in the U.S. and 2 cities in Canada.

CIBER's delivery orders are time and materials-type contracts in that they provide for services based on direct labor hours at fixed hourly rates plus the cost of any necessary materials. According to the *FDIC Acquisition Policy Manual* (APM), time and materials contracts are used when the Contracting Officer determines that fixed-price contracting (the preferred method) is not practical. Time and materials contracts make sense when it is difficult to provide a detailed statement of work or to estimate the price or duration of the time required for contract performance. The APM states that time and materials contracts should be used with caution since they provide no positive profit incentive to the contractor for price control or labor efficiency. The APM further states that the FDIC shall provide the appropriate oversight of contractor performance to ensure that efficient methods are being used.

CIBER used subcontractors to perform certain tasks within some of the delivery orders. In its proposals, CIBER specified subcontractor level of effort and a percentage of mark-up it would apply to subcontractor billings. The GSA contract is silent regarding CIBER's ability to mark up subcontractor billings. Because subcontractor markups were not expressly prohibited, they were considered an allowable charge.

OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objective of the audit was to determine whether the billings submitted by CIBER were adequately supported and allowable under the terms and conditions of the GSA contract and FDIC delivery orders. In addition, with only 41 percent of authorized funds expended through the time our fieldwork began, an objective was added to identify opportunities for improving contract administration for the balance of the open delivery orders. Our audit included the 96 invoices that FDIC paid between July 15, 1998 and July 31, 1999. These invoices were paid under eight delivery orders and totaled $8,334,400.

The audit methodology included the following:

- Identifying open delivery order contracts as of July 1999.
- Interviewing the Contracting Officer, four Contracting Specialists, eight DIRM Oversight Managers, CIBER's Director of Contracts, and a GSA Customer/Vendor Relations representative.
- Reviewing delivery orders 9800291CJT, 9800328HLH, 9800506CJT, 9800216CAF, 9800809CEU, 9801022CDY, 9800788CS2, and 9801301NS2 and the corresponding GSA contract.
- Gathering and examining support for 96 invoices (100 percent).
- Reviewing the invoices for compliance with contract requirements.
- Analyzing the population for duplicate payments.
- Reviewing FDIC contract monitoring files.
- Reviewing subcontractor files.
- Reviewing CIBER personnel files for 24 employees.
- Determining whether CIBER employees working on-site billed off-site rates.

- Testing authorization of key personnel.
- Determining whether background investigations were performed for key personnel.
- Determining whether the FDIC received volume discounts.
- Testing the accuracy and completeness of inventory records for computer equipment.
- Testing billing rates for each labor category.
- Analyzing variances between budgeted and actual labor charges for all labor categories.
- Providing DIRM, Acquisition and Corporate Services Branch (ACSB), and CIBER staff with preliminary findings to verify factual accuracy, solicit input into the causes of findings, and develop workable recommendations.
- Obtaining a management representation letter from CIBER's Director of Contracts providing assurance of the truth, accuracy, and completeness of information provided by CIBER officials during the course of the audit.

We did not perform audit steps aimed at drawing conclusions on qualitative issues. That is, we did not examine the quality of the technical services provided to the FDIC by CIBER. We conducted the audit from July 1999 through February 2000 in accordance with generally accepted government auditing standards.

RESULTS OF AUDIT

Although CIBER billings generally were supported, they were not always allowable. The unallowable charges relate to employee qualification issues, excessive or unauthorized subcontractor markups, billing rates, and volume discounts. As a result, we are questioning $587,621 of the $8.3 million audited.

As an added objective, we sought ways to improve contract administration to benefit the balance of the open delivery orders included in this audit and possibly other similar ones. The following enhancements, if implemented, will help ensure more effective contract administration.

- Reiterating to CIBER that it must adhere to the GSA contract and FDIC delivery order provisions,
- Obtaining and reviewing more information from CIBER on its invoices and reviewing contractor employee qualifications,
- Developing a procedure to help ensure that tasks are performed by the appropriate labor category of contractor personnel,
- Requiring that CIBER provide information on equipment it has purchased and having oversight managers make periodic surprise inventory counts, and
- Ensuring that the FDIC complies with GSA contract provisions when setting experience levels.

CIBER BILLED UNALLOWABLE CHARGES

We identified instances in which CIBER billed unallowable charges. These unallowable charges relate to employee qualification issues, subcontractor markups, billing rate issues, and volume discounts. Of the $8,334,400 in payments sampled, we question a total of $587,621, as shown in Table 1. A discussion of each type of unallowable charge follows the table.

Table 1: Unallowable Charges

Type	Amount Questioned*
Employee Qualifications Not Commensurate with Billing Rates	$293,315
Subcontractor Markups	216,974
Rate Variances	98,259
Volume Discounts	34,372
On-Site Billing Rates	26,751
Subtotal	$669,671
Less: Overlapping Amounts	(82,050)
Total	$587,621

Source: Analysis of files maintained by DIRM, ACSB, and CIBER
* Includes overlapping questioned costs totaling $82,050. Overlapping affects each line item of questioned costs.

Employee Qualifications Not Commensurate with Billing Rates

The FDIC used the FSS to place eight delivery orders with CIBER under GSA contract GS-35F-4541G. This GSA contract dictates experience requirements and hourly billing rates by labor category for CIBER personnel. Deviations from these requirements are permitted only with a modification to the GSA contract.

