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Office of Inspector General
Office of Audits

SEC's Controls Over Government Furnished Equipment and Contractor Acquired Property



March 28, 2012
Report No. 503

Audit Conducted by Castro & Company, LLC



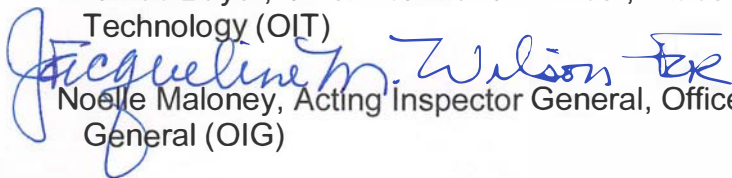
OFFICE OF
INSPECTOR GENERAL

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

MEMORANDUM

March 28, 2012

To: Jayne Seidman, Acting Director, Office of Administrative Services (OAS)
Thomas Bayer, Chief Information Officer, Office of Information Technology (OIT)

From: 
Noelle Maloney, Acting Inspector General, Office of Inspector General (OIG)

Subject: *SEC's Controls Over Government Furnished Equipment and Contractor Acquired Property, Report No. 503*

This memorandum transmits the U.S. Securities and Exchange Commission OIG's final report detailing the results of our audit on the SEC's controls over government furnished equipment and contractor acquired property. This audit was conducted as part of our continuous effort to assess management of the Commission's programs and operations and as a part of our annual audit plan.

The final report contains nine recommendations which if fully implemented should strengthen the Commission's controls over government furnished equipment and contractor acquired property. OAS and OIT concurred with all the report's recommendations. Your written response to the draft report is included in Appendix V.

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

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 contractors.

Attachment

cc: James R. Burns, Deputy Chief of Staff, Office of the Chairman
Luis A. Aguilar, Commissioner
Troy A. Paredes, Commissioner
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Vance Cathell, Deputy Director, Office of Administrative Services
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Technology

SEC's Controls Over Government Furnished Equipment and Contractor Acquired Property

Executive Summary

Background. The U.S. Securities and Exchange Commission (SEC or Commission) Office of Inspector General (OIG) contracted with Castro & Company, LLC to conduct an audit of the SEC's Government Furnished Equipment (GFE) and Contractor Acquired Property (CAP), and to identify potential areas for improvement.

The SEC's mission is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. The SEC accomplishes much of its mission through the use of contractors and frequently provides its contractors with information technology equipment to use.

Federal Acquisition Regulation (FAR) Part 45 – *Government Property* defines GFE or, Government Furnished Property (GFP), as property in the possession of, or directly acquired by, the government and subsequently furnished to the contractor for performance of a contract. It further defines CAP as property acquired, fabricated, or otherwise provided by the contractor for performing a contract and to which the government has title.¹ Examples of GFP include servers and machinery the government provides to a contractor to use at the contractor's facility to perform the terms of its contract. For simplicity, throughout this report GFE and CAP will be referred to as GFP.

When the SEC issues GFP to a contractor, the contractor is required to manage and account for GFP in accordance with the FAR, and the contractor is required to have a system to manage (i.e., control, use, preserve, protect, repair and maintain) the government property in its possession. In doing so, the contractor should initiate and maintain the processes, systems, procedures, records, and methodologies necessary for effective control of government property. To ensure contractors comply with these requirements, contractors should develop property management systems.²

The Commission has approximately 3,500 employees and 1,400 contract employees who are located at its Headquarters site in Washington, D.C., the Operations Center in Alexandria, VA, and its 11 regional offices located

¹ Federal Acquisition Regulation, Part 45 – *Government Property*, Clause 45.101 – Definitions, <https://www.acquisition.gov/far/html/FARTOCP45.html>.

² Federal Acquisition Regulation, Part 52.245-1 - *Government Property*, Clause (b)(1), Property management, https://www.acquisition.gov/far/html/52_245.html.

throughout the country. The scope of our audit primarily covered SEC's Office of Administrative Services (OAS), Office of Information Technology (OIT), and Office of Financial Management (OFM).

OAS assists the SEC with managing its facilities and assets, and provides a wide range of support services to SEC staff. OAS provides service to SEC employees agency-wide on matters such as procurement and contracting, property management, office lease acquisition and administration, space renovation, supplies and office equipment management, transportation, mail distribution, publications, printing, and desktop publishing. OAS' Associate Executive Director is the Property Management Officer who has oversight of the SEC's property management program.

OIT supports the SEC employees regarding all aspects of information technology. OIT further has overall management responsibility for the Commission's information technology program including application development, infrastructure operations and engineering, user support, information technology program management, capital planning, security, and enterprise architecture. OIT's Asset Management Branch (AMB) is responsible for establishing property management policies for information technology equipment, including serving as the inventory control point for the acquisition, storage and issuance of information technology equipment; serving as the utilization coordinator for the reassignment and disposal of information technology assets; and interfacing with the Assistant Property Management Officer regarding all information technology property issues.

OFM administers the SEC's financial management and budget functions, and is responsible for accounting policies, procedures, and operations, including overseeing internal control procedures to ensure accountability of property and reconciliation of the SEC's official property records to the general ledger control accounts.

Objectives. The overall objective of the audit was to determine whether sufficient management controls over government property held by contractors were in-place and operating effectively. The specific audit objectives were to determine whether:

- SEC has reliable records to assess which contractors have received GFP and the dollar value of the assets provided,
- Contracting Officer Representatives or others responsible for administration of property, are properly trained and are performing their required duties in accordance with the SEC policy,
- Contractors that were provided GFP by the SEC have performed annual inventories of property in accordance with their contracts and the FAR,

- SEC and contractors that were provided GFP by the SEC have adequate policies and procedures for the management and disposal of property, including the sanitization and disposal of IT property such as media, magnetic tapes, removable media, and hard drives which can contain sensitive data; and
- Assets held by contractors are properly accounted for and reported in the SEC's financial statements.

Where appropriate, we also identified areas for improvement.

Results. We identified a number of control deficiencies concerning the SEC's management and accountability over GFP. Specifically, the audit found that OAS and OIT could not identify the universe of GFP the SEC has issued to its contractors. Additionally, OAS, in conjunction with OIT have not clearly identified in the SEC Administrative Regulation (SECR), SECR 9-2, *Property Management Program*, and SECR 9-3, *Report of Survey Program*, the specific property items that it has designated as GFP, or the particular circumstances that are needed to meet the GFP requirements in the Federal Acquisition Regulation (FAR), Part 45 – *Government Property*, including Section 45.101 – Definitions and Section 45.103 - General.³ Because OAS and OIT have not identified the universe of GFP and have not clearly defined what it considers to be GFP, there is an increased risk of the SEC not complying with the FAR and property that is lost, stolen, or misused may not be detected.

In addition, we found that the Configuration Management Database (CMDB) utilized by AMB to monitor information technology equipment, including GFP is not reliable due to the fact that controls are insufficient to ensure the information in the database is accurate and complete. Additionally, AMB did not have proper policies and procedures related to the accountability of information technology equipment, including coordinating with the Contracting Officer Representatives, or other Property Accountability Officers, as designated in the contract, to ensure that government issued property items are properly returned to OIT when the contractor is no longer using the property item or when the contract with the vendor is no longer active.

