

Office of Inspector General
DEPARTMENT OF HOMELAND SECURITY

**Audit of Management Controls Over
Automated Commercial Environment (ACE)
Contractor Billings**



Office of Audits

OIG-06-66

September 2006



Homeland
Security

September 29, 2006

Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the Homeland Security Act of 2002 (*Public Law 107-296*) by amendment to the Inspector General Act of 1978. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

This report assesses the internal controls related to the review and approval of contractor invoices for Bureau of Customs and Border Protection's (CBP's) Automated Commercial Environment contract. It is based on interviews with employees and officials of relevant agencies and institutions, direct observations, and a review of applicable documents.

The recommendations herein have been developed to the best knowledge available to our office, and have been discussed in draft with those responsible for implementation. It is our hope that this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in cursive script that reads "Richard L. Skinner".

Richard L. Skinner
Inspector General

Table of Contents/Abbreviations

Executive Summary	1
Background	1
Results of Audit	3
CBP Review of Invoices	3
Conclusion	9
Recommendations	9
Management Comments and OIG Analysis	10
Award and Incentive Fees	10

Appendices

Appendix A: Purpose, Scope, and Methodology	12
Appendix B: Management Comments	14
Appendix C: Invoice Procedure Steps	18
Appendix D: IBM System Diagram	19
Appendix E: Invoice Review Checklist	20
Appendix F: Award and Incentive	22
Appendix G: Major Contributors to This Report	23
Appendix H: Report Distribution	24

Abbreviations

ACE	Automated Commercial Environment
CBP	Bureau of Customs and Border Protection
DCAA	Defense Contract Audit Agency
DHS	Department of Homeland Security
eCP	e-Customs Partnership
GAO	Government Accountability Office
G&A	General and Administrative
IBM	International Business Machines
JTR	Joint Travel Regulation
ODC	Other Direct Costs
OIG	Office of Inspector General
POP	Period of Performance
WBSID	Work Breakdown Structure Identification

OIG

*Department of Homeland Security
Office of Inspector General*

Executive Summary

The Bureau of Customs and Border Protection (CBP) is developing the Automated Commercial Environment (ACE), a new cargo processing system that was initiated to modernize the targeting, inspection, enforcement, border security, revenue collection, and trade statistics processes for all cargo entering and leaving the United States. In August 2001, CBP awarded the ACE development contract to the e-Customs Partnership (eCP), a coalition of contractors headed by the prime contractor, International Business Machines Global Services (IBM). ACE is scheduled for completion in September 2011 at an estimated cost of \$3.0 billion. As of May 2005, CBP had paid eCP over \$760 million. The CBP Cargo Systems Program Office (Program Office) manages the ACE development and shares responsibility with the Contracting Office for the review and approval of eCP's invoices.

The overall objective of the audit was to assess the internal controls related to the review and approval of ACE contractor invoices. The audit focused on two specific questions: (1) Were the procedures, processes, and internal controls adequate to verify the accuracy, reliability, and completeness of contractor invoices prior to payment? (2) Was the process for evaluating the quality of contractor performance and related award and incentive fee payments effective?

CBP's internal controls for the review and approval of invoices were not adequate. Specifically, (1) written guidance describing review procedures were not sufficiently detailed, (2) reviewers did not always document the review activities performed, and (3) CBP did not sufficiently research the causes for issues identified during reviews. Internal controls over the process for evaluating contractor performance and related award and incentive fee payments were adequate. We recommended CBP streamline and strengthen the internal controls over the invoice review process and request the Defense Contract Audit Agency (DCAA) to perform an incurred cost audit. CBP concurred with the recommendations.

Background

CBP receives one eCP invoice per active task order each month. The ACE contract is comprised of 21 individual task orders. As of May 5, 2005, 8 task orders were active. CBP contracted with Robbins-Gioia to assist in the day-to-day management of ACE contract operations. The Program Office has assigned an Acquisition Director to manage each task order. In addition, a

Business Manager from Robbins-Gioia works with each Acquisition Director. Together, the Acquisition Director and the Business Manager perform the technical review of an invoice.

The Contracting Office entered into a time and materials contract with Stratecon LLC to provide contract administration support services for the workload associated with eCP. Stratecon LLC contract services include reviewing and evaluating monthly invoices by performing the financial review of an invoice for the Contract Officer.

During the initial three days of an invoice review, the Contracting Office verifies the arithmetic totals and ensures that the invoice is in the correct format. If there is an arithmetic error or the format is incorrect, the Contracting Office will return the invoice to eCP. Otherwise, the Contracting Office and the Acquisition Directors will perform their respective reviews. The Contracting Office staff compiles problems found during the invoice reviews into an issues log and provides a copy of the issues log to eCP. After receiving eCP's responses to the issues, the Contracting Office, the Program Office, and the Acquisition Director then make the final recommendation for approval, suspension, or rejection of payment to the Contracting Officer. Based on the recommendation, the Contracting Officer makes a determination to reject, accept, or partially pay the invoice. If approved, the Contracting Officer prepares an approval letter that is sent together with the invoice and supporting documentation to the Indianapolis Finance Center by the 26th day from the invoice receipt date. This allows the invoice to be paid within the 30 days required by the Prompt Payment Act. See appendix C for a detailed diagram of the Invoice Procedure Steps.

