

GAO

Report to the Chairman, Permanent
Subcommittee on Investigations,
Committee on Governmental Affairs,
U.S. Senate

October 1997

INSPECTORS GENERAL

Contracting Actions By Treasury Office Of Inspector General





**United States
General Accounting Office
Washington, D.C. 20548**

Office of Special Investigations

B-278420

October 31, 1997

The Honorable Susan M. Collins
Chairman, Permanent Subcommittee on
Investigations
Committee on Governmental Affairs
United States Senate

Dear Madam Chairman:

This report responds to your May 6, 1997, letter and subsequent discussions with your office requesting that we determine the facts and circumstances surrounding the Department of the Treasury's award of a sole-source contract to Sato & Associates for a management study of Treasury's Office of Inspector General (OIG) and of a consulting services contract to Kathie M. Libby, doing business as KLS, using other than full and open competition. You also asked that we determine the nature and purposes of trips to California by Treasury Inspector General (IG) Valerie Lau since her appointment as IG.

Results in Brief

In November 1994, shortly after her confirmation, Ms. Lau contacted Frank S. Sato¹ to request that he perform a management review of the Treasury OIG. She subsequently told the Treasury Procurement Services Division (PSD) that she wanted Mr. Sato to perform a management review; and on January 9, 1995, PSD awarded a sole-source management study contract to Sato & Associates,² on the basis of unusual and compelling urgency. 41 U.S.C. section 253(c)(2); Federal Acquisition Regulation (FAR) section 6.302-2. The original price of the Sato & Associates contract was \$88,566; and an exercised option increased the contract's final cost to \$90,776. In response to questions, Ms. Lau stated that the need to limit competition for the management study was urgent and compelling because, among other reasons, the study would assist her as a new appointee to quickly make reassignments in her senior executive ranks and to marshal the resources needed to conduct financial audits required by the Government Management Reform Act of 1994 and the Chief Financial Officer Act of 1990.

¹Mr. Sato had formerly held IG positions at the Department of Transportation and the Veterans Administration.

²Frank Sato of Woodinville, Washington, created the name Sato & Associates specifically to conduct the Treasury OIG management review.

Although Ms. Lau's stated reasons provide some support for her position, based on a review of the contract justification and Ms. Lau's rationale, we believe that there was insufficient urgency to limit competition. Even assuming that a limited competition was warranted, it is clear that the agency violated the applicable statute and regulation by failing to request offers from as many potential sources as was practical under the circumstances. Ms. Lau was aware that at least three other former IGs had performed similar management reviews of OIGs; and Mr. Sato, who told us he had never performed a management review, subsequently contracted with two of them to help him perform the Treasury OIG management review.

On February 25, 1995, Mr. Sato submitted an unsolicited proposal for \$91,012 to the Department of the Interior OIG to contract for work similar to that being done at the Treasury OIG. Rather than award a contract based on Mr. Sato's proposal, the Department of the Interior conducted a full and open competition and, in June 1995, awarded a management study contract to Sato & Associates for approximately \$62,000 less than the proposal. Although the objectives of the study and final report for the Interior contract were substantially the same as those for the Treasury contract, the final cost to Interior was \$28,920. This suggests that the price of Sato & Associates' sole-source contract for the Treasury OIG effort was artificially high.

Regarding the KLS contract, on September 12, 1995, PSD awarded a time-and-materials, consulting services contract to Kathie M. Libby, doing business as KLS.³ The contract, among other factors, called for KLS to review and analyze a report prepared by the Office of Personnel Management (OPM) on morale and diversity problems in the OIG office and assist OIG managers and staff concerning goals identified in the OPM study. The contract was awarded on the basis of unusual and compelling urgency following limited competition.

Based on our investigation, we conclude that the justification for limiting the competition was not reasonable. The primary reason advanced by Ms. Lau for the urgency determination was the need to have the consultant provide a briefing at an OIG management conference to be held a few days after contract award. Ms. Lau wanted to convey to her managers that she intended to correct problems identified in the OPM study. The KLS consultants did attend the conference, but they were present for the

³Two other consultants—Leslie Williams and Stan Ridley—worked with Kathie Libby on the contract. The name KLS consisted of the initials of the three consultants' first names.

limited purpose of introducing themselves to the OIG staff and informing the staff that KLS would work with them to implement the OPM study recommendations. We believe that Ms. Lau's ability to (1) convey to her managers that the problems identified in the OPM study would be addressed and (2) correct those problems would not have been seriously impaired had the announcement of the actual consultant been delayed a few months in order to obtain full and open competition. Ms. Lau could still have informed the conference participants that she intended to hire such a consultant expeditiously, and the actual hiring of the consultant would have demonstrated to her employees that she was serious in her intention to pursue the OPM recommendations.