Further, we found that information technology equipment provided to contractors that AMB is required to monitor is not appropriately tracked, monitored, or inventoried. In addition, AMB does not have up-to-date policies and procedures to ensure the effective accountability of information technology equipment, including GFP. AMB has not conducted a wall-to-wall inventory of the SEC's information technology equipment since 2009. The last inventory that was conducted included information technology equipment at the SEC's Headquarters, Operations Center, and regional offices. To properly account for information technology equipment, in February 2012, AMB began a wall-to-wall

³ Federal Acquisition Regulation (FAR), Part 45 – *Government Property*, Section 45.101 – Definitions and Section 45.103 – General.

inventory of the SEC's information technology equipment at its Headquarters, Operations Center, and regional offices locations. Once the inventory is completed AMB then plans to conduct an inventory every two years thereafter.

Finally, we found that Contracting Officers, Contract Specialists, and Contracting Officer Representatives are not properly trained regarding their responsibilities as it relates to contracts containing provisions for contractor who are issued GFP. In 10 out of the 30 contracts we sampled there was a section stating the contractor would be provided GFP. For example, one contract contained a section that stated, "Government Furnished Facilities and Equipment. The SEC shall provide office space and computers for contractor personnel." However, OAS informed us that this equipment is generally provided to all contractors and is not considered GFP. Therefore, the GFP section was erroneously included in the contracts. Based on interviews we conducted, there is confusion with the Contracting Officer Representative's understanding of the definition of GFP, their responsibilities for monitoring property that is provided to contractors, whether there are procedures for assigning GFP to contractors, and collecting or disposing of GFP when a contract employee exits a contract.

Summary of Recommendations. Based on the results of our audit, we made the following recommendations:

- (1) The Office of Administrative Services (OAS), in conjunction with the Office of Information Technology (OIT), should revise SECR 9-3, *Report of Survey Program* and SECR 9-2, *Property Management Program*, and clearly define property that is designated as Government Furnished Property (GFP). OAS and OIT should further identify in SECR 9-3 and 9-2 the particular circumstances that are needed to meet the GFP requirements in accordance with Part 45 of the Federal Acquisition Regulation.
- (2) The Office of Information Technology (OIT) should revise its policy to specify how often the office will conduct wall-to-wall inventories of the SEC's information technology equipment and how frequently the Configuration Management Database (CMDB) should be updated. In performing the inventories, OIT should ensure that:
 - All relevant fields related to asset management in the CMDB are accurate and properly completed, including verifying that individuals using the property items are properly identified within the database;
 - Equipment in regional offices is included in the wall-to-wall inventory; and
 - Fields in the CMDB that capture contract numbers and contract expiration dates using the Active Directory.

- (3) The Office of Information Technology (OIT) should coordinate with the Contracting Officer Representative or other Property Accountability Officer, as designated in the contract, to ensure that government issued property items are properly returned to the OIT and the items are promptly removed from the Configuration Management Database when the contractor is no longer using it or when the contract is no longer active.
- (4) The Office of Information Technology should develop and implement procedures for monitoring information technology equipment at the regional offices that is communicated to appropriate personnel. These procedures should include the regional office's roles in monitoring information technology equipment issued to contractors, including their responsibilities when a contractor employee exits a contract or when the equipment is moved to a new location.
- (5) The Office of Information Technology should revise its policies and procedures to establish clear accountability within the Asset Management Branch that is associated with properly tracking and monitoring information technology equipment, including documenting the issuance and receipt of information technology equipment to specific Commission contractors.
- (6) When the Office of Information Technology completes the 2012, wall-to-wall inventory of information technology equipment, it should use this information to establish a baseline of the equipment in the Configuration Management Database.
- (7) The Office of Administrative Services, in conjunction with the Office of Information Technology, should develop periodic training for Contracting Officers, Contract Specialists, and Contracting Officer Representatives that clearly defines and addresses their responsibilities related to government furnished property consistent with Part 45 of the Federal Acquisition Regulation, Government Property and SECR 9-2, *Property Management Program*.
- (8) The Office of Administrative Services should ensure when the Commission issues Government Furnished Property to contractors, the Contracting Officer (and where appropriate the Contract Specialist), includes language in the contract that specifies:
 - The name of the equipment,
 - What equipment will be retained, disposed of, or returned to the government,
 - When the equipment will be disposed of or returned to the government, and
 - Who can accept the returned equipment.

- (9) The Office of Information Technology should issue Government Furnished Property to contractors only after it obtains proof that the vendor's contract has language authorizing the contractor to receive the equipment.

TABLE OF CONTENTS

Executive Summary	iv
Table of Contents	x
Background and Objectives	1
Background	1
Objectives	5
Findings and Recommendations	6
Finding 1: The SEC Could Not Identify the Universe of Property Issued to Contractors	6
Recommendation 1.....	7
Finding 2: The Configuration Management Database Is Not Reliable for Identifying Information Technology Equipment.....	8
Recommendation 2.....	10
Recommendation 3.....	11
Recommendation 4.....	11
Finding 3: OIT Has Not Conducted Timely Inventory of the SEC's Information Technology Equipment and Lacks Up-to-Date Information Technology Equipment Policies and Procedures....	12
Recommendation 5.....	13
Recommendation 6.....	14
Finding 4: Contracting Officers, Contract Specialists, and Contracting Officer Representatives Have Not Received Adequate Training Related to Government Furnished Property	14
Recommendation 7.....	17
Recommendation 8.....	18
Recommendation 9.....	18
Appendices	
Appendix I: Abbreviations.....	19
Appendix II: Scope and Methodology	20
Appendix III: Criteria	24
Appendix IV: List of Recommendations	26
Appendix V: Management Comments	29
Appendix VI: OIG Response to Management Comments.....	34

Background and Objectives

Background

The U.S. Securities and Exchange Commission (SEC or Commission) Office of Inspector General (OIG), in accordance with its annual audit plan, contracted with Castro & Company, LLC (Castro & Co) to conduct an audit of the SEC's controls over Government Furnished Equipment (GFE) and Contractor Acquired Property (CAP). The SEC's mission is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. The SEC accomplishes much of its mission through the use of contractors, and frequently provides its contractors with information technology equipment to aid in carrying out its work.

The Federal Acquisition Regulation (FAR) Part 45 – *Government Property* defines GFE or, Government Furnished Property (GFP), as follows:

“Government-furnished property” means property in the possession of, or directly acquired by, the Government and subsequently furnished to the contractor for performance of a contract...

GFP also includes contractor-acquired property that is a deliverable under a cost contract that is accepted by the government for continued use under the contract.⁴

The FAR defines CAP as “property acquired, fabricated, or otherwise provided by the contractor for performing a contract and to which the government has title.”⁵ Examples of GFP include servers or machinery that the government provides to a contractor to use at the contractor facility to perform the terms of its contract. For simplicity, throughout this report GFE and CAP will be referred to as GFP.

The FAR requires contractors “have a system to manage (i.e., control, use, preserve, protect, repair and maintain) government property” that is in its possession and to initiate and maintain processes, systems, procedures, records, and methodologies necessary for effective control of the government property.⁶

The SEC has approximately 3,500 employees and 1,400 contract employees who work at its Headquarters site in Washington, D.C., the Operations Center in Alexandria, VA, and its 11 regional offices located throughout the country. The

⁴ FAR 45.101, Definitions

⁵ FAR 45.101, Definitions.

⁶ FAR 52.245-1(b)(1) - *Government Property* management, Clause (b)(1), Property management, https://www.acquisition.gov/far/html/52_245.html.

scope of our audit primarily covered the SEC's Office of Administrative Services (OAS), Office of Information Technology (OIT), and Office of Financial Management (OFM).

