Office of Inspector General

Office of Audits and Evaluations
Report No. AUD-17-002

Invoices Submitted by Lockheed Martin Services, Inc. under FDIC Contract No. CORHQ-08-G-0120

December 2016

Office of Inspector General

Executive Summary

Invoices Submitted by Lockheed Martin Services, Inc. under FDIC Contract No. CORHQ-08-G-0120

Report No. AUD-17-002
December 2016

Why We Did The Audit

In fulfilling its responsibilities as receiver for failed FDIC-insured financial institutions, the FDIC retains electronically stored institution information and documentation to meet the Corporation's fiduciary requirements, resolve legal issues, and provide ongoing customer service. To accommodate the enormous data conversion and storage demands associated with the large number of institution failures in recent years, the FDIC entered into Contract Number CORHQ-08-G-0120 (the Contract) with Lockheed Martin Services, Inc. (Lockheed) for data management services. Under the Contract, Lockheed provided the FDIC with a standard method of maintaining failed institution data, including secure data migration, conversion, cataloging, indexing, storage, security, and retrieval.

The FDIC Office of Inspector General (OIG) engaged Reed & Associates, CPAs, Inc. (Reed) to conduct a performance audit of invoices submitted by Lockheed under the Contract. The audit objective was to determine whether charges paid by the FDIC to Lockheed were adequately supported, allowable under the terms and conditions of the Contract and task orders, and allocable to their respective task orders. The audit covered selected charges billed on invoices submitted during the period May 2, 2011 through December 31, 2015.

Background

The FDIC procured services under the Contract 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 Lockheed an agreed-upon amount or service rate for satisfactory performance that covered Lockheed's costs and expenses (direct and indirect) as well as any profit, fees, or markups. The FDIC awarded firm fixed price task orders to procure such things as data storage and data center maintenance, system monitoring, and reporting. Under time and materials task orders, the FDIC compensated Lockheed for actual productive work at the hourly rates specified in the Contract; reimbursed Lockheed for necessary travel expenses that did not exceed the limitations in the *FDIC Contractor Travel Reimbursement Guidelines*; and paid for materials that Lockheed had been invoiced. The FDIC awarded time and materials task orders to procure such services as the capture and migration of data from failed institutions to Lockheed's data center; the imaging and indexing of hardcopy documents; and the processing of requests for complex data queries and reports. Lockheed also used credit invoices to reimburse the FDIC for overcharges and to resolve monetary findings identified during audits and reviews.

The Contract, which became effective on November 1, 2008, had an initial 3-year base period of performance and two 2-year option periods, for a total period of performance of 7 years. On December 11, 2015, the FDIC extended the Contract through May 31, 2016 to allow for the transition of services to a new vendor—CACI-ISS, Inc.—following a competitive bid process. The FDIC subsequently extended the Contract through October 31, 2016 to allow additional time for the transition. The Contract expired on October 31, 2016.

A contracting officer within the FDIC's Division of Administration (DOA) has overall responsibility for ensuring compliance with the terms of the Contract and for protecting the FDIC's interest in its contractual relationship with Lockheed. The Contracting Officer has appointed employees within the Division of Resolutions and Receiverships (DRR) to serve as Oversight Managers and Technical Monitors responsible for monitoring and evaluating Lockheed's performance. Within the FDIC, DRR has primary responsibility for resolving failed financial institutions.

As described more fully in the report, Reed reviewed charges pertaining to a total of 1,175 invoices valued at $35,351,823 from a population of 34,888 invoices valued at $358,843,409. The invoices, which were submitted by Lockheed from May 2, 2011 through December 31, 2015, were paid by, or credited to, the FDIC under the Contract.

Audit Results

Reed determined that all but $124 of the $17,478,331 in charges on the 149 firm fixed price and time and materials invoices that the firm reviewed were adequately supported, allowable under the terms and conditions of the Contract and task orders, and properly allocated to their respective task orders. In addition, Reed determined that Lockheed had allocated the remaining $339,794,230 in firm fixed price and time and materials charges invoiced during the period covered by the audit to the correct task orders.