Further, the largest modification made to the contract with KLS was outside the scope of the contract. The OIG should have obtained this additional work through a separate, competitive procurement.

We also identified a pattern of careless management in the procurement process and in oversight of performance under the contract. We found that the agency engaged in poor procurement planning in that it failed to fully understand its needs and clearly articulate those needs to the contractor. This resulted in five modifications with a fourfold increase in the contract's total price and a 1-year extension to the period of performance. Further, the OIG paid for work that was not authorized by the contract or modifications. Payments were also made to KLS without verification that work had been done and without determining that documents for travel and transportation costs incurred by the contractor had been received.

Regarding the IG's travel, Ms. Lau made five trips to California between September 1994 and February 1997. Although it was alleged that the trips had been made at government expense to visit her mother who lives in northern California, all five trips were scheduled for work-related reasons.

Background

The Competition in Contracting Act of 1984 (CICA), 41 U.S.C. section 253, and the implementing FAR section 6.302 require full and open competition for government contracts except in a limited number of statutorily prescribed situations. One situation in which agencies may use other than full and open competition occurs when the agency's need is of such unusual and compelling urgency that the government would be seriously injured unless the agency is permitted to limit the number of sources from which it solicits proposals. Even when an unusual and compelling urgency exists, the agency is required to request offers from as many potential

sources as is practicable under the circumstances. 41 U.S.C. section 253(e); FAR section 6.302-2(c)(2). This means that an agency may limit a procurement to one firm only when the agency reasonably believes that only that firm can perform the work in the available time.

Sato & Associates Contract

Based on our investigation, we believe there was insufficient urgency to limit competition and that the sole-source contract to Sato & Associates was not proper. The Treasury OIG violated the applicable statute and regulation by failing to request offers from as many potential sources as was practical. Ms. Lau knew of three other former IGs who had performed similar management reviews. Indeed, Mr. Sato hired two of the former IGs to assist him with the Treasury OIG review. Further, the cost of that review, over \$90,700, appears artificially high. After Mr. Sato submitted a similar-costing proposal to Interior and after a full and open competition, Interior awarded a similar contract to Mr. Sato at a final cost of about \$28,900.

Contract Background

Prior to being confirmed as Treasury IG on October 7, 1994, Ms. Lau decided that a management review of the OIG would help her meet a number of challenges in her new job. In November 1994, Ms. Lau contacted Mr. Sato to request that he conduct the management review. According to Ms. Lau, she first met Mr. Sato when she was a regional official and Mr. Sato a national official of the Association of Government Accountants; a professional relationship developed over the years through functions related to that association.⁴ Mr. Sato had written to the White House Personnel Office in May 1993 recommending Ms. Lau for an appointment to an IG position.⁵

In November 1994, Ms. Lau talked with senior OIG managers about a management review and advised them that she knew to whom she wanted to award a contract. In early December 1994, she contacted Treasury's PSD to request assistance in awarding a management review contract. The contracting officer provided her with an explanation of the requirements to justify a sole-source contract. Thereafter, Ms. Lau told PSD that she

⁴Ms. Lau said that this relationship continued when she served as director of the Western Intergovernmental Audit Forum, as she considered Mr. Sato to be an important figure in the audit community. Ms. Lau and Mr. Sato stated that they have not had social engagements other than one occasion in 1996, after the contract had been completed, when Ms. Lau and her husband visited Mr. Sato's residence.

⁵Ms. Lau does not recall asking him for a recommendation, and Mr. Sato does not recall the reason for his writing to recommend Ms. Lau.

wanted Sato & Associates to do the work. The Treasury contracting officer subsequently prepared a Justification for Other Than Full and Open Competition, also known as the justification and approval (J&A) document. On December 12, 1994, PSD approved the J&A, authorizing a sole-source award to Sato & Associates. When we asked the contracting officer why she did not attempt to identify other individuals or companies that could perform the contract, she stated that Ms. Lau had told her that Mr. Sato “had unique capabilities which would preclude the award of a management studies contract to anyone else.”

