Office of Inspector General

Payments to Pragmatics, Inc.

December 2018 AUD-19-003

Audit Report

Information Technology Audits and Cyber

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REDACTED VERSION

PUBLICLY AVAILABLE

Portions of this report containing sensitive information have been redacted and are marked accordingly.

Payments to Pragmatics, Inc.

The Federal Deposit Insurance Corporation (FDIC) relies extensively on contractors to maintain its portfolio of information technology (IT) applications. Between May 2013 and March 2018, the FDIC spent nearly $192 million on IT application support services. These IT applications support mission-critical functions, such as the supervision of insured financial institutions and the resolution of failed financial institutions. It is, therefore, critical that the FDIC establish clear requirements in its IT contracts and implement effective oversight of contractor performance. Doing so can help the FDIC avoid unnecessary costs and ensure the work is performed consistent with expectations.

We initiated this audit in response to a complaint received through the Office of Inspector General's Hotline. The complainant alleged that an employee working for a subcontractor of Pragmatics, Inc. (Pragmatics) under FDIC Contract No. CORHQ-14-G-0549 billed the FDIC for labor hours that the employee did not actually work. The complainant also alleged that Pragmatics and one of its subcontractors may have inappropriately billed contractor employee labor hours. The FDIC procures IT services under Contract No. CORHQ-14-G-0549 by awarding task orders that define specific work requirements. Our audit covered two such task orders for IT enhancement and development work on applications that support the FDIC's supervision of insured financial institutions. The work referenced in the Hotline complaint was limited to these two task orders.

The audit objective was to determine whether certain labor charges paid to Pragmatics were adequately supported, allowable under the contract, and allocable to their respective task orders.

Results

We found that $47,489 (approximately 10 percent of labor charges we reviewed) were either not adequately supported or unallowable. Of this amount, $7,510 was unsupported because the employees who billed the hours did not access the FDIC's network or facilities on the days they charged the hours. Both FDIC staff and Pragmatics personnel informed us that the nature of the work required access to the FDIC's network. We determined that the remaining $39,979 was unallowable because the work was performed off site (away from FDIC facilities). The FDIC's contract with Pragmatics required the contractor to perform all work at the FDIC's facilities, absent a site visit and approval by the FDIC to perform the work at an alternate location. We consider the unsupported and unallowable costs to be questioned costs. We determined that all of the labor charges we reviewed were properly allocated to their respective task orders.

We also noted that the FDIC conducted a site visit for one of Pragmatics' off-site locations in July 2013. However, FDIC contracting and program office personnel did not retain documentation regarding the outcome of the visit, including whether the FDIC had approved Pragmatics personnel to work at the off-site location. In addition, although the contract specified that the FDIC would identify the place of performance for services in the associated task orders, the FDIC did not do so for the task orders we reviewed. Further, the nature of the work described in the contract required Pragmatics to perform some work off site. The ambiguity regarding the place of performance caused confusion and uncertainty among FDIC and Pragmatics personnel.

Recommendations

We recommended that the Deputy to the Chairman and Chief Operating Officer: (1) determine the portion of the $7,510 in unsupported questioned costs that should be disallowed and recovered; (2) determine whether other labor charges billed by Pragmatics are unsupported and should be disallowed and recovered; (3) determine the portion of the $39,979 in unallowable questioned costs that should be disallowed and recovered; (4) determine whether additional labor charges billed by Pragmatics for work conducted off site should be disallowed and recovered; (5) document the results of the Pragmatics site visit; (6) remind contracting personnel of the requirement to document site visits; and (7) ensure that all contracts for IT application support services identify a place of performance.

In a written response to the report, the Deputy to the Chairman and Chief Operating Officer and the Chief Information Officer and Chief Privacy Officer concurred with six of the report's seven recommendations and partially concurred with the remaining recommendation. The FDIC provided an alternative corrective action to address the remaining recommendation. The FDIC expects to complete actions to address all seven recommendations by March 29, 2019.

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December 10, 2018

Arleas Upton Kea
Deputy to the Chairman and Chief Operating Officer

Howard G. Whyte
Chief Information Officer and Chief Privacy Officer

Subject ***Payments to Pragmatics, Inc.***

The Federal Deposit Insurance Corporation (FDIC) relies extensively on contractors to maintain its portfolio of information technology (IT) applications. Between May 2013 and March 2018, the FDIC spent nearly $192 million on IT application support services related to 39 contracts the FDIC awarded totaling approximately $390 million.[1] These IT applications support mission-critical functions, such as the supervision of insured financial institutions and the resolution of failed financial institutions. It is, therefore, critical that the FDIC establish clear requirements in its IT contracts and implement effective oversight of contractor performance. Absent such requirements and oversight, the FDIC may expend unnecessary costs or procure services that do not meet the FDIC's needs.

We initiated this audit in response to a complaint received through the Office of Inspector General's (OIG) Hotline. The complainant alleged that an employee working for a subcontractor of Pragmatics, Inc. (Pragmatics) under FDIC Contract No. CORHQ-14-G-0549 billed the FDIC for labor hours that the employee did not actually work. The complainant also alleged that Pragmatics and one of its subcontractors may have inappropriately billed contractor employee labor hours. The FDIC procures IT services under Contract No. CORHQ-14-G-0549 by awarding task orders[2] that define specific work requirements. Our audit covered two such task orders for enhancement and development work on IT applications that support the FDIC's supervision of insured financial institutions.