The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government, dated November 1999, states that internal controls are comprised of the plans, methods, and procedures used to meet an organization's mission, goals, and objectives. The procedures should provide reasonable assurance that the objectives of the program are accomplished. The standards require management to continually assess and evaluate internal controls to assure that the control activities being used are effective and updated when necessary. The standards also require that all transactions and other significant events of the internal control systems be clearly documented, and that the documentation be readily available for examination.

Prior Audits

DHS and DCAA have a memorandum of understanding that allows CBP to request audits from DCAA. However, DCAA audits major contractor systems for all federal contracts, not specifically the ACE contract. DCAA conducted an incurred cost audit for IBM's FY 2002 incurred costs. In addition, DCAA

reviewed IBM's internal controls in 2003 for its purchasing system, the budget and planning system, the billing system, and the labor system. All DCAA audits concluded that IBM's internal controls were adequate.

The Program Office Quality Assurance Team conducted an audit of the invoicing process in November 2004, which found issues similar to our audit results. Quality assurance audits aid program management in the monitoring of ACE processes. The purpose of the audit was to ensure that the invoicing process reflected current Program Office policy and that the processes were institutionalized and generating their intended value. The quality assurance report found that the documented processes had not been updated to reflect "how business is currently done." The report also noted that the documented processes and procedures do not include the "low-level details covering the day-to-day activities" for the invoicing process.

Results of Audit

CBP Review of Invoices

CBP's internal controls for the review and approval of invoices were not adequate. Specifically, (1) written guidance describing review procedures was not sufficiently detailed, (2) reviewers did not always document the review activities performed, and (3) CBP did not sufficiently research the causes of issues identified during reviews. This occurred because CBP management did not adequately monitor invoice review operations. Consequently, CBP risks not detecting invoice errors or irregularities.

CBP's existing written standard operating procedures for the review and approval of contractor invoices were contained in two documents: Invoice Review and Approval Procedures and the Invoice Review and Approval Process. Together, these documents contained the specific steps for reviewing and approving invoices and described the activities, products and staff positions that implement the process. The Invoice Review and Approval Procedures include one checklist for the financial review and one checklist for the technical review. The Contracting Office staff is responsible for performing the financial review of invoices and the Program Office Acquisition Directors and Business Managers are responsible for performing the technical review of invoices.

Written Guidance

The standard operating procedures for the verification of five major cost elements did not provide reviewers with sufficiently detailed guidance to effectively and consistently verify the accuracy, reliability and completeness

of invoices. The five major cost elements reviewed included direct labor hours, inventory purchases, billable overhead, general and administrative expenses, and fixed contract fee.

Direct Labor Hours

CBP's written standard operating procedures for the verification of labor hours were incomplete and did not provide sufficient guidance to invoice reviewers. In addition, some written procedures were duplicative or could be strengthened to be more effective.

Below are two examples of incomplete written procedures that did not adequately describe how to review invoices.

- Reviewers verified labor hours on an invoice by comparing the Customs Labor and Ledger Report to the labor hour details in the invoice package. However, the procedures lacked specific instructions for how to use the Customs Labor and Ledger Report to verify the labor hours on an invoice. The written procedures did not describe the methodology, documents, or systems to verify the labor hours on an invoice. For example, the procedures did not explain which specific sections of the Customs Labor and Ledger Report the reviewer should compare to the invoice.
- The written procedures for the financial and technical review of an invoice required the reviewers to verify that the labor charges for IBM and subcontractors were not previously billed. The procedures do not describe or explain how the reviewer could detect duplicate charges. The Contracting Office staff said they would detect duplicate charges only "by luck." This is important since CBP frequently receives invoices from eCP that include labor charges for work performed by subcontractors six or more months before the invoice date.

The procedures required both the financial and technical reviewers to perform identical steps related to the verification of labor charges. Duplicate procedures decrease the effectiveness and efficiency of invoice reviews. Examples of identical procedures performed by both the financial and technical reviewers include:

- "Are all labor hour anomalies (i.e. >300 hours and/or prior period adjustments of >100 hours) sufficiently explained?"
- "Is the period of performance unique to all other billings?"

-
- “Is the period of performance for all labor hours within the contract period of performance?”

The procedures required the Contracting Office staff to perform certain invoice procedures that were not effective. For example, the procedures required the reviewer to verify the labor hours for at least one employee per vendor on an invoice. However, some invoices contain labor charges for more than 200 employees. In our opinion, verifying the labor hours for only one employee per vendor is not sufficient to deter or detect possible errors. Selecting larger employee samples would increase the likelihood of deterring or detecting errors or possible misuse, help management identify significant patterns or trends and make the review of labor hours more effective.

Inventory Purchases

The Contracting Office staff performed two steps for reviewing inventory purchases that enhance accountability of property. These two steps were not included in the written guidance.