Further, the charges on all six credit invoices totaling $1,072,632 that Reed reviewed were adequately supported, allowable under the terms and conditions of the Contract and task orders, and properly allocated to their respective task orders. Reed also confirmed that all of the $1,570,848 in credits due to the FDIC as of June 6, 2012 had been accounted for. Finally, Reed's analysis of summary invoice data for ten judgmentally selected financial institutions found that the type of services Lockheed invoiced, the associated charges totaling $16,800,860, and the periods during which the services were performed were permissible under the terms of the Contract and respective task orders.

The $124 in exceptions that Reed identified consisted of $103 in duplicate charges, $12 in unallowable travel agent booking fees, and $9 in unallowable hotel expenses. At Reed's request, Lockheed reviewed its invoices to determine whether additional travel agent booking fees may have been charged to the FDIC on invoices that the firm did not review. Lockheed's review identified an additional $4,046 in unallowable travel agent booking fees. The remaining $112 in duplicate charges and unallowable hotel expenses appeared to be non-recurring errors and, therefore, Reed did not project these questioned costs to the universe of expenses reviewed. Accordingly, Reed questioned a total of $4,170 in unallowable travel costs which we plan to include in our next *Semiannual Report to the Congress*.

Recommendation and Corporation Comments

Reed's report contains one recommendation addressed to the Director, DOA, to disallow $4,170 in unallowable travel costs charged by Lockheed and paid under the Contract. Management provided a written response, dated December 2, 2016, to a draft of Reed's report. In the response, the Directors, DOA and DRR, indicated that action had been taken to address the report's recommendation. DRR separately provided the OIG with documentation reflecting that the FDIC had recovered the $4,170 in unallowable costs. Accordingly, we considered the actions taken to be responsive and the recommendation is closed.

Reed identified one additional matter related to a small percentage of invoices that were charged to an incorrect receivership in the FDIC's New Financial Environment financial system that the firm did not consider significant in the context of the audit objective. Accordingly, Reed communicated the matter separately to appropriate DRR management officials for follow-up action.

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

Office of Audits and Evaluations
Office of Inspector General

DATE: December 20, 2016

MEMORANDUM TO: Arleas Upton Kea, Director
Division of Administration

Bret D. Edwards, Director
Division of Resolutions and Receiverships

/Signed/

FROM: Mark F. Mulholland
Assistant Inspector General for Audits

SUBJECT: *Invoices Submitted by Lockheed Martin Services, Inc. under FDIC Contract No. CORHQ-08-G-0120*
(Report No. AUD-17-002)

The subject final report is provided for your information and use. Please refer to the Executive Summary, included in the report, for the overall audit results. Your comments on a draft of this report were responsive. Prior to finalizing the report, the FDIC took action to address the report's sole recommendation. Accordingly, we closed the recommendation in our System for Tracking and Reporting. Our evaluation of your comments is included in the body of the report.

If you have any questions or concerns regarding the report, please contact me at (703) 562-6316 or Laura Benton, Audit Manager, at (703) 562-6320. We appreciate the courtesies extended to the Office of Inspector General staff and Reed & Associates, CPAs, Inc. personnel during the audit.

Attachment

cc: Steven K. Trout, DRR
Sean D. Cassidy, DRR
Wesley D. Kilmer, DRR
Daniel H. Bendler, DOA
Thomas D. Harris, DOA
James H. Angel, Jr., DOF

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Part I

Report by Reed & Associates, CPAs, Inc.

REED & ASSOCIATES, CPAs

December 20, 2016

Mark F. Mulholland
Assistant Inspector General for Audits
Office of Inspector General
Federal Deposit Insurance Corporation
3501 Fairfax Drive
Arlington, VA 22226

RE: Invoices Submitted by Lockheed Martin Services, Inc. under FDIC Contract No. CORHQ-08-G-0120

Dear Mr. Mulholland:

The Federal Deposit Insurance Corporation (FDIC) Office of Inspector General (OIG) engaged Reed & Associates, CPAs, Inc. (Reed) to conduct an audit of invoices submitted by Lockheed Martin Services, Inc. (Lockheed) under the FDIC's Data Management Services Contract (Contract No. CORHQ-08-G-0120). Under the contract, Lockheed provided the FDIC with a standard method of maintaining failed institution data, including secure data migration, conversion, cataloging, indexing, storage, security, and retrieval. The attached audit report details the results of our work.

