



National Archives and Records Administration

8601 Adelphi Road
College Park, Maryland 20740-6001

Date : August 28, 2008

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

Subject : OIG Report no. 08-11, Review of Subcontract Costs on the Electronic Records Archives
Development Contract

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 subcontract¹ costs billed to the National Archives and Records Administration (NARA) on the ERA development contract, no. NAMA-04-C-0007, with the Lockheed Martin Corporation. 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, focusing on the ERA contract subcontract costs, is the second report issued for this project. OIG Report no. 08-08, Review of Electronic Records Archives Contract Direct Labor Costs, addressing contractor direct labor costs was issued on June 10, 2008.

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

Our review disclosed that for the subcontractor invoices included in our review: (a) other direct costs, including incidental services for which there is not a labor category specified in the contract, travel, computer usage charges, etc., were properly supported; (b) all 20 payments made by the Lockheed Martin Corp. to ERA subcontractors², for the invoices included in our review, equaled the costs billed by the ERA subcontractors for those invoices; and (c) for three of the four subcontractors included in

¹ A *subcontract* is a contract or contractual action entered into by a prime contractor or subcontractor for the purpose of obtaining supplies, materials, equipment, or services of any kind under a prime contract.

² A *subcontractor* is any person, other than the prime contractor, who offers to furnish or furnishes any supplies, materials, equipment, or services of any kind under a prime contract or a subcontract entered into in connection with such prime contract.

our review, labor rates used to bill for labor expended on the ERA contract were those rates negotiated by the subcontractors and the prime contractor³.

However, we were unable to place any reliance on the accuracy and reasonableness of the direct labor⁴ costs billed for the subcontracts included in our review, i.e., we could not validate subcontract costs. In most instances, the hours shown on Voucher Invoice Processing (VIP)⁵ reports agreed with the hours shown on the employee timesheets/timecards. Our review was hampered because:

(a) Lockheed Martin officials did not provide the original employee timesheets to support subcontractor labor costs.

When we requested supporting documentation for the purpose of conducting our review of subcontract labor costs, Lockheed Martin officials had to ask subcontractors to provide the documentation because they did not require subcontractors to provide timesheets/timecards with their invoices. The documentation provided by the subcontractors was not "official," i.e., the timesheets did not contain employee signatures, or a supervisor's signature indicating that the timesheets had been reviewed and approved by the supervisor. Therefore, we were unable to attest to the reliability and/or accuracy of the information provided in the documentation.

(b) ERA Program Management Office (NHE) officials paid contractor invoices for subcontractor labor without assessing validity of the charges, because they relied on the contractor to properly bill for the costs related to its subcontractors and to validate the subcontractor invoices. That is, NHE officials had no process in place to assess whether or not the contractor was properly validating its subcontractor labor charges or to assess the allowability of those charges.

NAA officials responded that such a process was not needed because Lockheed Martin's accounting and billing systems were reviewed and approved by the DCAA. However, having a billing system approved by DCAA does not eliminate NHE's responsibility for ensuring that the contractor properly validates subcontractor labor charges, nor does it eliminate Lockheed Martin's responsibility for reviewing and approving the accuracy and validity subcontractor charges billed to the ERA contract. In addition, DCAA officials told us that, at Lockheed's facility in Greenbelt, MD, their agency has never reviewed administrative processes in place for reviewing and approving subcontractor costs billed on the ERA contract

When we asked what process, if any, does the program office have in place to assess (a) whether or not LMC is properly validating its subcontractor labor charges, or (b) the allowability of those subcontractor charges, the ERA CO explained,

"LMTSS has subK management and cost-account management that manages the little labor-hour or fixed price contracts. The PMO reviews the earned value reports and the BOMs and the material charges on the invoices by exception.

Subcontracts are a relatively minor level-of-effort part of this program. If I'm not mistaken there isn't a lot of subK costs, probably not more than half dozen folks from each of the five main subs: Bearing point, EDS, Fenestra , Tessela and History associates

³ As of the completion of our review, Lockheed Martin Corporation officials were reviewing discrepancies between billing rates used by one subcontractor and the negotiated labor rates.