The SEC Administrative Regulation (SECR) 9-2, *Property Management Program*, prescribes the policies and procedures governing the development, administration, application, and oversight of the SEC's personal property management program to ensure that public assets under SEC custody are effectively and efficiently managed and controlled. The SECR 9-2 applies to personal property that is purchased or leased by the SEC.⁷ Additionally, SECR 9-2 does not address GFP except by stating, "It should be noted that government furnished property used by a contractor off-site is governed by the Federal Acquisition Regulation."

OAS's Role With GFP

The Property Management Officer is OAS' Associate Executive Director, and is responsible for the SEC's property management program. The Property Management Officer's responsibilities include establishing policies, standards, and guidance in accordance with applicable laws, regulations, and sound personal property management practices and standards, and assessing the effectiveness of the Commission's personal property activities to ensure that sound, economical and efficient systems and internal controls are in place.

OAS conducts annual inventories of all accountable SEC property – items with an original acquisition cost of \$5,000 or more - in Momentum's Fixed Asset Module (FAM) accounting system.⁸ Accountable property includes items such as internal use software and leasehold improvements, with an original acquisition cost of \$5,000 or more. This property is subject to being inventoried each year and it is entered into FAM.⁹ Information technology equipment not meeting the \$5,000 accountable property threshold is not required to be inventoried in FAM. OAS conducts annual physical inventories on all accountable property, including information technology equipment that cost more than \$5,000, and enters the resulting data in FAM.

All Momentum modules, including FAM, are scheduled to be closed for new data entry as of March 31, 2012, as the SEC transitions to a new Financial Shared Services Provider, Delphi Accounting System (Oracle Financials). At that time, existing SEC accountable property in FAM will be converted to the Oracle Assets Module.

⁷ SECR 9-2, Property Management Program (Mar. 16, 2009) cover letter and ch.1.1 – Purpose.

⁸ Momentum is the SEC's accounting system. Fixed Asset Module (FAM), is a separate module in Momentum that is SEC's property management system.

⁹ SECR 9-2, section 1-5(C).

OAS tracks all the SEC contracts in the Federal Procurement Data System (FPDS) and will continue to do so after the SEC's transition to Oracle Financials.¹⁰ FPDS includes a field that Contracting Officers can use to identify contracts that authorize the issuance of GFP during the contract's period of performance. If the SEC provides GFP to a contractor, the FAR requires that the Contracting Officer insert the government property clause FAR Part 52.245.1, in its entirety, into the contract. Contracting Officer Representatives are responsible for ensuring that GFP, as specified in a contract, is available when authorized and for reporting any accountable property to the contracting officer.¹¹

AMB's Role With GFP

OIT's Asset Management Branch (AMB) is responsible for establishing property management policies for information technology equipment, including serving as the inventory control point for the acquisition, storage and issuance of information technology equipment (this includes computers and mobile devices); serves as the utilization coordinator for the reassignment and disposal of information technology assets; and interfaces with the OAS' Assistant Property Management Officer regarding all information technology property issues.¹²

Further, AMB is responsible for issuing SEC owned information technology property items to contract employees and tracking these items. Further, AMB is responsible for identifying what property has been issued to contractors, determining the location of government issued property, and ensuring the return of the government issued property to AMB when the contractor no longer needs it or when the contractor no longer works on the contract.

AMB maintains the Configuration Management Database (CMDB), which tracks agency-wide information technology equipment (includes GFP) that the SEC owns, as well as equipment that is located at the SEC's regional offices and equipment the regional offices issues to its contractors. AMB uses CMDB to track and monitor all SEC information technology equipment that is not considered accountable property.¹³

OFM's Role With GFP

OFM administers the SEC's financial management and budget functions, and is responsible for accounting policies, procedures, and operations, including overseeing the Commission's internal control procedures to ensure accountability

¹⁰ FPDS is an automated system for collecting and reporting on federal procurement spending and serves as a repository for federal procurement award data, https://www.fpds.gov/downloads/Manuals/FPDS-NG_Overview.ppt

¹¹ SECR 10-15 (rev. 1), Acquisitions Contract Administration Positions (Aug. 12, 2009), app. A (rev. Aug. 13, 2009).

¹² SECR 9-2, section 1-5(F).

¹³ Per the AMB Branch Chief, the CMDB is used to identify information technology equipment when AMB conducts agency-wide, wall-to-wall inventories.

for property and reconciliation of the official property records to the general ledger control accounts.¹⁴

Regional Office Questionnaire

To determine the adequacy of the SEC identifying, issuing, and tracking GFP at its regional offices, Castro & Co developed and issued a questionnaire that was sent to administrative officers and supervisors at the SEC's 11 regional offices regarding the following:

- *Regional Office Location and Personnel* – Names, phone numbers and e-mail addresses of the Property Accountability Officer, Property Custodian Officer, Receiving Official, Administrative Officer, and any other individual associated with GFP.
- *Requisition and Procurement* – Respond to questions associated with the office's methodology for procuring equipment and contractors, procedures for identifying contracts with GFP items, and procedures for determining whether GFP items were provided to contractors.
- *Receipt of Property Items* – Does the office have a centralized location for the receipt of property items? Does the office have procedures associated with the receipt of property items? Are there procedures pertaining to the distribution of property items to end users?
- *Accountability of Property Items* – Respond to a series of questions related to tracking property items in FAM¹⁵ or some other database and the recent inventorying of property items at the regional offices.
- *Other* – What are the office procedures associated with collecting GFP from contractors after the period of performance on a given contract has ended?

We received responses to our questionnaire from 10 regional offices. However, after repeated requests, the Los Angeles regional office did not respond to the questionnaire.

¹⁴ SECR 9-2, section 1-5(E).

¹⁵ FAM is located in the SEC's Momentum Accounting System.

Objectives

The overall objective of this audit was to determine whether the SEC has in place sufficient management controls over government property held by contractors and whether those controls were operating effectively.

Castro & Co's additional objectives were to determine whether:

- SEC has reliable records to determine which contractors have received GFP and the dollar value of the assets provided;
- Contracting Officer Representatives or others responsible for administration of property are properly trained and performing their required duties in accordance with SEC policy;
- Contractors that were provided GFP by the SEC have performed annual inventories of property in accordance with their contracts and the FAR;
- The SEC and contractors that were provided GFP by the SEC have adequate policies and procedures for the management and disposal of property, including the sanitization and disposal of information technology property such as media, magnetic tapes, removable media, and hard drives containing sensitive data; and
- Assets held by contractors are properly accounted for and reported in the SEC's financial statements.

Where appropriate Castro & Co also identified areas for improvement.

Findings and Recommendations

Finding 1: The SEC Could Not Identify the Universe of Property Issued to Contractors

OAS and OIT could not identify the universe of property issued to contractors that was designated as GFP, and it has not clearly defined property that is considered GFP. As a result, there is an increased risk that the SEC's management of GFP is not in compliance with the FAR, and the property will be lost, stolen, or misused.

From our review of the SEC property databases (e.g., FAM and AMB's Configuration Management Database (CMDB)), we could not identify which property items in the databases that would create the universe of GFP. Additionally, through discussions with OAS, OIT, OFM, Contracting Officers, Contracting Officer Representatives, and regional office personnel, we determined that SEC personnel lack a clear understanding of what constitutes GFP. The FAR defines GFP as:

“Government-furnished property” means property in the possession of, or directly acquired by, the Government and subsequently furnished to the contractor for performance of a contract...Government-furnished property also includes contractor-acquired property if the contractor-acquired property is a deliverable under a cost contract when accepted by the Government for continued use under the contract.¹⁶

In its administrative regulations, the SEC does not clearly identify the specific property items that are considered GFP, or the particular circumstances that are needed for SEC property to meet the FAR definition of GFP.