The objective of the audit was to determine whether charges paid by the FDIC to Lockheed were adequately supported, allowable under the terms and conditions of the contract and task orders, and allocable to their respective task orders. The audit covered selected charges billed on invoices submitted during the period May 2, 2011 through December 31, 2015. The audit's objective, scope, and methodology are described in Appendix 1 of the report. In addition, the overall results are summarized in the Results of Audit section of the report.

We conducted our performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and conduct the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Very truly yours,

Deirdre M. Reed

Deirdre M. Reed
Reed & Associates, CPAs, Inc.

Audit Report

Invoices Submitted by Lockheed Martin Services, Inc. under
FDIC Contract No. CORHQ-08-G-0120

December 20, 2016

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BACKGROUND

In fulfilling its responsibilities as receiver for failed FDIC-insured financial institutions, the FDIC retains electronically stored institution information and documentation to meet the Corporation's fiduciary requirements, resolve legal issues, and provide ongoing customer service. To accommodate the enormous data conversion and storage demands associated with the large number of institution failures in recent years,[1] the FDIC entered into a contract (Contract Number CORHQ-08-G-0120, referred to herein as "the Contract")[2] with Lockheed Martin Services, Inc. (Lockheed) for data management services. The Contract, which became effective on November 1, 2008, had an initial 3-year base period of performance and two 2-year option periods, for a total period of performance of 7 years. On December 11, 2015, the FDIC extended the Contract through May 31, 2016 to allow for the transition of services to a new vendor—CACI-ISS, Inc. (CACI)—following a competitive bid process. On May 31, 2016, the FDIC again extended the Contract through October 31, 2016 to allow additional time to complete the transition. The Contract expired on October 31, 2016.

Prior to the transition of services to CACI, the Contract required Lockheed to provide the FDIC with a standard method of maintaining failed institution data, including secure data migration, conversion, cataloging, indexing, storage, security, and retrieval. The Contract's stated objectives were to provide:

- Timely, secure off-site data/systems/applications migration, storage, and retrieval services to accept, convert, migrate, index, store, and allow the FDIC to retrieve electronically stored information[3] mandated by the FDIC as a result of institution failures.

- Migration, conversion, storage, indexing, and retrieval services for data from failed institutions or, at the FDIC's discretion, from an FDIC Closing Support Contractor.

- A hosting site that is scalable and flexible to allow for the timely addition of institution data as needs arise.

- A standard interface to the FDIC, regardless of the institution and the institution's data and applications.

- An exit strategy for the release of all data and/or individual institution data back to the FDIC at any time prior to, or upon the expiration of, a task order awarded under the Contract.

- Guaranteed metrics with regard to conversion and migration times and schedules, data availability, response and retrieval times, disaster recovery, final data transfer, and other items noted for data management services.

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[1] Between January 1, 2008 and October 2, 2015, the FDIC was appointed receiver for 515 failed financial institutions having total assets at inception in excess of $695 billion.
[2] The Contract is also referred to as CORFD-08-G-0120 in some task orders and billings.
[3] The FDIC subsequently expanded this objective to include hardcopy documentation.

The FDIC procured services under the Contract 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 Lockheed an agreed-upon amount or service rate for satisfactory performance that covered Lockheed's costs and expenses (direct and indirect) as well as any profit, fees, or markups. The FDIC awarded firm fixed price task orders to procure such things as data storage and data center maintenance, system monitoring, and reporting. Under time and materials task orders, the FDIC compensated Lockheed for actual productive work at the hourly rates specified in the Contract; reimbursed Lockheed for necessary travel and per diem expenses, including subcontractor travel expenses, that did not exceed the limitations in the *FDIC Contractor Travel Reimbursement Guidelines*; and paid for materials that Lockheed had been invoiced. The FDIC awarded time and materials task orders to procure such services as the capture and migration of data from failed institutions to Lockheed's data center; the imaging and indexing of hardcopy documents; and the processing of requests for complex data queries and reports. Lockheed also used credit invoices to reimburse the FDIC for overcharges and to resolve monetary findings from audits and reviews.