- The Contracting Office staff verified the classification of inventory items to ensure that accountable property was correctly classified.
- The Contracting Office staff verified that a copy of the accountable property inventory file accompanied all property classified as accountable property.

Billable Overhead

The Contracting Office staff performed some steps to verify billable overhead. However, the written guidance did not describe the procedures required to verify billable overhead. For example, the procedures do not -

- require the verification of overhead calculations.
- specify the number of IBM employees that the Contracting Office staff is required to spot check on an invoice.
- prescribe a minimum allowable variance between the billable overhead cost on the invoice and the cost calculated by the Contracting Office staff before reporting the issue.
- provide guidance or instruction for verifying retroactive adjustments made based on estimated and actual overhead rates, and DCAA audits.

General and Administrative (G&A) Expenses

CBP reviewers performed steps to verify G&A expenses that needed to be included in the procedures, and other steps needed to contain more detail guidance to reviewers. Below are examples.

- CBP routinely verifies the mathematical accuracy of the G&A rate, however the procedures did not include this step.
- The procedures did not inform the reviewer that the G&A rate was subject to annual revision once the actual G&A rate is determined by using the IBM G&A expenses. This would require the reviewer to subsequently review G&A costs to ensure that adjustments were made properly.
- The procedures did not prescribe a minimum allowable variance between the Contracting Office staff calculation of G&A and the invoice amount.

Fixed Contract Fees

The Invoice Review and Approval Procedures document does not contain any reference to, or guidance for, the review of fixed fees. Neither the financial nor the technical checklist addressed the verification of fixed fees. Fixed fee rates ranged from 3% to 7.5% of the total cost on the invoice (except for travel costs) in our sample of invoices. The fixed fee for one invoice in our sample was \$83,548.24. The fixed fee rates are negotiated by task order and are described in the negotiation summary. At a minimum, the written procedures should:

- Assign responsibility for the verification of fixed fees to either the Program Office or the Contracting Office.
- Require the reviewer to verify the fixed fee rate on the invoice against the negotiation summary.
- Require the reviewer to determine the applicable formula from the negotiation summary for the computation for the fixed fee.

Documentation of Invoice Reviews

CBP did not always maintain documentation of the work performed in an invoice review. Reviewers used the checklists as a guide to reviewing invoices but not all reviewers completed and documented the work performed on the checklists. Therefore, we could not verify the work performed by reviewers or determine whether the control procedures were effective or

consistently applied. The written procedures did not require reviewers to document and maintain the work they performed to verify an invoice. Completed checklists to document invoice reviews would provide management with information on trends and systemic problems.

The written procedures include a financial review checklist and a technical review checklist (See Appendix E, Invoice Checklist). Review checklists provide spaces for the reviewer to enter the task order number, contract number, invoice number, and invoice date. However, reviewers did not complete the checklists and attach them to the invoice maintained in the Contracting Office files. Without a completed checklist or other documentation showing the work performed by the reviewer, we could not determine whether the reviewers effectively verified the accuracy, reliability, and completeness of contractor invoices before payment.

If the reviewers did not identify issues for the issues log, CBP had no record of verification procedures that reviewers performed. For example, the procedures require the technical reviewers to spot check the purchase of major dollar equipment by comparing the item on the invoice to supporting detail contained with the invoice. Unless a problem, concern or issue related to the purchase of equipment was included in the issues log, no documentation existed to prove that the reviewers verified any equipment purchases. At a minimum, reviewers should document the specific major dollar equipment that was verified. Another example is the verification of labor hours. The financial review checklist requires the reviewer to spot check the labor hours for one employee per vendor against the labor report. However, there was no documentation that reviewers verified labor hours, unless a discrepancy between the labor hours on the invoice and the labor hours on the labor report was included on the issues log. At a minimum, CBP should have documentation of the name of the employee that the reviewer spot-checked and verified.

Research of Issues

CBP did not effectively research eCP's responses to the issues log. As a result, issues found during the invoice reviews were not completely resolved and recurred on subsequent invoices. Additionally, CBP could have internally resolved some of the issues identified on the issues log without requiring eCP's time and effort.

Contracting Office staff recorded issues identified during the invoice review process on the issues log, which was then forwarded to eCP for explanation. Issues included concerns such as, discrepancies between labor hours on the invoice and labor hours in the Customs Labor and Ledger report, concerns regarding labor overhead rates, and incorrect work packages or computations.

The Contracting Office and the Program Office staff accepted the explanations from eCP and closed issues without further verification, investigation, or follow-up. The Contracting Office acknowledged that they have accepted eCP's responses to the issues log without additional research because there was a "push" to be sure the invoices got processed and paid timely. The following three examples identify issues that needed further research.