The audit objective was to determine whether certain labor charges paid to Pragmatics were adequately supported, allowable under the contract, and allocable to their respective task orders. Charges are adequately supported when there is sufficient evidence demonstrating that the hours were actually worked. Charges are allowable when they are reasonable and comply with the terms of the contract. For example, charges must not exceed approved labor rates and cannot be associated

[1] The FDIC's First Quarter 2018 Award Profile Report.
[2] Certain terms that are underlined when first used in this report are defined in Appendix 2, Glossary.

to time outside of actual productive work hours, such as sick leave or other absences. Charges are allocable when they are directly related to the task order. For example, charges must be associated to costs incurred and assignable to the objectives of the task order.

We conducted this performance audit in accordance with generally accepted government auditing standards. Appendix 1 of this report describes our objective, scope, and methodology; Appendix 2 contains a glossary of terms; Appendix 3 contains a list of acronyms and abbreviations; Appendix 4 contains the Corporation's comments on the report; and Appendix 5 contains a summary of the FDIC's corrective actions.

BACKGROUND

On May 30, 2013, the FDIC entered into the IT Application Services II (ITAS II) Basic Ordering Agreement (BOA) with 11 contractors, including Pragmatics. The ITAS II BOA has a ceiling price of $565 million and a period of performance that runs through May 30, 2021 (including option periods).[3] The ITAS II BOA serves as an overarching contract vehicle from which the FDIC awards subsequent Tasking BOAs (TBOA).

On November 5, 2014, the FDIC awarded a TBOA (Contract No. CORHQ-14-G-0549) to Pragmatics (referred to herein as the Supervision TBOA). The Supervision TBOA supported the FDIC's portfolio of IT applications for the supervision of insured financial institutions. The Supervision TBOA covered IT training, enhancement, development, maintenance, and operational work. The Supervision TBOA had a ceiling price of $30 million and a period of performance that ran through May 13, 2018 (including option periods). Prior to the expiration of the Supervision TBOA, the FDIC modified the scope of services under another TBOA (Insurance TBOA, Contract No. CORHQ-14-G-0641) in order to provide Pragmatics an active contract vehicle to continue its supervision IT application support. This TBOA is not scheduled to expire until August 4, 2019.

The FDIC procured services under the Supervision TBOA through task orders that were awarded on either a firm fixed-price or time and materials basis. Under firm fixed-price task orders, the FDIC paid Pragmatics an agreed-upon amount for satisfactory performance that covered Pragmatics' costs and expenses (direct and indirect) as well as any profit, fees, or markups. The FDIC awarded fixed-price task orders to procure system operations and maintenance-related work, such as routine

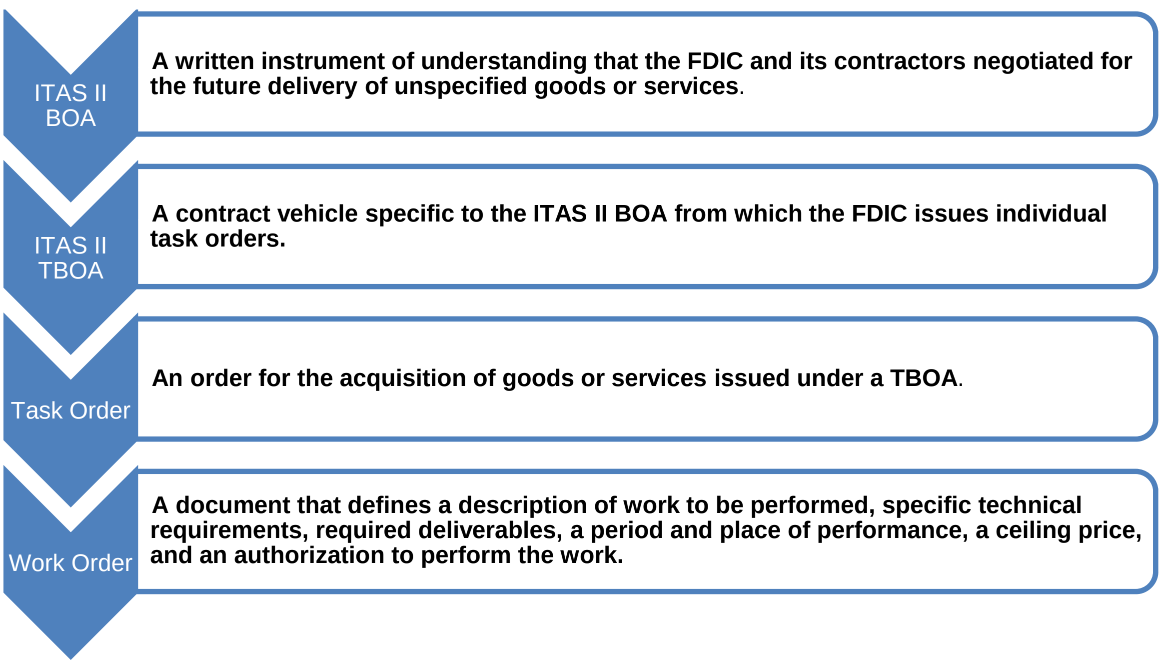
[3] The ITAS II BOA includes four option periods where the FDIC has an opportunity to decide whether it wants to extend contract services.

technology upgrades or IT security-related remediation (that is, addressing IT security vulnerabilities).