A Contracting Officer within the FDIC's Division of Administration (DOA) has overall responsibility for ensuring compliance with the terms of the Contract and for protecting the FDIC's interest in its contractual relationship with Lockheed. The Contracting Officer has appointed FDIC employees within the Division of Resolutions and Receiverships (DRR) to serve as Oversight Managers and Technical Monitors responsible for monitoring and evaluating Lockheed's performance.[4] Within the FDIC, DRR has primary responsibility for resolving failed financial institutions.

Between November 1, 2008 and December 31, 2015, the FDIC awarded a total of 252 task orders[5] to Lockheed under the Contract with a combined ceiling value of $732,461,845. Of the 252 task orders, 182 task orders with a combined ceiling value of $472,727,186 remained active as of December 31, 2015. Lockheed submitted a total of 34,824 invoices valued at $357,272,561 under the 182 task orders as of December 31, 2015, and the FDIC had paid $357,035,194 of that amount as of that same date.[6] In addition, Lockheed submitted a total of 64 credit invoices totaling $1,570,848 covering the period November 22, 2011 to November 19, 2012. These credit invoices contained costs and expenses that had been incurred under the Contract and associated credits that reduced or eliminated the costs and expenses.

The following Table summarizes the type, number, and value of invoices that we reviewed relative to the total population of invoices submitted by Lockheed to the FDIC for the period covered by the audit. Appendix 1 contains a detailed explanation of the methodologies we used to select invoices for review and the scope of the audit procedures that we performed.

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[4] On November 4, 2013, the Contracting Officer transferred oversight management responsibilities from DRR staff in the FDIC's Arlington, Virginia, office to DRR staff in the Dallas, Texas, Regional Office.
[5] Some task orders authorized work to be performed for multiple failed financial institutions.
[6] The difference in amounts invoiced and paid were the result of billing adjustments that reduced the payments by the FDIC.

Table: Summary of Invoices Reviewed Relative to the Population of Invoices Submitted

Type of Invoice Reviewed	Number of Invoices Submitted	Value of Invoices Submitted	Number of Invoices Reviewed	Value of Invoices Reviewed
Firm Fixed Price	88	$54,593,055	33	$16,853,651
Time and Materials				
Labor	25,619	$195,083,237	83	$429,555
Materials and Other Direct Costs	8,126	$93,995,269	29	$139,228
Travel	991	$13,601,000	4	$55,897
Subtotal	**34,824**	**$357,272,561**	**149**	**$17,478,331**
Credit Invoices	64	$1,570,848	6	$1,072,632
Subtotal of Firm Fixed Price and Time and Materials Charges	**34,888**	**$358,843,409**	**155**	**$18,550,963**
Summary Invoice Data For Ten Selected Financial Institutions*			1,020	$16,800,860
Total	**34,888**	**$358,843,409**	**1,175**	**$35,351,823**

Source: Reed's analysis of (1) invoices and summary invoice data provided by Lockheed and (2) payment data provided by DRR.
* For ten judgmentally-selected financial institutions, Reed compared summary invoice data provided by Lockheed to the associated task orders to determine whether the type of services invoiced, the amounts charged, and the time periods during which the services were performed were permissible under the respective task orders.

RESULTS OF AUDIT

We determined that all but $124 of the $17,478,331 in charges on the 149 firm fixed price and time and materials invoices that we reviewed were adequately supported, allowable under the terms and conditions of the Contract and task orders, and properly allocated to their respective task orders. In addition, we determined that Lockheed had properly allocated the remaining $339,794,230 in firm fixed price and time and materials charges invoiced during the period covered by the audit to the correct task orders.