First, on two separate invoices, the Contracting Office could not verify the labor hours for employees using the Customs Labor and Ledger Report and included the names on the respective issue log. The eCP response stated that the labor hours on the invoice exactly matched the Customs Labor and Ledger Report and included an extract of the report as supporting documentation. The Contracting Office accepted the response without further verification. We asked the Contracting Office to verify eCP's response for the two employees as part of our sample in the testing of the effectiveness of internal controls related to labor hours. The Contracting Office could not verify the labor hours when comparing the labor hours on the invoice to the Customs Labor and Ledger Report. To test the effectiveness of the labor hour verification process, we judgmentally selected five employees from 15 invoices for a total of 75 employees and observed the Contracting Office verify their labor hours. The Contracting Office was only able to verify the exact number of labor hours for 13 of the 75 employees on the invoice by comparing the invoice to a section of the Customs Labor and Ledger Report. If CBP had verified eCP responses that hours matched back to the Customs Labor and Ledger Report, CBP would have detected that they were not using the correct section of the report. However, they continued to identify differences with the labor hours and post them on the issues log. Research of labor hour issues would have detected that CBP procedures to verify labor hours were ineffective.

Second, further research into the cause of the discrepancies in the labor hours might have alerted CBP management to an internal control design weakness. Specifically, IBM prepares both the invoice and the Customs Labor and Ledger Report from the same accounting system, essentially furnishing the same information in two different formats (See Appendix D for IBM Systems Diagram). The procedure performed by CBP only verifies the consistency between the report and the invoice; it does not actually verify that the labor hours were worked on this contract. Procedures that are unlikely to detect misstatements or errors could add unnecessary cost.

Third, the Contracting Office staff questioned an overhead calculation for an employee on the issues log. The invoice showed that the employee worked 61 hours during the period January 1 through February 1, 2005. eCP responded with a breakdown of how they calculated the overhead amounts. The

breakdown reflected 39 labor hours for 2004 overhead rates and 22 hours for 2005 overhead rates. The breakdown of their computation supported the amount on the invoice, but the Contracting Office staff did not investigate or adequately resolve the following problems raised by eCP's response.

- If the employee worked 39 hours in 2004, then the period of performance on the invoice was incorrect.
- If the employee worked 39 hours in 2004 and 22 hours in 2005, then the Customs Labor and Ledger Report would not support the invoice because it would not show 61 hours for the employee during the period January 1 through February 1, 2005. Either the hours on the invoice were wrong or the hours on the Customs Labor and Ledger Report were wrong.
- If the employee worked the hours in 2004, then the Contracting Office staff needed to ensure that they did not pay for those labor hours on a prior invoice.

Conclusion

The weaknesses in the internal controls over the invoice review process increase the risk of improper payments. To strengthen internal controls, CBP needs to improve written procedures, better monitor the process, document the review activities performed, and research the cause of discrepancies noted during the review. This will allow management to ensure that reviewers for all task orders effectively and consistently applied invoice review steps. In addition, the fact that CBP plans to spend over a billion dollars on ACE over the next four years represents an inherent risk for the invoice review process. While DCAA incurred cost audits aid in reducing the risk, the last audit conducted by DCAA reviewed costs from 2002.

Recommendations

We recommend that:

1. The Program Office Director streamline and strengthen the internal controls over the invoice review process by:
 - eliminating redundant invoice review steps performed during the technical and financial reviews,
 - ensuring consistency between reviews of task orders for each cost element,
 - adequately researching the causes of problems noted in the issues logs,

-
- periodically monitoring the invoice review process to assure policies and procedures are effectively followed, and
 - requiring that the activities performed in the review of invoices be documented and retained with the invoice.
2. The Contracting Officer should request DCAA to conduct an incurred cost audit for the ACE contractor.

Management Comments and OIG Analysis:

CBP concurred with the recommendations. DCAA is currently reviewing IBM's CY 2004 incurred costs. On July 20, 2006, CBP updated the Invoice Review and Approval Procedure, the Invoice Financial Review Checklist, and the Invoice Technical Review Checklist. Additionally:

- CBP is monitoring invoice review activities to ensure consistency between reviews of task orders;
- CBP is tracking the number and type of questions generated by the invoice review process to identify trends across task orders;
- CBP has mandated that all associated invoice review documentation, including each checklist, be completed and retained in an invoice archive; and
- CBP has appointed a government lead for ACE invoicing oversight, who meets with IBM's invoicing team on a bi-weekly basis to resolve invoicing issues, including the causes of problems noted in the issues logs.

The actions taken by CBP satisfy the intent of our recommendations. Therefore, the recommendations in this report are considered closed.

Award and Incentive Fees

CBP adequately followed existing procedures and policies for monitoring, evaluating and measuring contractor performance for payment of award fees and product quality for payment of incentive fees. Our audit focused on the application of the measurement criteria and did not include assessing CBP's measurement criteria or validating CBP's performance measurements.

The chart below summarizes payments through March 2005. See Appendix F for details.