⁴ *Direct labor* is the labor which actively and directly takes part in the production of a particular commodity.

⁵ The electronic invoicing system used by the Lockheed Martin Corporation for invoicing and subcontract management of primarily labor subcontracts.

(as compared with the two hundred folks from LMCTSS). SubK costs are treated as material costs and are not distinguished from purchases.

DCAA from time to time audits subcontract management, I haven't heard back if DCAA in fact has audited this division of LMC.”

However, our review disclosed that subcontracts are a significant portion of ERA contract costs, not a relatively minor part of the program as claimed by the CO. The five Lockheed Martin Corporation invoices included costs for 15 subcontractors working on the ERA program development effort. The four subcontracts included in our sample totaled \$16.3 million.

We also noted that ERA Program Management Office officials did not have copies of subcontracts to assist them with the management of the program.

(c) Lockheed Martin Corporation officials did not require ERA subcontractors to provide supporting documentation, e.g., timecards, with their invoices for substantiating direct labor charges; and had no process in-place for properly validating subcontractor labor charges, or for assessing the allowability of those charges. Terms of the four subcontracts included in our review required subcontractors to (a) maintain complete and accurate records in accordance with generally accepted accounting principles to substantiate seller's charges, including applicable time sheets, job cards, phone bills, travel receipts and job summaries; and (b) provide access to such records for the purpose of audit. However, Lockheed Martin did not require subcontractors to deliver timesheets with their invoices, i.e., subcontractors were not required to provide documentation to support labor charges. As a result, Lockheed Martin officials lacked necessary documentation to substantiate subcontract direct labor costs, i.e., to verify that (a) labor hours billed by the subcontractors were actually incurred; (b) the amounts billed were appropriate; and (c) subcontractor employees whose names appeared on the invoices actually worked on the contract.

Recommendations

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

1. Require the ERA contracting officer to establish documented policies and procedures for ensuring that the contractor (a) obtains supporting documentation from its subcontractors for validating subcontractor labor charges, and (b) periodically conducts audits of subcontractor accounting records, in accordance with the terms of the subcontracts. The contracting officer should approve an invoice for payment only after he has verified that the contractor has complied with these requirements.
2. Make a determination as to whether additional review of subcontractor invoices previously submitted and paid by NARA is warranted, to validate subcontractor 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 obtain and maintain complete copies of ERA Program subcontracts.

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.

Paul Brachfeld
Inspector General

Attachment: Supplementary Audit Report Information (2 pages)

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

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) NHE officials had a satisfactory process in place to review and approve contract invoices.

We examined applicable 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.

For this portion of the audit dealing with ERA subcontracts, we reviewed and analyzed billings of four subcontracts. These subcontracts have a total value in excess of \$16 million in direct labor charges, other direct costs, and travel expenses. To accomplish our objectives, we (a) obtained copies of the associated Voucher Invoice System (VIP) reports containing cost information submitted by the four subcontractors; (b) obtained timesheets/timecards for each subcontractor employee whose name appears on the VIP reports; (c) verified the accuracy of the labor hours shown on the VIP reports by tracing the hours shown on the employee timesheets/timecards to the VIP reports; (d) verified that the proper labor rates were used to calculate subcontract labor costs; (e) determined if miscellaneous, travel, and any other costs other than labor, included in subcontractor invoices, were properly supported and allowable; and (f) determined if payments made by the contractor to subcontractors equaled the costs billed by the subcontractors.

We also interviewed officials of the Lockheed Martin Corporation.

Our work, which was performed at Archives II in College Park, MD, and at Lockheed Martin's Greenbelt, MD, facility, began in April 2008 and was completed in July 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 objectives.

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.

SUPPLEMENTARY AUDIT REPORT INFORMATION

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 establishment of the ERA Program. According to program documentation, the ERA system will be a comprehensive, systematic, and dynamic means of storing, preserving, and accessing virtually any kind of electronic record, free from dependence on any specific hardware or software. ERA, when operational, will make it easy for NARA customers to find the records they want and easy for the National Archives to deliver those records suited to customer needs. In September 2005, the agency awarded a \$317.4 million 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.

