



U.S. Securities and Exchange Commission  
Office of Inspector General  
Office of Audits

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# Review of PRISM Automated Procurement System Support Contracts



September 30, 2010  
Report No. 486

Audit Conducted by Regis & Associates, PC



OFFICE OF  
INSPECTOR GENERAL

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

## MEMORANDUM

September 30, 2010

**To:** Sharon Sheehan, Associate Executive Director, Office of Administrative Services (OAS)  
Jeffrey Heslop, Chief Operating Officer (COO), and Acting Chief Information Officer (CIO), Office of Information Technology (OIT)

**From:** H. David Kotz, Inspector General, Office of Inspector General *H. David Kotz*

**Subject:** *Review of PRISM Automated Procurement System Support Contracts, Report No. 486*

This memorandum transmits the U.S. Securities and Exchange Commission Office of Inspector General's (OIG) final report detailing the results of our review of the PRISM automated procurement system support contracts. This review was conducted based on anonymous complaints OIG received regarding procurements relating to the management and integration of PRISM.

The final report contains five recommendations, which if implemented, should improve the Commission's programs and operations. OAS concurred with recommendations 2, 4, and 5 and non-concurred with recommendation 3. The COO/Acting CIO concurred with recommendation 1 which was addressed to OIT. Your written response to the draft report is included in its entirety in Appendix V.

Within the next 45 days, please provide the OIG with a written corrective action plan that is designed to address the agreed recommendations. The corrective action plan should include information such as the responsible official/point of contact, time frames for completing the required actions, milestones identifying how you will address the recommendations cited in this report.

Should you have any questions regarding this report, please do not hesitate to contact me. We appreciate the courtesy and cooperation that you and your staff extended to our staff and contractors.

Attachment

cc: Kayla J. Gillan, Deputy Chief of Staff, Office of the Chairman  
Diego Ruiz, Executive Director, Office of the Executive Director  
David Becker, General Counsel, Office of General Counsel  
Jeffrey Risinger, Associate Executive Director, Office of Human Resources  
Kenneth Johnson, Associate Executive Director, Office of Financial Management  
Julie Basile, Assistant Director, Office of Administrative Services, Office of Acquisitions  
George R. Eckard, Assistant Director, Office of Finance and Administration, Office of Information Technology

# Review of PRISM Automated Procurement System Support Contracts

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## Executive Summary

**Background.** The Office of Inspector General (OIG) contracted the services of Regis & Associates, PC (Regis), Independent Public Accountants, to conduct a review of the contract administration activities related to the Office of Acquisitions (OA) automated procurement system, PRISM.

The U.S. Securities and Exchange Commission's (SEC or Commission) Office of Administrative Services (OAS), OA, is responsible for the agency's contract and procurement activities and processes; while the SEC divisions and offices are responsible for preparing initial procurement requisitions and statements of work.

Over the past several years, OA has unsuccessfully attempted to automate its procurement function. OA has procured two different automated procurement systems (APS) to manage acquisitions, the Procurement Desktop System (PDS), and the Strategic Acquisition Manager (SAM). OA discontinued its use of PDS in 1998, and acquired SAM in 2007. Subsequently, OA discontinued the use of SAM in March 2008, due to a variety of system performance issues. In September 2008, the SEC acquired an APS named PRISM. PRISM was intended to enable OA to accurately track and reconcile SEC's contracts and agreements. PRISM, which was implemented on April 21, 2009, and is commonly referred to as OA's "contract writing tool," is a web-based, commercial off-the-shelf, procurement and contract management system. PRISM provides a streamlined, end-to-end procurement cycle that integrates and tracks information from the initiation of a requirement, through its solicitation and award. PRISM also tracks information on contract administration, contract closeout, and document archive.

Contract No. SECHQ1-08-C-8239 was awarded to Virtus Consulting Group, Inc., (Virtus) on August 12, 2008, to provide project support for the implementation of PRISM. Task Order No. 0004, under Indefinite Delivery Indefinite Quantity (IDIQ) No. SECHQ1-07-D-0320, was awarded to another vendor, Delta Technologies and Solutions, Inc., to perform system coding and technical services related to the integration of PRISM and Momentum, SEC's financial accounting system. The OIG received anonymous complaints regarding the procurements relating to the management and integration of PRISM. This review was initiated as a result of those complaints.

**Objectives.** The overall objectives were to assess the adequacy of the PRISM award and contract administration activities related to the procurement of PRISM, and the adequacy of management and implementation of the PRISM project, and the integration services. The specific objectives of the audit were as follows:

- Identify and review all procurement documentation related to the project management and integration support for PRISM;
- Determine whether procurements were properly awarded, in accordance with Federal Acquisition Regulations and SEC policies and procedures;
- Determine the validity of complaints received by the OIG, related to the award of the procurement for the management and integration of PRISM;
- Determine whether there was adequate oversight of PRISM; and
- Review governing Commission policies, guidance, etc., and follow up on prior recommendations to ensure they have been closed and corrective actions were completed.

**Prior OIG Audit Report.** OIG Report No. 471, *Audit of the Office of Acquisitions' Procurement and Contract Management Functions*, issued September 25, 2009, contained 10 recommendations to strengthen management controls over OA's contracting and procurement functions.

**Results.** The audit identified several deficiencies related to PRISM contract administration activities that raise concerns about the future success of the PRISM project. Specifically, we found that there were repeated requests made to the Office of Information Technology (OIT) for project management support for the project. The Associate Executive Director for the OAS advised OIT that the SAM project manager was unable to give the upcoming APS project adequate time and attention and that the level of support was insufficient for the project to be successful. We found that OIT responded that they simply did not have enough resources to provide the needed project management support.

Further, and notwithstanding the negative experiences in the past and the complexity of the project, the PRISM project continued for over a year without an active OIT project manager.

Moreover, we found that competition was improperly restricted by OAS without following proper Federal Acquisition Regulation (FAR) requirements when it solicited and awarded a contract for PRISM project support through the insertion of a condition requiring vendor's employees have a current (or within the past 30 days) SEC clearance. We found that this condition effectively precluded outside contractors from bidding on the work. Additionally, email correspondence between the respective OAS Contracting Officer (CO) and an Office of Financial Management (OFM) employee indicated that OAS had already pre-selected a contractor approximately a week before the solicitation was publicized. This contractor, identified in the CO's email, was ultimately awarded the contract.

In addition, we found that there was inadequate segregation of duties in the management of the PRISM support contract. Specifically, neither a project manager nor Contracting Officer's Technical Representative (COTR) was appointed for the support contract for at least one year. This resulted in the CO assuming these roles and responsibilities during that period.

Furthermore, we noted that a critical deliverable under the PRISM support contract did not meet quality standards. The reconciliation tool developed by the vendor did not appear to accurately classify data between PRISM and Momentum. This resulted in reconciliation errors which consumed additional resources to remedy.

Lastly, after we conducted follow-up on prior recommendations in OIG Report No. 471, *Audit of the Office of Acquisitions' Procurement and Contract Management Functions*, issued on September 25, 2009, relating to strengthening management controls over the contracting and procurement function, we found that 8 of the 10 recommendations remain open.