	Available (millions)			Percent
	<u>Amount</u>	<u>Earned</u>	<u>Forfeit</u>	<u>Paid</u>
Award Fee (Periods 1-5)	\$18.4	\$4.0	\$14.4	22 %
Incentive Fee (30 incentives)	13.5	11.0	2.5	81 %

The Award fee amounts were paid based on performance ratings. The contractor's performance evaluation reports for five-performance rating periods did contain adequate justifications to support the contractor's ratings. The general performance ratings include program management, cost, and technical quality. CBP used a consultant to assist in managing the Award Fee process for evaluating contractor's performance. The consultant gathered comments and tallied the rating results from Acquisition Directors, task order staff, program level personnel and CBP management. Using the results, the consultant develops the performance evaluation report for the Performance Evaluation Board and the Fee Determination Official.

CBP properly tracked, monitored, and measured incentive fees in accordance with the negotiated terms and verifiable measurement results. Incentive fees may include, but are not limited to, specific system performance metrics, milestones, service level, and cost savings. CBP used incentive fees to reward the contractor for providing quality deliverables for specific task orders, that CBP determined needed to be accomplished or sustained in order to improve the program.

The overall objective of the audit was to assess the internal controls related to the review and approval of ACE contractor invoices. The audit focused on two specific questions: (1) Were the procedures, processes, and internal controls adequate to verify the accuracy, reliability, and completeness of contractor invoices prior to payment? (2) Was the process for evaluating the quality of contractor performance and related award and incentive fee payments effective?

This audit was performed at various DHS locations within the Washington, D.C. area. During our audit, we selected and reviewed 15 eCP invoices from December 2004 to April 2005 with a total value of \$22.3 million and three (3) Robbins-Gioia invoices from March 2005 to May 2005 with a total value of \$3.9 million. The audit included reviewing the Program Office policies, procedures, and controls, testing the controls by sampling 15 eCP invoices, and evaluating the documentation of the results of invoice reviews and approvals.

We assessed CBP's internal controls for the invoice review and approval process. The internal controls for the review of an invoice serve to protect the Government's interest by ensuring that payment is commensurate with the work performed. We performed these steps to assess internal controls:

- evaluated CBP's policies and procedures used by reviewers for relevant internal controls,
- observed invoice reviews performed by CBP for five major cost elements,
- evaluated documentation supporting reviews to determine if transactions were properly documented, and
- reviewed documentation provided by the contractor to support invoiced amounts

Our examination specifically tested the invoice review and approval system's internal control procedures associated with the following control activities:

- Management Reviews for Actual Performance
- Policies and Procedures
- Implementation of Policies and Procedures
- Accurate and Timely Recording of Transactions and Events
- Appropriate Documentation of Transactions and Internal Control

We evaluated the Program Office invoice and approval system using the applicable requirements contained in the Federal Acquisition Regulation, and Standards for Internal Controls in the Federal Government.

We reviewed the pertinent plans and documents related to the design, development, implementation, documentation and effectiveness of the ACE Invoice Review Process, including:

- Invoice Review and Approval Process Version 1.0
- Invoice Review and Approval Procedure Version 3.0
- Funds Management Process Version 1.0
- eCP Invoicing Process Version 1.2
- Change Request Process
- eCP ACE Contract
- Stratecon Contract Requirements

As of May 5, 2005, 21 task orders had been issued for ACE, of which eight were active. We judgmentally selected three of the eight task orders based on the following criteria:

- One Task Order (TO 17) where a portion of the invoice was disallowed.
- The highest total dollar amount on the most recent invoices (TO 19)
- A task order related to the next ACE Release, Release 5 (TO 21)

We gathered data on the invoice review processes and procedures through structured interviews, document analysis, and observation of operations. We selected the 5 most recently processed and paid invoices for each of the 3 task orders to test the effectiveness of controls for General and Administrative Fees, Overhead Rate and Fixed Fees.

To test the effectiveness of the control procedure for the verification of labor hours, we judgmentally selected five (5) employees from each of the 15 invoices for 75 employees. There were 32 IBM employees and 43 subcontractor employees.

Inventory purchases are processed through task order 19. To test the effectiveness of the control procedures for the verification of inventory purchases, we examined inventory items on the five invoices which contained inventory purchases.

We conducted our audit between May 2005 and May 2006 under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards.

U.S. Department of Homeland Security
Washington, DC 20229



U.S. Customs and
Border Protection

September 5, 2006

MEMORANDUM FOR RICHARD L. SKINNER
INSPECTOR GENERAL
DEPARTMENT OF HOMELAND SECURITY

FROM:

for Director *M. C. Mullen*
Office of Policy and Planning

SUBJECT:

Response to the Office of Inspector General's Draft Report
on Management Controls Over Automated Commercial
Environment Contractor Billings

Thank you for providing us with a copy of your draft report entitled "Audit of Management Controls Over Automated Commercial Environment (ACE) Contractor Billings" and the opportunity to discuss the issues in this report. We are providing the following clarifying comments to reinforce the fact that U.S. Customs and Border Protection (CBP) takes the findings of this report very seriously and is doing everything possible to ensure proper payments.