Our review found that SECR 9-3 indicates “Government Furnished Property is defined in the FAR, Part 45.”¹⁷ However, it does not discuss what specific SEC property is designated as GFP. In addition, SECR 9-2 does not address GFP except by stating, “It should be noted that government furnished property used by a contractor off-site is governed by the Federal Acquisition Regulation.”¹⁸

¹⁶ FAR 45.101, Definitions.

¹⁷ SECR 9-3, Report of Survey Program (Mar. 18, 1996), section A(3)(A). SECR 9-3 3 “provides criteria and procedures for initiating, preparing, and approving reports of survey for SEC property.” In addition, it establishes criteria for determining an individual's financial liability for loss of or damage to SEC property.

¹⁸ SECR 9-2, Property Management Program, section 6.2(B).

Response to Regional Office Questionnaire. In response to the questionnaire we issued to the SEC's 11 regional offices, five offices identified contractors they determined had been issued GFP. These offices indicated the GFP items were desktop computers and monitors that AMB provided to the contractor's employees.¹⁹ Three regional offices verbally stated they did not have a clear understanding of what SEC information technology equipment is defined as GFP.

Conclusion. OAS and OIT could not identify the universe of GFP that was issued to SEC contractors. Further, the SEC has not clearly defined in its internal policies and the SECR, exactly what property is considered to be GFP.

Because the SEC has not clearly identified the universe of GFP, there is a risk that the SEC may not be in compliance with the FAR Part 45, and property that is lost, stolen, or misused may not be detected. We found that some contracts we reviewed included sections related to GFP items that were provided in the contract, but OAS later determined that the items did not meet the definition of GFP in Part 45. For example, one contract had a section stating, "Government Furnished Facilities and Equipment. The SEC shall provide office space and computers for contractor personnel," and the SEC confirmed they do not consider these items to be GFP.

Recommendation 1:

The Office of Administrative Services (OAS), in conjunction with the Office of Information Technology (OIT), should revise SECR 9-3, *Report of Survey Program* and SECR 9-2, *Property Management Program*, and clearly define property that is designated as Government Furnished Property (GFP). OAS and OIT should further identify in SECR 9-3 and 9-2 the particular circumstances that are needed to meet the GFP requirements in accordance with Part 45 of the Federal Acquisition Regulation.

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

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

¹⁹ Computers issued to contract personnel are not the type of information technology equipment OAS or OIT consider to be GFP.

Finding 2: The Configuration Management Database Is Not Reliable for Identifying Information Technology Equipment

The CMDB, which AMB uses to track and monitor information technology equipment, is not reliable because its controls over the monitoring and tracking of information technology equipment are insufficient and do not ensure that the information in the database is accurate and complete.

To determine the appropriateness and completeness of the CMDB for tracking and identifying information technology equipment, we obtained an FPDS report from OAS containing all the contracts that were identified as having been issued GFP. OAS tracks all SEC contracts in the FPDS and the FPDS has a field that Contracting Officers can use to identify contracts that are authorized to be issued GFP during the contract's period of performance.

We then obtained a CMDB report from AMB that identified all information technology property items that were provided to contractors. To analyze these reports, Castro & Co:

- (1) Reviewed the reports for any anomalies;
- (2) Reconciled the reports by comparing them to determine if contractors on one of the databases were missing from the other;
- (3) Selected a sample number of contractors from the CMDB listing that were not included on the FPDS report and obtained a copy of the contracts; and
- (4) Obtained a Momentum report from OFM of all transactions recorded against the "equipment" Budget Object Class 31XX, in 2010 and 2011.

Our review of the FPDS report and the report from the CMDB identified the following discrepancies:

- Certain data fields in the CMDB were inaccurate or incomplete. For example, 31 items in the population of 1,658 information technology assets in the CMDB did not have the required room number for the location of the asset; and three items did not have the required floor number for the asset.
- An Asset Tag number was listed twice in the CMDB.
- A significant number of Blackberries being held for stock were wrongly assigned to a contract employee in the CMDB.
- The FPDS report identified 42 contractors with GFP and the CMDB showed 110 contractors had GFP. We determined that 74

contractors on the CMDB report were not included in the FPDS report.

- We were unable to determine if 11 of the 110 contractors in the CMDB report had active contracts with SEC because contract numbers are not included in the CMDB and therefore could not be tracked.

Based on our analysis, we determined that the information in the CMDB was unreliable because the database contained erroneous information.

Past Problems Associated With Updating the CMDB. AMB has not conducted a wall-to-wall inventory of SEC information technology equipment since 2009. The AMB Branch Chief informed Castro & Co that during the 2009 inventory, server problems interfered with loading inventory data into the CMDB correctly, and the contractor responsible for conducting the inventory spent approximately a year trying to correct the issues, which caused delays in performing the next scheduled equipment inventory. He further relayed that as a result, AMB did not start to plan the next wall-to-wall inventory until the third quarter of fiscal year 2010. As a result, he acknowledged that the data in the CMDB is not current.

Further AMB's Branch Chief told us that OIT's "Tier II"²⁰ technicians neglected to update the CMDB when they issued new equipment to contractors.

Assessment of the CMDB's Controls. In Castro & Co's questionnaire, five regional offices stated they had issued information technology equipment to contractors; however, only one of the offices maintained a listing of the equipment. We attempted to trace all items identified on this particular regional office's list, to the CMDB to determine if AMB properly tracked the items and found that some of the information technology equipment was not in the CMDB.

AMB did not have proper policies and procedures related to the accountability for information technology equipment, including GFP in the CMDB. AMB also did not have policies and procedures for coordinating with the Contracting Officer Representatives or other Property Accountability Officers, as designated in the contract, to ensure that GFP items are properly returned to OIT when for example, the contractor no longer needs the item, the contractor no longer works for the vendor or in the area requiring equipment, or when the period of performance on the contract ends.

Four staff in the regional offices informed Castro & Co that they did not have a clear understanding of the procedures they should follow when a contract employee who was issued GFP either no longer works on the contract or when the period of performance on the contract ends. Therefore, there is a risk that

²⁰ AMB's "Tier II" technicians are contractors who are managed by OIT's Technical Assistance Center Branch.

property items AMB provided to contractors may have been transferred to another contractor or SEC employee without being properly tracked.

Conclusion. The CMDB was unreliable due to missing data fields, the data being unreliable, and not utilized fully by staff, and we could not trace the assignment of certain information technology equipment to specific contracts or individuals. Therefore, if equipment was lost, stolen, or was not returned to the agency, the SEC would have a difficult time identifying the contractor and or individual who was responsible for the equipment. AMB is not complying with SECR 9-2, Section 1-1, Purpose, which states, "This Property Management Regulation prescribes procedures to ensure that public assets under the SEC custody are effectively and efficiently managed and controlled. Implementation of logistical and financial accountability and controls will enable the SEC resource managers to maximize the taxpayers' investment in government property by preventing unnecessary acquisitions, promoting effective use of existing assets, and attaining optimum return by systematic disposal of unneeded equipment."²¹

Recommendation 2:

The Office of Information Technology (OIT) should revise its policy to specify how often the office will conduct wall-to-wall inventories of the Securities and Exchange Commission's information technology equipment and how frequently the Configuration Management Database (CMDB) should be updated. In performing the inventories, OIT should ensure that:

- All relevant fields related to asset management in the CMDB are accurate and properly completed, including verifying that individuals using the property items are properly identified within the database;
- Equipment in regional offices is included in the wall-to-wall inventory; and
- Fields in the CMDB that capture contract numbers and contract expiration dates using the Active Directory.