CIBER billed the FDIC for services performed by 17 employees who did not meet the minimum level of experience required by both the GSA contract and FDIC delivery orders (the Oversight Managers identified 4 of these employees as key personnel[2]). A comparison of the rates billed to rates appropriate for their actual level of experience shows that CIBER over-billed a total of $293,315 for these 17 employees. In one example, a delivery order required that an individual with 6 years of experience fill a position as an Applications Developer IV. This labor category was authorized to bill at an hourly rate of $86.34. However, CIBER filled this position with an individual having only 1 year and 10 months of experience. Thus, this individual qualified as an Applications Developer I with an hourly billing rate of $52.02. We calculated over-billings by multiplying the difference of $34.32 by the number of hours billed. We performed similar analyses for the other 16 employees whose experience did not match the hourly rates billed to calculate total over-billings of $293, 315.

Subcontractor Markups

Our audit disclosed several issues related to subcontractor markups. The GSA contract is silent on the issue of subcontractor markups. Because subcontractor markups were not expressly prohibited, they were considered an allowable charge. Of the $8.3 million in payments audited, CIBER billed a total of $275,718 in subcontractor markups. However, we identified that CIBER exceeded agreed-upon markup percentages and that several subcontractors were not authorized.

We found that CIBER charged markups that exceeded agreed-upon percentages. The standard FDIC Request for Quotation (RFQ) used to solicit firms required bidders to include in their proposals the markup they intended to use for subcontractors. During the negotiation and award

[2] Key personnel are the contractor's employees designated to perform essential work under the contract.

process for the selected contractor, the FDIC Contracting Officer was then required to review this markup as part of the subcontractor approval process.

CIBER submitted six proposals that expressly stated (1) the name of the subcontractor firm and (2) the percentage of markup that would be applied to subcontractor labor. However, we identified instances in which CIBER billed the FDIC using a greater percentage markup than stated in these proposals. We also identified instances in which CIBER used subcontractors without the authorization of an FDIC Contracting Officer as required by the delivery orders. Like other vendors, subcontractors are subject to fitness and integrity standards and the FDIC was not able to ensure that the subcontractors were suitable to perform work for the FDIC. CIBER billed $129,142 for amounts in excess of cost plus the authorized markups. CIBER also billed $87,832 for amounts above cost for unauthorized subcontractors. Therefore, we are questioning costs totaling $216,974.

In a related vein, CIBER submitted three proposals that expressly stated the percentage level of effort that would be performed by subcontractor labor. This percentage dictated the level of control necessary for the contractor to thoroughly monitor subcontractor performance. We identified two delivery orders in which CIBER billed the FDIC a greater percentage of subcontracted labor than stated in these proposals. Specifically, CIBER billed more for subcontractor participation than originally stated by amounts ranging from 13 to 37 percent. This greater percentage of subcontractor participation may have impaired CIBER's ability to effectively monitor subcontractor performance.

Rate Variances

We reviewed all of the 96 CIBER invoices for compliance with the GSA labor rate schedule. Information recorded on these invoices included the name, hourly rate, and hours billed for individuals charging time but not the labor category. Thus, we were required to trace the hourly billing rate to the GSA labor rate schedule to obtain this information. We then confirmed the accuracy of labor categories with the responsible FDIC Oversight Managers.

We found 161 instances in which CIBER billed the FDIC using hourly labor rates higher than the prevailing GSA schedule rates. Our review indicates that in total, the FDIC paid $98,259 in excess of GSA's authorized rates.

Volume Discounts

CIBER agreed to provide volume discounts for labor hours used in three of the sampled eight delivery orders. The discount was calculated based on a graduated scale. For example, in one delivery order, a 1-percent discount was offered for amounts expended exceeding $1 million up to $2 million, and a 2-percent discount was offered for amounts exceeding $2 million up to the delivery order ceiling. This discount was to be reflected on CIBER's monthly invoices. However, we identified $34,372 in volume discounts that were not passed on to the FDIC and to which it is entitled.

On-Site Billing Rates

FDIC's delivery orders require that, with few exceptions, work be performed at CIBER's facilities. As such, most labor hours are to be billed at off-site rates. Off-site rates are higher than rates billed for work performed at FDIC facilities because of overhead costs associated with rent, utilities, etc. Thus, FDIC Delivery Orders provide for a lower on-site hourly billing rate in the event that CIBER personnel perform work at FDIC facilities.

The DIRM Management Analyst responsible for assigning workspace at the Seidman Center provided us with the names of eight CIBER employees and the dates on which they had been assigned FDIC workspace. CIBER billed the FDIC higher off-site rates for two of the eight individuals for the period of April 11, 1998 through May 31, 1999. Thus, our review indicates that the FDIC paid $26,751 in excess of the lower on-site rates for work performed by these individuals.

Recommendation

(1) The Associate Director, ACSB, DOA, should disallow net payments of $587,621 for unallowable charges.

CONTRACT ADMINISTRATION ENHANCEMENTS

As an added objective, we sought ways to improve contract administration to benefit the balance of the open delivery orders and possibly oversight of other similar ones. The following enhancements, if implemented, should help ensure effective contract administration:

- Reiterating to CIBER that it must adhere to the GSA contract and FDIC delivery order provisions,
- Obtaining and reviewing more information from CIBER on its invoices and reviewing contractor employee qualifications,
- Developing a procedure to help ensure that tasks are performed by the appropriate labor category of contractor personnel,
- Requiring that CIBER provide information on equipment it has purchased and having oversight managers make periodic surprise inventory counts, and
- Ensuring that the FDIC complies with GSA contract provisions when setting experience levels.

CIBER Should Adhere to Contract Provisions

As discussed in detail earlier in our report, the results of our audit show that CIBER billed the FDIC for unallowable charges relating to employee qualification issues, excessive or unauthorized subcontractor markups, billing rate issues, and volume discounts. Criteria governing allowable charges is specifically outlined in the GSA contract and/or FDIC delivery orders. Accordingly, we recommend the following:

Recommendation

(2) The Associate Director, ACSB, DOA, should reiterate to CIBER that it must adhere to the provisions of the GSA contract and FDIC delivery orders to prevent recurrence of the unallowable charges identified in Table 1.