The FDIC is obligated under time and materials task orders to compensate Pragmatics for actual productive work at the hourly rates specified in the Supervision TBOA; reimburse Pragmatics for necessary travel and per diem expenses; and pay reasonable amounts for any materials that Pragmatics purchases in support of the TBOA. The FDIC awarded time and materials task orders to procure IT application enhancement and development work. As of March 1, 2018, the FDIC had awarded seven task orders to Pragmatics valued at $18,564,906 under the Supervision TBOA.

The FDIC issued work orders to Pragmatics under each task order that provided a description of the work to be performed, specific technical requirements, and required deliverables.[4] The following Figure illustrates the structure and hierarchy of the ITAS II contracting vehicle.

ITAS II Contract Structure



Source: OIG analysis of ITAS II contract documentation.

Roles and Responsibilities

A Contracting Officer within the FDIC's Division of Administration (DOA) has responsibility for ensuring compliance with the ITAS II contracting vehicle and

[4] An FDIC Oversight Manager may issue individual work orders with a ceiling of up to $200,000 each.

protecting the FDIC's interests in its contractual relationship with Pragmatics and its subcontractors. The Contracting Officer appointed FDIC employees within the FDIC's Division of Information Technology (DIT) to serve as the Oversight Manager and Technical Monitors for ITAS II TBOAs. Collectively, these individuals have responsibility for monitoring and evaluating the performance of Pragmatics and its subcontractors.

- The Oversight Manager's responsibilities include reviewing and approving invoices that Pragmatics submits for compliance with the ITAS II BOA, TBOA, task orders, and work orders.

- The Technical Monitors assist the Oversight Manager by examining and recommending contractor invoices for payment. Technical Monitors help ensure that Pragmatics delivers acceptable services in accordance with the terms of the Supervision TBOA and at an appropriate cost.

Hotline Complaint

On October 12, 2017, the OIG received a complaint through its Hotline asserting that an employee (referred to herein as the "subject") who worked for one of Pragmatics' subcontractors (referred to herein as the "subcontractor") on the Supervision TBOA, allegedly billed the FDIC for labor hours that the subject did not actually work. The complainant questioned the subject's labor hours related to IT application enhancement work performed during the period August 2017 through October 2017.

The complaint also alleged that Pragmatics and its subcontractor may have over-charged the FDIC by billing the subject's labor hours under time and materials task orders when, in fact, the hours should have been covered under a firm fixed-price task order. That is, labor charges were not properly allocated to their respective task orders.

The IT application enhancement work referenced in the Hotline complaint was limited to two of the seven task orders that the FDIC awarded under the Supervision TBOA, Task Orders 4 and 5. Accordingly, our audit focused on labor charges that Pragmatics billed under these task orders.[5] Table 1 summarizes the two task orders.

[5] We did not review labor charges under Task Orders 1 through 3 because they did not include IT application enhancement work. Although Task Orders 6 and 7 included IT application enhancement work, they were not active during the time period covered by our audit (January 1, 2017 through November 30, 2017).

Table 1: Summary of Task Orders 4 and 5

Task Order	Contract Type	Contract Ceiling	Period of Performance	Description
4	Time and Materials	$2,250,000	February 1, 2015 – May 13, 2018	• Division of Risk Management Supervision IT Applications Enhancement Work
5	Time and Materials	$1,200,000	February 1, 2015 – May 13, 2018	• Division of Depositor and Consumer Protection IT Applications Enhancement Work
Total		**$3,450,000**		

Source: OIG analysis of Task Orders 4 and 5 under the Supervision TBOA.

We performed additional work to determine whether the allegations related to labor charge concerns were limited to the subject and period referenced in the Hotline complaint. Specifically, we selected 14 additional contractor employees and assessed labor charges on invoices submitted for work performed from January 2017 through November 2017 on Task Orders 4 and 5. See Appendix 1, Objective, Scope, and Methodology, for a description of how we selected these charges for review.

AUDIT RESULTS

We determined that $47,489 (about 10 percent of the labor charges we reviewed) were not adequately supported or allowable under the Supervision TBOA and related task orders.[6] In addition, we determined that all labor charges we reviewed were properly allocated to their respective task orders. We consider the exceptions we identified to be questioned costs. Table 2 summarizes the exceptions we identified.

Table 2: Summary of Questioned Costs

Type of Exception	Questioned Costs
Unsupported Labor Charges	$7,510
Unallowable Labor Charges	$39,979
Total Questioned Costs	**$47,489**

Source: OIG analysis of invoices submitted by Pragmatics and documentation and electronic records supporting the invoices.

The Unsupported Labor Charges of $7,510 consisted of hours billed by employees who did not access the FDIC's network or facilities on the days they charged the

[6] Pragmatics billed the FDIC a total of $2,509,825 in labor charges under Task Orders 4 and 5 for the period February 2015 through November 2017. Our audit covered $475,966 (19 percent) of the $2,509,825 in labor charges.

hours. In addition, Pragmatics was not able to provide us with evidence supporting the employees' work for these hours. The Unallowable Labor Charges of $39,979 consisted of work that Pragmatics and its subcontractor employees performed off site (away from FDIC premises). We questioned these charges because the Supervision TBOA and the Oversight Manager's instructions required the contractor to perform all work on site. We also found that the prohibition to perform work off site was inconsistent with the FDIC's established service requirements (nature of the work to be performed) in the Supervision TBOA's statement of work.