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

OIG Analysis. We are pleased that OIT concurred with this recommendation.

²¹ SEC Administrative Regulation, SECR 9-2, *Property Management Program*, Section 1.1.

Recommendation 3:

The Office of Information Technology (OIT) should coordinate with the Contracting Officer Representative or other Property Accountability Officer, as designated in the contract, to ensure that government issued property items are properly returned to the OIT and the items are promptly removed from the Configuration Management Database when the contractor is no longer using it or when the contract is no longer active.

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

OIG Analysis. We are pleased that OIT concurred with this recommendation.

Recommendation 4:

The Office of Information Technology (OIT) should develop and implement procedures for monitoring information technology equipment at the regional offices that is communicated to appropriate personnel. These procedures should include the regional office's roles in monitoring information technology equipment issued to contractors, including their responsibilities when a contractor employee exits a contract or when the equipment is moved to a new location.

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

OIG Analysis. We are pleased that OIT concurred with this recommendation.

Finding 3: OIT Has Not Conducted Timely Inventory of the SEC's Information Technology Equipment and Lacks Up-to-Date Information Technology Equipment Policies and Procedures

AMB has not appropriately inventoried the SEC information technology equipment, including information technology equipment provided to contractors. In addition, AMB does not have up-to-date policies and procedures to ensure that information technology equipment, including GFP, is accounted for effectively. As a result, the risk is increased that such equipment could be lost, stolen, misused and that the loss, theft, or misuse could go undetected.

OIT Has Not Conducted Timely Inventory of the SEC's Information Technology Equipment

As previously mentioned, AMB has not conducted a wall-to-wall inventory of the SEC's information technology equipment since 2009. The AMB Branch Chief informed Castro & Co that during the 2009 inventory, server problems interfered with loading inventory data into the CMDB correctly, and the contractor responsible for conducting the inventory spent approximately a year trying to correct the issues, which caused delays in performing the next scheduled equipment inventory. In February 2012, AMB initiated an agency-wide, wall-to-wall inventory of the SEC's information technology equipment. AMB says the office will now conduct an inventory every two years, hereafter. AMB's inventories will obtain the following information for each property item inventoried, including GFP, if applicable:

- Name of Employee/Contractor to whom the equipment is assigned
- Equipment Serial Number
- Office Number and Floor where equipment is located
- Office Location (Headquarters, regional office, etc.)
- Asset Sub Class (e.g., monitors, desktops, laptops)

The Government Accountability Office (GAO) identified a number of best practices in performing an inventory of property, including the following key factors for achieving consistent and accurate counts of physical inventories:

- Establish Accountability
- Establish Written Policies
- Select an Approach
- Determine Frequency of Counts

- Maintain Segregation of Duties
- Enlist Knowledgeable Staff
- Provide Adequate Supervision
- Perform Blind Counts
- Ensure Completeness of the Count
- Execute Physical Count
- Perform Research
- Evaluate Count Results²²

The GAO Executive Guide presents processes and controls that private sector companies use and recognize as excelling in their ability to manage inventory and achieve consistent and accurate counts of physical inventories.

Since the SEC has not performed timely inventories of information technology equipment, they are not able to accurately identify a complete universe of information technology equipment.

AMB Property Management Policies. AMB has not developed up-to-date property management policies for the SEC’s information technology equipment. The AMB Branch Chief, who joined the SEC during the summer of 2011, said that his major focus had been on updating outdated procedures related to monitoring and developing a plan to conduct a wall-to-wall inventory of the SEC’s information technology equipment. Because AMB did not have up-to-date policies and procedures, there were not adequate controls in place related to the accountability of information technology equipment.

Conclusion. Because it did not conduct a timely wall-to-wall inventory of the SEC information technology equipment and has not established or implemented up-to-date policies and procedures to ensure information technology equipment can be effectively accounted for, AMB is not complying with SECR 9-2, or fulfilling the purpose of the regulation, which is to ensure that “public assets under the SEC custody are effectively and efficiently managed and controlled.”²³

Recommendation 5:

The Office of Information Technology (OIT) should revise its policies and procedures to establish clear accountability within the Asset Management Branch that is associated with properly tracking and monitoring information technology equipment, including documenting the issuance and receipt of information technology equipment to specific Commission contractors.

²² Government Accountability Office, *Executive Guide - Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property*, GAO-02-447G (Mar. 1, 2002), at 12. <http://www.gao.gov/new.items/d02447g.pdf>.

²³ SECR 9-2, section 1.1.

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

OIG Analysis. We are pleased that OIT concurred with this recommendation.

Recommendation 6:

When the Office of Information Technology completes the 2012, wall-to-wall inventory of information technology equipment, it should use this information to establish a baseline of the equipment in the Configuration Management Database.

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

OIG Analysis. We are pleased that OIT concurred with this recommendation.

Finding 4: Contracting Officers, Contract Specialists, and Contracting Officer Representatives Have Not Received Adequate Training Related to Government Furnished Property

Contracting Officers, Contract Specialists, and Contracting Officer Representatives are not properly trained regarding their GFP responsibilities. As a result, sections in awarded contracts included language stating the contractor was issued GFP, such as a SEC computer desktop or a monitor. In addition, Contracting Officers and Contracting Officer Representatives do not fully know their responsibilities related to GFP.

Contracting Officer and Contract Specialist Responsibilities Related to GFP

As discussed in Finding 1, Castro & Co obtained a FPDS report from OAS that identified contracts that had GFP. We then got a CMDB report from AMB that identified contractors who had been issued GFP and compared the two reports. The FPDS report identified 42 contractors that had GFP and the CMDB report identified 110 contractors that had GFP. We initially determined that 86 contractors on the CMDB report that were not included on the FPDS report.

However, we determined six contractors were repeated twice and three contracts were on the report three times. After removing the duplicate entries, we determined that 74 contractors remained on the CMDB report, were not on the FPDS report.

We selected a sample of 30 contractors from the list of 74 contractors on the CMDB report and reviewed the associated contracts to determine if the contracts included

- A section stating the contractor would be issued GFP; and
- FAR 52.245-1 (as required by FAR 45.107).²⁴

Ten out of the 30 contracts in our sample included a section in the contract indicating the contractor would be provided GFP. For example, one contract contained a contained the following language:

“Government Furnished Facilities and Equipment. The SEC shall provide office space and computers for contractor personnel.”

Both OAS and OIT informed us that computers issued to contract personnel are not the type of information technology equipment it considers to be GFP. These are standard equipment that is issued to most contractors (depending on need) and it does not leave the SEC’s work sites. Therefore, we determined that the GFP section should not have been included in the contracts. OAS and OIT staff stated the GFP section was included in the contracts by Contracting Officers and Contract Specialists who did not have a clear understanding of what SEC defines as GFP. Additionally, Contracting Officers and Contract Specialists tend to use old Statement of Works to develop templates to develop new contract requirements that have the GFP sections already included in it.

Contracting Officer Representatives Responsibilities Related to GFP

We judgmentally selected 15 contractors from the list of property items in the CMDB and requested names for the Contracting Officer Representatives that were associated with the contracts, from the Office of Acquisitions. We interviewed all but one Contracting Officer Representatives, who was from the Office of Human Resources, and did not respond to our e-mail and telephone requests for an interview.

