



# *National Archives and Records Administration*

8601 Adelphi Road  
College Park, Maryland 20740-6001

Date : June 10, 2008

Reply to  
Attn of : Office of Inspector General (OIG)

Subject : OIG Report no. 08-08, Review of Electronic Records Archives Contract Direct Labor Costs

To: Allan Edgar, Director of the Acquisitions Services Division (NAA)

As a result of a request by the contracting officer (CO) for the Electronic Records Archives (ERA) program, the Office of Inspector General (OIG) performed a review of direct labor and subcontract costs billed to the National Archives and Records Administration (NARA) on the ERA development contract. The objectives of the review were to determine if the (a) invoices submitted by the contractor for direct labor costs and subcontract costs for work performed on the ERA contract, and paid by NARA, were accurate, supported, and reasonable, and (b) ERA Program Management Office (NHE) officials had a satisfactory process in place to review and approve contract invoices. This report focuses on the ERA contract direct labor costs. A separate report will be issued that addresses subcontract costs.

In September 2005, NARA awarded a \$317.4 million cost-plus-award-fee (CPAF) contract, no. NAMA-04-C-0007, to the Lockheed Martin Corporation to build a permanent archives system for preserving and managing electronic records created by the federal government. The purpose of the ERA system is to capture and permanently preserve electronic records of the federal government, regardless of format, ensure hardware and software independence, and provide access to the American public and federal officials.

As stated previously, this audit was initiated at the request of the ERA CO. After questioning unusual "overtime meal" charges of about \$500 on the ERA contract, he asked us to review this charge and other charges associated with recent invoices submitted by the contractor.

## **Results of Audit Effort**

After six months of field work, we were unable to determine if the contract direct labor charges were accurate, supported, and reasonable. However, we did find NHE officials did not have an adequate basis for verifying direct labor costs, i.e., (a) that direct labor hours billed by the contractor on the ERA contract were actually incurred; (b) that the amounts billed were appropriate; and (c) that contractor employees billed against the contract actually worked on the contract.

We were unable to accomplish our objective of validating ERA contract direct labor costs because (1) the contractor did not provide program personnel adequate supporting documentation with the invoices; (2) the contract did not specify direct labor rates, and allowed rates to vary from one invoice to the next; (3) the contractor does not maintain records for review, by invoice, to support the direct labor billed to NARA; (4) contractor officials were reluctant to provide necessary information and documentation that supported billed direct labor costs; (5) information provided

by the contractor was often incomplete, resulting in additional questions and the need for us to obtain additional information and documentation; and (6) source documentation (e.g., supplemental timecards, salary records) could not be examined because the contractor did not grant access to the systems in which the necessary information resided.

Further, we found that NARA officials did not conduct “floorchecks” as a means of monitoring contractor performance.<sup>1</sup> Floorchecks include: (1) an evaluation of the adequacy and effectiveness of the contractor’s internal controls and procedures to insure the reliability of employee time records, and (2) physical observations and interviews to determine that contractor employees are actually at work, that they are productive, that they are performing in the assigned job classification, and that their time is charged to the appropriate job.

When we discovered that the program personnel did not require the contractor to provide sufficient, detailed labor hours and labor rate documentation with its invoices, we asked the ERA CO to describe the procedures for reviewing invoices prior to his approving them for payment. Following receipt of the invoices the CO explained that the review process was a team effort. ERA officials looked at (a) the burn rates, account codes and rates, and accounting details, and (b) coordinated Defense Contract Audit Agency (DCAA) and Defense Contract Management Agency (DCMA) reviews. In addition, the Contracting Officer's Representative (COR) and the Executive Director reviewed the technical reasonableness of the hours and efforts billed. Based on the team's input and recommendations, the CO signed the approval authorization. While this effort is commendable, we believe that an effective invoice review process must also include review and evaluation of direct labor hours and labor rates for contractor employees charging time on the ERA development contract.

On April 9, 2008, we briefed NARA senior staff concerning the contractor’s inability to provide adequate supporting documentation for validating direct labor costs. We made management aware of the potential outcome of the audit that could ensue as a result of our office not being able to validate direct labor costs. Following our meeting, management officials contacted the Lockheed Martin Corporation and arranged a meeting between the Director, Acquisitions Services Division (NAA), and senior-level contractor officials. Prior to that meeting, we met with the Director, NAA, to discuss the documentation and support that had not been provided by the contractor, but were necessary to complete our review and validate labor charges billed to the government.

After meeting with us, the Director, NAA, then met with senior-level Lockheed Martin officials, including the Chief Financial Officer, to determine if they could provide the missing documentation necessary to validate direct labor charges on the ERA contract. They agreed to provide the documentation.