**Summary of Recommendations.** Specifically, we recommend that OIT review the adequacy of trained project officers that are available to manage all current and anticipated projects. If it is determined that sufficient qualified project officers are not available to manage all current and anticipated projects, OIT should remedy the situation by either providing an adequate number of qualified personnel, or implementing an alternative process for ensuring oversight of projects.

Further, we recommend that OAS:

- (1) Issue guidance to staff on the proper use of restrictive clauses in solicitations and the prohibition on pre-selection, and require that applicable requirements in the Federal Acquisition Regulations are followed.
- (2) Implement internal procedures to limit Contracting Officers from also assuming project management and COTR responsibilities on the same project.
- (3) Review existing contracts to ensure that COTRs are assigned for each contract as appropriate.
- (4) Work in conjunction with OFM to evaluate the reconciliation tool discussed in Finding 4 in order to determine, on a cost to benefit basis, whether it would be feasible to correct the deficiencies noted.

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# Background and Objectives

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## Background

The Office of Administrative Services (OAS), Office of Acquisitions (OA) is responsible for the U.S. Securities and Exchange Commission (SEC or Commission) procurement and contract activities and processes, which are governed by the Federal Acquisition Regulation (FAR). While OA oversees the procurement responsibilities, the SEC divisions and offices are responsible for preparing initial procurement requisitions and statements of work. OA consists of four primary contracting branches, each of which is headed by a Branch Chief. Each branch is staffed with Contracting Officers, Contract Specialists, and support personnel.

Over the past several years, OA has unsuccessfully attempted to automate its procurement function. Initially, OA utilized the Procurement Desktop System (PDS), but discontinued its use in 1998 after finding that the system was inadequate to perform necessary procurement functions. OA then acquired the Strategic Acquisition Manager (SAM) tool<sup>1</sup> to automate the SEC's acquisition and procurement process. OA used SAM as its pilot automated procurement system (APS) from May 2007 to March 2008. OA discontinued using SAM as a result of the system's failure to meet its needs and the vendor's failure to provide trained system administrators who could fix the system's problems. OA also encountered problems with the interfacing between SAM and Momentum<sup>2</sup> when Momentum would occasionally experience problems and shut down. OAS also experienced problems with server equipment not being able to handle the volume of data being sent from Momentum and SAM.

In September 2008, the SEC acquired PRISM, another APS. OA hopes that PRISM will enable it to more accurately track and reconcile SEC's contracts and agreements. PRISM, commonly referred to as OA's "contract writing tool," is a web-based, commercial off-the-shelf, procurement and contract management system. It provides a streamlined end-to-end procurement cycle that integrates and tracks information from the initiation of the requirement through solicitation and award. It also tracks information on contract administration, contract closeout, and document archive.

The following procurements were issued relative to the acquisition and integration of PRISM and Momentum:

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<sup>1</sup>SAM was a multi-year project that was approved in April 2005 for a total cost of \$2,492,371.

<sup>2</sup>Momentum is the SEC's financial accounting system.



- *PRISM Phase 1, Software and Support Contract (OA Contract Writing Tool):* Compusearch Software Systems, Inc., SECHQ1-08-F-8240, \$3,744,582.08, period of performance - September 23, 2008 to present.
- *PRISM Phase 1, Project Management Contract (Project Support):* Virtus Consulting Group, Inc. (Virtus), SECHQ1-08-C-8239, \$1,239,119.20, period of performance - August 12, 2008 to December 10, 2010.
- *PRISM Phase 2, (Interface) Integration Support Task Order:* Delta Solutions and Technologies, Inc. (Delta), SECHQ1-07-D-0320 Task Order 0004, \$1,240,061.27, period of performance - February 4, 2009 to July 15, 2010.

On July 21, 2008, SEC posted a solicitation notice to vendors on FedBizOpps.gov, to procure project support services for the implementation of an APS. The solicitation required key contractor employees proposed to work on the implementation, to have been cleared to work at the SEC within the past 30 days. Although 33 vendors requested the SEC's Request for Proposal, only one vendor, Virtus Consulting Group, Inc. (Virtus) submitted a bid. After a review by a technical evaluation panel, this one offer was accepted, and a contract was awarded to Virtus, on August 12, 2008, for project support related to the PRISM implementation in the amount of \$600,000.

On January 7, 2009, the SEC's Project Review Board approved a project related to the integration of PRISM and Momentum. Subsequently, on February 20, 2009, OAS awarded Task Order 0004 to Delta Solutions and Technologies, Inc. under Indefinite Delivery Indefinite Quantity (IDIQ) SECHQ1-07-D-0320, in the initial amount of \$586,386 to perform coding and technical services related to the integration.

The Office of Inspector General (OIG) received anonymous complaints regarding the procurements relating to the management and integration of the PRISM. This audit was initiated as a result of those complaints.

## Objectives

The overall objectives were to assess the adequacy of the PRISM award and related contract administration activities and assess the management and implementation of the PRISM project and the integration services. The specific objectives were as follows:

- 1) Identify and review all procurement documentation related to project management and integration support for PRISM;
- 2) Determine whether procurements were properly awarded, in accordance with Federal Acquisition Regulations and SEC policies and procedures;

- 3) Determine the validity of complaints received by the OIG, related to the award of the procurements for the management and integration of PRISM;
- 4) Determine whether there was adequate oversight of PRISM; and
- 5) Review governing Commission policies, guidance, etc., and follow up on prior recommendations to ensure that they have been closed, and that corrective actions were completed.

# Findings and Recommendations

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## **Finding 1: OIT Was Not Actively Involved in Project Management for the Implementation of the PRISM Project**

The Office of Information Technology (OIT) was not actively engaged in project management of the PRISM implementation and integration project for over a year, despite OAS' request for full-time OIT project management support prior to the start of the project.<sup>3</sup>

### **OIT Did Not Adequately Provide Project Management**

The Office of Management and Budget (OMB) A-109, *Major System Acquisitions*, Section 8- *Management Structure*, states, in part:

b. Each agency that acquires -- or is responsible for activities leading to the acquisition of -- major systems will establish clear lines of authority, responsibility, and accountability for management of its major system acquisition programs.

Over the past several years, OA unsuccessfully tried to automate its procurement function. OAS procured two different APS's to track acquisitions, PDS and SAM. After OAS discontinued the use of SAM in March 2008, OAS acquired PRISM in September 2008. PRISM is a web-based, commercial off-the-shelf procurement and contract management system that provides a streamlined end-to-end procurement cycle that integrates and tracks information from the initiation of the requirement through the solicitation and award process. PRISM also tracks information on contract administration, contract closeout and document archive. The scope of the PRISM project not only included implementation of the actual system, but also included the award of two related contracts for project support and integration work.<sup>4</sup>

Based on lessons learned from the failure of SAM, OAS recognized the necessity of having a full-time project manager with a strong information technology (IT) background during the acquisition and implementation of a procurement system.

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<sup>3</sup> While OIT did not have resources to assign a full-time project manager, OIT maintains that two knowledgeable project managers were assigned to assist OA with the IT-related aspects of the initial PRISM implementation and subsequent initiative to integrate PRISM with Momentum prior to OIT assuming the role of overall project manager in December 2009.