More Information on Invoices and Added Procedures Needed

CIBER's invoices do not contain all of the information that oversight personnel need to conduct a thorough review of contractor billings. Apart from employee qualification issues, we believe contract specialists and oversight managers could better detect the types of unallowable charges identified in Table 1 if CIBER's invoices included more information. For example, the invoices did not identify the name of the subcontractor firms. Therefore, it was not readily apparent that some subcontractor firms had not been authorized in advance. Much of the information that can enhance invoice review is readily available or easy to accumulate through automated methods.

Regarding employee qualification issues, our tests showed that 17 employees did not meet the minimum experience requirements set forth by both the GSA master contract and the delivery orders. DIRM oversight managers identified 4 of the 17 employees as key personnel. Oversight managers did not ensure that contract employees possessed the qualifications necessary for the levels within the labor categories billed. Therefore, procedures are needed to ensure that CIBER and subcontractor employees meet the experience qualifications set forth in the delivery orders.

Recommendation

(3) The Associate Director, ACSB, DOA, should ensure that CIBER revises its invoice format to include the following information:

- Identification of each employee by employer (CIBER or name of subcontractor).
- Subcontractor markup percentages billed and authorized.
- Cumulative subcontractor charges.
- Identification of the labor category assigned to each employee.
- Cumulative charges for each labor category.
- Representation as to whether any employees worked on-site.
- Cumulative totals tracking amounts billed and the corresponding discount.

(4) The Associate Director, ACSB, DOA, and Director, DIRM, should ensure that contract specialists' and oversight managers' review of CIBER's invoices includes steps to detect unallowable charges for subcontractor markups, rate variances, volume discounts, and off-site rates billed for time worked on-site.

(5) The Director, DIRM, should develop procedures to ensure that (a) CIBER and subcontractor employees meet delivery order experience requirements and (b) subcontractors are authorized in advance and their participation is limited to levels authorized in the delivery orders.

Labor Costs Need to Be Aggressively Monitored

Our audit found that the labor mix used to perform tasks differed significantly from the labor mix proposed by CIBER in response to the Requests for Quotation. For each delivery order, CIBER proposed a labor mix of professional staff hours allocated over various labor categories that would be used over the initial periods. At the time of our audit, sufficient time had elapsed for four delivery orders to complete the initial periods. Analysis of these four delivery orders indicates that CIBER used higher compensated personnel than proposed, resulting in higher average hourly rates. For example, one delivery order provided 26,400 hours of professional labor at an average hourly rate of $78.40. As the chart below illustrates, CIBER staffed the delivery order with higher compensated personnel, resulting in an average hourly rate of $91.15 and a situation where CIBER exhausted the authorized direct labor funds after expending only 22,712 hours.

Labor Category	Hourly Rate	Proposed Hours	Actual Hours
Project Manager	$102.99	400	11,398
Sys Analyst III	$86.34	4,000	8,172
App Developer IV	$80.80	18,000	334
Sys Analyst II	$67.62	0	305
Tech Writer II	$57.22	4,000	2,503
Totals		**26,400**	**22,712**

Source: OIG Analysis

The other 3 delivery orders also showed disparities between actual and proposed average hourly rates, respectively, as follows: $91.50 vs. $83.42 with 16,000 hours budgeted; $93.66 vs. $86.16 with 17,500 hours budgeted; and $81.56 vs. $78.14 with 15,500 hours budgeted.

According to a DIRM section chief, the labor mix proposed by CIBER to perform the tasks within a delivery order represents an estimate of the resources that may be required. The section chief indicated that disparities between budget and actual that approach significant thresholds are a concern.

Disparities involving higher average hourly rates can bring about contract modifications where contractors request increases in funding and exercise option periods earlier than planned. According to the APM, the oversight managers are responsible for ensuring that resources are applied at proposed levels, and the Contracting Officer is responsible for investigating situations involving material deviations from the proposed labor mix. By implementing recommendation number three, the oversight managers will have an added tool for tracking cumulative labor hours by delivery order.

Recommendation

(6) The Director, DIRM, should develop procedures to ensure that CIBER's actual staffing more closely conforms to levels proposed and to notify the Contracting Officer in instances when actual hours begin to deviate significantly from the proposed labor mix.

Controls over CIBER-Purchased Equipment Need Strengthening

Our review of CIBER invoices indicates that the FDIC has paid $205,653 for CIBER's purchases of computer hardware/software related to the eight delivery orders. However, the Oversight Managers could only provide us with limited records containing information integral to the control of these purchases. For example, the Oversight Managers were not always able to provide us with (1) the physical location of equipment purchased by CIBER, (2) equipment serial numbers, or (3) names of CIBER employees assigned custody of equipment. Thus, the FDIC is in the position of relying upon CIBER to account fully for equipment it purchases on behalf of the FDIC. Oversight Managers performing site visits to conduct surprise inspections of equipment can help remedy this situation.

According to the APM, the Oversight Manager is responsible for maintaining an itemized list of property involved on specific contracts under his/her purview showing serial numbers, if any. The Oversight Manager is also responsible for ensuring that delivery of the property to the contractor is made in accordance with the contract. Finally, the Oversight Manager is responsible for providing the Contracting Officer with a property list and a written contractor acknowledgement for receipt of such property. During our exit conference on January 21, 2000, we were informed that DIRM and ACSB had jointly initiated corrective action in response to our audit queries of accountability over CIBER-purchased equipment.

Recommendation

(7) The Director, DIRM, should ensure that Oversight Managers make periodic site visits to conduct surprise inspections of equipment and confirm FDIC official inventory records.

(8) The Associate Director, ACSB, DOA, should require that CIBER provide serial numbers, locations, and names of personnel assigned custody of equipment that CIBER has purchased.