As a result, the Director of Acquisitions was able to obtain contractor records that had not been provided to us, e.g., supplemental employee timecards approving overtime charges that were rejected at the time the employee submitted the original timecard for approval. With the documentation provided by the contractor, the Director was able to reconcile the direct labor hours and dollars for a judgmental sample of contractor employees. The judgmental sample included employees selected from 5 of 23 invoices submitted by the contractor under the contract. At the time this report was prepared, the Director had provided us with data obtained from reviewing

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<sup>1</sup> The contractual authority for performance of a floorcheck is set forth by FAR 52.215-2 “Audit and Records – Negotiation” which gives the contracting officer, or his representative, the right of inspection for all cost-reimbursement, incentive, time-and-materials, labor-hour, facilities or price redeterminable contracts awarded by other than sealed bidding.

three of the five invoices in his sample. Two invoices included a review of 10 employees each, for a total of 20, while the third invoice consisted of reviewing data for seven employees.

The sample of employee data reviewed by the Director addressed approximately six percent of the total direct labor hours billed on those three invoices. In our opinion, the limited review performed by the Director of Acquisitions is not sufficient to conclude that all the contract direct labor charges are accurate, supported, and reasonable. To reach such a conclusion, a statistically valid sample from the universe of direct labor hours billed to date must be selected and the sample items reconciled to supporting documentation, e.g., approved timecards, salary information, from the contractor's records.

We were able to determine that NHE officials did not have an adequate basis for verifying that direct labor hours billed by Lockheed Martin on the ERA contract were actually received and that the amounts billed were appropriate. This condition existed because contractor officials did not provide adequate supporting documentation for direct labor costs billed on the contract invoice, and program office personnel did not insist the contractor provide the documentation. As a result, i.e. of the lack of supporting documentation available in the program office, we met with contractor personnel several times during the last six months, attempting to obtain documentation necessary to validate contract direct labor costs. We believe that for future invoice submissions, obtaining adequate, detailed information from the contractor, including employee hours, labor categories, and labor rates, would facilitate the program office's invoice review and approval process. Until such improvements are made in the billing and review process, NARA lacks assurance that direct labor charges to the ERA contract are accurate and justified.

We noted that, while none of the invoices contained adequate documentation to support the direct labor charges, the CO, or his designee, approved 22 of the 23 invoices for payment.<sup>2</sup> The CO, prior to our audit, expressed concerns about the labor costs in relation to the amount of work accomplished by the contractor. According to him, early contractor invoices included labor costs for approximately 100 contractor employees, and subsequently, the number of employees charging time to the contract increased to about 180. He stated that when questioned about why so little had been accomplished when so many were working on the contract, Lockheed Martin began removing a large number of people from the program, thereby significantly reducing the number of employees charging time on the contract.

On June 2, 2008, the Executive Director of the ERA Program reported to us that since (a) the program management office began placing emphasis on the number of people working on the contract; (b) the OIG reviewed the direct labor hours billed on the contract, and (c) the contractor reorganized, he has seen a decrease in the number of contractor employees charging time to the contract. Also, according to him, the contractor's ERA Program Director, now focusing on this area, has established a policy of reviewing all employee time sheets appearing to have excess hours on them.

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<sup>2</sup> One invoice was rejected for payment because of an incorrect contract line item number.

## Recommendations

Based on the results of our review, we recommend that the Director, Acquisitions Services Division (NAA):

1. Require the contractor, for future invoice submissions, to provide documentation that adequately supports direct labor costs billed to the contract, and not approve invoices for payment unless the contractor provides that documentation.
2. Make a determination as to whether additional review of contractor invoices previously submitted and paid by NARA is warranted, to validate direct labor charges. If additional review is warranted, use in-house resources or a contractual arrangement to accomplish this effort.
3. Require the ERA contracting officer to periodically conduct "floorchecks" as a means of monitoring contractor performance.

If you have any questions or require additional information concerning the results of this audit, please e-mail Mr. James Springs or me, or call us at extension 73000. Please provide your written comments on any actions taken or planned to address the report recommendations, by July 9, 2008.

Paul Brachfeld  
Inspector General

Attachment:

Supplementary Audit Report Information (2 pages)

Cc: N (A. Weinstein)  
NA (A. Thomas)  
NH (M. Morphy)

## SUPPLEMENTARY AUDIT REPORT INFORMATION

### OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this audit were to determine if the (a) invoices submitted by the contractor for direct labor costs and subcontract costs for work performed on the ERA contract, and paid by NARA, were accurate, supported, and reasonable, and (b) ERA Program Management Office (NHE) officials had a satisfactory process in place to review and approve contract invoices.

We examined applicable laws, regulations, NARA guidance, and other procurement related guidance, including the Federal Acquisition Regulation (FAR) and the Office of Federal Procurement Policy's Guide to Best Practices for Contract Administration.

We reviewed and analyzed aspects of 23 Lockheed Martin invoices with over \$33 million in direct labor charges (including the associated overhead) billed to the ERA contract from December 2005 to March 2008. We selected a sample of Lockheed Martin employees who charged time to the ERA project and analyzed their timecards and salary information to validate direct labor costs. We also interviewed NARA officials in ERA's Program Management Office, the Acquisitions Services Division, and officials of the Lockheed Martin Corporation.