On March 16, 2018, we provided our preliminary observations to DOA regarding the Unsupported Labor Charges and Unallowable Labor Charges described above. In response, on March 30, 2018, the FDIC issued a letter to Pragmatics requesting that Pragmatics address "how it will or has improved its subcontractor oversight operations to ensure these activities have stopped and will not recur." Pragmatics submitted a corrective action plan to the FDIC on April 13, 2018 and noted plans to provide refresher briefings to its program management and subcontractors. However, the FDIC needs to take further action to determine the portion of the unsupported or unallowable costs that should be disallowed and recover those amounts. The FDIC also needs to ensure that its contractual requirements are clear and consistent, and that the results of its contractors site visits are documented and maintained.

Unsupported Labor Charges

Section 7.5.13-04 — *Payment Under Time and Material Awards*, of the Supervision TBOA required the FDIC to compensate Pragmatics for "actual productive work hours," which the FDIC defined as work hours applied against the contract that do not include travel time, vacation, holiday, sick leave, and other absences. In addition, Section 7.3.2-37 — *Audit of Records*, of the BOA required Pragmatics to maintain sufficiently detailed records of the costs it incurred in the performance of the contract.

We reviewed 22 invoices that Pragmatics submitted with combined labor charges of $475,966 and determined that $7,510 was unsupported.[7] These Unsupported Labor Charges consisted of [redacted] hours billed by the subject and one of the subcontractor's employees. We questioned these costs because these two employees did not access the FDIC's network or facilities on the days they charged the hours. Both FDIC staff and Pragmatics personnel informed us that the nature of the work performed by these two employees (IT application enhancement and coding) required access to the FDIC network. In addition, Pragmatics was not able to

[7] The 22 invoices covered work performed from January 2017 through November 2017 under Task Orders 4 and 5. Pragmatics billed the FDIC using on-site labor rates. The ITAS II BOA defines an on-site labor rate as the labor rate a contractor would apply to work performed at a facility controlled by the FDIC.

provide us with evidence supporting the employees' work for these hours. Table 3 summarizes the labor charges we questioned.

Table 3: Unsupported Labor Charges (January – November 2017)

Subcontractor Employee	Unsupported Hours	Unsupported Charges	Total Hours Charged to Task Orders 4 and 5	Total Costs Charged to Task Orders 4 and 5	Percentage of Unsupported Charges
Subject	[redacted]	$6,237	[redacted]	$39,966	15.6%
Other Employee	[redacted]	$1,273	[redacted]	$64,022	2.0%
Total	[redacted]	$7,510	[redacted]	$103,988	7.2%

Source: OIG analysis of invoices submitted by Pragmatics and documentation and electronic records supporting the invoices.

According to the FDIC's *Acquisition Policy Manual*,[8] dated August 2008, and accompanying *Acquisition Procedures, Guidance, and Information* document, dated June 2018, Oversight Managers are responsible for reviewing contractor invoices for payment to ensure, among other things, that:

- All charges on invoices comply with the terms and conditions of the contract;
- Contractors deliver goods or services in an acceptable manner and in compliance with the contract statement of work; and
- Total payments to the contractor do not exceed the contract ceiling.

The FDIC's invoice review process was consistent with the requirements listed above. While this process did not identify the exceptions in Table 3, the exceptions we identified appear to be primarily isolated to one individual (the subject). Therefore, we are not recommending that the FDIC strengthen its invoice review process.

However, our audit covered only $39,966 of the $100,689 (approximately 40 percent) in total labor charges that Pragmatics billed for the subject's work performed from February 2015 through November 2017 on Task Orders 4 and 5. The FDIC should review the remaining $60,723 in labor charges to determine whether the FDIC paid additional unsupported charges that should be disallowed.

[8] The Acquisition Policy Manual defines policies and procedures for procuring goods and services and assigning key roles and responsibilities in all phases of the procurement process.

Recommendations

We recommend that the Deputy to the Chairman and Chief Operating Officer:

(1) Determine the portion of the $7,510 in unsupported labor charges that should be disallowed and recover that amount.

(2) Determine whether the remaining labor charges for the subject under Task Orders 4 and 5 are unsupported charges that should be disallowed.

Unallowable Labor Charges

Section 7.3.1-10 – *Place of Delivery or Performance*, of the Supervision TBOA identified the following two locations where contractors could perform work:

a) The FDIC's Virginia Square Offices in Arlington, Virginia ("on-site location"); and

b) Pragmatics' Washington, D.C., Metropolitan off-site location at 1761 Business Center Drive, Reston, Virginia 20190.

The Supervision TBOA stated that Pragmatics' staff could perform work at an off-site location subject to a site visit and FDIC approval. The purpose of a site visit was to ensure that Pragmatics complied with its IT Security Plan[9] and all aspects of physical security (access to work space), logical security (access to systems and networks), and other requirements necessary to provide services from the location.

In April 2010, the FDIC provided its contracting staff and Oversight Managers guidance that emphasized the importance of maintaining accurate and complete file documentation to support contracting decisions.[10] The guidance required Oversight Managers to document the results of site visits in the FDIC's CEFile. The Oversight Manager informed us that an FDIC Senior IT Security Specialist conducted a site visit of Pragmatics' Reston, Virginia, location on July 24, 2013. However, neither the Contracting Officer nor the Oversight Manager documented the outcome of the visit in the CEFile, including whether the FDIC had approved Pragmatics personnel to work at that site. In addition, neither the Contracting Officer nor the Oversight Manager provided Pragmatics with a written approval to perform work under Task Orders 4 and 5 at the firm's Reston, Virginia, location. According to the Supervision TBOA, absent such an approval, off-site work under the contract was not allowed.