Based on the interviews we conducted, Castro & Co found that Contracting Officer Representatives are confused about the definition of GFP and their responsibilities for monitoring GFP, including whether procedures exist for

²⁴ Federal Acquisition Regulation Part 45 – *Government Property*, Section 45.107, Contract Clauses.

assigning GFP to contractors and collecting GFP when a contract employee exits a contract. The majority of Contracting Officer Representatives believe they are not responsible for tracking property that is issued to contractors because they believe it is AMB's responsibility. However, SECR 10-15 states that Contracting Officer Representatives' responsibilities and duties include ensuring GFP, as specified in the contract, is available when required, and for reporting any accountable property to the appropriate personnel.²⁵

Contracting Officer Representatives Training. The Contracting Officer Representatives indicated they are required to complete 40 hours of training every two years to maintain their certification. OAS regularly provides the Contracting Officer Representatives with suggested courses in e-mails and they also remind them of their recertification requirements.

There are three levels of Contracting Officer Representatives designation, each with different training and experience requirements:

1. **Level I** – *Level I Contracting Officer Representatives* are required to complete eight hours of training and are not required to have previous experience. This designation is generally appropriate for low-risk contract vehicles, such as supply and order contracts.
2. **Level II** – *Level II Contracting Officer Representatives* are required to complete 40 hours of training and must have two years of previous Contracting Officer Representatives experience. This designation is generally appropriate for contract vehicles of moderate to high complexity, including both supply and service contracts. Level II Contracting Officer Representatives may also be called upon to perform general project management activities.
3. **Level III** – *Level III Contracting Officer Representatives*, are required to complete 60 hours of training every two years, and must have experience on contracts of moderate to high complexity that require significant acquisition investment. Level III Contracting Officer Representatives are the most experienced Contracting Officer Representatives should be assigned the most complex and mission-critical contracts. These Contracting Officer Representatives are often called upon to perform significant program management activities.²⁶

We conducted interviews with the SEC University personnel to identify available training that is related to property management. The SEC University sends out

²⁵ SECR 10-5, app. A.

²⁶ Office of Management and Budget, Memorandum for Chief Acquisition Officers, Senior Procurement Executives: Revisions to the Federal Acquisition Certification for Contracting Officer's Representatives (FAC-COR) (Sept. 6, 2011), at 2, <http://www.whitehouse.gov/sites/default/files/omb/procurement/revisions-to-the-federal-acquisition-certification-for-contracting-officers-representatives.pdf>.

agency-wide emails about Contracting Officer Representatives training and is the primary SEC office responsible for developing and administering courses that Contracting Officer Representatives can take to obtain their Level I to Level III recertification. The SEC University offers various courses Contracting Officer Representatives can take to maintain their certifications. Our review of the training courses found that the current courses do not address the role of Contracting Officer Representatives who oversee contracts with GFP. Currently, the SEC University offers a “Putting it All Together” course for Contracting Officer Representatives that covers procurement procedures and includes a panel discussion with active SEC Contracting Officers and Contracting Officer Representatives. The SEC University personnel stated that a new “Putting it All Together” or “Webinar” course could be developed that addresses GFP requirements. Such a course could also include a panel discussion with property experts, including representatives from AMB.

Because Contracting Officers, Contract Specialists and Contracting Officer Representatives do not have a clear understanding of what is or is not GFP, SEC contracts may erroneously include or exclude GFP clauses. Further, because Contracting Officers, Contract Specialists, and Contracting Officer Representatives do not know what their responsibilities related to GFP. Finally, GFP currently is not being properly accounted for, tracked, and monitored.

Recommendation 7:

The Office of Administrative Services, in conjunction with the Office of Information Technology, should develop periodic training for Contracting Officers, Contract Specialists, and Contracting Officer Representatives that clearly defines and addresses their responsibilities related to government furnished property consistent with Part 45 of the Federal Acquisition Regulation, Government Property and SECR 9-2, *Property Management Program*.

Management Comments. OAS and OIT concurred with this recommendation. See Appendix V for management’s full comments.

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

Recommendation 8:

The Office of Administrative Services should ensure when the Securities and Exchange Commission issues Government Furnished Property to contractors, the Contracting Officer (and where appropriate the Contract Specialist), includes language in the contract that specifies:

- The name of the equipment,
- What equipment will be retained, disposed of, or returned to the government,
- When the equipment will be disposed of or returned to the government, and
- Who can accept the returned equipment.

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.

Recommendation 9:

The Office of Information Technology should issue Government Furnished Property to contractors only after it obtains proof that the vendor's contract has language authorizing the contractor to receive the equipment.

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

OIG Analysis. We are pleased that OIT concurred with this recommendation.

Abbreviations

AMB	Asset Management Branch
CAP	Contractor Acquired Property
Castro & Co	Castro & Company, LLC
CMDB	Configuration Management Database
COSO	Committee of Sponsoring Organizations of the Treadway Commission
FAM	Fixed Asset Module
FAR	Federal Acquisition Regulation
FPDS	Federal Procurement Data System
GAO	Government Accountability Office
GFE	Government Furnished Equipment
GFP	Government Furnished Property
OAS	Office of Administrative Services
OFM	Office of Financial Management
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	Office of Management and Budget
SEC or Commission	U.S. Securities and Exchange Commission
SECR	SEC Administrative Regulation

Scope and Methodology

As part of the OIG's annual audit plan, Castro & Co conducted an audit of management controls over the SEC's GFP.

Castro & Co conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Scope. The OIG contracted with Castro & Co to conduct a performance audit to identify potential areas for improvement with regard to the Commission's GFP. The overall objective of the audit was to determine whether sufficient management controls over government property held by contractors were in place and operating effectively. The scope of our audit covered GFP acquired from fiscal year 2007 through fiscal year 2011, and included examining:

- The Commission's processes for managing and accounting for GFP, and
- The policies and procedures in place to ensure the proper management of and accountability for GFP.

Castro & Co conducted its fieldwork from October 2011 through January 2012. The scope of our audit further included the SEC's Headquarters site in Washington, D.C., the Operations Center in Alexandria, VA, and its 11 regional offices that are located throughout the country.

Methodology. To accomplish the audit's objectives, Castro & Co's fieldwork included the following:

- To gain an understanding of the GFP's we reviewed SEC's regulations and policies and procedures pertaining to property management and management of and accountability for GFP and information technology equipment.
- We reviewed relevant federal laws, regulations, and guidance;
- Reviewed OIG issued reports related to GFP or accountability for information technology equipment to determine the impact of their findings on our audit procedures and to determine the status of applicable recommendations.

- Reviewed reports issued by other federal agencies related to GFP and accountability for information technology equipment, to determine whether any issues in these reports were applicable to the scope of our audit.
- Conducted interviews with select personnel who had responsibilities related to SEC property and contracts management, including: personnel from OAS, OIT, OFM; contracting officers; Contracting Officer Representatives; contractors; and regional office personnel. We also conducted interviews with the SEC University staff to determine specific training requirements related to property management that are available to SEC employees.
- Developed, administered, and analyzed the results of a questionnaire that was directed to SEC's regional offices to determine the adequacy of their identification, issuance, and tracking processes for GFP.
- Obtained, reviewed and analyzed contracts to determine whether they included GFP language.
- Identified areas in which improvements could be made.

Internal Controls. *Internal Control – Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), provides a framework for organizations to design, implement, and evaluate controls that facilitate compliance with federal laws, regulations, and program compliance requirements.²⁷ For this audit, we based our assessment of internal controls related to the accountability and management of GFP that were significant to the audit objectives on the COSO framework, including control environment, control activities, information and communication, and monitoring.