Contract Award

On January 9, 1995, Treasury’s PSD awarded a contract at the request of the Treasury OIG to Sato & Associates to perform a management study of the Treasury OIG. The contract specified that the contractor was to produce a report within 13 weeks, which was to focus on the most efficient methods of improving the organization and functioning of the operations of the OIG. Specific areas to be reviewed included office management procedures and practice, staffing, correspondence, automation, and personnel management.

The contract was awarded without full and open competition on the basis of unusual and compelling urgency. The J&A for the Sato contract provided that “[t]he Government would be injured if the Inspector General is unable to quickly assess any needs for management reform and make any required changes that would ensure that she receives the appropriate staff support for the implementation of her policies.” According to the contracting officer, when she questioned Ms. Lau about the justification for the Sato contract and whether an urgent need existed, Ms. Lau stated that she did not want to divulge too much of “the internal goings-on” in the Inspector General’s Office to the contracting officer. Ms. Lau merely assured the contracting officer that the need was urgent.

In her August 27, 1997, deposition before the Permanent Subcommittee on Investigations, Ms. Lau was asked to explain why the contract had been awarded to Sato & Associates based on unusual and compelling urgency. She stated the following:

“I was aware that the office had some major challenges to meet, that we needed to marshal the resources to do the financial audits required by the Government Management Reform Act. That we had some major work to do in terms of identifying the resources to do so. In addition, as the newly appointed head of the Office of Inspector General, I had a 120 day period before I would be able to make any major changes or reassignments of senior

executives, and that I wanted to do that as early as possible. I knew I was going into an office with some issues that were getting scrutiny from Congress as well as others. I believed that I needed to have a trusted and experienced group of professionals come in to assist me to do that. I definitely felt that there was a compelling and urgent need, if you want to use that terminology, because I wanted to ensure that I had, for example, some of the major changes that were necessary to meet the CFO [Chief Financial Officers Act] audit by the time the next cycle came around, which in Government fiscal years, the cycle ends September 30th, and so the financial audits that would be required under that would have to be planned and conducted within that time frame.”

Other than full and open competition is permitted when the agency has an unusual and compelling urgency such that full competition would seriously injure the government’s interest. We recognize that the challenges Ms. Lau believed she faced and her express desire to make management changes and develop strategies to deal with various audit requirements as soon as possible after taking office, provide some support for the OIG’s urgency determination. On the other hand, we are not aware of facts establishing that Ms. Lau’s ability to perform her duties would have been seriously impaired had the procurement of a consultant to perform the management study been delayed by a few months in order to obtain full and open competition. On balance, we believe that there was insufficient urgency to limit competition. It is clear, however, that irrespective of whether it would have been proper to limit competition, issuance of a sole-source contract to Sato & Associates was not proper.

As discussed above, unusual and compelling urgency does not relieve an agency from the obligation to seek competition. An agency is required to request offers from as many potential sources as is practicable under the circumstances. It may limit the procurement to only one firm if it reasonably believes that only that firm can perform the work in the available time. 41 U.S.C. section 253(c)(1).

The J&A stated that Sato & Associates had a predominate capability to meet the Department of Treasury’s needs. However, Ms. Lau stated to us that she knew at the time that former Inspectors General Charles Dempsey, Brian Hyland, and Richard Kusserow⁶ had been awarded contracts for management reviews.

We interviewed two of the three former Inspectors General—Messrs. Dempsey and Hyland—that Ms. Lau knew had done management reviews.

⁶Mr. Dempsey was a former IG at the Department of Housing and Urban Development and the Environmental Protection Agency; Mr. Hyland was a former IG at the Department of Labor; and Mr. Kusserow was a former IG at the Department of Health and Human Services.

Both stated that they could have met the IG's urgent time frame to perform the contract. In fact, they were hired by Mr. Sato to work on the Treasury OIG contract, performing as consultants. We are aware of no reason why it was impractical for the agency to have requested offers from at least the three other known sources for the work Ms. Lau needed. Nor are we aware of any reason why Sato & Associates was the only firm that could have performed that work in the available time. In fact, Mr. Sato reported to us that he had never performed a management review, while, as Ms. Lau knew, Messrs. Dempsey, Hyland, and Kusserow had done so. Consequently, we conclude that the agency acted in violation of 41 U.S.C. section 253(e) and FAR section 6.302-2(c)(2) by failing to request offers from other potential sources.