Our work was performed at Archives II in College Park, MD, and at Lockheed Martin's Greenbelt, MD, facility between October 2007 and April 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

### BACKGROUND

NARA ensures, for the citizen and the public servant, the President and the Congress and the Courts, ready access to essential evidence that documents the rights of citizens, the actions of federal officials, and the national experience. NARA is a public trust playing a key role in fostering effective and responsible government through management of the lifecycle of records in all three branches of the federal government, and through sustained access to historically-valuable records in the National Archives and the Presidential Libraries. These records enable people to inspect for themselves what the government has done, allow officials and agencies to review their actions, and help citizens to hold them accountable.

Increasingly, these records are created and maintained in electronic formats. In response to the challenge posed by the diversity, complexity, and enormous volume of electronic records being created today, and the rapidly changing nature of the systems that are used to create them, the Archivist of the United States officially authorized the ERA Program under NARA Directive 101-Part 3, Section 6, on October 31, 2002. The directive states: "Electronic Records Archive Program – Works with other offices to develop and initially deploy an Electronic Records Archive system that enables NARA to preserve and make accessible any type of electronic record in a format that frees it from the computer system in which it was created." In September 2005, NARA awarded a \$317.4 million cost-plus-award-fee (CPAF) contract, no. NAMA-04-C-007, to the Lockheed Martin Corporation to build a permanent archives system for preserving and managing electronic records created by the federal government.

**SUPPLEMENTARY AUDIT REPORT INFORMATION**

We found that for direct labor charges billed to NARA between December 2005 and March 2008, the supporting documentation for the 23 invoices reviewed, was not adequate to validate direct labor hours billed by the contractor. For example, the only supporting documentation for direct labor charges on 19 invoices was a spreadsheet which included labor categories such as "Program Management", "Program Control", "Records Management", and "User Training"; and the total hours and dollars for each category listed. After we discussed the lack of supporting documentation with ERA officials, they requested the contractor to include additional support with its invoices. As a result, the four most recent invoices included a listing of Lockheed Martin employees who charged time to the ERA project during the billing period and a breakdown of their hours. Although this is a step in the right direction and would allow a reviewer to reconcile the total direct labor hours, additional information is needed to validate the hours and the costs associated with these hours, e.g., time cards, labor categories, and labor rates. Without this data, the reviewer has no way of determining if the direct labor costs are accurate and if the charges per employee are reasonable based on their positions.

Because program office personnel did not require the contractor to provide adequate supporting documentation with the invoices, we met with Lockheed Martin personnel several times during a six-month period, attempting to obtain documentation necessary to validate contract direct labor costs. However, we were unable to obtain the documentation for a variety of reasons:

a. Standard direct labor rates were not specified in the contract, and the hourly rate billed for each contractor employee varied from one pay period to the next. The hourly rate is calculated by the employee's weekly salary divided by the total number of hours worked that week whether they were on the ERA contract or some other contract. In addition, if an employee worked overtime and the overtime was not approved and paid the week it was earned, but was done so in a subsequent week, that employee's hourly rate could vary within the same week for different work packages. This situation occurs when the hourly rate for the week the overtime was earned is used, along with the hourly rate for the current week, to calculate the hourly rate for each applicable work package or project for which the employee charged time.

b. The contractor does not maintain records for review by invoice; therefore, our requests for information had to be performed as extracts from data contained in multiple systems.

c. Contractor officials were, initially, reluctant to provide salary and timecard data to us citing the sensitive and proprietary nature of this information. When we did start getting access to the contractor's labor data, it was often incomplete requiring additional data and documentation requests. For example, requesting timecards for a judgmental sample of 21 contractor employees who charged time to the ERA contract on 5 invoices, we received one timecard per week for each of these employees. However, many of these timecards did not reflect a supervisor's approval for regular time and/or overtime. We questioned the contractor about this and were told the approvals were done on supplemental or subsequent timecards that were not provided to us. Without having adequate supporting documentation, we were unable to determine if the contractor's direct labor charges were accurate, authorized, and reasonable.



# National Archives and Records Administration

8601 Adelphi Road  
College Park, Maryland 20740-6001

Date: August 18, 2008

To: NPOL

From: NAA

Subject: OIG Audit Report 08-08 (Recommendations # 1-3), Review of ERA Contract Direct Labor Costs

OIG Audit Report 08-08, Review of ERA Contract Direct Labor Costs, Recommendations #1-3 state the following:

**Recommendation 1:** Require the contractor, for future invoice submissions, to provide documentation that adequately supports direct labor costs billed to the contract, and not approve invoices for payment unless the contractor provides that documentation.

**Recommendation 2:** Make a determination as to whether additional review of contractor invoices previously submitted and paid by NARA is warranted, to validate direct labor charges. If additional review is warranted, use in-house resources or a contractual arrangement to accomplish this effort.

**Recommendation 3:** Require the ERA contracting officer to periodically conduct "floorchecks" as a means of monitoring contractor performance.

Attached is NAA's response to OIG Audit 08-08 regarding the Review of ERA Contract Direct Labor Costs. NAA considers the attachment as satisfying Recommendations 1 and 2 and provides a resolution to Recommendation 3.

If you have questions, please contact Allen Edgar (7-1489).



ALLEN EDGAR

Director  
Acquisitions Services Division

Attachments