Further, the charges on all six credit invoices totaling $1,072,632 that we reviewed were adequately supported, allowable under the terms and conditions of the Contract and task orders, and properly allocated to their respective task orders. We also confirmed that all of the $1,570,848 in credits due to the FDIC as of June 6, 2012 had been accounted for. Finally, our analysis of summary invoice data for the ten selected financial institutions found that the type of services Lockheed invoiced, the associated charges totaling $16,800,860, and the periods during which the services were performed were permissible under the terms of the Contract and respective task orders.

The $124 in exceptions that we identified consisted of $103 in duplicate charges, $12 in unallowable travel agent booking fees, and $9 in unallowable hotel expenses. At our request, Lockheed reviewed its invoices to determine whether additional travel agent booking fees may have been charged to the FDIC on invoices that we did not review. The firm's review identified an additional $4,046 in unallowable travel agent booking fees. The remaining $112 in duplicate charges and unallowable hotel expenses appeared to be non-recurring errors and, therefore, we did not project these questioned costs to the universe of expenses we reviewed. We notified the FDIC's contracting officer and appropriate DRR management officials of these unallowable costs, and the Contracting Officer formally requested that Lockheed reimburse the FDIC for the overcharges. Lockheed has indicated that it intends to reimburse the FDIC for these charges. Accordingly, we questioned a total of $4,170 in unallowable travel costs.[7]

Recommendation

We recommend that the Director, DOA:

1. Disallow $4,170 in unallowable travel costs charged by Lockheed under the Contract and paid by the FDIC.

OTHER MATTER

While performing follow-up work related to a prior DRR internal review finding regarding the allocability of charges to task orders under the Contract, we identified 25 invoices totaling $545,569 (out of a universe of 34,824 invoices totaling $357,272,561) that were charged to an incorrect receivership fund number in the FDIC's New Financial Environment (NFE).[8] It appears that the invoices reflected the correct receivership fund numbers and that the errors occurred when the information was entered into NFE.

Accounting for payments within NFE was not within the scope of the audit. Therefore, we provided the exceptions we identified to appropriate DRR management officials for follow-up action.

[7] 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.
[8] NFE is the FDIC's enterprise-wide, integrated financial system that provides accounting, reporting, and management data.

Objective, Scope, and Methodology

Objective

The objective of the audit was to determine whether charges paid by the FDIC to Lockheed were adequately supported, allowable under the terms and conditions of the Contract and task orders, and allocable to their respective task orders.

We conducted this performance audit from March 2016 to September 2016 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Scope and Methodology

The scope of the audit was limited to charges billed on invoices submitted by Lockheed to the FDIC under the Contract from May 2, 2011 through December 31, 2015.

To achieve the audit objective, we performed the following procedures and techniques:

- Reviewed the Contract, including modifications and task orders, to identify the terms and conditions of the Contract and its deliverables, staffing, and payment requirements.

- Identified and reviewed the *FDIC General Provisions* that define general contract terms and conditions and the *FDIC Contractor Travel Reimbursement Guidelines.*

- Reviewed the OIG's audit report entitled, *Invoices Submitted by Lockheed Martin Services, Inc. under the FDIC's Data Management Services Contract*, (Report No. AUD-13-002, dated October 2012) that covered invoices paid during the period November 1, 2008 through May 31, 2011 and a May 2014 DRR internal review report that assessed the effectiveness of controls surrounding payments made to Lockheed for billings covering the period November 1, 2008 through October 31, 2013. These reports included findings and observations involving:

    - Questioned costs, including unallowable and unsupported labor, travel, materials and indirect costs.
    - Unapplied credits.
    - Charges applied to incorrect task orders.

  We performed audit procedures to follow-up on the deficiencies identified in these reports, as appropriate. See the section below, entitled *Follow-up Audit Procedures for a Previously-Identified Finding*, for details regarding the procedures we performed pertaining to charges applied to incorrect task orders.

Objective, Scope, and Methodology

- Interviewed DOA and DRR personnel, including the Contracting Officer and Oversight Managers (respectively), with contract administration and oversight management responsibilities to obtain an understanding of the FDIC's processes and controls with respect to the:

    - award of task orders under the Contract;
    - assignment of financial institutions to specific task orders; and
    - FDIC's receipt and review of invoices submitted by Lockheed.