[9] An IT Security Plan describes the controls, processes, procedures, and training of personnel that the contractor will follow to ensure appropriate security of FDIC information.
[10] The FDIC's Contract Electronic File (CEFile) Job Aid No. 5, *Contract File Maintenance Responsibilities: Contracting Officer and Oversight Manager* (revised October 2014).

Between 2015 and 2017, Oversight Managers repeatedly communicated to Pragmatics personnel that work under the Supervision TBOA must be performed on site. Indeed, the FDIC Oversight Managers instructed Pragmatics personnel on at least three occasions that the work must be performed on site. For example, the Oversight Manager advised the Pragmatics Program Manager by email on March 23, 2015 that, "[p]er [the] contract, work under the Supervision TBOA is to be performed on-site at FDIC." We noted similar email communications to Pragmatics personnel between March 2016 and August 2016 reiterating the FDIC's expectation that Pragmatics perform all work on site at FDIC facilities.

Of the $475,966 in labor charges that we reviewed, $39,979 was unallowable because the work was performed off site. We determined that the work was performed off site based on our review of FDIC facilities access logs and network login data. Of the $39,979 that we questioned, $13,746 (34 percent) related to the subject. Table 4 summarizes the unallowable labor charges we questioned.

Table 4: Unallowable Labor Charges (January – November 2017)

Subcontractor Employee	Unallowable Hours	Unallowable Charges	Total Hours Charged to Task Orders 4 and 5	Total Costs Charged to Task Orders 4 and 5	Percentage of Unallowable Charges
Subject	[redacted]	$13,746	[redacted]	$39,966	34.4%
Other Employees	[redacted]	$26,233	[redacted]	$436,000	6.0%
Total	[redacted]	$39,979	[redacted]	$475,966	8.4%

Source: OIG analysis of Pragmatics invoices and documentation and electronic records supporting the invoices.

We provided the exceptions in Table 4 to Pragmatics personnel and requested any additional information that the company might have to justify the payment of off-site work. In response to our inquiries, Pragmatics merely provided brief descriptions of the work performed by the subject and other employees. Such work included testing systems, project management activities, and attending meetings. Pragmatics did not provide evidence that the questioned labor hours were for contract services that were necessary to be performed off site, including emergency fixes, off-hour, or weekend support.

A significant portion of the exceptions in Table 4 were isolated to one individual (the subject). Our audit covered $39,966 of the $100,689 (40 percent) in labor charges submitted by Pragmatics for the subject's work performed from February 2015 through November 2017 on Task Orders 4 and 5. We determined that over one-third of the $39,966 in labor charges associated with the subject was for work performed off site. The FDIC should review the remaining $60,723 in labor charges for the subject to determine whether additional charges were unallowable.

Recommendations

We recommend that the Deputy to the Chairman and Chief Operating Officer:

(3) Determine the portion of the $39,979 in unallowable labor charges that should be disallowed and recover that amount.

(4) Determine whether additional labor charges should be disallowed for off-site work performed under Task Orders 4 and 5 that was not covered by the audit.

(5) Document the disposition of the Pragmatics site visit in CEFile.

(6) Remind Oversight Managers of the requirement to document the disposition of required site visits in the FDIC's contract files.

FDIC Contract Requirements Were Not Consistent

The Supervision TBOA required Pragmatics to perform all work on site at the FDIC's facilities, absent a site visit approval from the FDIC. However, the nature of the work that the FDIC described in the Supervision TBOA necessitated that Pragmatics perform some work off site.

Section C, Statement of Objectives, of the Supervision TBOA stated that Pragmatics shall provide maintenance and operational support outside of normal business hours as required, for example:

- Supporting migrations of IT system changes from the development environment to the production environment, including weekend support;
- Emergency ("break/fix") support for IT systems at any time of the day or night for systems deemed mission critical; and
- Support for IT infrastructure changes that impact development, quality assurance, and production environments.

The FDIC Oversight Manager for the Supervision TBOA informed us that Pragmatics had to perform work under Task Orders 4 and 5 on site with limited exceptions. According to the Oversight Manager, these exceptions included special circumstances that required prior written approval, such as system deployments and operations and maintenance outside of normal business hours. The Oversight Manager did not consider the contractor's system enhancement and development work to be an exception to the on-site requirement.

Pragmatics officials stated that the nature of the work under the Supervision TBOA required contractor availability outside of normal business hours to support maintenance and other FDIC system service issues that required immediate attention. Pragmatics officials also stated that, to support the FDIC, contractor personnel would have to work late nights and early into the next day or weekends. In addition, they noted that performing this work on site outside of normal business hours or on weekends was problematic due to a lack of heating and air conditioning at FDIC facilities. Further, Pragmatics officials informed us that in order to meet FDIC needs, contractor personnel often performed work at their personal residences using FDIC-issued laptop computers.