(9) The Associate Director, ACSB, DOA, should require that CIBER provide Oversight Managers with an annual inventory of equipment purchases.

Coordination and Communication Are Essential Components of Effective Oversight

It is important that the Contracting Officer and Oversight Managers closely coordinate their functions. The Oversight Manager is responsible for ensuring that the FDIC provides resources as required by the contract and for communicating the need for any contract modifications to the Contracting Officer. However, during the course of our audit, we identified breakdowns in communication that resulted in control issues pertaining to the authorization of key personnel and the performance of background investigations. We also identified inconsistencies in the application of FDIC policies and procedures.

We reviewed CIBER invoices to determine the names of individuals charging time to the FDIC. We then provided the Oversight Managers with a list of these names and requested confirmation of key personnel. Although 34 individuals were identified as key personnel, we could not locate written authorization in corporate contract files for 24 of these individuals. We contacted the responsible Contracting Specialists and found that they were unaware that these 24 individuals were serving as key personnel. Establishing key personnel is important since the contract award is often based on the provision of key personnel with specific education and work experience.

The APM specifically requires that Oversight Managers advise Contracting Officers of changes in contractor key personnel. After notification, the Contracting Officer is required to (1) determine whether the requested modification is within scope, (2) negotiate any changes required by the modification, and (3) execute the modification with the contractor. We saw no evidence that any of these steps had been taken.

Our audit also disclosed that background investigations had not been performed for 14 key personnel and 2 on-site employees. The APM requires that background investigations be conducted for contractors, subcontractors, management officials, and key personnel for awards of $100,000 or greater. The APM directs the Contracting Officer to request background investigations from the Division of Administration's Security Services Section before awarding a contract. Background checks are also required for any new key employees. Based on our testing, it appears that neither the Contracting Specialists nor the Oversight Managers requested background investigations for these 16 individuals. This control issue was also identified in the *Audit of the Award and Administration of DIRM Service Contracts* report issued on September 30, 1999 (audit report number 99-041). The OIG recommended that the Director of DOA ensure that all DIRM service contractor employees have background investigations completed in a timely manner. ACSB management agreed and implemented a tracking system in July 1999. The sampled invoices pre-dated the ACSB's response. Because a recommendation has subsequently been made related to performing background checks, we will not include one here.

Finally, our audit identified other areas requiring the consistent application of FDIC policies and procedures. For example, we found that CIBER supervisory personnel did not always approve time sheets. We were also unable to reconcile five of CIBER's 96 invoices with corresponding status reports. CIBER prepared these status reports to support the invoices by providing detailed information regarding services performed during the billing period. We also found that (1) CIBER did not always obtain a sales tax exemption for computer equipment purchases and (2) Contracting Specialists did not always disallow charges for sales tax.

Recommendation

(10) The Associate Director, ACSB, DOA, should reiterate to CIBER that it is responsible for advising the Contracting Officer of proposed changes in key personnel, that exemptions from sales taxes should be obtained, and supervisory review and approval of time sheets is a necessary internal control.

(11) The Director, DIRM, should reiterate to oversight managers the requirements regarding reconciling invoices with status reports.

FDIC Should Operate Within the Scope of GSA Contract Requirements

We identified six labor categories for which the FDIC lowered employee experience requirements without obtaining a GSA contract modification or reduction in hourly billing rates. This audit condition involved time charges submitted by three individuals meeting the FDIC's experience requirements but not meeting GSA experience requirements. By paying these employees at the higher labor category rate, the FDIC in effect overpaid CIBER $74,291 by not operating within the scope of GSA contract requirements. We are not questioning these costs because they were incurred in compliance with FDIC's contracts with CIBER.

Recommendation

(12) The Associate Director, ACSB, DOA, should ensure that the FDIC operates within the scope of GSA contract requirements when issuing delivery orders.

CORPORATION COMMENTS AND OIG EVALUATION

On May 11 and 12, 2000, the Directors of DIRM and DOA, respectively, provided written responses to the draft report. Management agreed to implement all 12 recommendations. The responses are presented as Appendix I to this report.

The written responses and subsequent correspondence regarding expected completion dates for corrective actions provided the requisites for a management decision on each of the recommendations in the draft report. The responses are not summarized because the actions planned or already taken are identical to those recommended.

Based on the audit work, the OIG will report questioned costs of $587,621 in its *Semiannual Report to the Congress*.

FDIC
Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429 Division of Administration

May 12, 2000

TO: David H. Loewenstein
Assistant Inspector General

FROM: Arleas Upton Kea
Director, Division of Administration

SUBJECT: Management Response to Draft Report: *Audit of Payments to CIBER, Inc.*

The Division of Administration (DOA) has completed its review of the Office of Inspector General (OIG) Draft Report entitled *"Audit of Payments to CIBER Inc."* The OIG identified 7 audit findings and made 12 recommendations, one dealing with $587,621 in questioned costs. The Draft Report was also addressed to the Director, Division of Information Resource Management (DIRM), and he will be responding directly for all recommendations addressed to him.

Recommendations 1, 2, 3, 4, 8, 9, 10 and 12 in the Draft Report were addressed to the Associate Director for Acquisition and Corporate Services, DOA, and Recommendations 4, 5, 6, 7 and 11 were addressed to the Director, DIRM. Even though we are not required to respond to Recommendation 5, we have offered a clarifying comment dealing with the Contracting Officer's authority on the matter. We do not believe our response will change or alter DIRM's response. Based on our preliminary review, corrective actions are required for all the recommendations. Exhibit A summarizes the 7 audit findings and all 12 recommendations; and for the DOA-related corrective actions, the exhibit summarizes the expected completion dates, and the documentation that will confirm completion.

MANAGEMENT DECISION

Finding #1: CIBER Billed FDIC for Unallowable Charges.