- Interviewed the Oversight Managers and FDIC Legal Division officials to determine whether specific areas of concern existed with regard to the Contract that we should consider in planning our audit procedures.

- Conducted site visits at Lockheed's Gaithersburg, Maryland, location on May 3, 2016 and July 28, 2016, and interviewed and conducted walkthroughs with Lockheed officials to gain an understanding of the company's processes and controls with respect to the:

    - receipt of task order requests from the FDIC;
    - process for estimating costs and the size and composition of Lockheed's teams necessary for specific task orders or financial institutions;
    - on-site services performed at financial institutions;
    - user acceptance testing of data collected;
    - storage of data and the software and systems utilized;
    - retrieval of data and user access;
    - monitoring of the data center and data storage usage and capacity;
    - preparation of deliverables;
    - budget and accounting for task orders; and
    - preparation and submission of invoices.

<u>Sampling and Testing</u>

As described in the background section of this report, a total of 1,175 invoices from a population of 34,888 invoices were subject to review in this audit. These invoices, which were submitted by Lockheed from May 2, 2011 through December 31, 2015, were paid by, or credited to, the FDIC under the Contract. As described below, we employed four different sampling methodologies to select the invoices and invoice data that we reviewed, and the nature and scope of our testing procedures varied for each methodology.

Sample 1: Firm Fixed Price Expenditures. We reviewed a judgmental sample of 33 firm fixed price invoices totaling $16,853,651 out of a population of 88 invoices totaling $54,593,055. The population of invoices was submitted under the entire population of six firm fixed price task orders. These invoices contained charges for such things as storage in the data center and disaster recovery center, helpdesk support, system administration, system monitoring, performance reporting, project management, and the data center transition.

Objective, Scope, and Methodology

We judgmentally selected the highest value invoices from the population. To determine whether charges invoiced were adequately supported, allowable, and properly allocated to the appropriate task orders, we obtained and analyzed:

- The task orders.
- An overview provided by Lockheed of how data storage was identified and allocated to the Contract.
- The underlying data storage reports supporting the volume of terabytes used, available, and required (i.e., Storage Area Network reports).
- Correspondence between the FDIC and Lockheed requesting or approving increases in the volume of terabytes or users.
- The FDIC's plans for transitioning the failed bank services covered under the Contract to the new contractor–CACI.

Sample 2: Time and Materials Expenditures. We reviewed a statistically valid selection of 116 time and materials invoices (which included labor, materials and other direct costs, and travel) totaling $624,680 out of a population of 34,736 invoices totaling $302,679,506. These invoices covered (a) work with DRR Closed Bank Team(s) to identify, collect, migrate, index, and transfer assigned failed institution data and documents, (b) litigation support, and (c) expenditures for Lockheed and its subcontractors for travel and for migration, storage, and retrieval services.

We used RAT-STAT statistical sampling software developed by the U.S. Department of Health and Human Services' OIG to determine the sample size, identify the randomly selected invoices, and analyze results. We used a confidence level of 90 percent, an anticipated rate of occurrence (also referred to as a minimum value accepted) of 0.2, and a desired precision range of 5 percent to determine the sample size. We obtained and analyzed supporting documentation to determine whether the costs invoiced were supported, allowable, and properly allocated in accordance with established criteria. Specifically we reviewed:

- Timesheets (including any task order and labor distribution summaries) to verify whether the hours billed were actually worked. We did not assess the reasonableness of labor charges for specific tasks.
- Resumes that supported the qualifications, experience, and education of personnel charged in each labor category to determine whether the individual satisfied the minimum requirements of the Contract.
- Vendor invoices for hardware and software to verify that charges were actually incurred and passed through at cost.
- Subcontractor invoices and supporting documentation to support labor hours.
- Travel vouchers and receipts to substantiate travel and ensure costs were billed in accordance with *FDIC Contractor Travel Reimbursement Guidelines.*

Further, we (1) compared the labor rates on sampled invoices to the rates in the Contract to verify that labor charges were correct; (2) confirmed that equipment charges were incurred and passed through at fixed unit rates or at cost, as applicable; (3) verified that indirect charges were properly applied; and (4) confirmed that the Contract and task order ceiling amounts had not been exceeded.