<sup>4</sup> The PRISM project consists of two distinct phases. Phase 1 was to field the PRISM system in OA as a contract writing tool. Phase 2, which is still ongoing, is meant to interface PRISM with the Commission's financial management system.

Therefore, in May 2008, approximately four months prior to acquiring its third procurement system, the Associate Executive Director (AED) for OAS requested OIT provide more project management resources for the upcoming PRISM project.

More specifically, on May 21, 2008 the AED OAS sent an email to the Assistant Director of Finance and Administration for OIT, indicating that she had made repeated requests to OIT for project management support for the past two years. The AED OAS further stated that the SAM project manager was unable to give the project adequate time and attention and was “spread across too many projects.” In addition, the AED OAS stated that the current level of support for the upcoming APS project “simply isn’t enough for a project of this complexity to be successful.” Moreover, the AED OAS noted that the amount of effort was considered inadequate when benchmarked against a U.S. Army project that she procured which was similar in nature and complexity. A similar system implementation at the U.S. Army involved the full-time efforts of a GS-14 IT project officer, and two GS-13 IT junior project officers, and did not involve integration with the U.S. Army’s financial system. The AED OAS stated that OIT representatives explained on a number of occasions that they simply didn’t have enough resources to provide the needed project management support. OIT, however, never formally responded to OAS’ request for more project management resources for PRISM.

Notwithstanding the negative experiences in the past and the complexity of the project, the implementation of PRISM (Phase 1) and its integration with Momentum (Phase 2) commenced and continued for over a year without an active OIT project manager. In December 2009, OIT senior management became concerned with the direction of the integration project and as a result, an individual designated by OIT as the project manager<sup>5</sup> became actively involved in the project.

Additionally, while OIT maintains that Virtus, a contractor hired by OAS to perform project support (see Finding 2), was considered to be and functioned as the project manager for the APS project, the contractor’s contract with the SEC specifically precluded the contractor from performing program management or technical implementation.<sup>6</sup> Further, there is no documentation to support the assertion that OIT complied with the provisions of its own Operating Directive, OD 24-02.04, *IT Project Manager Qualification Standards*, dated May 30, 2006, which requires OIT to demonstrate that vendor project managers performing project management duties possess appropriate qualifications in accordance with SEC and OMB guidance. Accordingly, there was a lack of clearly defined lines of

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<sup>5</sup> In August 2008, OIT sent an email to OAS stating that an OIT employee would be “listed” as the APS program manager; however, this individual was not actively involved in the project due to competing priorities.

<sup>6</sup> Contract No. SECHQ1-08-C-8239, Section C: Description/Specifications/Statement of Work, C.1.0 Scope, states that “This support does not include program management or technical implementation.”

authority, responsibility, and accountability related to project management of PRISM.

The value of the two PRISM support contracts we reviewed as part of this audit, doubled since the inception of the contracts. Specifically, SECHQ1-08-C-8239, Virtus increased from \$600,000 to \$1,239,119 and SECHQ1-07-D-0320, Task Order 0004, increased from \$586,386 to \$1,041,061. Had an OIT project manager been actively involved in Phases 1 and 2, issues resulting in contract increases may have been avoided.

The Commission's apparent lack of sufficient resources to adequately manage the PRISM project, in our opinion, raises serious concerns about the viability of the project going forward. The SEC also may have received services that were not adequate for the purposes for which they were ordered. Moreover, we are concerned that the problem with lack of project management support with PRISM may be indicative of a systemic problem with other major IT investments.

#### **Recommendation 1:**

The Office of Information Technology (OIT) should review the adequacy of trained project officers that are available to manage all current and anticipated projects. If it is determined that sufficient qualified project officers are not available to manage all current and anticipated projects, OIT should remedy the situation by either providing an adequate number of qualified personnel, or implementing an alternative process for ensuring oversight of the projects.

**Management Comments.** The COO/Acting CIO concurred with this recommendation. See Appendix V for management's full comments.

**OIG Analysis.** We are pleased that the COO/Acting CIO concurred with this recommendation.

## **Finding 2: Full and Open Competition was Restricted in the Solicitation Process**

OAS issued a solicitation to obtain contractor project support for PRISM that included an unusually restrictive condition requiring contractor key personnel to have current security clearances with the SEC, or be cleared by the SEC within the past 30 days. Additionally, email correspondence between the respective OAS Contracting Officer (CO) and an Office of Financial Management (OFM) employee indicated that OAS had already pre-selected a contractor approximately one week before the solicitation was

publicized. As a result, outside contractor sources were effectively precluded from bidding on the contract and full and open competition was restricted.

## **Full and Open Competition was Restricted By a Condition Added to the Solicitation**

Because OIT was unable to provide the project management support OAS requested in May 2008, OAS decided to obtain contractor project support. However, in doing so, they issued a solicitation that was unnecessarily restrictive and effectively precluded competition from outside contractor sources.

The FAR Part 6.101, *Full and Open Competition—Policy*, states that with certain limited exceptions, contracting officers shall *promote and provide for full and open competition in soliciting offers* (emphasis added) and awarding Government contracts, and contracting officers shall provide for full and open competition through use of the competitive procedures that are best suited to the circumstances of the contract action and consistent with the need to fulfill the Government's requirements efficiently.

Additionally, the FAR, Subpart 5.2, *Synopses of Proposed Contract Actions*, § 5.207, *Preparation and transmittal of synopses*, Paragraph c, requires that notices of proposed contract actions contain a clear and concise description of the supplies or services that is not unnecessarily restrictive of competition and will allow a prospective offeror to make an informed business judgment as to whether a copy of the solicitation should be requested.

On July 21, 2008, a solicitation for PRISM project support services was publicized in FedBizOpps.gov, with an August 5, 2008 due date for technical and price proposals. OAS sought to obtain a contractor to provide project support with the functional aspects of pre-deployment planning, deployment, and post deployment for PRISM.<sup>7</sup>

Part C.1.1 of the solicitation, *Background*, stated that “to take advantage of lessons learned, and to increase our chance of success, the SEC seeks an experienced and knowledgeable project support contractor to assist with establishing the procurement requirements and implementing an APS that has been proven in the Federal Sector. The Contractor shall also be knowledgeable in SEC systems, especially Momentum Financials and with SEC processes and workflows, in order to be effective immediately upon award of a contract.” In addition, Part C.3.0 of the solicitation, *Requirements*, contained conditions that vendors were required to meet in order to receive consideration. Specifically, the solicitation stated that “The Contractor's employees shall have a current (or

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<sup>7</sup> Project support was intended for Phase 1 of PRISM only (fielding the system as a contract writing tool in OA).

within the past 30 days) SEC clearance to minimize the amount of time to be on site and begin work.” Further, a letter addressed to potential offerors, which was attached to the solicitation, stated “The SEC invites all offerors who meet the requirements and constraints of this solicitation to propose, but please seriously consider not proposing if you have no one who qualifies.”

The solicitation limited competition by excluding vendors who were not currently cleared to work at the SEC and were not knowledgeable about its systems and processes. We found that there was substantial interest in the project as 33 vendors contacted OAS to obtain a copy of the combined synopsis and solicitation publicized on FedBizOpps.gov. However, upon close of the solicitation on August 5, 2008, only one vendor responded with a proposal likely because of the conditions in the solicitation, including the requirement that the contractor’s employees have a current SEC clearance.