Contract Costs

The contract to Sato & Associates was awarded at a firm fixed price⁷ of \$88,566, which included estimated travel and per diem costs of \$15,296. The contract also contained an unpriced time-and-materials option⁸ to assist in implementing recommendations made in the contract's final report. A second modification to the contract⁹ exercised that option and raised the projected cost an estimated \$24,760, for a total estimated contract cost of \$113,326. The actual amount billed to the government by Mr. Sato for the fixed-price contract and the time-and-materials option totaled \$90,776.

Federal procurement policy seeks to ensure that the government pays fair and reasonable prices for the supplies and services procured by relying on the competitive marketplace wherever practical. We believe that the lack of competition for the award of the Treasury OIG management study may have been the reason for an artificially high price on the Sato & Associates contract. On February 25, 1995, Mr. Sato submitted an unsolicited proposal for \$91,012 to the Department of the Interior's OIG for a contract similar to his Treasury contract. Rather than award a contract to Mr. Sato based on this proposal, the Department of the Interior conducted a full and open competition. In June 1995, Interior awarded a management study contract to Sato & Associates for approximately \$62,000 less than the offer in Mr. Sato's unsolicited proposal. The contract's final cost was \$28,920.

⁷A firm-fixed-price contract provides for a price that is not subject to any adjustment on the basis of the contractor's cost experience in performing the contract. FAR section 16.202-1.

⁸A time-and-materials contract provides for acquiring supplies or services on the basis of (1) direct labor hours at specified fixed hourly rates and (2) materials at cost, including, if appropriate, material-handling costs. FAR section 16.601.

⁹The first modification related to the delivery of the final report and did not increase the contract cost.

Our review of both management study contracts shows that they are similar and that any dissimilarity does not explain a nearly threefold higher cost of the Treasury contract over the Interior contract. The Treasury and Interior contracts contained three identical objectives that the contractor was to focus on in conducting the review and making recommendations.¹⁰ They were to

“a. improve the day-to-day management of the Office of Inspector General[,]

“b. optimize management techniques and approaches[, and]

“c. enhance the efficiency . . . [and] productivity of the . . . [OIG].”

The proposals and final reports submitted by the contractor were substantially the same for both jobs. Mr. Sato’s final report for Treasury included 30 recommendations; his Interior report had 26 recommendations. Eighteen of the recommendations in both reports were substantially the same.

Messrs. Dempsey and Hyland worked with Mr. Sato on both the Interior OIG and Treasury OIG contracts. Mr. Hyland stated to us that the scope of work on the Interior contract was basically the same as that on the Treasury contract. According to Mr. Dempsey, although he conducted more interviews at Treasury than at Interior, the Treasury contract was worth no more than \$40,000, adding that he and Mr. Hyland could have done “this job in 60 days at \$40,000.”

KLS Contract

Contract Background

Ms. Lau told us that prior to her October 1994 confirmation she had learned that OIG suffered severe morale and diversity problems. In the spring of 1995, she requested OPM to conduct a workplace effectiveness study of the OIG. The purpose of the resulting OPM report was to provide the OIG with the necessary information on employee attitudes to assist it in its efforts to remove obstacles to workplace effectiveness.

When Ms. Lau made that request, she had anticipated contracting with OPM to develop an implementation plan based on the problems identified in the initial study. However, in April 1995, OPM explained that it was unable to

¹⁰The Treasury contract contained one additional objective, to improve the teamwork of the OIG staff.

do any follow-on work because of reorganization and downsizing. Instead, in July 1995, OPM provided Treasury OIG a list of 12 consultants who were capable of doing the follow-on work.

On July 12, 1995, Ms. Lau's staff gave her a list of 14 possible consultants to perform the follow-on work—OPM's list of 12 and 2 others with whom the staff were familiar. Ms. Lau reviewed the list, added two names, and instructed her special assistant to invite bids from at least the six individuals she had identified on the list.¹¹

On August 17, 1995, OPM conducted a preliminary briefing with senior OIG staff concerning the nature of the OIG problems. Thereafter Ms. Lau told PSD that an urgent need existed to hire a contractor to perform the follow-on work. She wanted the contract awarded before the annual OIG managers' meeting scheduled for September 14, 1995, to prove to her managers that she intended to fix the problems identified in the OPM study. (The final report was furnished to the OIG on September 30, 1995; it reported that OIG suffered from a lack of communication with its employees, severe diversity problems, and a lack of trust employees had toward management.)

