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OFFICE OF INSPECTOR GENERAL

**FINAL REPORT
REPORT NUMBER 17-07**

**Review of Claim for Payment
(Jacket Number 645-185)**

March 17, 2017



Date

March 17, 2017

To

Managing Director, Customer Services

From

Inspector General

Subject: Review of Claim for Payment (Jacket Number 645-185)

Report Number 17-07

Enclosed please find the subject final report. The Office of Inspector General (OIG) conducted a review to determine whether the termination for convenience was processed in accordance with GPO's Printing Procurement Regulation and assess whether claimed costs incurred were reasonable, allowable, and allocable.

We considered management's comments responsive to the recommendation. The recommendation will be closed upon issuance of the report.

GPO's management and staff were helpful and accommodating throughout this review. If you have any questions or comments about this report, please do not hesitate to contact me at (202) 512-0039.

A handwritten signature in black ink that reads "Michael A. Raponi".

MICHAEL A. RAPONI
Inspector General

Attachment

cc:

Director, GPO

Deputy Director, GPO

Acting General Counsel

Chief of Staff

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Office of Inspector General

Report Number 17-07

March 17, 2017

Review of Claim for Payment (Jacket Number 645-185)

Introduction

The Office of Inspector General (OIG) conducted a review of Jacket Number 645-185 (Program 3583-S) awarded to Ictect, Inc. (Ictect) to determine whether termination for convenience was processed in accordance with GPO's *Printing Procurement Regulation*¹ (PPR), and assess whether claimed costs incurred were reasonable, allowable, and allocable as GPO's Contract Cost Principles and Procedures² require. We initiated this review after Customer Services informed us of this settlement proposal.

To accomplish our review, we examined available financial and accounting records as well as supporting documentation from Ictect from April 2014 through July 2016. We reviewed Jacket Number 645-185 to identify contract specifications. We interviewed key officials from Ictect as well as GPO Offices of General Counsel and Customer Service staff, including management officials at the Columbus [Ohio] Regional Printing and Procurement Office (RPPPO) responsible for establishing, monitoring, reviewing, and approving the contract. We also reviewed policies and procedures in place at the time of the award in December 2012 through the settlement finalized in July 2014. We conducted this review from April 2014 through February 2017. Details of our objective, scope, and methodology are in Appendix A.

Results in Brief

Our work revealed a key requirement prescribed in GPO's PPR was not followed when GPO terminated for convenience of the Government Jacket Number 645-185. Specifically, Ictect did not maintain documentation that would sufficiently support that costs incurred were reasonable, allowable, and allocable.

OIG questioned claimed costs totaling \$61,904.16 based on the lack of documented support of the claim. We attribute the questioned costs to a lack of Ictect cost accounting policies, procedures, and practices and contract oversight by all parties.

¹ GPO Publication 305.3, *Printing Procurement Regulation*, dated February 2011 (Revised).

² GPO Instruction 305.9, *Contract Cost Principles and Procedures*, dated May 25, 1999.

Recommendation

We recommend when terminating contracts that the Managing Director for Customer Services to reiterate contractor responsibility to maintain records, including supporting documentation, that demonstrate any costs claimed were actually incurred, allocable to the contract, and complied with applicable cost principles.

Management's Response

Management concurred with the recommendation and has planned corrective action. The complete text of management's response is in Appendix C.

Background

On behalf of the Federal Emergency Management Agency (FEMA) of the Department of Homeland Security (DHS), GPO awarded Jacket Number 645-185 (Program 3583-S) to Ictect on December 5, 2012, to convert documents, compact discs (CDs), and publications for compliance with accessibility standards for electronic and information technology covered by Section 508 of the Rehabilitation Act Amendments of 1998. GPO estimated converting the 1,400 to 1,500 files and 50,000 to 60,000 pages would cost approximately \$121,000.

For Jacket Number 645-185, GPO issued two print orders: (1) Print Order No. 8000 for 616 pages in January 2013 and (2) Print Order No. 8001 for 15,995 pages in February 2013.

Notice of Termination

On July 30, 2013, GPO executed a Notice of Termination for the convenience of the Government. To settle costs allocable to the terminated portion of the contract, Ictect submitted a settlement proposal (revised) for \$63,154.16. The table below provides the details of the proposal.

Table 1. Ictect Settlement Proposal (December 13, 2013)

Item	Claimed Amount
Material	\$4,635.93
Labor	\$61,376.12
Overhead	\$12,401.86
General and Administrative	\$10,328.92
Total	\$88,742.83
Settlement Expenses	\$1,250.00
Gross Proposed Settlement	\$89,992.82
(Less) Advance Payments	(\$26,838.66)
Net Payment Requested	<u>\$63,154.16</u>

On July 29, 2014, GPO settled with Ictect for \$18,280.37.

Related Work

OIG conducted two prior audits related to claims for payment regarding terminations for the convenience of the Government. To access the full text of those reports, visit <http://www.gpo.gov/oig/>.