We also noted that the FDIC did not specify a place of performance for work within the task orders and work orders we reviewed. The Supervision TBOA stated that the place of performance shall be determined at the task order level. However, the FDIC did not specify the place of performance in Task Orders 4 or 5. Instead, the FDIC included language in the task orders stating that the FDIC would specify the place of delivery or performance in the associated work orders. None of the work orders we reviewed under Task Orders 4 and 5 specified a place of performance.
The Government Accountability Office (GAO) has acknowledged that when managing results and accountability in a contractor-dependent environment, it is important to identify realistic requirements early. Doing so can decrease the risk of unmet requirements, cost overruns, and missed deadlines.[11]

It is critical that the FDIC establish clear and consistent expectations within its contracts to ensure work is performed consistent with the FDIC's expectations. In our view, the ambiguity regarding the place of performance caused confusion and uncertainty among FDIC and Pragmatics personnel and contributed to the $39,979 in unallowable labor charges identified in our finding *Unallowable Labor Charges*. The FDIC Oversight Manager and Technical Monitors agreed that ITAS II contract language, including the BOA and TBOA, should be amended to more clearly define how and where work should be performed.

Recommendations

We recommend that the Deputy to the Chairman and Chief Operating Officer:

(7) Ensure that all task orders under the ITAS II BOA and TBOAs identify a place of performance.

[11] See GAO Report, Highlights of a GAO Forum, Federal Acquisition Challenges and Opportunities in the 21st Century, (Oct. 2006) and GAO Report, High Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others (Feb. 2017).

FDIC COMMENTS AND OIG EVALUATION

The Deputy to the Chairman and Chief Operating Officer and the Chief Information Officer and Chief Privacy Officer provided a written response, dated November 29, 2018, to a draft of this report. The response is presented in its entirety in Appendix 4. FDIC management concurred with six of the report's seven recommendations and partially concurred with the remaining recommendation. FDIC management described alternative corrective actions that it plans to take to address the remaining recommendation. The FDIC expects to complete corrective actions to address all seven recommendations by March 29, 2019. Appendix 5 contains a summary of FDIC's corrective actions.

We also provided Pragmatics with a draft copy of our report for its review. We considered Pragmatics' informal feedback in finalizing our report.

Objective

The objective of the audit was to determine whether certain labor charges paid to Pragmatics were adequately supported, allowable under the contract, and allocable to their respective task orders.

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 objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We performed the audit between March and October 2018.

Scope and Methodology

The scope of our preliminary work to assess the allegations provided in the Hotline complaint included reviewing contract documents, contractor invoices, and analyzing FDIC-provided data. We also interviewed the FDIC Contracting Officer, Oversight Manager, and Technical Monitors responsible for ensuring adherence to contractual requirements and overseeing contractor resources.

To address the Hotline allegation, we:

- Identified and reviewed relevant criteria in the ITAS II Supervision TBOA (CORHQ-14-G-0549), including modifications, task orders (including Task Orders 4 and 5), and work orders. Specifically, we identified the terms and conditions of the contract and its deliverables, place of performance, and payment requirements.

- Analyzed Pragmatics invoices and accompanying timesheet summary reports for the subject and identified specific projects and dates that the subject charged labor hours. We also analyzed the subject’s FDIC facilities badging data, network login data, and work activities in other FDIC systems. From this information, we identified the dates the subject had entered an FDIC facility, accessed the FDIC network, and worked on FDIC IT projects.

- Interviewed the ITAS II Supervision TBOA Oversight Manager and Technical Monitors to determine their knowledge of the subject’s employment status within the FDIC and outside the FDIC. Additionally, we determined whether they knew the subject’s position, qualifications, and assigned work.

Pragmatics submitted 65 invoices to the FDIC under Task Orders 4 and 5 totaling $2,509,825 from February 2015 through November 2017. The scope of our audit was limited to reviewing 22 invoices that Pragmatics submitted to the FDIC for work performed from January 1, 2017 through November 30, 2017 on Task Orders 4 and 5. From these invoices, we reviewed the associated labor charges of the subject and 14 other judgmentally selected contractor employees totaling $475,966 or 19 percent of the total labor charges billed under Task Orders 4 and 5 as of November 2017. We chose the 14 contractor employees from a population of 36 in a manner to obtain a representative sample of labor charges from Pragmatics and its subcontractor for the period covered by the Hotline complaint. We used this sample to assess whether the labor charge issues we found related to the subject of the Hotline complaint were prevalent among other contractor employees. Because we did not use statistical techniques to select the 14 other contractor employees, the results of our analysis cannot be projected to the population.

To address the audit objective, we considered the results from our preliminary analysis of the Hotline allegations. For the additional 14 judgmentally selected contractor employees, we performed the same procedures related to invoice review, FDIC facilities badging data, and FDIC network login data noted above for the subject of the Hotline complaint. Additionally, we:

- Identified and reviewed relevant criteria from the ITAS II BOA (CORHQ-13-G-0096), the FDIC Request For Proposal for the Supervision TBOA (Solicitation No. CORHQ-14-R-0229), and Pragmatics' subsequent Proposal;

- Identified and reviewed relevant criteria from FDIC Circular 3700.16, *Acquisition Policy Manual*, and the *FDIC Acquisition Procedures, Guidance, and Information*;

- Reviewed Oversight Manager emails communicating the place of performance requirements to contractor personnel;

- Interviewed Pragmatics executive management and staff to determine their understanding of contract requirements, including the approved places of performance;

- Obtained the subject’s incoming and outgoing emails within the scope period and conducted search techniques to find any evidence of operations and maintenance work being charged as enhancement work, the subject working on specific projects, the subject sending or receiving sensitive information from and to outside parties, and FDIC communications on the required place of performance to contractor employees; and

- Reviewed the subject’s timesheets and reconciled them to Pragmatics’ invoices and analyzed the hours charged for reasonableness. We also performed a walk-through of Pragmatics’ timekeeping processes with Pragmatics officials.