Recommendation #1: Disallow $587,621 in unallowable charges.

Management Response: We agree with the recommendation. DOA will disallow and pursue recovery of amounts that cannot be adequately supported by the contractor. We estimate final resolution of this recommendation by September 29, 2000.

Finding #2: CIBER Did Not Adhere to Contract Provisions.

Recommendation #2: Emphasize to the contractor that it must adhere to provisions of the GSA contract and FDIC delivery orders to prevent recurrence of unallowable charges identified in the previous recommendation.

Management Response: We agree with the recommendation. We have discussed the issues with the contractor and rewritten sections of a subsequent CIBER delivery order to prevent similar billing irregularities in the future. Audit findings identified in this report requiring corrective action involving contract practices and billings will be identified and communicated in writing by the Contracting Officer to CIBER by July 31, 2000.

Finding #3: Contractor Invoices Did Not Contain Sufficient Information to Permit A Thorough Review of Billings.

Recommendation #3: The contractor should revise its invoice format to include information that would fully disclose the charges to FDIC.

Management Response: We agree with the recommendation. DOA and CIBER have redesigned the Delivery Order invoices. The new invoice format will be used by CIBER beginning with the June 15, 2000 invoice.

Recommendation #4: The review of CIBER invoices should include steps to detect unallowable charges similar to those identified in this report.

Management Response: We agree with the recommendation. As noted for recommendation #3, a new invoice format has been designed for CIBER invoices. The new invoice format will also address this recommendation. The Acquisition Policy Manual (Revision 1), issued March 31, 2000, provides adequate guidance on this subject and does not require a corresponding adjustment.

Recommendation #5: Procedures should be developed to ensure that (a) CIBER and subcontractor employees meet delivery order experience requirements and (b) subcontractors are authorized in advance and their participation is limited to levels authorized in the delivery orders. (DIRM will provide the Corporation's primary response to this recommendation.)

Management Response: Regarding employee experience requirements (Recommendation 5a), ACSB will provide the FDIC and GSA Schedule labor category descriptions to DIRM to facilitate its review of contractor personnel qualifications. DIRM will be responsible for matching resumes to contractual labor categories as well as evaluating whether subcontractor employees are qualified to work under FDIC contracts. After receiving input from DIRM, the Contracting Officer will modify a contract, if appropriate. With respect to Recommendation 5b, only the Contracting Officer is authorized to approve the DIRM subcontractor(s). The Contracting Officer will act to approve contractors upon an appropriate request from DIRM.

Finding #4: Labor Costs Need to be Aggressively Monitored.

Recommendation #6: DIRM will respond to this recommendation.

Finding #5: Controls Over Government Furnished Equipment (GFE) Purchased By CIBER Are Inadequate.

Recommendation #7: DIRM will respond to this recommendation.

Recommendation #8: The contractor should be required to provide serial numbers, locations, and names of personnel assigned custody of Government Furnished Equipment (GFE) purchased by CIBER.

Management Response: We agree with the recommendation. The CIBER Delivery Order has been modified and now requires the contractor to include GFE serial numbers, location, contractor custodian, and other pertinent information. Both the CIBER Delivery Order and the standard Delivery Order will be further modified to require Quarterly GFE Monitoring Reports by June 1, 2000.

Recommendation #9: The contractor should provide Oversight Managers an inventory of all GFE equipment purchases annually.

Management Response: We agree with the recommendation. Currently, FDIC approves all equipment purchases (i.e., GFE) by the DIRM contractors. This information will now be compiled by the DIRM GFE Coordinator and available for an annual inventory. Also, the Quarterly GFE Monitoring Report will be used to review GFE purchased by CIBER and other DIRM contractors (See Recommendation #8).

Finding #6: There Were Instances of Inconsistent Application and Non-Compliance With FDIC Policies and Procedures.

Recommendation #10: Emphasize to the contractor that it must advise the Contracting Officer of proposed changes in key personnel, that it should obtain exemption from sales taxes, and that supervisory personnel must approve time sheets submitted to FDIC for payment.

Management Response: We agree with the recommendation. All audit deficiencies will be summarized and communicated by the Contracting Officer in writing to CIBER by July 31, 2000.

Recommendation #11: DIRM will respond to this recommendation.

Finding #7: FDIC Changed Labor Experience Criteria So It Did Not Conform With GSA Contract Requirements.

Recommendation #12: FDIC should ensure that it operates within the scope of GSA contract requirements when issuing delivery orders.

Management Response: We agree with the recommendation. The standard Delivery Order will be modified to require a list of all key and non-key personnel and their resumes. Further, contractors will be required to certify that all personnel working under the contract, including subcontractor personnel, meet minimum (GSA or FDIC) experience requirements for the labor categories that are defined in the contracts. The certifications will then be verified on a sample basis to ensure that all contractor employees are billed in the correct labor categories. This will be implemented by July 28, 2000. All Acquisition Section personnel will receive written instruction on this requirement prior to implementation.