Follow-Up Audit Procedures for a Previously-Identified Finding. Based on a finding in a May 2014 DRR internal review report that charges were not always applied to the correct task orders under the Contract, we performed follow-up work to determine if Lockheed had invoiced the correct task orders for the work performed on the remaining 34,675 invoices (consisting of the total universe of 34,824 firm fixed price and time and materials type invoices less the 149 invoices reviewed) submitted by Lockheed from May 2, 2011 through December 31, 2015. Specifically, we obtained a data file containing invoice information from Lockheed and a data file containing payment information from the FDIC. These two files contained the following major data elements: invoice number; bank name; fund number; and task order. The FDIC provided an additional task order master file listing all task orders under the Contract; the bank names associated with each task order; and the institution identification (ID) and fund number for each bank. We compared the Lockheed invoice information to the FDIC payment information to determine if there were any inconsistencies. We then compared both data files to the master file to determine if there were any inconsistencies related to the task orders, bank names, and fund numbers.

Sample 3: Financial Institution Expenditures. We selected a judgmental sample of 10 financial institutions and performed a set of specifically designed audit procedures to determine whether all 1,020 invoices totaling $16,800,860 submitted for these institutions were allocated to the proper task orders, whether the services performed by Lockheed had been authorized in the task orders, and whether the total charges invoiced were within the ceiling amounts authorized in the task orders.

We judgmentally selected the 10 financial institutions by stratifying all 515 financial institutions that failed between January 1, 2008 and October 2, 2015 into three groups (i.e., small, medium, and large) based on each institution's total assets at inception. We used asset thresholds provided by DRR to assign the 10 institutions into the three groups. We selected between three and four institutions for each group using the following criteria: (1) the highest value of charges invoiced for services and (2) the lowest value of charges invoiced for services. We reviewed the associated task orders to determine the period of performance and scope of services to be performed by Lockheed. We then compared a listing of all invoices provided by DRR for the selected financial institutions to the approved period of performance and scope of services to identify any invoices that were outside the period of performance or that contained unauthorized services.

To determine if the invoices had been charged to the proper task orders, we utilized a list of invoices provided by Lockheed that identified all invoices that were submitted from May 2, 2011 through December 31, 2015 for each of the 10 financial institutions. This invoice listing included the task orders that these invoices were charged against, the total invoiced costs, and the periods of performance. We then reviewed task order documentation provided by both

Objective, Scope, and Methodology

Lockheed and the FDIC and identified the task orders authorizing the work performed on the selected financial institutions, the approved funding ceilings, and the periods of performance. Finally, we compared the invoice information to the task order information to determine whether: (a) any invoices were charged to incorrect task orders, (b) the invoiced costs exceeded approved funding ceilings, and (c) any work was performed outside of the period of performance.

Sample 4: Credit Invoices. In its report, entitled *Invoices Submitted by Lockheed Martin Services, Inc. under the FDIC's Data Management Services Contract*, the FDIC OIG identified $600,705 in credits that were due to the FDIC, but not yet applied, related to the misclassification of a subcontractor employee's labor category and unallowable indirect costs on travel expenses. The report also noted that Lockheed maintained an investment fund[9] containing $970,143 in credits due to the FDIC that had not yet been applied. We designed audit procedures to determine whether Lockheed had properly applied the $1,570,848 in credits (consisting of the $600,705 and $970,143 amounts). Specifically, we selected a judgmental sample of the 6 largest credit invoices totaling $1,072,632 out of a population of 64 credit invoices totaling $1,570,848 covering the period November 22, 2011 to November 19, 2012. We reviewed the charges on the six invoices to determine whether the charges were adequately supported, allowable, and properly allocated to the appropriate task orders. Further, we determined whether all of the $1,570,848 in credits due to the FDIC had been applied.

