

**TESTIMONY OF DANIEL W. LUCAS, INSPECTOR GENERAL**

**BEFORE THE  
COUNCIL OF THE DISTRICT OF COLUMBIA  
COMMITTEE OF THE WHOLE**

**PUBLIC ROUNDTABLE ON**

**BILL 21-235, CONTRACT NO. DCTO-2008-C-0135 MODIFICATION NOS.**

**24 AND 25 APPROVAL AND PAYMENT AUTHORIZATION**

**EMERGENCY ACT OF 2015**

**AND**

**CA 21-71, PROPOSED CONTRACT WITH OST, INC.**

**JUNE 23, 2015**

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Good afternoon Chairman Mendelson and members of the Committee of the Whole. I am Daniel W. Lucas, Inspector General for the District of Columbia. I am pleased to appear before you today to provide testimony at this public roundtable concerning my office's prior audit work covering the District's Information Technology Staff Augmentation (ITSA) Contract. I am joined by members of my staff who will assist in answering questions that the Committee may have. With me today are Ms. Marie Hart, Chief of Staff; Ms. Karen Branson, General Counsel; and Ms. LaDonia Wilkins, Acting Assistant Inspector General for Audits.

I would first like to begin my testimony by providing a synopsis of audit work completed by my office that involves, either directly or indirectly, the District's Information Technology Staff Augmentation (ITSA) contract originally awarded in 2008.

As background, in 2009, my office conducted an audit of contracting actions at the Office of Chief Technology Officer (OCTO). It was during this audit that my office learned of changes in how the District procures IT support services under the ITSA model. Because of this change, my office added the ITSA contract to its FY 2010 Audit and Inspection Plan. Shortly after, my office began the first in a series of audits to evaluate both the award and the execution of the ITSA contract.

### **Prior Audit Work**

The first audit in this series [OIG No. 10-1-19TO] was issued on August 3, 2011. This audit focused on whether the ITSA contract: (1) was awarded in compliance with the requirements of applicable laws, rules, regulations, policies, and procedures; and, (2) had internal controls in place to safeguard against fraud, waste, abuse, and mismanagement. During this audit, the team identified that the District may have been spending upwards of \$7 million to contract for IT support personnel as opposed to in-sourcing. The audit team also found that the contract award may not have used the contractor's best and final offer price. As a result, the audit report issued ten (10) recommendations to OCP, which included the need to: (1) justify in writing the use of contract support versus in-sourcing prior to exercising future options; (2) establish policies and procedures for the award of contracts in accordance with the best and final offer price; and (3) strengthen internal controls over the contract award and execution processes. OCP generally

agreed with our recommendations. Of note, OCP stated that they agreed “in principle” to our recommendation concerning the need to justify in writing the use of contracted support.

The second audit in the series [OIG No. 10-1-19TO(b)], entitled “Report on Non Compliance with the Requirement to Perform Cost Analysis,” was issued on March 22, 2012. In this audit, we summarize a Management Alert Report sent to OCP notifying them of the statutory requirement to: (1) obtain cost or pricing data or other related information in accordance D.C. Code § 2-303.08(a) [which was subsequently repealed by the Procurement Practice Reform Act (PPRA) in April of 2011]; (2) conduct cost analyses; (3) follow its policies and procedures for performing cost analyses; and, (4) conduct and document price negotiations. These requirements were subsequently removed once PPRA went into effect in April of 2011. As a result of this change, we recommended to OCP that they coordinate with the Council of the District of Columbia to reinstate the requirement for contractors to submit cost or pricing data from contractors and for District contracting officers to perform cost analyses on all negotiated contracts in excess of \$100,000. OCP disagreed with our recommendations, stating that cost information and the subsequent analyses were unnecessary and redundant, and that awarded contract prices were based on adequate price competition based on the revised legislation.

The next audit in the series [OIG No. 10-1-19TO(c)], entitled “Audit of the Information Technology Staff Augmentation (ITSA) Contract Option Year 4,” was issued on September 27, 2012. This audit focused on whether the ITSA contract: (1) was administered in an efficient, effective, and economical manner; and (2) if internal controls safeguarded against fraud, waste, and abuse. During this audit, my team attempted to review the contractor’s cost and pricing data.

