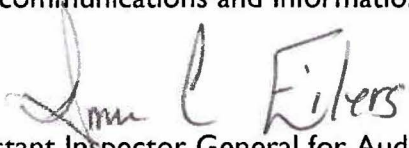




August 9, 2012

MEMORANDUM FOR: Lawrence E. Strickling
Assistant Secretary for Communications and Information
National Telecommunications and Information Administration

FROM: Ann C. Eilers 
Principal Assistant Inspector General for Audit and Evaluation

SUBJECT: Review of NTIA's Oversight of the Booz Allen Hamilton Contract
Supporting the Broadband Technology Opportunities Program
(OIG-12-031-M)

This memorandum reviews the effectiveness of National Telecommunications and Information Administration's (NTIA) monitoring of the approximately \$75 million Booz Allen Hamilton (Booz Allen) contract for services related to the Broadband Technology Opportunities Program (BTOP).

Our review's objectives were to determine (1) how NTIA ensures the receipt and quality of the goods and services they are paying for; (2) what specific controls exist to verify invoices and payment processes; and (3) how NTIA is mitigating risks associated with the time and materials (T&M) contract and task orders. We found that NTIA has reasonable controls to ensure the quality of goods and services it procured; manage the services for which it contracted; and mitigate many of the risks associated with the contract. Nevertheless, we observed two areas where NTIA could strengthen contract oversight controls (see "Results," below).

Background

In August 2009, the Department of Interior, on behalf of NTIA, entered into a contract with Booz Allen for technical expertise during the BTOP grant-making process, which was already underway, and a system to manage and monitor grant performance and oversight. In the course of this contract, the bureau identified the need for further support; it competitively awarded a second contract to Booz Allen for BTOP program management and support services. The subsequent contract for \$31 million began April 2012 and extends through February 2015, the estimated completion of BTOP; the two Booz Allen contracts total approximately \$106 million (see appendix A for a budget summary of the contracts).

The Booz Allen contracts are predominantly T&M contracts, under which a contractor's base payments on the number of labor hours are billed at a fixed hourly rate and the cost of materials. The federal government considers these contracts high-risk because the contractor's profit is tied to the number of hours worked, although T&M contracts also must incorporate a ceiling price that the contractor exceeds at its own risk.

Results

We found that the bureau has generally met the requirements spelled out in the Federal Acquisition Regulation (FAR) for T&M contracts. In addition, NTIA has developed and implemented:

- workflow and review processes;
- weekly, monthly, and quarterly meetings and reports that track the progress of awards;
- written policies and procedures to manage travel expenses; and
- a system of site visits to awardees and a process for classifying and acting on underperforming awards.

NTIA's risk management for the Booz Allen contract includes regular invoice reconciliation, tracking of contractor performance, management of contract modifications to facilitate appropriate alignment of personnel overtime, and approvals for other direct costs and travel. Nonetheless, NTIA should consider improving contract oversight controls in two areas:

1. Invoice and Payroll Reconciliation

NTIA's invoice and payroll reconciliation process relies on multiple reports routinely generated by Booz Allen and submitted to NTIA for the bureau's approval. However, NTIA does not independently verify payroll information in these reports against Booz Allen employee time cards. Bureau officials stated that they verified invoices against time cards for two pay periods in 2009 but, finding no problems, they stopped. At that point, they began performing reconciliation of these program costs principally using contractor-prepared reports, which do not include time cards.

The FAR provides that “[t]he Contractor shall substantiate vouchers . . . by evidence of actual payment and by . . . [i]ndividual daily job timekeeping records . . . or . . . [o]ther substantiation approved by the Contracting Officer.”¹ The contract specifically enumerates the information that Booz Allen must submit in its monthly invoices for labor—including, “as a minimum,” identifying details for the employees and information on the amount of time worked. The contract does not require original time cards or other original evidence of labor hours allocated to the contract, although “as a minimum” suggests that other items may be required.