If you have any questions regarding this response, you may contact Andrew O. Nickle, Audit Liaison for the Division of Administration, at (202) 942-3190.

cc: Mike Rubino
Deborah Reilly
Dave McDermott
Rodney Cartwright
Mary Rann
Tom Harris
Andrew Nickle
Richard Johnson
Jesse Barrios

EXHIBIT A

DIVISION OF ADMINISTRATION

SUMMARY OF MANAGEMENT DECISION

NO.	FINDING DESCRIPTION	QUESTIONED COST	AMOUNT DISALLOWED	DESCRIPTION OF CORRECTIVE ACTION	EXPECTED COMPLETION DATE	DOCUMENT VERIFYING COMPLETION
1	Contractor billed charges that were not allowable under the contract. a.(1) Employee qualifications not commensurate with billing rates a.(2) Subcontractor markups a.(3) Labor rates exceeded GSA limits a.(4) Volume discounts not passed on to FDIC as agreed a.(5) On-site billing rate not charged for work performed at FDIC a.(6) Less: effect of overlapping questioned costs	 $293,315 216,974 98,259 34,372 26,751 (82,050)	 $293,315 216,974 98,259 34,372 26,751 (82,050)	Management agreed with the findings and recommendation. DOA will take recovery actions for all amounts that the contractor is unable to adequately support. DOA will offset the final amount of recovery by the amount of this overlap.	09/29/00	Decision Memorandum or Demand Letter
2	CIBER did not conform with provisions of the GSA contract and FDIC delivery orders.	-0-	-0-	Management agreed with the finding and recommendation. DOA has been working with CIBER to correct deficiencies noted by the OIG. (a) Where corrective actions are required for current contracts, they will be summarized and formally communicated to CIBER. (b) Where contract language was found to be ambiguous, the related contract sections have been revised for future CIBER contracts.	07/31/00 Completed	Letter / Draft CIBER Contract Revisions

EXHIBIT A
(Con't)

SUMMARY OF MANAGEMENT DECISION

NO.	FINDING DESCRIPTION	QUESTIONED COST	AMOUNT DISALLOWED	DESCRIPTION OF CORRECTIVE ACTION	EXPECTED COMPLETION DATE	DOCUMENT VERIFYING COMPLETION
3	Information provided by contractor on its invoices was inadequate. a. Invoice format did not provide adequate disclosure of all contractor charges. b. FDIC's review of CIBER invoices did not include steps to help detect unallowable charges. c.(1) Procedures do not exist that ensure subcontractor employees meet minimum experience requirements. c.(2) Subcontractors were not properly authorized in advance of their participation as required under their contracts.	-0-	-0-	Management agreed with the finding and recommendations. a. ACSB has completed the reformatting of CIBER invoices to include the elements recommended by the OIG. b. Implementing the redesigned invoice (3.a.) will satisfy this recommendation. The revised APM contains adequate guidance. c.(1) DIRM will respond. c.(2) DIRM will respond.	06/15/00 06/15/00 (DIRM) (DIRM)	Approved CIBER Invoices / APM Sec. 7.I.6; Exhibit XX (DIRM) (DIRM)
4	Contractor labor costs not monitored.	-0-	-0-	DIRM will respond.	(DIRM)	(DIRM)
5	FDIC lacks adequate controls over Government equipment purchased by the contractor. a. Surprise inventory inspections are not being conducted by Oversight Managers. b. CIBER did not provide information about equipment location and identity. c. Contractor equipment inventory is not being kept up to date.	-0-	-0-	Management agreed with the finding and recommendations. a. DIRM will respond. b. The CIBER delivery order was modified to require GFE serial numbers, location, contractor custodian, etc. It will be further modified to also require quarterly GFE monitoring reports for the current and all future delivery orders. c. Currently, FDIC approves all GFE purchases. This information will now be compiled by DIRM and available for annual inventory. Also, the quarterly GFE monitoring report will be used to review CIBER (and all other DIRM contractors') purchases of GFE. This will be implemented with 5.b.	(DIRM) 06/01/00 06/01/00	(DIRM) Inventory Document / Memorandum Or E-mail to DIRM

EXHIBIT A
(Con't)

SUMMARY OF MANAGEMENT DECISION

NO.	FINDING DESCRIPTION	QUESTIONED COST	AMOUNT DISALLOWED	DESCRIPTION OF CORRECTIVE ACTION	EXPECTED COMPLETION DATE	DOCUMENT VERIFYING COMPLETION
6	Non-compliance with FDIC policies and procedures. a. Changes in contractor personnel, approval of time sheets, and taking required tax exemptions. b. Oversight Managers are not reconciling invoice billings with work progress reports.	-0-	-0-	Management agreed with the finding and recommendation. a. DOA will summarize the contract deficiencies and will communicate them formally to CIBER, emphasizing GSA and contract compliance going forward. b. DIRM will respond.	07/31/00 (DIRM)	Letter To CIBER (DIRM)
7	Contractor was overpaid for some positions that did not meet GSA experience requirements. By accepting these lower requirements, FDIC did not conform with GSA contract criteria.	-0-	-0-	Management agreed with the recommendation. ACSB currently requires resumes for all 'key' contractor employees. Contractors will now also be required to submit a list of non-key persons and certify that they meet minimum experience requirements. This can then be verified on a sample basis.	07/28/00	ACSB e-mail or Memo
Totals		**$587,621**	**$587,621**			

FDIC
Federal Deposit Insurance Corporation
3501 North Fairfax Dr., Arlington, VA 22226
Division of Information Resources Management

May 11, 2000

TO: David H. Loewenstein
Assistant Inspector General

FROM: Donald C. Demitros, Director

SUBJECT: DIRM Management Response to the Draft OIG Report Entitled, "Audit of Payments to CIBER, Inc." (Audit No. 99-407)

The Division of Information Resources Management (DIRM) has reviewed the subject draft audit report and generally agrees with the findings and recommendations. Both DIRM and the Division of Administration (DOA) are responding to recommendation numbers 4 and 5. DOA will also respond to your recommendation numbers 1-3, 8-10 and 12 under separate cover. Responses to each of the OIG's specific recommendations directed to DIRM are provided below:

Management Decision:

Recommendation: (4) The Associate Director, ACSB, DOA, and Director, DIRM, should ensure that contract specialists' and oversight managers' review of CIBER's invoices includes steps to detect unallowable charges for subcontractor markups, rate variances, volume discounts, and off-site rates.