After several unsuccessful attempts to obtain cost and pricing information made by my office, the contractor was served with a subpoena to produce records. To date, I am not aware of any District agency having reviewed the contractor's cost and pricing data.

During this time, my office issued a Management Alert Report (MAR) [MAR 12-A-01] to the Chief Procurement Officer (CPO), recommending that they decline to exercise the final option year with OST as a means to force compliance with my office's unsatisfied request for cost and pricing information. We again recommended to the CPO that OCP should determine in writing if using a contract to procure District IT support services was more economical than using OCP personnel, prior to issuing a new Request for Proposal (RFP). Ultimately, OCP stated that it was in the best interest of the District to exercise the final option year. OCP also stated that they, in conjunction with OCTO, would begin to develop a new RFP for comparable services based on lessons learned from the OIG's recent audits.

Our final audit report [13-2-25PO], entitled "Audit of the District's Plan to Procure and Manage Information Technology Services," was issued on September 24, 2013. This audit's overall objective was to determine whether the District justified in writing, prior to issuing the new RFP for the services, that use of a contract to procure and manage District IT services is more economical than using District personnel. My office recommended to OCTO they develop a business plan with a cost estimate to justify the use of a contract for services to manage ITSA procurement services is more economical than use of District personnel. My office also recommended to OCP they work with OCTO to justify the use of contractors prior to the award

of a contract under solicitation. Both OCTO and OCP agreed to our recommendations, and stated they would comply by September 30, 2013.

Finally, tangential to our series of ITSA audits, my office issued Management Implication Report (MIR-14-A-01) on January 30, 2014 to inform both the Mayor and Chairman of the Council, that the OIG had encountered difficulties in gaining unfettered access to contractor records. Specifically, my team could not complete the ITSA audit due to the contractor's failure to provide cost and pricing data to support our audit. Without this information, we could not ascertain whether the District obtained a fair and reasonable contract price of over \$190 million from OST, Inc. during Fiscal Years 2009 through 2013. My office recommended to take appropriate action to enable the OIG to obtain access to records of contractors, potentially by taking measures to ensure the CPO could terminate an existing contract based on a contractor's failure to cooperate with OIG requests, and to require the CPO to obtain certified cost or pricing data and perform a cost analysis to determine the reasonableness of costs prior to contract award.

### **Systemic Issues**

Several systemic issues presented themselves during my office's audit engagements. Specifically, the continued recommendation for OCP (in coordination with OCTO) to provide, in writing, an analysis indicating that contracting for District IT support personnel was less expensive than insourcing (or hiring) District employees. The other systemic issue concerned access to contractor records. These issues are discussed in more detail below.

In 2011, OCP agreed that they would consider the need to provide analysis on contracted versus hiring employees to support the District's IT support needs in future contracts. We continued to make this recommendation in successive reports, only to receive the response from OCP that this analysis would be conducted at a future date. This analysis would be invaluable to District leaders, as it would consider both quantitative variables (such as price) and qualitative variables (such as risks to continuity of operations and availability of personnel within the District). Having this analysis prior to the awarding of contracts, or exercising of contract options, would be an important tool for both District Leaders and Council Members for reviewing and approving contracts.

During this series of audits, my office was unsuccessful in getting direct and indirect cost information related to the ITSA contract with OST, Inc. The OIG tried both to exercise its statutory subpoena powers, and to force the production of records by requesting the CPO to not exercise future options with the contractor. By obtaining direct and indirect cost information from the contractor, it would have allowed my auditors to validate the contractor's pricing information. This validation would determine if the District received the best value for its money.

## **Conclusion**

In summary Chairman Mendelson and Members of the Committee, the OIG is unwavering on its findings. From my point of view, there are several questions left to be answered. Without a clear understanding on the advantages to contracting for IT support services, and the

corresponding cost and pricing data, one cannot be assured that the District has been given the best value for its dollar.

This concludes my prepared remarks. My team and I would be happy to answer additional questions.