OIG staff followed up with the six consultants identified by Ms. Lau. The staff were unable to contact one consultant, and another consultant could not provide a preliminary proposal by August 30, 1995. With respect to the remaining four consultants, OIG staff met with each one to orally describe the agency's needs and request written proposals. Following receipt of the proposals and oral presentations by the offerors, two OIG officials selected Kathie M. Libby, doing business as KLS, a consultant from OPM's list, as the successful contractor. Although one OIG official told us that the evaluation criteria used for evaluating the proposals were based on the OPM recommendations, the other OIG official involved in the selection stated that the selection was based only on a "gut instinct" that KLS would provide a "good fit" with OIG and could do the work. Ms. Lau concurred with the selection.

Contract Award

On September 12, 1995, a time-and-materials contract was awarded to KLS. The original term of the contract was from date of award (Sept. 12,

¹¹Ms. Lau stated that she had no basis to evaluate the consultants. She merely reviewed the list, added the names of two more individuals with whom she was familiar, marked four of the consultant names with an "X", and wrote a note to her special assistant that read, ". . . Invite bids from 3 write-ins [the two names Ms. Lau added and one of the two names added by her staff] and those with X's and any who come highly recommended. We need to obligate this year!"

1995) to September 30, 1996. The contract, among other things, called for the contractor to attend the September 14, 1995, OIG conference; review and analyze the OPM survey results; and provide assistance to managers and staff on reaching the goals identified by OPM in its study. It was expected that in the beginning stages of contract performance, KLS would meet with OIG employees weekly, if not daily. Given the complexity of the issues and the desire for lasting improvements, OIG anticipated that KLS's services would be required for as long as 1 year, although it was anticipated that the services would be on an "on-call" basis during the final stages of the contract.

The agency justified limiting the competition on the basis of unusual and compelling urgency. The J&A provided as follows, "It is imperative that the services begin no later than September 11, 1995, in order to have the consultants provide a briefing to managers attending the September 14, 1995, OIG managers conference." This determination reflected Ms. Lau's concern that while similar management studies had been conducted in the past, historically there had been no follow-through on the studies' recommendations. It also reflected her desire to show the OIG managers continuity between the OPM survey results and the follow-up work. To that end, the J&A noted that it was imperative that the employees view the change process to be implemented by the consultants as an on-going process rather than a series of "finger in the dike" actions.

Based on the results of our investigation, we conclude that the decision to limit the competition was not reasonable. As explained previously, other than full and open competition is permitted when the agency has an unusual and compelling urgency such that full competition would seriously injure the government's interest. The agency's urgency determination was based upon Ms. Lau's desire to have a management consultant provide a briefing at a management conference to be held a few days after contract award. The KLS consultants did attend the management conference, but they were present for the limited purpose of introducing themselves to the OIG staff and informing them that KLS would work with them to implement the OPM study recommendations. Little else was possible since, although OIG staff had received preliminary results from the OPM study in August 1995, Ms. Libby informed us that it was not until mid-October 1995, well after the OIG management conference, that the KLS consultants received the study results and began work on the contract.

We recognize the importance of Ms. Lau's desire for her managers to know that she intended to implement the OPM study recommendations. However, we do not believe Ms. Lau's ability to convey that message at the management conference and to correct the problems identified in the OPM study would have been seriously impaired had the announcement of the actual consultant been delayed by a few months in order to conduct a full and open competition. Following discussion at the conference of the OPM study, Ms. Lau could have announced that the agency was going to employ a contractor with expertise in the field to perform follow-on work on the OPM study and that the acquisition process would begin as soon as practicable. The announcement of her plans, an expeditious initiation of the acquisition process, and notification of her staff about the contract award should have been sufficient to assure her employees that Ms. Lau was serious about addressing the diversity and morale problems.

Contract Modifications and Costs

When first awarded, the KLS contract had an estimated level of effort of \$85,850. The original term of the contract was 1 year. By November 1, 1996, four modifications had increased the contract price to \$345,050 (see table 1). Modification 5 extended the contract through September 30, 1997, at no additional cost.