<u>Reliance on Automated Data and Fraud</u>

We relied on certain automated data generated by Lockheed's accounting system and NFE to determine the universe of invoices submitted and payments made, respectively, to select our sample of invoices and to conduct our analysis. We corroborated the data from automated systems that were used to support our audit conclusions with information from various sources, including supporting documentation for the invoices and testimonial evidence. However, we determined that information system controls were not significant to the audit objective and, therefore, we did not evaluate the effectiveness of information system controls.

A wide range of potential risks for fraud exist with any contract. Fraud risks related to this audit included false claims by the contractor or subcontractors whose expenses are passed through to the FDIC, or duplicate claims by, or payments to, Lockheed. We assessed the risk of fraud and abuse related to our objective and did not identify any indicators of fraud risk in the course of evaluating audit evidence.

Audit procedures were performed at Lockheed's site in Gaithersburg, Maryland, as well as in Reed's offices.

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[9] According to Lockheed's proposal, 1 percent of all time and material dollars billed under the Contract would accumulate in an investment fund that the FDIC could use to pay for future work performed under the Contract. As of February 16, 2011, the investment fund balance was $970,143.

List of Acronyms and Abbreviations

Contract	FDIC's Data Management Services Contract (Contract No. CORHQ-08-G-0120)
CACI	CACI-ISS, Inc.
DOA	Division of Administration
DRR	Division of Resolutions and Receiverships
FDIC	Federal Deposit Insurance Corporation
Lockheed	Lockheed Martin Services, Inc.
NFE	New Financial Environment
OIG	Office of Inspector General
Reed	Reed & Associates, CPAs, Inc.

Part II

Corporation Comments and OIG Evaluation

Corporation Comments and OIG Evaluation

Management provided a written response, dated December 2, 2016, to a draft of this report. The response is presented in its entirety on Page II-2. In the response, the Directors, DOA and DRR, indicated that action had been taken to address the report's sole recommendation to recover $4,170 in unallowable travel costs charged by Lockheed under the Contract. DRR separately provided the OIG with documentation reflecting that the FDIC had been reimbursed for the unallowable costs. Accordingly, we considered the actions taken to be responsive and closed the recommendation in our System for Tracking and Reporting. A summary of management's response to the recommendation is included on page II-3.

FDIC

Federal Deposit Insurance Corporation
3701 N. Fairfax Drive, Arlington, VA 22203 Division of Resolutions and Receiverships

December 2, 2016

TO: Mark F. Mulholland
Assistant Inspector General for Audits
Office of Inspector General

FROM: Arleas Upton Kea, Director **/Signed/**
Division of Administration

Bret D. Edwards, Director **/Signed/**
Division of Resolutions and Receiverships

SUBJECT: Acknowledgement of Draft Audit Report Entitled, *Invoices Submitted by Lockheed Martin Services, Inc. under FDIC Contract No. CORHQ-08-G-012 (Assignment No. 2016-029)*

The Federal Deposit Insurance Corporation (FDIC) has completed its review of the Office of Inspector General's (OIG) draft of the subject audit, dated November 15, 2016. We appreciate the OIG's positive observations regarding our management and oversight of billings for the Lockheed Martin contract. We understand you will indicate in the final report that the sole recommendation to recover $4,170 in unallowable travel costs will be shown as resolved since the payment was recently received by the FDIC.

Summary of the Corporation's Corrective Actions

This table presents corrective actions taken by the Corporation in response to the recommendation in the report and the status of the recommendation as of the date of report issuance.

Rec. No.	Corrective Action: Taken or Planned	Actual Completion Date	Monetary Benefits	Resolved:[a] Yes or No	Open or Closed[b]
1	Lockheed reimbursed the FDIC for $4,170 in unallowable travel costs charged under the Contract.	11/04/2016	$4,170	Yes	Closed

[a] Resolved – (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 (a) Corporate Management Control notifies the OIG that corrective actions are complete or (b) in the case of recommendations that the OIG determines to be particularly significant, when the OIG confirms that corrective actions have been completed and are responsive.