Further, we found email correspondence in the contract file, dated July 14, 2008 (seven days before the release of the aforementioned solicitation), containing improper communications between an OAS CO and a representative from OFM regarding the potential selection of a then-current SEC contractor to serve as a project manager for APS. In this July 14, 2008 email, sent by the CO to the OFM representative, containing the subject line “Procurement system status,” the CO stated that it may be best to delay a meeting because “we are hiring a project manager (i.e., [REDACTED]) to assist with the acquisition and implementation. When the PM is hired . . . .” The email further stated, “Right now nothing is happening on the APS acquisition; I’m trying to prepare the solicitation for the PM support.” Incredibly, the email identified the name of the contractor that OAS intended to hire a week before the solicitation was released to the public. This email, coupled with the extremely restrictive solicitation provision demonstrates potential evidence of the improper pre-selection of the project manager. In August 2008, OAS awarded the contract to the contractor specified in the CO’s July 14, 2008 email.

During an interview Regis held with the AED OAS on July 29, 2010, she explained the reasoning behind the decision to include the restrictive clause in the solicitation regarding the security clearance by stating that during the period the contract was awarded, it took one year, at a minimum, for contractors to obtain the necessary security clearances at the SEC. The AED OAS also stated that due to these time requirements, as well as the fact that no in-house project officers were provided by OIT, the provision requiring current clearances had to be inserted into the solicitation. In addition, the AED OAS acknowledged that she reviewed the solicitation and authorized the clause requiring that only vendors with currently cleared personnel should respond to the solicitation. However, it should be noted that the contract file did not contain any justifications for OAS’ decisions.



Subsequently, in August 2010, a personnel security specialist in the SEC's Personnel Security Branch informed OIG that although there was a back log of clearances that needed to be adjudicated in 2008, interim clearances were granted to individuals coming to work at the SEC who had no criminal record in seven to ten business days. If a person had a criminal record, it could take an additional two to three weeks longer to adjudicate the clearance. The personnel security specialist informed OIG that full clearances were typically granted within 90-days of the initial submission.

We determined that the inclusion of restrictive clauses in the solicitation and the CO's July 14, 2008 email correspondence have the appearance that the results of the bid was predetermined and it was not awarded fairly as was alleged in a complaint the OIG received. Consequently, these findings raise concerns about management controls within OAS to ensure adherence to applicable FAR requirements regarding promoting full and open competition. Additionally, the Commission may not have received the best value for the services procured. Further, we found that the original contract was awarded to Virtus on August 12, 2008 in the amount of \$600,000, but as a result of six modifications, the contract amount has more than doubled and is currently valued at \$1,239,119.<sup>8</sup> Additionally, we found that the period of performance under the contract was also extended.

### **Recommendation 2<sup>9</sup>:**

The Office of Administrative Services should issue guidance to staff on the proper use of restrictive clauses in solicitations and the prohibition on pre-selection, and require that applicable requirements in the Federal Acquisition Regulations are followed.

**Management Comments.** OAS concurred with this recommendation. See Appendix V for management's full comments.

**OIG Analysis.** We are pleased that OAS concurred with this recommendation. We do note that OAS in its response stated that they strongly disagreed with the finding that competition was restricted inappropriately. The facts of this solicitation are not in dispute. A restrictive condition was added to the solicitation for a project manager requiring a current SEC clearance that resulted in only one vendor submitting a proposal after 33 vendors had

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<sup>8</sup> The modifications included additional funding related to internal control support, technical writing and documentation services, additional project support due to reclassification of PRISM as a mixed financial system, and data migration services.

<sup>9</sup> The Office of Inspector General is simultaneously issuing a Memorandum Report, referring the evidence contained in this finding to the Executive Director, Associate Executive Director for Human Resources and the General Counsel for appropriate disciplinary action for the senior level personnel who were responsible for the improper pre-selection.

expressed interest in the proposal. This one vendor was identified by name in an e-mail as the project manager being hired a week before the solicitation was released to the public.

### **Finding 3: Contracting Officer Performed Project Management and Contracting Officer Technical Representative Duties on the Project Support Contract**

The OAS CO for the project support contract discussed in Finding 2 also assumed the roles and responsibilities of a project manager and Contracting Officer's Technical Representative (COTR) for about one year from the inception of the contract. Additionally, the CO approved the first 10 vendor invoices under this contract and reviewed and accepted contract deliverables, though it appears this individual lacked the technical competence needed to ensure the deliverables met the contract requirements.

#### **No COTR or Project Manager Was Initially Appointed to Manage the Contract**

We found that the CO for one of the PRISM support contracts also served as the COTR and this individual did not appear to have the technical qualifications or time to fulfill this role. Contract Number SECHQ1-08-C-8239, was awarded to Virtus to provide *project support* for the implementation of PRISM. The respective OAS CO did not appoint a COTR for this contract from its August 12, 2008 inception to August 17, 2009. The contract, Section G - *Contract Administration Data*, Subsection G.1, *Appointment of Contracting Officer's Technical Representative*, stated that a COTR would not be appointed for the award and that the CO would perform the duties of a COTR such as inspecting, reviewing, and accepting deliverables and services. However, the deliverables for this type of contract are of an inherently technical nature and require approval by an individual with appropriate technical competencies. The deliverables included an internal controls reconciliation report, disaster recovery plan, system security plan, privacy analysis worksheet, business impact analysis, and communication plan.

Based on information gathered in interviews with the CO, we do not believe this individual possessed the necessary technical competencies or adequate time to monitor a contract of this complexity and size. The CO's knowledge and experience was primarily in procurement administration and management, while the subject contract required IT requirement development and project management experience. Additionally, as

discussed in Finding 1, there was a lack of OIT project management for the overall PRISM project, including at the inception of this contract for project support.

SEC Regulation 10-15 (November 4, 2004 revision) requires that in order to be appointed as a COTR, an individual must “possess at the time of the nomination the technical background, experience necessary, and Federal Acquisition Certification COTR certification specified in this Directive, and shall be knowledgeable about the services for which the COTR responsibilities are assigned.” Furthermore, SEC Regulation 10-15 requires the CO to carefully consider the complexity and dollar value of the contract and appoint a COTR based on the results. Contract Number SECHQ1-08-C-8239 was a complex contract, with a final dollar value in excess of \$1.2 million. In addition, a widespread and standard practice in the implementation of software related projects is the designation of a project manager, who typically has information technology experience, as well as project management experience. Consequently, we believe that OAS’ decision to appoint the CO as the COTR was contrary to the intent of SEC’s internal policies and procedures, as well as standard industry practice. Additionally, this put the SEC at risk of accepting deliverables that may not have been in accordance with the contract or in the best interest of the project.<sup>10</sup>

We also found that the CO approved the first 10 invoices for the subject contract, though the contract terms and conditions specifically prohibited the CO from approving invoices. During the period covered by our scope, 20 invoices were received and payments were made to Virtus. These invoices totaled approximately \$1 million, and covered the period October 8, 2008 to May 12, 2010. Of this amount, \$578,013 represented payments on the first 10 invoices that were approved by the CO. Section G - Contract Administration Data, Subsection G.2, *Submission of Invoices*, states that “the CO will not approve invoices.” This contract clause provides for segregation of duties between the CO and an individual designated to review invoices, such as the COTR.