ERA subcontractor costs are invoiced using the Voucher Invoice Processing (VIP) system. The VIP system is an electronic invoicing system used by the Lockheed Martin Corporation for invoicing and subcontract management of primarily labor subcontracts. The system collects vendor labor inputs, directs the inputs to the appropriate manager for approval, and forwards the information to Lockheed's accounts payable department for payment.

Previous effort included a review of direct labor charges on the ERA development contract. To accomplish that review, we judgmentally selected five invoices submitted for payment by the Lockheed Martin Corporation. To accomplish our review of subcontract costs, the subject of this report, we selected 4 of the 15 subcontractors (26.7 percent) for which Lockheed Martin billed NARA on those five invoices. The four subcontracts, which totaled approximately \$16.3 million, were awarded to: (a) Bearing Point, Incorporated; (b) Electronic Data Systems (EDS) Corporation; (c) Tessella Incorporated; and (d) Fenestra Technologies Corporation.

Subcontracts Included in our Review

SUBCONTRACTOR	SUBCONTRACT TYPE	AMOUNT
Bearing Point, Inc.	Time-and-Materials	\$2,881,108.00
EDS	Time-and-Materials	7,001,563.83
Fenestra Technologies	Time-and-Materials	3,557,622.09
Tessella	Time-and-Materials	2,869,211.87
Total		\$16,309,505.79

To validate subcontract direct labor costs, for each Lockheed Martin invoice, we obtained copies of the associated (a) VIP reports containing cost information submitted by the four subcontractors, and (b) timesheets/timecards for each subcontractor employee for which labor was charged on those VIP reports. With this documentation, we verified the accuracy of the labor hours shown on the VIP reports by tracing the hours shown on the employee timesheets/timecards to the VIP reports. In most instances, the hours shown on the VIP reports agreed with the hours shown on the employee timesheets/timecards.

SUPPLEMENTARY AUDIT REPORT INFORMATION

However, we did find some instances where the hours differed. We asked the Lockheed Martin point-of-contact to explain the reasons for these differences.

Based on the documentation provided by Lockheed Martin officials, billed direct labor costs were generally accurate and properly supported for effort performed on the CPAF contract. However, as stated previously, we were unable to place any reliance on the accuracy and reasonableness of the direct labor costs billed for the subcontracts included in our review, because Lockheed Martin officials did not provide the original, signed employee timesheets to support subcontractor labor cost charges.

Also, we verified that the proper labor rates were used to calculate subcontract labor costs; determined if miscellaneous, travel costs, and any other costs other than labor, included in subcontractor invoices were properly supported and allowable; and determined if payments made by the Lockheed Martin Corporation to ERA subcontractors equaled the costs billed by the ERA subcontractors.



National Archives and Records Administration

8601 Adelphi Road
College Park, Maryland 20740-6001

Date: August 22, 2008

To: OIG

From: NAA

Subject: OIG Draft Audit Report 08-11 (Recommendations # 1-2), Review of ERA Subcontractor Costs on the ERA Development Contract

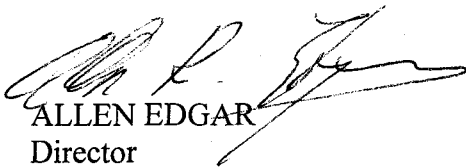
OIG Draft Audit Report 08-11, Review of ERA Subcontractor Costs on the ERA Development Contract, Recommendations #1-2 state the following:

Recommendation 1: Require the ERA contracting officer to establish documented policies and procedures for ensuring that the contractor (a) obtains supporting documentation from its subcontractors for validating subcontractor labor charges, and (b) periodically conducts audits of subcontractor accounting records, in accordance with the terms of the subcontracts. The contracting officer should approve an invoice for payment only after he has verified that the contract has complied with these requirements.

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

Attached is NAA's response to OIG Audit 08-11 regarding the Review of ERA Subcontract Costs on ERA Development Contract. NAA considers the attachment as satisfying Recommendations 1 and 2.

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


ALLEN EDGAR
Director
Acquisitions Services Division

Attachments