We relied on computer processed information, including network and badging logs, to conduct our analysis. We corroborated the data from these automated systems used to support our audit conclusions with information from various sources, including supporting documentation for the invoices (timesheets and timesheet summary reports), emails, and testimonial evidence. As a result, we determined that the information was sufficiently reliable for the purposes of our analysis.

Further, we analyzed the FDIC’s compliance with relevant provisions of the ITAS II Supervision TBOA. In addition, we assessed the risk of fraud and abuse related to our objective in the course of evaluating audit evidence.

We performed our work at the FDIC’s Virginia Square office in Arlington, Virginia.

Glossary

Term	Definition
Basic Ordering Agreement	A written instrument of understanding that the FDIC and a contractor negotiate for future delivery of as yet unspecified quantities of goods or services. [FDIC Acquisition Procedures, Guidance, and Information]
Contract Electronic File	A utility that automates the FDIC's official contract files. Official contract files are stored electronically in CEFile and contain the official contract records for awards. [FDIC Circular 3700.16, *FDIC Acquisition Policy Manual (APM)*]
Disallowed Cost	A questioned cost that management has sustained or agreed should not be charged to the government. [Inspector General Act of 1978, as amended]
Enhancement Work	Enhancement work includes projects and activities that change or modify existing IT assets to substantively improve their capability or performance. [FDIC Program Codes, with OIG clarification]
Off site	A contractor is working off site if the major portion of the work activity, measured in labor hours, is performed at a facility other than one controlled by the FDIC, in which the contractor furnishes any and all materials needed to perform the work. [ITAS II BOA]
On site	A contractor is working on site when the work is performed in a facility controlled by the FDIC. For these purposes, "controlled" includes facilities owned, leased, rented or occupied by the FDIC, for the purpose of doing business in its corporate, conservatorship, or receivership capacities. [ITAS II BOA]
Place of Performance	Where the delivery or performance will take place: contractor's facility, government facility, third-party facility, or any combination thereof. [ITAS II BOA, with OIG clarification]
Questioned Cost	The Inspector General Act of 1978, as amended, defines the term "questioned cost" as (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. [Pub. L. 113-126]
Statement of Objectives	A high-level summary of the objectives for an acquisition. It provides potential offerors the flexibility to develop cost-effective solutions and the opportunity to propose innovative alternatives meeting the stated objectives. [FDIC Acquisition Procedures, Guidance, and Information and Department of Defense Handbook for Preparation of Statement of Work (MIL-HDBK-245D]
Tasking Basic Ordering Agreement	A contract vehicle specific to the ITAS II BOA award. The FDIC issues individual task orders against the TBOA instead of the ITAS II BOA. [DOA explanation of ITAS II contracting structure]
Task Order	An order for the acquisition of goods or services issued under a TBOA. [FDIC Acquisition Procedures, Guidance, and Information, with OIG clarification]
Work Order	Work Orders provide specific technical requirements, ceiling price, description of work, performance period, place of performance, and deliverables, and authorize work under the Task Order. [Supervision TBOA Work Orders, with OIG clarification]

Acronyms and Abbreviations

BOA	Basic Ordering Agreement
CEFile	Contract Electronic File
DIT	Division of Information Technology
DOA	Division of Administration
FDIC	Federal Deposit Insurance Corporation
GAO	Government Accountability Office
IT	Information Technology
ITAS II	Information Technology Application Services II
OIG	Office of Inspector General
TBOA	Tasking Basic Ordering Agreement

FDIC

Federal Deposit Insurance Corporation
3501 Fairfax Drive, Arlington, VA 22226

Division of Administration

DATE:	November 29, 2018
MEMORANDUM TO:	Mark F. Mulholland Assistant Inspector General for Information Technology Audits and Cyber Office of Inspector General
FROM:	Arleas Upton Kea **/Signed/** Chief Operating Officer and Deputy to the Chairman Howard G Whyte **/Signed/** Chief Information Officer and Chief Privacy Officer
SUBJECT:	Management Response to the OIG Draft Report Entitled, Payments to Pragmatics, Inc., No. 2018-011

The Federal Deposit Insurance Corporation (FDIC) has completed its review of the Office of Inspector General's (OIG) memorandum entitled Payments to Pragmatics, Inc. 2018-011, issued November 5, 2018.

In the OIG's Draft Report, the OIG makes seven recommendations for management's consideration. FDIC management is very much committed to ensuring that FDIC contracts establish clear requirements and that effective oversight is maintained. We appreciate the work performed by the OIG staff and their determination that all labor charges reviewed were properly allocated. Our responses below contain actions already completed, planned or in process to address these issues.

Recommendation 1: That the Deputy to the Chairman and Chief Operating Officer determine the portion of the $7,510 in unsupported labor charges that should be disallowed and recover that amount.

Management Decision: DOA management concurs with this recommendation.

Corrective Actions: The Acquisition Services Branch (ASB) in coordination with the Division of Information Technology (DIT) will review available documentation to determine the portion, if any, of the recommended unsupported charges that should be disallowed and then seek recovery from the contractor of the amount disallowed.

Estimated Completion Date: March 29, 2019

Recommendation 2: That the Deputy to the Chairman and Chief Operating Officer determine whether the remaining labor charges for the subject under Task Orders 4 and 5 are unsupported charges that should be disallowed.