As discussed at the exit conference, CBP is concerned that the wording of the report will leave an impression that CBP has not taken sufficient actions to eliminate the risk of improper payments to ACE contractors. The invoice review procedure and associated checklists are in place to ensure that the government exercises due diligence in the review of each invoice. Improvements to the procedure have been communicated to CBP staff when needed. However, CBP agrees that the procedure and checklists needed to be formally updated to ensure that CBP makes proper payments. The ACE Process Group approved the updated Invoice Review and Approval Procedure on July 20, 2006.

Though the procedure needed to be updated, the prior operating model was operating effectively. The draft Office of Inspector General (OIG) report did not document any invalid payment made by CBP. CBP has received over 800 ACE invoices totaling over \$1 billion. Of this amount, CBP has withheld approximately \$12 million as a result of its invoice review procedure. Additionally, CBP completes a thorough task order closeout procedure to ensure proper charges have been accurately billed and paid. Finally, the Defense Contract Audit Agency

Appendix B
Management Comments

2

(DCAA) completed a number of audits of IBM Global Services-Federal Integration Organization. All of the audits found that IBM's internal controls are adequate.

The OIG made two recommendations in its report. CBP concurs with both recommendations. A detailed status of the actions taken by CBP to address the recommendations is attached.

With regard to the classification of the draft report, CBP's review of the draft report did not reveal any portion that requires protection under a Freedom of Information Act exemption.

If you have any questions regarding this response, please contact me or have a member of your staff contact Ms. Lynn Richardson at (202) 344-2953.

Attachment

**“Audit of Management Controls Over Automated
Commercial Environment (ACE) Contractor Billings”**

CBP Corrective Action Plan

Recommendation 1: The Program Office Director streamline and strengthen internal controls over the invoice review process by:

- Eliminating redundant invoice review steps performed during the technical and financial reviews;
- Ensuring consistency between reviews of task orders for each cost element;
- Researching the causes of problems noted in the issues log,
- Periodically monitoring the invoice review process to ensure policies and procedures are followed; and
- Requiring that the activities performed in the review of invoices be documented and retained with the invoice.

CBP Response: CBP has streamlined, strengthened, and documented its internal controls associated with the invoice review process. CBP has updated the Invoice Review and Approval Procedure, the Invoice Financial Review Checklist, and the Invoice Technical Review Checklist (all approved by the ACE Process Group on July 20, 2006). Additionally:

- CBP is monitoring invoice review activities to ensure consistency between reviews of task orders;
- CBP is tracking the number and type of questions generated by the invoice review process to identify trends across task orders;
- CBP has mandated that all associated invoice review documentation, including each checklist, be completed and retained in an invoice archive; and
- CBP has appointed a government lead for ACE invoicing oversight, who meets with IBM's invoicing team on a bi-weekly basis to resolve invoicing issues, including the causes of problems noted in the issues logs.

Due Date: CBP considers this recommendation closed.

Recommendation 2: The Contracting Officer request DCAA to conduct an incurred cost audit of the ACE contractor.

CBP Response: The Contracting Officer routinely submits an audit request to DCAA to assess IBM's Calendar Year (CY) incurred costs on an annual basis due the fact that cost-reimbursable type task orders are awarded. Audit requests to DCAA for review of IBM's CY 2002, CY 2003, and CY 2004 incurred costs were