Table 1: Cost Increases From Modifications to KLS Contract

Contract and modification number	Effective date	Amount	Contract price
Contract	09/12/95	\$85,850	\$85,850
Mod 1	11/22/95	30,800	116,650
Mod 2	04/08/96	78,400	195,050
Mod 3	09/12/96	1,400	196,450
Mod 4	09/30/96	148,600	345,050
Mod 5	11/01/96	0	345,050

Federal procurement law requires that an agency conduct a separate procurement when it wishes to acquire services that are beyond the scope of an existing contract. A matter exceeds the scope of the contract when it is materially different from the original contract for which the competition was held. The question of whether a material difference exists is resolved by considering such factors as the extent of any changes in the type of work, the performance period, and costs between the contract as awarded and as modified, as well as whether potential bidders reasonably would

have anticipated the modification.¹² In our view, the largest modification (Modification 4) materially deviated from the original contract's scope of work and should have been the subject of a separate procurement action.

Modification 4 increased the contract price by \$148,600 and extended the contract period of performance by 6 months. About half of the work under this modification was the same type of work that had been performed under the original contract; however, the other half was beyond the contract's scope of work and would not reasonably have been anticipated by potential bidders. It involved revising the OIG's performance appraisal system. Although the OPM study referenced employee concerns with the OIG performance appraisal system, nothing in the contract called for the contractor to work with OIG to modify that system. Ms. Libby herself stated that Modification 4 significantly changed the original scope and contract requirements and that she was surprised competition was not held for this work. In our view, this modification was beyond the contract's scope of work and would not have been appropriate even if the OIG could have justified its urgency determination for the original procurement.

Poor Management Practices

In addition to legal improprieties in the manner in which the agency awarded and assigned tasks under the contract, we found a pattern of careless management in the procurement process and in oversight of performance under the contract. We believe such careless management could have contributed to an increased cost for the work performed under the contract.

Good procurement planning is essential to identifying an agency's needs in a timely manner and contributes to ensuring that the agency receives a reasonable price for the work. Little or no procurement planning took place prior to making the award here. Although proposals were solicited to do follow-on work relating to recommendations from an OPM study on diversity and workplace morale, the OIG had not received the OPM study and had only been briefed on the preliminary findings at the time of the solicitation. The OIG therefore did not have sufficient information to adequately identify its needs and clearly articulate a set of goals for the change process to be implemented.

Furthermore, OIG did not prepare a written solicitation, including a statement of work. One important purpose of a written statement of work

¹²Stoehner Security Services, Inc., B-248077, B-248077.3, Oct. 27, 1992, 92-2 C.P.D. ¶ 285; Neil R. Gross & Co., B-237434, Feb. 23, 1990, 90-1 C.P.D. ¶ 212.

is to communicate the government's requirements to prospective contractors by describing its needs and establishing time frames for deliverables. The OIG instead relied upon oral communications and failed to effectively communicate with the consultants from whom it solicited proposals. Had the OIG waited until it received the OPM report, carefully analyzed OPM's recommendations, determined what it needed, and adequately communicated these needs in a written solicitation, we believe the OIG would have received a better proposal initially, and one that may have been at a lower overall price.

In this regard, Ms. Libby explained to us that the OIG had not specifically identified to her its needs and that she had misunderstood the work to be performed as explained in her initial telephone conversation with the OIG. Her proposal was based on her belief that the OIG already had management task forces or employee groups studying what changes were needed to address the issues raised in the OPM study and that KLS was to serve only in an advisory capacity to those working groups. However, soon after conducting her initial briefings, she learned that this was not the case and that the work that needed to be done was different from what she believed when she presented her proposal. As a result shortly after she began work, Ms. Libby informed OIG that more work was necessary under the contract than she had originally envisioned. This led to the first three modifications under the contract.

Modification 1 was issued soon after the contract was awarded. It called for KLS to design and conduct briefings with OIG staff both in headquarters and in the field, adding \$30,800 to the costs of the original contract. Modification 2 also increased the level of effort, and added \$78,400 to the contract. According to a memorandum from the contracting officer, this modification was necessary because KLS's technical proposal had suggested the establishment of one steering group whereas additional groups were needed. The modification also significantly increased the training hours to be expended by KLS. Modification 3 resulted from the need to increase the amount of "other direct costs" to allow for travel and material costs for KLS to contribute to the 1996 OIG managers' conference. Although each of these three modifications were within the scope of work contemplated by the initial contract, this increased work was apparently necessary because OIG had not adequately determined its requirements at the beginning of the procurement process and conveyed them to KLS. Had the agency adequately planned for the procurement and identified its needs, this work could have been included in the original contract and the modifications would not have been required.