> Response: In a mandatory training course that DIRM will conduct for its Oversight Managers (OMs), with ACSB's support, OMs will be advised to review their invoices for unallowable charges for subcontractor markups, rate variance, volume discounts, and off-site rates. Also, OMs will be advised in the training session to prepare a request to the contracting officer to obtain on-site rates if these rates are not in their contract and they have a subsequent requirement for on-site work. This course will be developed and presented by the end of the third quarter, 2000.

Recommendation: (5) The Director, DIRM, should develop procedures to ensure that (a) CIBER and subcontractor employees meet delivery order experience requirements and (b) subcontractors are authorized in advance and their participation is limited to levels authorized in the delivery orders.

> Response: In a mandatory training course that DIRM will conduct for its Oversight Managers, with ACSB's support, OMs will be advised to ensure that (a) contractors and their subcontractors meet the labor category experience requirements and (b) that subcontractors are authorized in advance by the contracting officer and limited to levels

authorized in the delivery orders. By the end of the third quarter, 2000, DIRM will develop a procedure that addresses these concerns.

Recommendation: (6) The Director, DIRM, should develop procedures to ensure that CIBER's actual staffing more closely conforms to levels proposed and to notify the Contracting Officer in instances when actual hours begin to deviate significantly from the proposed labor mix.

> Response: In a mandatory training course that DIRM will conduct for its Oversight Managers, with ACSB's support, OMs will be advised to closely monitor their contractor's actual staffing hours against those proposed. Further, they will be advised that a procedure will be issued requiring them to perform a quarterly review of their proposed labor category hours versus actuals. If a significant increase is shown in any category, OMs will be required to send an email to their contract specialist notifying them of the finding and providing an explanation for the increase. Both the training and procedure will be completed by the end of the third quarter, 2000.

Recommendation: (7) The Director, DIRM, should ensure that Oversight Managers make periodic site visits to conduct surprise inspections of equipment and confirm FDIC official inventory records.

> Response: DIRM is currently addressing this problem. Following ACSB's completion of GFE contract language updates to existing DIRM contracts, DIRM issued a memorandum titled "DIRM Government Furnished Equipment (GFE) Policies and Procedures." This memorandum was issued April 11, 2000 to DIRM's Oversight Managers (OMs). The memorandum outlines responsibilities and procedures for acquiring, safeguarding, and managing IT assets assigned to contractors, and for reallocating GFE. It further states that DIRM's GFE Coordinator will work with OMs to ensure that all GFE is inventoried and entered into ITAMS, DIRM's IT Asset Management System. The DIRM GFE Coordinator and his supporting staff are in the process of contacting each OM to coordinate the physical inventory and data capture of GFE equipment at each contractor's site. All contractor off-site inventory and data capture activities are scheduled to be completed by June 30, 2000. In addition, in the mandatory training course that DIRM will conduct for its OMs, the OMs will be advised to conduct surprise inspections at off-site contractor locations to verify equipment using the ITAMS inventory.

Recommendation: (11) The Director, DIRM, should reiterate to Oversight Managers the requirements regarding reconciling invoices with status report.

> Response: In a mandatory training course that DIRM will conduct for its Oversight Managers, with ACSB's support, OMs will be advised to reconcile their invoices as closely as possible with status reports. The training will be completed by the end of third quarter, 2000.

Please address any questions to DIRM's Audit Liaison, Rack Campbell, on (703) 516-1422.

MANAGEMENT RESPONSES TO RECOMMENDATIONS

The Inspector General Act of 1978, as amended, requires the OIG to report the status of management decisions on its recommendations in its semiannual reports to the Congress. To consider FDIC's responses as management decisions in accordance with the act and related guidance, several conditions are necessary. First, the response must describe for each recommendation

- the specific corrective actions already taken, if applicable;
- corrective actions to be taken together with the expected completion dates for their implementation; and
- documentation that will confirm completion of corrective actions.

If any recommendation identifies specific monetary benefits, FDIC management must state the amount agreed or disagreed with and the reasons for any disagreement. In the case of questioned costs, the amount FDIC plans to disallow must be included in management's response.

If management does not agree that a recommendation should be implemented, it must describe why the recommendation is not considered valid. Second, the OIG must determine that management's descriptions of (1) the course of action already taken or proposed and (2) the documentation confirming completion of corrective actions are responsive to its recommendations.

This table presents the management responses that have been made on recommendations in our report and the status of management decisions. The information for management decisions is based on management's written response to our report and subsequent discussions with management representatives.

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Documentation That Will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
1	The Associate Director, ACSB, DOA, agreed with the recommendation. DOA will disallow and pursue recovery of amounts that cannot be adequately supported by the contractor.	September 29, 2000	Settlement Agreement	$587,621 in disallowed costs	Yes
2	The Associate Director, ACSB, DOA, agreed with the recommendation. DOA has discussed the issues with the contractor and rewritten sections of a subsequent CIBER delivery order to prevent similar billing irregularities in the future. Audit findings identified in this report requiring corrective action involving contract practices and billings will be identified and communicated in writing by the Contracting Officer.	July 31, 2000	Letter/Draft CIBER Contract Revisions	Not Quantifiable	Yes
3	The Associate Director, ACSB, DOA, agreed with the recommendation. DOA and CIBER have redesigned the Delivery Order invoices. The new invoice format will be used by CIBER beginning with the June 15, 2000 invoice.	June 15, 2000	Approved CIBER Invoices	Not Quantifiable	Yes
4	The Associate Director, ACSB, DOA, and the Director, DIRM, agreed with the recommendation. A) As noted for recommendation #3, the newly designed CIBER invoice format will also address this recommendation. B) In a mandatory training course that DIRM will conduct for its Oversight Managers (OMs), with ACSB's support, OMs will be advised to review their invoices for unallowable charges for subcontractor markups, rate variance, volume discounts, and off-site rates. Also, OMs will be advised in the training session to prepare a request to the contracting officer to obtain on-site rates if these rates are not in their contract and they have a subsequent requirement for on-site work. C) DIRM and DOA will jointly conduct a meeting/review session with OMs and contract specialists of current CIBER problems. This session will include a briefing on the audit report findings and the changes being implemented, especially with regard to the new invoice format and the OMs responsibilities.	A) June 15, 2000 B) September 29, 2000 C) June 8, 2000	A) Approved CIBER Invoices B) Course material and verify attendance. C) Meeting/session agenda/handouts and verify attendance	Not Quantifiable	Yes