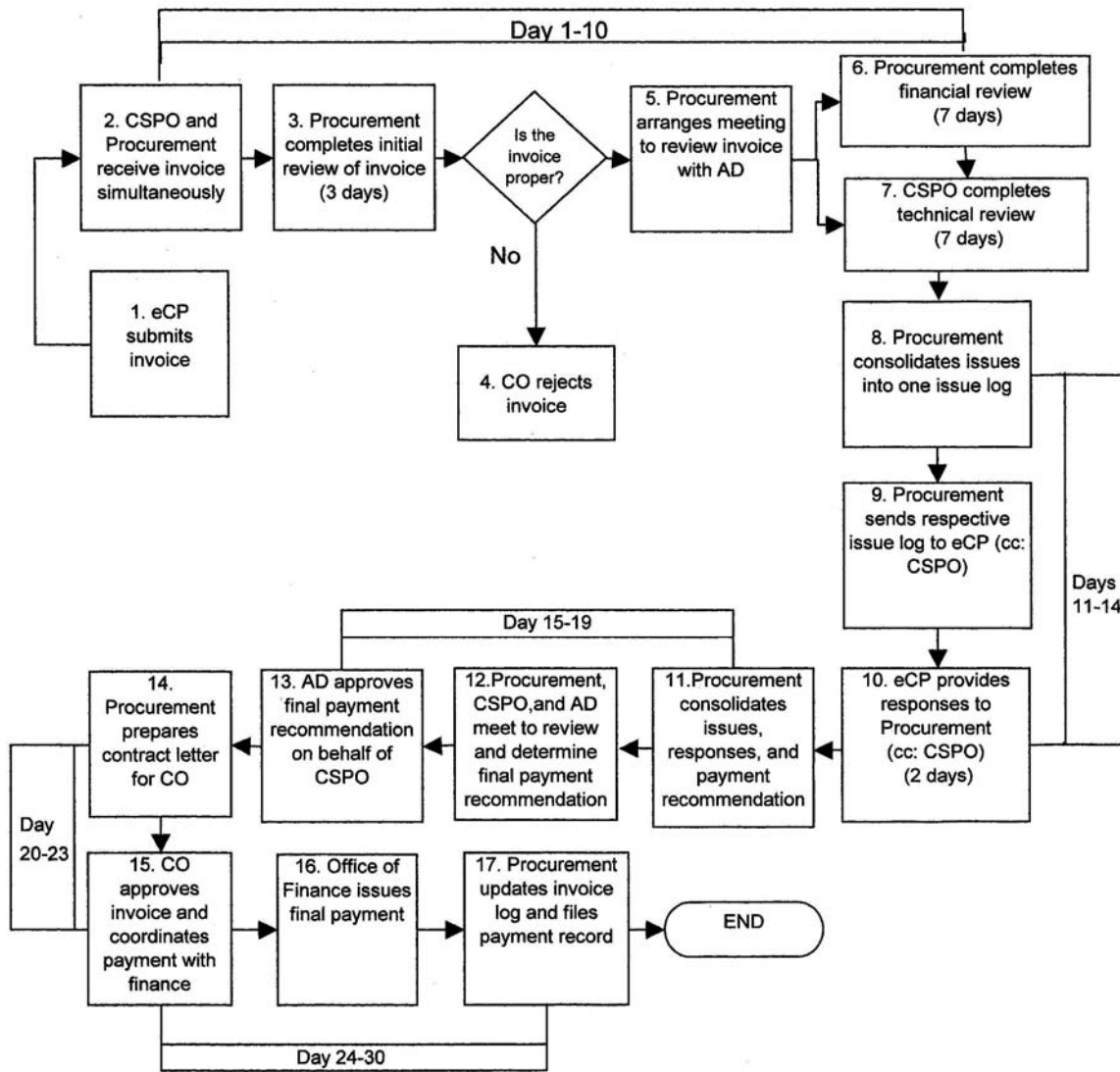
Appendix B
Management Comments

4

submitted. Audit reports on IBM's CY 2002 incurred costs are in receipt. DCAA is currently reviewing IBM's CY 2004 incurred costs. DCAA anticipates completing the 2004 audit in mid-November 2006.

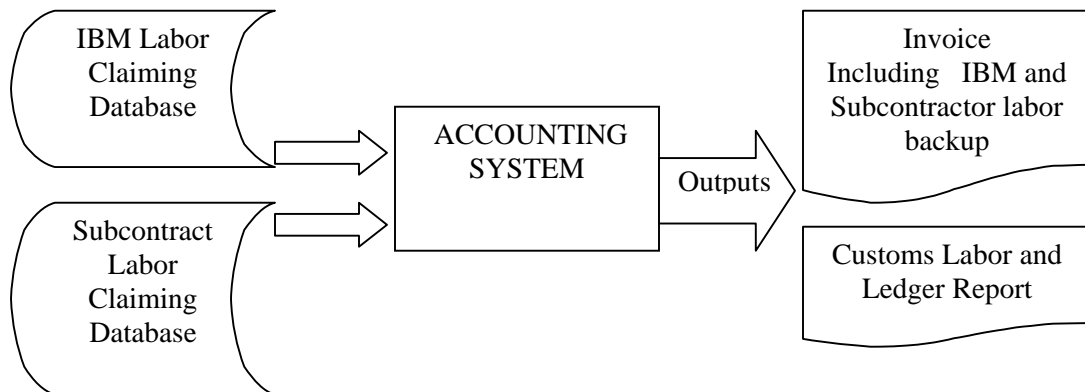
Due Date: November 30, 2006.

Appendix C
 Invoice Procedure Steps



Source: Invoice Review and Approval Procedure Version 1.0, dated July 31, 2003

The following diagram illustrates the two databases that feed labor hour information to the IBM accounting system and the two outputs.



Each invoice from eCP includes documentation that provides details on the charges for IBM and subcontract labor. The detailed documentation consists of tables that identify the employee, the workpackage (assignment), period of performance, and number of hours worked during the period of performance.

Additionally, the IBM accounting system produces a weekly labor report entitled the Customs Labor and Ledger Report and IBM posts the report on the CBP intranet. This labor report details the hours charged by week to the ACE program by employee name and workpackage (assignment).

CBP reviewers perform spot checks of labor hours on an invoice by judgmentally selecting an IBM or subcontract employee from the detailed documentation in the invoice package and comparing the number of hours on the invoice to the number of labor hours in the Customs Labor and Ledger Report.