Similarly, had the OIG properly analyzed the OPM recommendations, it could have determined whether revision of the performance appraisal system should have been included in the scope of the original contract or the work procured separately—thus eliminating Modification 4. Furthermore, had the OIG determined the nature of the work involved in revising the performance appraisal system, specific deliverables and time frames for revising the performance appraisal system could have been established. None of this was done in Modification 4, which merely stated that the modification was “to complete change process transition to include establishing a permanent self-sustaining advisory team, work with in-house committees on complex systems changes, and to establish procedures which will withstand changes in senior management personnel.” An OIG official told us that revision to the performance appraisal process had been on-going for 2 years and that the revisions to the system had still not been completed as of June 1997.

We also identified management deficiencies in oversight of the work performed under the contract. In several instances, KLS performed and billed for work that was not included in the contract statement of work. As stated previously, pursuant to Modification 4, KLS was authorized to make revisions to the OIG performance appraisal system. However, prior to this modification, one of KLS’s employees performed this type of service, working with employee groups to address generic critical job elements and standards, rating levels, and an incentive award system to complement the performance appraisal system. Furthermore, the OIG official responsible for authorizing payment performed under the contract told us that she did not verify that any work had been performed under the contract prior to authorizing payment. She also told us that she did not determine whether documentation for hotel and transportation costs claimed by KLS had been received even though she authorized payment for these travel expenses.

California Trips

Allegations concerning IG Lau’s trips to California suggested that she had used these trips, at taxpayers’ expense, to visit her mother, a resident of the San Francisco Bay area. A review of Ms. Lau’s travel vouchers revealed that she had made 22 trips between September 1994 and February 1997 (30 months)—5 to California of which 3 included stops in San Francisco.

During the three trips that included San Francisco, Ms. Lau took a total of 9 days off.¹³ During these 9 days, she charged no per diem or expense to Treasury. Her travel to California, including the San Francisco area, was scheduled for work-related reasons. See table 2.

Table 2: Treasury IG's Trips to California

Washington, DC— departure and return	Purpose of trip	California destination	Time off taken
07/02 - 08/95	Speak/participate in annual Association of Government Accountants Professional Development Conference	San Diego	None
09/16 - 26/95	Speak at Western Intergovernmental Audit Forum, Honolulu, HI	—	09/16/95 (1 day)
	Visit San Francisco Regional Office	Oakland/San Francisco	09/23/95 (1 day)
03/19 - 28/96	Visit Los Angeles Field and San Francisco Regional offices	Los Angeles/ San Francisco	03/23 - 27/96 (5 days)
	Speak before state and county audit associations		
11/15 - 20/96	Meet with OIG Audit Issue Development Group	San Francisco	11/15 - 16/96 (2 days)
01/27 - 02/01/97	Speak at Western Intergovernmental Audit Forum; meet with Justice, Customs, OIG officials and staff; tour Customs facilities	Los Angeles/ San Diego	None

Methodology

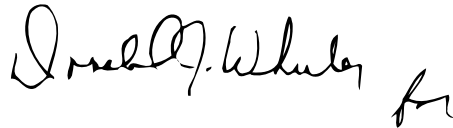
We conducted our investigation from May 13 to October 8, 1997, in Washington, D.C., and Seattle, Washington. We interviewed Treasury officials, including current and former OIG officials, and contractors and staff involved in the two procurements discussed in this report. We reviewed pertinent government regulations, OIG contract files, OIG contracting policies and procedures, and Interior OIG documents concerning Sato & Associates' review of its operation. We also reviewed Ms. Lau's financial disclosure statements, travel vouchers, and telephone logs. Finally, we reviewed prior GAO contracting decisions relevant to the subject of our investigation.

As arranged with your office, unless you announce its contents earlier, we plan no further distribution of this report until 30 days after the date of

¹³As a presidential appointee, the IG does not accumulate personal leave, is on call 24 hours a day, and takes personal time off as needed.

this letter. At that time, we will send copies of the report to interested congressional committees; the Secretary of the Treasury; and the Inspector General, Department of the Treasury. We will also make copies available to others on request. If you have any questions concerning our investigation, please contact me or Assistant Director Barney Gomez on (202) 512-6722. Major contributors are listed in appendix I.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Joseph M. Whaley" followed by a small flourish or initial.

Director
Office of Special Investigations

Major Contributors to the Report

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