We reviewed the management control activities as they pertained to the audit's objectives and assessed the design effectiveness of key controls over GFP. Among the internal controls we assessed to determine whether they were properly designed and implemented, were OAS, OIT, and OFM's controls and policies and procedures related to the accountability and management of GFP. To facilitate our understanding of applicable GFP process controls, we reviewed information in organization charts, current policies and procedures, fiscal year 2010 GAO Financial Statement Audit Property and Equipment Cycle Memorandum, and systems used to track and monitor property and equipment, including GFP. We met with appropriate staff from OAS, OIT, and OFM to gain an understanding of the controls surrounding property and equipment items they manage, including GFP, if applicable. Additionally, to determine the adequacy of

²⁷ Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control-Integrated Framework* (1992), <http://www.coso.org/guidance.htm>.

the controls over the identification, issuance and tracking process of GFP at the SEC regional offices, we developed a questionnaire that was submitted to the SEC's 11 regional offices.

Judgmental Sampling. Castro & Co employed a judgmental sampling methodology for performing this audit. Judgmental sample sizes were determined after giving consideration to the frequency of the control, significance of the control, inherent risk, and professional judgment.

We judgmentally selected 30 contracts from a list of 74 active contracts OAS provided, where the Contracting Officer initially identified the contractor was provided GFP. We reviewed these contracts to determine whether they properly identified GFP.

Further, we judgmentally selected 80 contracts from a Momentum report OFM provided that contained 110 contracts that had transactions that were charged to the equipment Budget Object Class 31XX, for the period of October 1, 2009 through September 30, 2011. The supporting contracts were reviewed to determine whether they properly identified GFP.

Further, we judgmentally selected 15 Contracting Officer Representatives from the SEC's approximate 59 Contracting Officer Representatives to interview. These Contracting Officer Representatives were selected from a list we were provided that showed the Contracting Officer Representatives was assigned information technology equipment. We interviewed the Contracting Officer Representatives because they responsible for the administration of property and to determine whether they were properly trained and were performing their required duties in accordance with the SEC policy.

Because we did not use statistical sampling techniques, we did not try to project the results of the items reviewed in our samples to the entire population.

Prior Audit Coverage. SEC OIG *Controls Over Laptops*, Inspection Report No. 441, issued March 31, 2008, found weaknesses in the SEC's inventory and control of laptop computers. While OAS and OIT implemented most of the recommendations identified in the report, Recommendations C and D, which are related to this audit, have not been closed.

Recommendation C has not been addressed. OIT indicated it will address Recommendations C when AMB completes its wall-to-wall inventory of information technology equipment, which includes laptops. OIT informed us that Recommendation D has not been completely addressed. AMB has not yet revised its procedures to establish clear accountability for laptops and it has not established procedures to document the issuance of equipment to a specific SEC employees or the receipt of equipment from SEC employees. AMB informed

Castro & Co they are currently in the process of updating their procedures to address these requirements.

Criteria

FAR Part 45, *Government Property*. Prescribes policies and procedures for providing government property to contractors, contractors' management and use of government property, and reporting, redistributing, and disposing of contractor inventory. FAR 45.107, Contract clauses, requires that FAR 52.245-1 be inserted in its entirety in contracts where the government provides contractors with GFE or directs them to acquire property to which the government has title for use under the contract.

SECR 9-2, *Property Management Program, March 16, 2009*. Prescribes policies and procedures governing the development, administration, application, and oversight of the SEC personal property management program and applies to personal property purchased or leased by the SEC.

SECR 9-3, *Report of Survey Program, March 18, 1996*. Prescribes policies, procedures, and standards that govern the SEC's Report of Survey Program. It provides criteria and procedures for initiating, preparing, and approving reports of survey for SEC property and establishes criteria for determining an individual's financial liability for loss of or damage to SEC-owned or -controlled property.

SECR 10-15 (Rev. 1), *Acquisitions Contract Administration Positions (August 12, 2009)*. Establishes uniform policies and procedures for the appointment, termination, and responsibilities of Contracting Officer Representatives and other contract administration positions at the SEC.

Government Accountability Office, *Executive Guide: Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property, GAO-02-447G, March 2002*. Describes fundamental practices and procedures used in the private sector to achieve consistent and accurate physical counts; summarizes fundamental principles successfully implemented by companies recognized for outstanding inventory management; and explains and describes leading practices from which the federal government might draw lessons and ideas.

Office of Management and Budget, Memorandum for Chief Acquisition Officers Senior Procurement Executives: Revisions to the Federal Acquisition Certification for Contracting Officer Representatives (FAC-COR), September 6, 2011. Prescribes revisions to the federal acquisition certification for Contracting Officer Representatives, including requirements for certification, recertification, and a new title for the position formerly known as contracting officer technical representatives.

Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework*, 1992. Provides principles-based guidance for designing and implementing effective internal controls,

List of Recommendations

Recommendation 1:

The Office of Administrative Services (OAS), in conjunction with the Office of Information Technology (OIT), should revise SECR 9-3, *Report of Survey Program* and SECR 9-2, *Property Management Program*, and clearly define property that is designated as Government Furnished Property (GFP). OAS and OIT should further identify in SECR 9-3 and 9-2 the particular circumstances that are needed to meet the GFP requirements in accordance with Part 45 of the Federal Acquisition Regulation.

Recommendation 2:

The Office of Information Technology (OIT) should revise its policy to specify how often the office will conduct wall-to-wall inventories of the Securities and Exchange Commission's information technology equipment and how frequently the Configuration Management Database (CMDB) should be updated. In performing the inventories, OIT should ensure that:

- All relevant fields related to asset management in the CMDB are accurate and properly completed, including verifying that individuals using the property items are properly identified within the database;
- Equipment in regional offices is included in the wall-to-wall inventory; and
- Fields in the CMDB that capture contract numbers and contract expiration dates using the Active Directory.

Recommendation 3:

The Office of Information Technology (OIT) should coordinate with the Contracting Officer Representative or other Property Accountability Officer, as designated in the contract, to ensure that government issued property items are properly returned to the OIT and the items are promptly removed from the Configuration Management Database when the contractor is no longer using it or when the contract is no longer active.

Recommendation 4:

The Office of Information Technology (OIT) should develop and implement procedures for monitoring information technology equipment at the regional offices that is communicated to appropriate personnel. These procedures should include the regional office's roles in monitoring information technology equipment issued to contractors, including their responsibilities when a contractor employee exits a contract or when the equipment is moved to a new location.

Recommendation 5:

The Office of Information Technology (OIT) should revise its policies and procedures to establish clear accountability within the Asset Management Branch that is associated with properly tracking and monitoring information technology equipment, including documenting the issuance and receipt of information technology equipment to specific Commission contractors.

Recommendation 6:

When the Office of Information Technology completes the 2012, wall-to-wall inventory of information technology equipment, it should use this information to establish a baseline of the equipment in the Configuration Management Database.

Recommendation 7:

The Office of Administrative Services, in conjunction with the Office of Information Technology, should develop periodic training for Contracting Officers, Contract Specialists, and Contracting Officer Representatives that clearly defines and addresses their responsibilities related to government furnished property consistent with Part 45 of the Federal Acquisition Regulation, Government Property and SECR 9-2, *Property Management Program*.

Recommendation 8:

The Office of Administrative Services should ensure when the Securities and Exchange Commission issues Government Furnished Property to contractors, the Contracting Officer (and where appropriate the Contract Specialist), includes language in the contract that specifies:

- The name of the equipment,
- What equipment will be retained, disposed of, or returned to the government,
- When the equipment will be disposed of or returned to the government, and
- Who can accept the returned equipment.