- Report No. 14-12, *Audit of Claim for Payment (Jacket Number 376-179)*, April 22, 2014. A review of the claim disclosed that \$345,139 of claimed costs were not

supported with sufficient documentation and in one instance the expenditure was not authorized.

- Report 15-06, *Audit of Claim for Payment (Jacket Number 535-517)*, March 20, 2015. OIG questioned claimed costs totaling \$57,600.25 based on lack of cost data, contractor certification, and adequate documentation required in support of the claim.

GPO's Printing Procurement Regulation

Contracts may be terminated for the convenience of the Government when the Contracting Officer determines that for reasons other than the default of the contractor it is in the best interest of the Government to discontinue all, or some part, of the remaining work under an uncompleted contract.

GPO has several publications and instructions used to guide it through the termination process. GPO Publication 305.3, *Printing Procurement Regulation*, dated February 2011, provides guidance and was issued to: (a) prescribe uniform policies and procedures for procurement of printing, binding, related supplies, and related services; and, (b) provide guidance to Agency Publishing Services personnel in applying those policies and procedures. GPO Instruction 305.9, *Contract Cost Principles and Procedures*, dated May 25, 1999, is incorporated by reference with the same force and effect as though presented in full text. The PPR was revised in April 2014 with two unrelated amendments prior to final settlement in July 2014. The previous version of the regulation was in effect at the time of the contract award. We applied the 2011 version to this settlement claim.

Management Control Guidelines

GPO requires³ that management controls must provide reasonable assurance and safeguards to protect assets against waste, loss, unauthorized use, and misappropriation. The guidance requires that GPO maintain effective systems of accounting and management control. The policy also states that internal controls are the organization, policies, and procedures used to reasonably assure that resources used are consistent with agency mission and resources are protected from waste, fraud, and mismanagement.

The Government Accountability Office (GAO) *Standards for Internal Controls in the Federal Government*, September 2014, require ongoing monitoring in the course of normal operation and the use of control activities. Control activities include the policies, procedures, techniques, and mechanisms that enforce management's directives and address related risks.

³ GPO Instruction 825.18A, *Internal Control Program*, dated May 28, 1997.

Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, December 21, 2004 (Circular A-123), requires that managers develop and maintain effective internal controls. Effective internal controls provide assurance that significant weaknesses in the design or operation of internal controls that could adversely affect an agency's ability to meet its objectives would be prevented or detected in a timely manner. As a legislative branch agency, GPO is not required to follow OMB Circulars, including Circular A-123. However, because the Circular provides a sound basis for internal controls for any organization, GPO incorporated the major requirements of Circular A-123 in its directives.

Results and Recommendation

Ictect did not account for costs appropriately and did not maintain the required supporting documentation that would demonstrate costs claimed were incurred and allocable to Jacket Number 645-185. Ictect officials stated that they did not have accounting policies and procedures that required detailed cost be allocated to specific jobs. As a result, OIG questioned \$61,904.16 of the \$63,154.16 claimed by Ictect.

GPO Instruction 305.9—the procedures detailing contract cost principles—prescribes procedures required for (a) pricing contracts, subcontracts, and modifications to contracts and subcontracts whenever cost analysis is performed, and (b) determining, negotiating, or allowing specific costs when required by a contract clause.

The policy states, in part, a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this Instruction. The contracting officer may disallow all or part of a claimed cost which is inadequately supported.

GPO Publication 310.2, *GPO Contract Terms*, and (Revised June 2001), Section 19 of “Contract Clauses,” Subsection 19(3) (I), “Termination for the Convenience of the Government,” states:

Unless otherwise provided or by statute, the contractor shall maintain all records and documents relating to the terminated portion for 3 years after final settlement. This includes all books and other evidence bearing on the contractor’s costs and expenses. The contractor shall make these records and documents available to the Government, at the contractor’s office, at all reasonable times, without any direct charge. If approved by the Contracting Officer, photographs, microphotographs, or other authentic reproductions may be maintained instead of original records and documents.

Unallowed Material Charges

Ictect claimed the following equipment as material costs:

- November 9, 2012: computer equipment from Dell
- December 8, 2012: computer equipment from Amazon.com, SB direct Shop, and Compu-R-Us
- December 18, 2012: computer equipment and software from Best Buy
- December 23, 2012: computer equipment from Best Buy
- April 18, 2013: computer equipment and technical support from Best Buy

Unsupported Labor Charges

Ictect claimed \$61,376.12 in labor costs as detailed below in Table 2.

Table 2. Labor Costs

Consulting	\$7,455.00
USA Labor	\$37,858.36
India Labor	\$16,062.76
Total	\$61,376.12

Ictect Officials stated they estimated salary expenses the company incurred from November 2012 through July 2013 by prorating the annual salaries for 2013.

Unsupported Overhead Charges

Ictect claimed \$12,401.86 for overhead expenses related to its settlement claim. The officials further stated that the 23-percent expense for the contract included items such as employee-related insurance, 401(k) contributions, and taxes. Ictect officials stated they took the expense established for "USA Labor" and multiplied it by 23 percent (\$53,921.12). However, Ictect did not provide the USA Labor figures it relied on. Table 3 below details the overhead costs claimed.