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Documentation That Will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
5	The Director, DIRM, agreed with the recommendation. A) In a mandatory training course that DIRM will conduct for its OMs, with ACSB's support, OMs will be advised to ensure that (a) contractors and their subcontractors meet the labor category experience requirements and (b) that subcontractors are authorized in advance by the contracting officer and limited to levels authorized in the delivery orders. B) The Associate Director, ACSB, DOA, also provided a secondary response. Regarding employee experience requirements (Recommendation 5a), ACSB will provide the FDIC and GSA Schedule labor category descriptions to DIRM to facilitate its review of contractor personnel qualifications. DIRM will be responsible for matching resumes to contractual labor categories as well as evaluating whether subcontractor employees are qualified to work under FDIC contracts. After receiving input from DIRM, the Contracting Officer will modify a contract, if appropriate. With respect to Recommendation 5b), only the Contracting Officer is authorized to approve the DIRM subcontractor(s). The Contracting Officer will act to approve contractors upon an appropriate request from DIRM.	September 29, 2000	Course material and verify attendance.	Not Quantifiable	Yes
6	The Director, DIRM, agreed with the recommendation. In a mandatory training course that DIRM will conduct for its Oversight Managers, with ACSB's support, OMs will be advised to closely monitor their contractor's actual staffing hours against those proposed. Further, they will be advised that a procedure will be issued requiring them to perform a quarterly review of their proposed labor category hours versus actual. If a significant increase is shown in any category, OMs will be required to send an email to their contract specialist notifying them of the finding and providing an explanation for the increase.	September 29, 2000	Course material and verify attendance. Procedure document	Not Quantifiable	Yes

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Documentation That Will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
7	The Director, DIRM, agreed with the recommendation. A) DIRM is currently addressing this problem. Following ACSB's completion of GFE contract language updates to existing DIRM contracts, DIRM issued a memorandum titled "DIRM Government Furnished Equipment (GFE) Policies and Procedures." This memorandum was issued April 11, 2000 to DIRM's Oversight Managers (OMs). The memorandum outlines responsibilities and procedures for acquiring, safeguarding, and managing IT assets assigned to contractors, and for reallocating GFE. It further states that DIRM's GFE Coordinator will work with OMs to ensure that all GFE is inventoried and entered into ITAMS, DIRM's IT Asset Management System. B) The DIRM GFE Coordinator and his supporting staff are in the process of contacting each OM to coordinate the physical inventory and data capture of GFE equipment at each contractor's site. All contractor off-site inventory and data capture activities are scheduled to be completed by June 30, 2000. C) In addition, in the mandatory training course that DIRM will conduct for its OMs, the OMs will be advised to conduct surprise inspections at off-site contractor locations to verify equipment using the ITAMS inventory.	A) Completed, April 11, 2000 B) June 30, 2000 C) September 29, 2000	A) Memorandum B) Inventory Documents C) Course material and verify attendance.	Not Quantifiable	Yes
8	The Associate Director, ACSB, DOA, agreed with the recommendation. A) The CIBER Delivery Order has been modified and now requires the contractor to include GFE serial numbers, location, contractor custodian, and other pertinent information. B) Both the CIBER Delivery Order and the standard Delivery Order will be further modified to require Quarterly GFE Monitoring Reports by June 1, 2000.	A) Completed B) June 1, 2000	A) Draft CIBER Contract Revisions B) Quarterly GFE Monitoring Reports	Not Quantifiable	Yes
9	The Associate Director, ACSB, DOA, agreed with the recommendation. A) Currently, FDIC approves all equipment purchases (i.e., GFE) by the DIRM contractors. This information will	A) June 1, 2000 B) June 1, 2000	A) Memorandum or email to DIRM. B) Quarterly GFE Monitoring	Not Quantifiable	Yes

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Documentation That Will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
	now be compiled by the DIRM GFE Coordinator and available for an annual inventory. B) Also, the Quarterly GFE Monitoring Reports will be used to review GFE purchased by CIBER and other DIRM contractors (See Recommendation #8).		Reports		
10	The Associate Director, ACSB, DOA, agreed with the recommendation. Emphasize to the contractor that it must advise the Contracting Officer of proposed changes in key personnel, that it should obtain exemption from sales taxes, and that supervisory personnel must approve time sheets submitted to FDIC for payment.	July 31, 2000	Letter to CIBER	Not Quantifiable	Yes
11	The Director, DIRM, agreed with the recommendation. In a mandatory training course that DIRM will conduct for its Oversight Managers, with ACSB's support, OMs will be advised to reconcile their invoices as closely as possible with status reports.	September 29, 2000	Course material and verify attendance.	Not Quantifiable	Yes
12	The Associate Director, ACSB, DOA, agreed with the recommendation. The standard Delivery Order will be modified to require a list of all key and non-key personnel and their resumes. Further, contractors will be required to certify that all personnel working under the contract, including subcontractor personnel, meet minimum (GSA or FDIC) experience requirements for the labor categories that are defined in the contracts. The certifications will then be verified on a sample basis to ensure that all contractor employees are billed in the correct labor categories.	July 28, 2000	ACSB email or Memo	Not Quantifiable	Yes