Based on discussions with the AED OAS, we were informed that the CO assumed the roles and responsibilities of a project manager and COTR for the first year of the contract because of a lack of adequate project management support from OIT. Finally, in December, 2009, the situation was remedied when OIT became more actively involved in Phase 2 of the PRISM project.

As a result of the condition noted above, there is a risk that SEC may have received services or deliverables that were not adequate for the purposes for which they were ordered. For example, in Finding 4, we found that a

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<sup>10</sup> While OAS maintains that the CO coordinated with subject matter experts in OFM and OIT prior to accepting deliverables, we found that these efforts were not appropriately documented.

reconciliation tool developed by Virtus to reconcile contract information entered into PRISM and Momentum did not meet contract requirements.

**Recommendation 3:**

To ensure duties are segregated, the Office of Administrative Services should implement internal procedures to limit Contracting Officers from also assuming project management and Contracting Officer's Technical Representative's responsibilities on the same project.

**Management Comments.** OAS did not concur with this recommendation. See Appendix V for management's full comments.

**OIG Analysis.** We are disappointed that OAS did not concur with this recommendation and encourage them to reconsider. We do not believe it is disputable that the contracting officer did not possess the necessary technical competencies or experience to monitor this project and that there was a lack of project management support for the project as well. Lack of resources is not an appropriate justification for failing to properly manage a multi-million dollar project. Segregation of duties is a critical method of ensuring that there is accountability and proper management in a project. The recommendation that OAS implement procedures to "limit" contracting officers (not "restrict" as claimed in the Management response) from assuming certain project management duties is a prudent and appropriate step to take to ensure that SEC projects are managed more efficiently in the future.

**Recommendation 4:**

The Office of Acquisitions should review existing contracts to ensure that Contracting Officer's Technical Representatives are assigned for each contract, as appropriate.

**Management Comments.** OAS concurred with this recommendation. See Appendix V for management's full comments.

**OIG Analysis.** We are pleased that OAS concurred with this recommendation.

## **Finding 4: Tool to Reconcile PRISM and Momentum Contract Information Did Not Meet Quality Standards**

The reconciliation tool developed by Virtus to reconcile contract information entered into PRISM and Momentum did not meet contract requirements. This reconciliation tool does not accurately classify data between PRISM and Momentum, thus resulting in reconciliation errors. Also, the reconciliation errors generated require the use of in-house resources to investigate them.

### **A Critical Deliverable Under the Contract Did Not Meet Quality Standards**

One of the critical deliverables, under Contract Number SECHQ1-08-C-8239, was a tool to reconcile PRISM and Momentum. This reconciliation was necessary because PRISM and Momentum have not yet been integrated, and contract data is being entered into both systems manually. However, the reconciliation tool does not appear to accurately classify data between the systems, thus resulting in reconciliation errors. Specifically, there are differences between the data fields used for entering information into PRISM and Momentum. These differences are incorrectly classified as errors on the reconciliation reports, i.e., false positives.

The Statement of Work for Modification P00001 to Contract Number SECHQ1-08-C-8239 states, "The Contractor shall provide an accurate, operational, and reliable reconciliation report that can be run nightly to reconcile that day's entries in Momentum Financials and in PRISM. The report must generate and maintain an error log of discrepancies between the two extracts."

We found that the internal logic used in the reconciliation tool was not fully developed to account for the inherent differences between the data fields for contract information entered into PRISM and Momentum. As a result, items, incorrectly classified as errors, have accumulated on the reconciliation error log, and an inordinate amount of time has been spent by SEC staff in determining that these items were not actual errors. In addition, because the reports generated by this reconciliation tool cannot be completely relied upon, there is currently no assurance that the entries in Momentum accurately reflect the contracts that were written through PRISM.

**Recommendation 5:**

The Office of Administrative Services (OAS), in conjunction with the Office of Financial Management, should evaluate the reconciliation tool in order to determine, on a cost to benefit basis, whether it would be feasible to correct the deficiencies noted. OAS should then decide whether the corrections should be performed by Commission personnel, or by technically competent contractor personnel.

**Managements Comments.** OAS concurred with this recommendation. See Appendix V for management's full comments.

**OIG Analysis.** We are pleased that OAS concurred with this recommendation.

## Acronyms

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AED	Associate Executive Director
APS	Automated Procurement System
CO	Contracting Officer
COTR	Contracting Officer's Technical Representative
FAR	Federal Acquisition Regulations
IDIQ	Indefinite Delivery Indefinite Quantity
IT	Information Technology
OA	Office of Acquisitions
OAS	Office of Administrative Services
OFM	Office of Financial Management
OIG	Office of Inspector General
OIT	Office of Information Technology
PDS	Procurement Desktop System
SAM	Strategic Acquisition Manager
SEC or Commission	U.S. Securities and Exchange Commission



## Scope and Methodology

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**Scope.** We obtained the contract files for Contract Number SECHQ1-08-C-8239 awarded to Virtus, and Task Order 0004 for IDIQ SECHQ1-07-D-0320 awarded to Delta Solutions and Technologies, Inc. We obtained documentation detailing the history of the implementation of PRISM; and the progress to date, of the integration of PRISM and Momentum, such as meeting minutes from the Project Review Board and the Information Officers' Council. This information provided us with an understanding of the implementation process for PRISM and its integration with Momentum, and identified individuals who were instrumental in the process. We obtained *Obligation History Reports*, listing the invoices received from both Virtus and Delta Solutions and Technologies, Inc., and the supporting invoices.

We conducted our fieldwork from June 2010 to August 2010. We reviewed documentation related to the implementation of PRISM, which began in August, 2008, and was completed in April, 2009, and the integration of PRISM and Momentum, which began in February, 2009 and is still ongoing.

**Methodology.** To meet the objectives to assess the adequacy of the PRISM award and contract administration activities related to the procurement of PRISM and the management and implementation of the PRISM project and integration services, as well as our other specific objectives Regis:

- Identified all of the procurement documentation related to project management and integration support for PRISM. We obtained and reviewed the contract files for Contract Number SECHQ1-08-C-8239 awarded to Virtus, and Task Order Number 0004 for IDIQ SECHQ1-07-D-0320 awarded to Delta Solutions and Technologies, Inc.
- Gained access to documentation detailing the history of the implementation of PRISM; and the progress, to date, of the integration of PRISM and Momentum.
- Reviewed this documentation to gain an understanding of how the contracts were awarded, and whether there were any FAR violations.
- Obtained a listing of all contractor invoices received from and paid to Virtus and Delta Solutions and Technologies, Inc.
- Conducted interviews with personnel from OA, OFM, and OIT, who were associated with the acquisition or implementation of PRISM, or the integration of PRISM and Momentum.
- Obtained and reviewed relevant SEC regulations and policies, and determined whether there was compliance with these policies.

**Internal or Management Controls.** Our review of the contract files for the PRISM and Delta awards included gaining an understanding of internal controls

over the contracting process, as required by FAR and by SEC regulations. We noted whether there was adherence to these controls.