NTIA, DOI, and Booz Allen have engaged in a course of conduct consistent with the FAR's “other substantiation” provision. However, without ongoing independent verification using original source documents (i.e., time cards), NTIA sacrifices an effective tool to monitor invoice and payroll accuracy, the lack of which limits the bureau's ability to manage the T&M contract deliverables. Further, the bulk of the contract costs relate to compensation, underscoring the importance of verifying the payroll.

¹ FAR 52.232-7(a)(5).

Given the inherent risks of T&M contracts and the challenges NTIA has faced in establishing BTOP,² we verified a judgmental sample of randomly generated invoice charges spanning 2 years. We found no material variances.³ Although NTIA staff has asserted that independent verification of payroll invoices is not an efficient use of their resources, our review established that it would not be burdensome for NTIA contracting staff to periodically verify invoices against Booz Allen internal timesheets. A prior OIG review of BTOP also recommended that NTIA utilize source documents in order to independently verify information.⁴

2. Independent Review

Similar to what we found with Booz Allen payroll, we are aware of no other active or pending independent review or verification of Booz Allen source documents to support expenditures for the two Booz Allen contracts. As such, in addition to incorporating the use of source documents into its invoice verification process, NTIA should consider entering into an interagency agreement with the Defense Contract Audit Agency (DCAA) to perform additional review, such as a closeout audit of this and the subsequent Booz Allen contract.⁵ DCAA routinely audits, examines, and reviews federal contractors' accounts, records, and general business practices and procedures to ensure they are in accordance with the FAR. In addition, DCAA is Booz Allen's cognizant government audit agency,⁶ assuring expertise specific to Booz Allen and a well-suited additional source of independent review for the Booz Allen contracts.

We would like to express our thanks to your staff for courtesies shown to us during our review. Please direct any questions regarding this review to Chris Rose, Senior Associate, Recovery Act Task Force, at (202) 482-5558 or crose@oig.doc.gov, or Leon Sampson, Audit Manager, Recovery Act Task Force, at (202) 482-0535 or lsampson@oig.doc.gov, and refer to the report title in all correspondence.

² See above and U.S. Department of Commerce, Office of Inspector General, December 20, 2010. *Top Management Challenges Facing the Department of Commerce*, OIG-11-015. Washington, DC: DOC OIG. The latter describes how the broadband program creates new challenges for NTIA program management.

³ Total Booz Allen employees have ranged from about 220 during the startup phase to about 50 as the project matured.

⁴ See DOC OIG, November 17, 2011. *NTIA Has an Established Foundation to Oversee BTOP Awards, but Better Execution of Monitoring Is Needed*, OIG-12-013-A. Washington, DC: OIG. In this audit, we recommended that NTIA utilize source documentation as part of its monitoring efforts.

⁵ The DCAA audit process for a closeout audit generally includes, among other things: (a) reconciling claimed direct costs to annual audit files or audited contractor records and verifying any questioned direct costs; (b) verifying that final indirect rates or contract ceiling rates have been applied to appropriate bases; (c) determining that the total fee billed has been calculated in accordance with contractual fee provisions; (d) determining whether labor hours by category meet any required level of effort; (e) verifying that the total amount claimed does not exceed total allowable cost; and (f) confirming the computations on the final voucher. DCAA Audit Guidance on Evaluation of Final Vouchers, August 3, 2009 (09-PAS-015(R)).

⁶ Recipients of federal funds over a certain threshold amount have a cognizant agency for audit; Office of Management and Budget (OMB) Circular A-133 § 400(a) describes cognizant audit agency responsibilities.

Attachment

cc: Anthony Wilhelm, Program Director, BTOP
Aimee Meacham, Director, Program Services, BTOP
Kathy Smith, Chief Counsel, NTIA
Milton Brown, Audit Liaison, NTIA

Appendix A has been omitted from publication at this time,
consistent with the provisions of 5 U.S.C. § 552(b)(4).