Appendix E
 Invoice Review Checklist

**ATTACHMENT A
 Invoice FINANCIAL Review Checklist**

Task Order # _____ Contract # _____

Invoice # _____ Invoice Date _____

	YES	NO	Comments
a. Invoice Summary Sheet			
Does the invoice include the date, POP and amount?			
Does the overhead rate agree with negotiated task order rates?			
Does the G&A rates agree with the negotiated task order rates?			
Does the current invoice total + last invoice cumulative total = current cumulative total?			
Do the back-up documents match the summary sheet?			
b. IBM Labor Hours			
Are all WBSIDs charged to correct task orders?			
Are any labor hour anomalies (i.e. > 300 hours and/or prior period adjustments of > 100 hours) sufficiently explained?			
Spot check the labor hours against the labor report (at least one person per vendor). Is the information consistent?			
Is the POP unique to all other billings (i.e., verify that the charges have not been previously billed)?			
Is the POP for all labor hours within the contract POP?			
Were the macro hourly rates verified?			
Do the hours on the back-up correspond with the invoice summary sheet?			
c. Sub-Contractors Labor Hours			
Are all WBSIDs charged to correct task orders?			
Are any labor hour anomalies (i.e. > 300 hours and/or prior period adjustments of > 100 hours) sufficiently explained?			
Were the macro hourly rates verified?			
Is the POP unique to all other billings (i.e., verify that the charges have not been previously billed)?			
Is the POP for all labor hours within the contract POP?			
Spot check the labor hours against the labor report (at least one person per vendor). Is the information consistent?			
Do the hours on the back-up correspond with the invoice summary sheet?			
d. Equipment Purchases			
Does the back-up correspond with the invoice summary sheet?			
Are the consent request, approval letter, and price reasonableness of purchase (where applicable) included?			
Are PIMS numbers included? Spot check to ensure actual PIMS entry exists and is accurate.			
e. Travel			
Does the backup correspond with the travel summary sheet?			
Is the purpose, description and destination "to and from" for each travel included?			
Is the JTR per diem being followed and checked for any anomalies?			
f. ODC			
Do all ODCs have a description and purpose?			

Appendix E
 Invoice Review Checklist

ATTACHMENT B
Invoice TECHNICAL Review Checklist

Task Order # _____ Contract # _____

Invoice # _____ Invoice Date _____

	YES	NO	Comments
a. Invoice Summary Sheet			
Has a spot check for any inconsistencies been performed?			
b. IBM Labor Hours			
Are any labor hour anomalies (i.e. > 300 hours and/or prior period adjustments of > 100 hours) sufficiently explained?			
Does the back-up match the summary page?			
Is the POP unique to all other billings (i.e., verify that the charges have not been previously billed)?			
Is the POP for all labor hours within the contract POP?			
Was knowledge of task orders applied to verify that WBSIDs are valid and consistent with the work performed?			
Was knowledge of task orders applied to spot check validity of known staff members (i.e., do I recognize any names that should not be on this invoice?)?			
c. Sub-Contractors Labor Hours			
Is the POP unique to all other billings (i.e., verify that the charges have not been previously billed)?			
Is the POP for all labor hours within the contract POP?			
Are any labor hour anomalies (i.e. > 300 hours and/or prior period adjustments of > 100 hours) sufficiently explained?			
d. Equipment Purchases			
Has a spot check of consistent major dollar items with supporting detailed information been performed?			
e. Travel			
Has a spot check of expenses for any anomalies been performed?			
f. ODC			
Do all ODCs have a description and purpose explained?			

Appendix F
Award and Incentive

AWARD FEE HISTORY

Award Period	Rating	Available Pool *	Awarded	Forfeit
1	74%	\$1,000,000	\$740,000	\$260,000
2	Failing	3,000,000	-	3,000,000
2 and 3	56%	8,500,000	-	8,500,000
4	64%	2,100,000	-	2,100,000
5	87%	3,800,000	3,300,000	500,000
Totals		\$18,400,000	\$4,040,000	\$14,360,000
			22%	78%

**Includes rollover amounts from previous periods*

Completed Incentives

Task Order	Available	Earned	Not Paid	Percent Paid	Percent Not Paid
4	\$ 484,488	\$ 484,488	\$ -	100.0%	0.0%
8	3,263,898	2,962,615	301,283	90.8%	9.2%
9	818,931	614,198	204,733	75.0%	25.0%
16	2,144,719	1,797,388	347,331	83.8%	16.2%
17	2,747,544	2,546,311	201,233	92.7%	7.3%
17.1	27,120	27,120	-	100.0%	0.0%
19	3,689,010	2,210,616	1,478,394	59.9%	40.1%
20	112,082	112,082	-	100.0%	0.0%
21	239,582	239,582	-	100.0%	0.0%
	\$ 13,527,374	\$ 10,994,400	\$ 2,532,974	81.3%	18.7%

As of March 2005

Appendix G
Major Contributors to this Report

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Department of Homeland Security

Secretary
Deputy Secretary
Chief of Staff
Deputy Chief of Staff
Assistant Secretary for Policy
Assistant Secretary for Public Affairs
Assistant Secretary for Legislative and Intergovernmental Affairs
General Counsel
Executive Secretary
Chief Privacy Officer
Director, GAO/OIG Liaison

Customs and Border Protection

Commissioner, Bureau of Customs and Border Protection
CBP OIG Liaison
Director, Cargo Systems Program Office
ACE Contract Officer

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees, as appropriate

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