Management Decision: DOA management concurs with this recommendation.

Corrective Actions: ASB in coordination with DIT will determine if it is cost effective to review physical and network access logs for the subject since only 15.6% of what was reviewed was disallowed by the OIG. If cost effective, ASB and DIT will make a determination if any of the remaining $60,723 billed by the subject should be disallowed and then seek recovery from the contractor of the amount disallowed.

Estimated Completion Date: March 29, 2019

Recommendation 3: That the Deputy to the Chairman and Chief Operating Officer determine the portion of the $39,979 in unallowable labor charges that should be disallowed and recover that amount.

Management Decision: DOA management concurs with this recommendation.

Corrective Actions: ASB in coordination with DIT will review available documentation to determine the portion, if any, of the recommended unallowable charges that should be disallowed and then seek recovery from the contractor of the amount disallowed.

Estimated Completion Date: March 29, 2019

Recommendation 4: That the Deputy to the Chairman and Chief Operating Officer determine whether additional labor charges should be disallowed for off-site work performed under Task Orders 4 and 5 that was not covered by the audit.

Management Decision: DOA management partially concurs with this recommendation.

Corrective Actions: If the review conducted for recommendation 3 identifies significant disallowed charges, ASB in coordination with DIT, will review, if cost effective, only those charges from the subject, since a significant portion of the exceptions provided in the OIG's Report were isolated to this one individual. Based on the outcome of this review, ASB will make a determination if additional costs should be disallowed. If additional charges are disallowed, ASB will seek recovery from the contractor of the amount disallowed.

Estimated Completion Date: March 29, 2019

Recommendation 5: That the Deputy to the Chairman and Chief Operating Officer document the disposition of the Pragmatics site visit in CEFile.

Management Decision: DOA management concurs with this recommendation.

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Corrective Actions: ASB in coordination with DIT will determine if the results of the site visit are available and if so, ensure the results are included in CE-File.
Estimated Completion Date: February 28, 2019

Recommendation 6: That the Deputy to the Chairman and Chief Operating Officer remind Oversight Managers of the requirement to document the disposition of required site visits in the FDIC's contract files.

Management Decision: DOA management concurs with this recommendation.

Corrective Actions: ASB will send an e-mail to relevant DIT and FDIC Oversight Managers reminding them that they need to document the results of site visits of contractor facilities in CE-File.

Estimated Completion Date: February 28, 2019

Recommendation 7: That the Deputy to the Chairman and Chief Operating Officer ensure that all task orders under the ITAS II BOA and TBOAs identify a place of performance.

Management Decision: DOA management concurs with this recommendation.

Corrective Actions: ASB will instruct all contract specialists that administer ITAS II BOAs and TBOAs to include the contractor's place of performance in current and future Task Orders.

Estimated Completion Date: February 28, 2019

Summary of the FDIC's Corrective Actions

This table presents management's response to the recommendations in the report and the status of the recommendations as of the date of report issuance.

Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date	Monetary Benefits	Resolved:[a] Yes or No	Open or Closed[b]
1	DOA, in coordination with DIT, will determine the portion (if any) of the $7,510 in unsupported charges that should be disallowed, and seek recovery from Pragmatics.	March 29, 2019	Yes	No	Open
2	DOA, in coordination with DIT, will determine if it is cost effective to review physical and network access logs for the subject, and if so, will determine if any of the remaining $60,723 billed by the subject should be disallowed. DOA will then seek recovery of the amount disallowed from Pragmatics.	March 29, 2019	Yes	No	Open
3	DOA, in coordination with DIT, will determine the portion (if any) of the $39,979 in unallowable charges that should be disallowed and seek recovery Pragmatics.	March 29, 2019	Yes	No	Open
4	If DOA identifies significant disallowed charges based on its actions to address recommendation 3, DOA, in coordination with DIT, will review, if cost effective, the subject's labor charges. DOA will then determine if additional costs should be disallowed and seek recovery of those costs from Pragmatics as appropriate.	March 29, 2019	Yes	No	Open
5	DOA, in coordination with DIT, will determine if the results of the Pragmatics site visit are available and if so, add it to the CEFile.	February 28, 2019	No	Yes	Open
6	DOA will send an e-mail to relevant Oversight Managers reminding them to document the results of site visits of contractor facilities in the CEFile.	February 28, 2019	No	Yes	Open
7	DOA will instruct all contract specialists that administer ITAS II BOAs and TBOAs to include the contractor's place of performance in current and future task orders.	February 28, 2019	No	Yes	Open

[a] Recommendations are resolved when —

1. Management concurs with the recommendation, and the planned, ongoing, and completed corrective action is consistent with the recommendation.
2. Management does not concur with the recommendation, but alternative action meets the intent of the recommendation.
3. Management agrees to the OIG monetary benefits, or a different amount, or no ($0) amount. Monetary benefits are considered resolved as long as management provides an amount.

[b] Recommendations will be closed when the OIG confirms that corrective actions have been completed and are responsive.

Federal Deposit Insurance Corporation
Office of Inspector General

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The OIG's mission is to prevent, deter, and detect waste, fraud, abuse, and misconduct in FDIC programs and operations; and to promote economy, efficiency, and effectiveness at the agency.

To report allegations of waste, fraud, abuse, or misconduct regarding FDIC programs, employees, contractors, or contracts, please contact us via our Hotline or call 1-800-964-FDIC.

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