**Prior Audit Coverage.** Our fieldwork included determining whether recommendations set forth in OIG Report No. 471, *Audit of the Office of Acquisitions Procurement and Contract Management Functions*, September 25, 2009, were implemented.

## Criteria

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**Federal Acquisition Regulation.** Establishes uniform policies and procedures for acquisition by all executive agencies. The latest revision became effective on July 23, 2010.

**SEC Regulation 10-15.** (Revised November 4, 2004) Discusses roles and responsibilities of Contracting Officers' Technical Representatives and Inspection and Acceptance Officials.

**Contract SECHQ1-08-C-8239.** Issued August 12, 2008, contains provisions governing contractor performance, and specifying roles of the SEC Contracting Officer.

**Modification P00001 of Contract SECHQ1-08-C-8239.** Issued June 4, 2009, contains provisions governing contractor performance, and specifying roles of the SEC Contracting Officer.

**OMB Circular A-109, *Major System Acquisitions*.** Establishes policies to be followed by executive branch agencies in the acquisition of major systems.

## List of Recommendations

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### **Recommendation 1:**

The Office of Information Technology (OIT) should review the adequacy of trained project officers that are available to manage all current and anticipated projects. If it is determined that sufficient qualified project officers are not available to manage all current and anticipated projects, OIT should remedy the situation by either providing an adequate number of qualified personnel, or implementing an alternative process for ensuring oversight of the projects.

### **Recommendation 2:**

The Office of Administrative Services should issue guidance to staff on the proper use of restrictive clauses in solicitations and the prohibition on pre-selection, and require that applicable requirements in the Federal Acquisition Regulations are followed.

### **Recommendation 3:**

To ensure duties are segregated, the Office of Administrative Services should implement internal procedures to limit Contracting Officers from also assuming project management and Contracting Officer's Technical Representative's responsibilities on the same project.

### **Recommendation 4:**

The Office of Acquisitions should review existing contracts to ensure that Contracting Officer's Technical Representatives are assigned for each contract, as appropriate.

### **Recommendation 5:**

The Office of Administrative Services (OAS), in conjunction with the Office of Financial Management, should evaluate the reconciliation tool in order to determine, on a cost to benefit basis, whether it would be feasible to correct the deficiencies noted. OAS should then decide whether the corrections should be performed by Commission personnel, or by technically competent contractor personnel.


# Management Comments

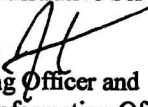
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**MEMORANDUM**

September 24, 2010

**TO:** H. David Kotz  
Inspector General

**FROM:** Sharon Sheehan   
Associate Executive Director  
Office of Administrative Services

Jeffery Heslop   
Chief Operating Officer and  
Acting Chief Information Officer

**SUBJECT:** OAS Management Response to Draft Report No. 486, *Review of PRISM Automated Procurement System Support Contracts*

This memorandum is in response to the Office of Inspector General's Draft Report No. 486, *Review of PRISM Automated Procurement System Support Contracts*. Thank you for the opportunity to review and respond to this report. OIT concurs with recommendation 1, and OAS concurs with recommendations 1, 2, 4 and 5. OAS does not concur with recommendation 3. We have coordinated our response with the Office of General Counsel and have provided detailed response information for the findings and recommendations presented in the report.

**Cc:** David Becker, OGC  
Diego Ruiz, ED  
Ken Johnson, CFO  
Kayla Gillan, OOC  
Julie Basile, OA  
Zayra Okrak, OFM  
George Eckard, OIT  
George Brown, OGC

**Introduction**

Draft Audit Report 486 (Report) addresses the Office of Acquisition's (OA) automation of its procurement function, and states that the findings identified in the Report "raise concerns about the future success of the PRISM project." Management firmly believes that the PRISM project as a whole has been successful and will continue to succeed. The PRISM project will evolve and provide business process improvements as we fully implement the capabilities of the system. PRISM is proving to be a successful tool for OA. This fiscal year 886 total contract actions were processed in PRISM representing \$110.3 million.

While the Report offers some helpful suggestions, we are concerned that the Report overall is inaccurate or reaches unsupported conclusions in a number of respects. Some of the findings in the Report are based on improper interpretation of complex issues of contract practice governed by the Federal Acquisition Regulation (FAR). We will provide references from the FAR and from a Government Accountability Office (GAO) decision regarding similar matters that demonstrate the SEC did not act improperly.

The Report's assertion that the Office of Administrative Services (OAS) restricted competition is based on a misinterpretation of acquisition regulations, since including requirements the government deemed necessary for performance of work does not improperly restrict competition. The language of the solicitation was "the Contractor's employees shall have current (or within the past 30 days) SEC clearance to minimize the amount of time to be on site and begin work." This permitted potential contractors to provide both employees who had active badges and employees who had a recently expired SEC clearance, to be proposed.

The Report asserts that "OAS had already pre-selected a contractor approximately a week before the solicitation was publicized." During market research on projects, agencies frequently identify potential offerors who should be able to perform the work. The fact that one of the six companies identified during the market research was ultimately the only offeror on the project was not a result of pre-selection. Multiple companies often propose the same qualified individuals for government projects. Further, none of the 33 potential vendors who received a copy of the RFP complained that the security provision was improper.

**Recommendation 1:**

**The Office of Information Technology (OIT) should review the adequacy of trained project officers that are available to manage all current and anticipated projects. If it is determined that sufficient qualified project officers are not available to manage all current and anticipated projects, OIT should remedy the situation by either providing an adequate**

**number of qualified personnel, or implementing an alternative process for ensuring oversight of the projects.**

The Office of Information Technology (OIT) concurs with this finding and recommendation. An independent consultant is assessing the OIT organization structure and staffing levels to ensure we are positioned to meet the technology needs of the SEC. The assessment will include the qualifications and assignment of our project management staff. We will rely upon results of the assessment to staff our project management capability to the appropriate level and skill set. A significant portion of new positions allocated to OIT in FY 11 will be assigned as project managers.

**Recommendation 2:**

**The Office of Administrative Services should issue guidance to staff on the proper use of restrictive clauses in solicitations and the prohibition on pre-selection, and require that applicable requirements in the Federal Acquisition Regulations are followed.**

OAS concurs with the recommendation to issue such guidance to staff. Management takes very seriously the obligation of all contracting staff to adhere to the requirements of the FAR and conduct every procurement action with the utmost professionalism and integrity. This recommendation restates existing regulatory requirements, since such guidance is already present in the FAR, which contracting staff already are required to follow as part of their duties.

We strongly disagree with the finding that competition was restricted inappropriately. The Report's statements in this finding do not align with the actual implementation of the Competition in Contracting Act (CICA) of 1984. As implemented in FAR part 6, which sets a standard of competition for federal contracts, competition standards do not require that the needs of the agency be abandoned in order to expand competition. The statement in this Report that OAS restricted competition is a misinterpretation of acquisition regulations since including requirements the government deems necessary for performance of the work is appropriate.

The GAO has found that the determination of a contracting agency's needs and the best method for accommodating them is a matter primarily within the agency's discretion. Generally, the fact that a requirement may be burdensome or even impossible for particular firms to meet does not make it objectionable if the requirement properly reflects the agency's needs.