Recommendation 9:

The Office of Information Technology should issue Government Furnished Property to contractors only after it obtains proof that the vendor's contract has language authorizing the contractor to receive the equipment.

Management Comments

MEMORANDUM

TO: Jacqueline Wilson, Assistant Inspector General for Audits, Office of Inspector General

FROM: Jayne L. Seidman, Acting Director  Office of Administrative Services

SUBJECT: SEC's Controls Over Government Furnished Equipment and Contractor Acquired Property, Report No. 503

DATE: March 23, 2012

This memorandum is in response to the Office of Inspector General's (OIG) Draft Report No. 503, titled *SEC's Controls Over Government Furnished Equipment and Contractor Acquired Property*. Thank you for the opportunity to review and respond to this report.

OIG Recommendation 1. *The Office of Administrative Services (OAS), in conjunction with the Office of Information Technology (OIT), should revise SECR 9-3, Report of Survey Program and SECR 9-2, Property Management Program, and clearly define property that is designated as Government Furnished Property (GFP). OAS and OIT should further identify in SECR 9-3 and 9-2 the particular circumstances that are needed to meet the GFP requirements in accordance with Part 45 of the Federal Acquisition Regulation (FAR).*

The Office of Administrative Services (OAS) concurs. OAS will coordinate with OIT in revising SECR 9-3, Report of Survey Program and SECR 9-2, Property Management Program to incorporate the definition of Government Furnished Property and clarify that the requirements of FAR Part 45 do not apply to

- (1) Government property provided under any statutory leasing authority, except as to non-government use of property under FAR 45.301(f);
- (2) Property to which the government has acquired a lien or title solely because of partial, advance, progress, or performance based payments;
- (3) Disposal of real property;
- (4) Software and intellectual property; or
- (5) Government property that is incidental to the place of performance, when the contract requires contractor personnel to be located on a government site or installation, and when the property used by the contractor within the location remains accountable to the government. Items considered to be incidental to the place of performance include, for example, office space, desks, chairs, telephones, computers, and fax machines.

OIG Recommendation 7. *The Office of Administrative Services, in conjunction with the Office of Information Technology, should develop periodic training for Contracting Officers, Contract Specialists, and Contracting Officer Representatives that clearly defines and addresses their responsibilities related to government furnished property consistent with Part 45 of the Federal Acquisition Regulation, Government Property and SECR 9-2, Property Management Program.*

The Office of Administrative Services (OAS) concurs. OAS will work with the Office of Information Technology to develop periodic training consistent with FAR Part 45, for Contracting Officers, Contract Specialists, and Contracting Officer Representatives who have Government Furnished Property responsibilities. The training will clearly define and address assigned responsibilities relating to government furnished property.

OIG Recommendation 8. *The Office of Administrative Services should ensure when the Commission issues Government Furnished Property to contractors, the Contracting Officer (and where appropriate the Contract Specialist), includes language in the contract that specifies:*

- *The name of the equipment,*
- *What equipment will be retained, disposed of, or returned to the government,*
- *When the equipment will be disposed of or returned to the government, and*
- *Who can accept the returned equipment.*

The Office of Administrative Services (OAS) concurs. OAS will include information including the specified items in any contracts which contain Government Furnished Property.

MEMORANDUM

TO: Jacqueline Wilson, Assistant Inspector General for Audits, Office of Inspector General

FROM: Thomas A. Bayer, Director, Office of Information Technology (OIT) 

RE: SEC's Controls Over Government Furnished Equipment and Contractor Acquired Property, Report No. 503

DATE: March 26, 2012

This memorandum is in response to the Office of Inspector General's (OIG) Draft Report No. 503, *SEC's Controls Over Government Furnished Equipment and Contractor Acquired Property*. Thank you for the opportunity to review and respond to this report.

OIG Recommendation 1. *The Office of Administrative Services (OAS), in conjunction with the Office of Information Technology (OIT), should revise SECR 9-3, Report of Survey Program and SECR 9-2, Property Management Program, and clearly define property that is designated as Government Furnished Property (GFP). OAS and OIT should further identify in SECR 9-3 and 9-2 the particular circumstances that are needed to meet the GFP requirements in accordance with Part 45 of the Federal Acquisition Regulation (FAR).*

OIT concurs with this recommendation.

OIG Recommendation 2. *The Office of Information Technology (OIT) should revise its policy to specify how often the office will conduct wall-to-wall inventories of the Securities and Exchange Commission's information technology equipment and how frequently the Configuration Management Database (CMDB) should be updated. In performing the inventories, OIT should ensure that:*

- *All relevant fields related to asset management in the CMDB are accurate and properly completed, including verifying that individuals using the property items are properly identified within the database;*
- *Equipment in Regional Offices is included in the wall-to-wall inventory; and*
- *Fields in the CMDB that capture contract numbers and contract expiration dates using the Active Directory.*

OIT concurs with this recommendation.

OIG Recommendation 3. *The Office of Information Technology (OIT) should coordinate with the Contracting Officer Representative or other Property Accountability Officer, as designated in the contract, to ensure that government issued property items are properly returned to the OIT and the items are promptly removed from the Configuration Management Database when the contractor is no longer using it or when the contract is no longer active.*

OIT concurs with this recommendation.

OIG Recommendation 4. *The Office of Information Technology (OIT) should develop and implement procedures for monitoring information technology equipment at the Regional Offices that is communicated to appropriate personnel. These procedures should include the Regional Office's roles in monitoring information technology equipment issued to contractors, including their responsibilities when a contractor employee exits a contract or when the equipment is moved to a new location.*

OIT concurs with this recommendation.

OIG Recommendation 5. *The Office of Information Technology (OIT) should revise its policies and procedures to establish clear accountability within the Asset Management Branch that is associated with properly tracking and monitoring information technology equipment, including documenting the issuance and receipt of information technology equipment to specific Securities and Exchange Commission contractors.*

OIT concurs with this recommendation.

OIG Recommendation 6. *When the Office of Information Technology completes the 2012, wall-to-wall inventory of information technology equipment, it should use this information to establish a baseline of the equipment in the Configuration Management Database.*

OIT concurs with this recommendation.

OIG Recommendation 7. *The Office of Administrative Services, in conjunction with the Office of Information Technology, should develop periodic training for Contracting Officers, Contract Specialists, and Contracting Officer Representatives that clearly defines and addresses their responsibilities related to government furnished property consistent with Part 45 of the Federal Acquisition Regulation, Government Property and SECR 9-2, Property Management Program.*

OIT concurs with this recommendation.

OIG Recommendation 9. *The Office of Information Technology should issue Government Furnished Property to contractors only after it obtains proof that the vendor's contract has language authorizing the contractor to receive the equipment.*

OIT concurs with this recommendation.

OIG Response to Management's Comments

OIG is pleased OAS and OIT concurred with all of the report's recommendations. We are also encouraged that OAS and OIT indicated they will take prompt action to address the areas of concern we identified in this report. We believe OAS and OIT's full implementation of OIG's recommendations will result in significant improvements to SEC's management controls over government furnished equipment and contractor acquired property.

Audit Requests and Ideas

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)
100 F Street, N.E.
Washington D.C. 20549-2736

Tel. #: 202-551-6061
Fax #: 202-772-9265
Email: oig@sec.gov

Hotline

To report fraud, waste, abuse, and mismanagement at SEC, contact the Office of Inspector General at:

Phone: 877.442.0854

Web-Based Hotline Complaint Form:
www.reportlineweb.com/sec_oig