Table 3. Overhead Costs

USA	\$8,707.42
India Resources	\$3,694.44
Total	\$12,401.86

General and Administrative Charges

Ictect claimed \$10,328.92 for General and Administrative costs incurred as a result of the contract termination. Ictect officials stated they used a 14-percent expense rate for this contract for items such as invoicing, tracking payments, fees for a consultant, and other miscellaneous activities.

Settlement Expense Charges

Ictect claimed \$1,250 for settlement expenses. Ictect provided additional invoices in June 2014 that totaled \$2,427.46 in legal fees. Legal fee expenses related to the settlement are typically allowed.

Contract Oversight

Customer Services believed that they acted in the best interest of the Government since they avoided further litigation and all parties were satisfied, including the customer agency (FEMA).

Recommendation

We recommend when terminating contracts that the Managing Director, for Customer Services to reiterate contractor responsibility to maintain records, including supporting documentation, that demonstrate any costs claimed were actually incurred, allocable to the contract, and complied with applicable cost principles.

Management's Response

Management concurred with the recommendation and has planned corrective action. The complete text of management's response is in Appendix C.

Appendix A – Objective, Scope, and Methodology

We performed fieldwork from April 2014 through November 2016 at the GPO Central Office in Washington, D.C., the GPO RPP0 Columbus in Columbus, Ohio, and Ictect Headquarters in Brookfield, Wisconsin.⁴ We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

Objective

The objectives of this review were to determine whether the termination for convenience was processed in accordance with the PPR and whether the amounts Ictect claimed were allowable, reasonable, and allocable under the terms of the contract.

Scope and Methodology

To address our objectives, we reviewed policies and procedures in place as of July 2014, which was the date of the settlement agreement, and when the contract was awarded in December 2012 through July 2013, when GPO provided notification of termination.

We reviewed Jacket Number 645-185 to identify contract specifications. We interviewed key officials from Ictect as well as GPO Offices of General Counsel and Customer Services, including the Contracting Officer located at a GPO regional office (Columbus RPP0), responsible for establishing and monitoring the contract process as well as reviewing and approving the contract.

We conducted interviews on site at Ictect, located in Brookfield, Wisconsin as well as remotely through the phone or by way of emails. We reviewed available invoices, receipts, work schedules, tax information, and any other supporting documentation provided to support the claim expenses on Ictect's proposed settlement. We evaluated GPO's compliance with laws and regulations. Specifically, we reviewed and considered: (1) GPO Instruction 305.9, *Contract Cost Principles and Procedures*, dated May 25, 1999, (2) GPO Publication 305.3, *Printing Procurement Regulation* (revised February 2011), and (3) GPO Publication 310.2, *Contract Terms* (revised June 2001).

Computer-Generated Data

We did not rely on any computer-generated-data in conducting our review.

⁴ Ictect Headquarters was located in Sturtevant, WI at the time of the award; however, the owner moved the company to its current location in Brookfield, WI.

Appendix B - Acronyms and Abbreviations

CD	Compact Disc
DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
GAO	Government Accountability Office
GPO	Government Publishing Office
Ictect	Ictect, Inc. [the contractor]
OIG	Office of Inspector General
OMB	Office of Management and Budget
PPR	Printing Procurement Regulation
RPPO	Regional Printing and Procurement Office

Appendix C – Management’s Response

ANDREW M. SHERMAN
Chief of Staff



Date: March 16, 2017

To: Inspector General

Subj: Management comments on OIG Draft Report, “Review of Claim for Payment (Jacket Number 645-185), Report No. 17-07

From: Chief of Staff

Thank you for the opportunity to review the OIG draft report, Review of Claim for Payment (Jacket Number 645-185), Report No. 17-07. In this case, the contracting officer exercised appropriate skill and judgment well within the scope of his authority to reach a reasonable negotiated settlement that was in the interest of the Government and just to the contractor, Ictec. The settlement reimbursed Ictec for a portion of the requested termination costs to maintain a reasonable state of readiness for meeting customer agency requirements under this contract up to the point the contract was terminated for convenience.

Management concurs with the OIG’s recommendation that the Managing Director, Customer Services, “reiterate to all GPO vendors that the contractor is responsible to maintain records, including supporting documentation, that demonstrate any costs claimed were actually incurred, allocable to the contract, and [comply] with applicable cost principles.”

Thank you again for the opportunity to review and comment on the draft report. If you need additional information, please do not hesitate to contact me on 2-1100.

A handwritten signature in black ink that reads "Andrew M. Sherman".

ANDREW M. SHERMAN

Appendix D - Status of Recommendation

Recommendation	Resolved	Unresolved	Open/ECD*	Closed
1	X			X

*Estimated Completion Date.

Appendix E - Report Distribution

Director, GPO
Deputy Director, GPO
Acting General Counsel
Chief of Staff

Major Contributors to the Report

Patricia R. Shaw, Auditor