Federal policy at FAR 11.002(a)(1)(ii) states that "agencies shall – (1) specify needs \* \* \*." The determination of agency needs is within the reasonable discretion of the acquiring agency. Here the SEC had a reasonable basis to contract with vendors who could start work immediately. The Momentum Upgrade was scheduled to go live in August 2008. Because of the time line, it was



important that we obtain onsite project support for PRISM quickly. During the numerous planning meetings, OIT, OFM and OAS collectively understood that the Momentum Upgrade support contractors' stay onsite was limited. A delay in project start was a significant risk since the overlap with OFM contractors was key to a successful interface of the two systems, PRISM and Momentum.

The work required access to sensitive SEC data and a security requirement was necessary for such access. A reasonable method for meeting this requirement, given the time delays in obtaining security clearances, was to require the presence of a current or recent SEC security clearance.

FAR 11.002 goes on to state that in specifying needs, agencies should be "using market research." Here, market research indicated that six contractors with the expertise and security clearances were available to seek the work set forth in the RFP. Given the availability of more than one source to satisfy the stated requirement, it is incorrect to state that the security clearance was restrictive. Even if it were considered in some fashion restrictive (it did not appear so at the time based on market research), the FAR goes on to state in (a)(1)(ii) that such restrictions are permissible "to the extent necessary to satisfy the needs of the agency" [emphasis added]. In this case, the SEC's requirement for a security clearance relates directly to potential offerors' ability or capacity to perform the contract and to have personnel enter the SEC work site and gain access to SEC computer systems, allowing them to begin work immediately upon award. The awardee was required to immediately attend meetings, interview and interact with government personnel as well as contractors supporting the upgrade to SEC's financial management system, Momentum. The contract generally supported all aspects of implementing the contract writing system and preparing to interface the two.

The requirement for a security clearance in this solicitation falls within the category of a responsibility determination. One of the most fundamental principles of government contracting is that the government may contract only with "responsible sources." Determination of contractor responsibility is a business judgment made by the agency as to whether the contractor can or will perform the specific requirements the government has specified. As a result, the agency enjoys considerable discretion in making this decision. The requirement to assure that personnel held or could quickly obtain SEC clearance is appropriate in light of relevant FAR provisions that describe the elements bearing on determining that potential contractors are responsible sources. The term "responsible source" is defined by statute and implemented into regulation at FAR 9.104-1. FAR 9.104-1(b), states the firm must "be able to comply with the required or proposed delivery or performance schedule" and 9.104-3(a), states the contracting officer "shall require acceptable evidence of the prospective contractor's ability to obtain required resources," and that evidence "normally consists of a commitment or explicit arrangement, that will be in existence at the time of contract award, to rent, purchase, or

otherwise acquire the needed facilities, equipment, other resources, or personnel [emphasis added].”

The Report also quoted FAR 6.101, but improperly focused only on the first portion of the subpart, and failed to consider FAR 6.101(b) of that same section which clearly shows agencies should use competitive procedures that “are best suited to the circumstances of the contract action and consistent with the need to fulfill the Government requirements efficiently.”

The Report states that in 2008 SEC was granting interim clearances to individuals within 7-10 business days but no longer than 2-3 weeks, with final clearance in 90 days. Although these objectives were at times met during 2008, the office’s performance to this standard was very inconsistent. Instead, these timeframes more accurately reflect the office’s current standard of performance. The challenges faced by the SEC in processing background investigation at that time were cited in an inspection conducted by OIG itself in March of 2008 (Background Investigations, Report No. 434). At that time, OIG showed that although the workload of the branch had significantly increased, the staff resources had not, resulting in a backlog of investigations amounting to hundreds of cases. The Report stated, “Delays in processing background investigations and the lack of adherence to relevant Federal requirements negatively impact the recruitment of staff and other temporary personnel, efficient use of contractors, and security of federally controlled facilities and Commission information systems.” In addition, Report No. 434 referenced complaints by Commission officials of significant delays with clearances. The office was also faced with a requirement to review existing employees and contractors with a deadline of October 27, 2008. Contrary to the Report, delays were still occurring at the time the contracts in question were formulated and awarded. Further, the process of onboarding a contract employee involves additional time for employees to complete the background forms, obtain fingerprints, and process those forms through their company. Once approval is granted, the company must then negotiate a start date with the employees and the government.

In an effort to assure broadest possible competition within the constraints of the needs of the SEC, the contracting officer properly submitted a combined solicitation/synopsis to Federal Business Opportunities web site in accordance with FAR 5.2. FAR 5.201(c) establishes the purpose of the notice as “to enhance competition by identifying contracting and subcontracting opportunities.” When a solicitation is issued, if any potential offeror wishes to complain about the terms of the solicitation as too restrictive, there are provisions in the FAR to do so. FAR 33.103(e) states that protests based on alleged improprieties in a solicitation must be filed before the closing date for receipt of proposals. The SEC received no such protest. If competing offerors had believed that the restriction was unnecessary to meet the schedule and requirements of the

solicitation, each had a right to protest the SEC's inclusion of the requirement. However, none did so.

The determination of a contracting agency's needs and the best method for accommodating them is a matter primarily within the agency's discretion. The GAO decided a similar case, in which prospective vendor protested a requirement that bidders have a security clearance at the time of award, and suggested instead that bidders should be permitted 90 days to obtain the clearance. In that case, GAO upheld the government's position. The case decision is Computer Maintenance Operations Services, B-255530, Feb. 23, 1994.

The Report asserts that "OAS had already pre-selected a contractor approximately a week before the solicitation was publicized." This statement is incorrect and a highly speculative inference from an email referenced in the Report by the auditors. The correspondence in question occurred during the market research phase of the procurement. The auditors never discussed this email with its author concerning her intent.<sup>1</sup> During market research on projects, agencies frequently identify potential offerors who are expected to be able to perform the work. In fact, the winning offeror was one of six firms identified as being capable of meeting requirements. The fact that one of the contractors identified by OFM during the initial market research was ultimately the only offeror on the project is not an indicator of pre-selection. Anyone could propose who met the requirements, and it was the vendor(s) who decided whether to propose or not. A named individual need not be associated with a single contractor. It is common practice for competing firms to hire staff members who have experience with agency needs. In fact, often the same individual will appear as a key person on multiple contract proposals from different firms. Any firm wishing to submit a proposal could, in fact, have proposed and hired any SEC employee or SEC contractor who was qualified and cleared by SEC, or whose clearance had not been expired more than 30 days. These proposals would have been considered.

For the many reasons referenced above, OAS does not agree that this action is evidence that OAS management controls are inadequate to ensure adherence to competition requirements of the FAR or that there is evidence of pre-selection. On the contrary, the fact that OAS attempted

<sup>1</sup> The Report makes much of the contracting officer's use of the common abbreviation "i.e.", the Latin abbreviation for *id est* (that is) instead of "e.g.", the Latin abbreviation for *exempli gratia* (for example) in an email. In the email, she identifies the name of a cleared individual who might be proposed for program work, who later came to work with the eventual successful offeror. The Report, in our opinion, is highly speculative in concluding that the use of "i.e." indicated pre-selection, for all the reasons set forth above. Use of "i.e." rather than "e.g." is a common grammatical error and in fact, is considered one of the top ten errors seen in college level writing or technical documents. Reference, e.g., <http://www.mbatutes.com/top-5-most-common-english-grammar-errors>. Further, the Contracting Officer was not in a position to unilaterally select the successful vendor. Evaluators would be involved in analyzing proposals and generally making a recommendation as to the most highly qualified technical offer, and be in a position to comment before any final award decision was made. A contracting officer makes her own ultimate award decision, but in doing so, she relies on the input from the evaluation staff and, if she reaches a different decision, documents her views and why they differ from that of her evaluation panel.

to find additional sources that could perform the work instead of simply entering into a sole source contract (which would have been far easier) is evidence that maximizing competition was a prime consideration for the OA contracting officer. In preparing this response, we discussed the issue and the email with the contracting officer and she stated she had no intent of pre-selection but in fact used competitive procedures.

**Recommendation 3:**

**To ensure duties are segregated, the Office of Administrative Services should implement internal procedures to limit Contracting Officers from also assuming project management and Contracting Officer's Technical Representative's responsibilities on the same project.**

OAS does not concur with this recommendation. OMB Circular A-123 discusses the management control environment and proper segregation of duties (separate personnel with authority to authorize a transaction, process the transaction, and review the transaction). Segregation of duties does not restrict a contracting officer from performing contracting officer's technical representative (COTR) responsibilities. The contracting officer, who has those duties as an intrinsic part of her contracting officer's responsibilities, delegates COTR's responsibilities. The contracting officer cannot delegate a responsibility she does not have. COTRs act for the contracting officer in certain situations and perform delegated duties as necessary to administer an assigned contract and support the contracting officer.

A contracting officer has express authority to enter into, administer, and terminate contracts. According to SECR 10-15, the contracting officer has authority to determine what type of contract administration position is needed for a contract and works with program officials (in this case OAS) to identify appropriate employees for those contract administration positions; further, the contracting officer appoints/designates employees to contract administration positions in writing. The Report assumes that an individual other than the contracting officer would have been better qualified to perform the duties often delegated to a COTR. We do not agree. There is a dynamic balance between IT expertise and business process expertise when implementing IT projects that support business owners. The business process requirements were critically important when the system involved directly supported the acquisition business process. The SEC must manage risk, since it is impossible to eliminate it, and often an agency assigns the best available resource combining knowledge of business needs and IT requirements.

As the business sponsor of the APS project, OA recognizes that assistance with project planning and coordination would have been highly desirable, and as OIT strengthens its staffing resources, we agree that we will use those resources more fully as they become available. However, both OA and OIT had insufficient personnel to support all projects as robustly as we might desire. Management agrees that the contracting officer did not have as much time to manage this project

optimally, and OIT had insufficient personnel resources to fully support the effort. However, the business sponsor and acquisition subject matter experts needed to be substantially involved in the project to ensure OA's business needs were met. The Assistant Director for OA at the time had a significant role in the APS project. In addition to his oversight and knowledge, he chaired the Executive Steering Committee, briefed the Information Officer's Council (IOC) on a quarterly basis, met regularly with OIT, Office of Financial Management (OFM) and the contractors involved in the project, and spent roughly eight to twelve hours per week working on the APS project. Management made the decision to optimize constrained resources by not delegating COTR duties when inadequate staffing structures existed in both offices.

The contracting officer oversaw performance and retained contract administration. This approach was appropriate because OIT had limited program management resources available. PRISM is a COTS product that is compliant with federal FSIO requirements, and is a tool that has been successfully implemented in many federal agencies. Given resource constraints, management believes these were appropriate decisions given the conditions existing in 2008 when those decisions were made. Tom King and John Pezzullo, both OIT program/project managers, supported the APS project extensively by providing technical, CPIC, CMQA, and other IT expertise and support. Their input and guidance were critical in terms of managing the technical requirements of the APS project. Some of their responsibilities in support of the April 2009 Phase I rollout included system development life cycle (SDLC) processing CCBs, labs, documents, certification and accreditation, vulnerability testing, mitigating Plans of Action and Milestones (POAM)), technical advice, buying servers and equipment, setting up OIT required environments, completing data installations, processing CCBs through SDLC and "Authorities to Operate" issued after the certification and accreditation process.

During implementation, there has been significant statutory and regulatory change, internal improvements within the SEC in both OA and OFM, and increasing focus on OMB A-123 and A-127. Staff offices successfully worked together as a cross-functional team consisting of Federal subject matter experts and contractors in completing Phase I implementation of PRISM in April 2009. Because of the team's efforts, OA for the first time has a contract writing tool, a tool that is improving the office's ability to more accurately manage contract activities and track contract actions. Although the integration project has been delayed, Management intends to seek an integrated solution as financial system solutions are implemented.

Despite non-concurrence with this finding, OIT and OAS together will continue to work to strengthen the project management and COTR function at the SEC.

**Recommendation 4:**

**The Office of Acquisitions should review existing contracts to ensure**

**that Contracting Officer's Technical Representatives are assigned for each contract as appropriate.**

OAS concurs with this recommendation. While it is neither appropriate nor necessary to appoint a COTR for all existing contracts – for instance, aged contracts pending closeout, closed out contracts that are being retained in accordance with records management policies, or certain contracts that are not technical in nature – OA has already begun an effort to review active contracts. The contracting officer will determine whether it is appropriate to appoint an Inspection and Acceptance Official or a COTR to those active contracts.

**Recommendation 5:**

**The Office of Administrative Services (OAS), in conjunction with the Office of Financial Management, should evaluate the reconciliation tool in order to determine, on a cost to benefit basis, whether it would be feasible to correct the deficiencies noted. OAS should then decide whether the corrections should be performed by Commission personnel, or by technically competent contractor personnel.**

OAS concurs with this recommendation. OA and OFM have made a decision that it is not feasible to correct the deficiencies in the validation report. Subsequent to the IG's audit, the FMOC made a decision to go to a shared service provider for its financial management system. That and upgrades to PRISM required to accommodate new reporting requirements warrant deferring corrections to this report. This qualitative decision supersedes the need to conduct a cost benefit analysis since it is inappropriate to revise a reconciliation report for the two existing systems until the financial system is determined. We request this recommendation be closed.

## OIG Response to Management's Comments

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The Office of Inspector General is pleased that the Office of Administrative Services (OAS) has concurred with recommendations no. 2, 4, and 5, but are disappointed in OAS's non-concurrence with recommendation no. 3. The recommendation that OAS implement procedures to "limit" contracting officers from assuming certain project management duties is a prudent and appropriate step to take to ensure that Commission projects are managed more efficiently in the future.

We are pleased that the Chief Operating Officer/Acting Chief Information Officer concurred with recommendation no. 1, the only recommendation directed to the Office of Information Technology. We believe that the independent consultant's assessment will be useful to improve the vulnerabilities and areas of concern that we identified in the audit.

We believe that if all of the recommendations in this report are fully implemented, the Commission's contract and procurement oversight will be significantly improved.

## Audit Requests and Ideas

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The Office of Inspector General welcomes your input. If you would like to request an audit in the future or have an audit idea, please contact us at:

U.S. Securities and Exchange Commission  
Office of Inspector General  
Attn: Assistant Inspector General, Audits (Audit Request/Idea)  
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### Hotline

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Phone: 877.442.0854

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