

**GENERAL SERVICES ADMINISTRATION**  
**OFFICE OF INSPECTOR GENERAL**

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**AUDIT SURVEY OF THE HSPD-12 BILLING PROCESS**  
**REPORT NUMBER: A100136/Q/F/P11001**  
**OCTOBER 27, 2010**



U.S. GENERAL SERVICES ADMINISTRATION  
Office of Inspector General

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October 27, 2010

MEMORANDUM FOR: STEVEN J. KEMPF  
COMMISSIONER, FEDERAL ACQUISITION SERVICE (Q)

FROM: CAROLYN PRESLEY- DOSS *Carolyn Presley-Doss*  
DEPUTY ASSISTANT INSPECTOR GENERAL FOR  
FINANCE AND INFORMATION TECHNOLOGY AUDITS (JA-F)

SUBJECT: Audit Survey of the HSPD-12 Billing Process  
Audit Report Number: A100136/Q/F/P11001

During fiscal year 2010, the Office of Inspector General's (OIG) Acquisition Programs Audit Office (JA-A) performed a *Review of Controls within the Federal Acquisition Service's (FAS) Office of Integrated Technology Services, Office of Infrastructure Optimization's Homeland Security Presidential Directive-12 (HSPD-12) Program*, and identified concerns over the HSPD-12 billing process. Consequently, the Finance and Information Technology Audit Office (JA-F) was asked to perform additional follow-up work to determine if internal controls over the HSPD-12 billing process are adequate and operating effectively. This memorandum presents the results of our survey work on our *Review of the HSPD-12 Billing Process*.

### **Objective, Scope and Methodology**

The objective of the review was to determine if there were any weaknesses in the HSPD-12 billing process during our period of review.

During the Survey Phase, the JA-F reviewed regulations and guidance pertinent to the HSPD-12 billing process; contacted and met with appropriate staff to gain an understanding of the process; developed a cycle memo and conducted walkthroughs; reviewed Standard Operating Procedures; and reviewed the reconciliation process performed by the Managed Service Office (MSO) and the GSA Office of the Controller. The scope of our audit work included HSPD-12 invoices that were issued to customer agencies from October 2009 to April 2010. We conducted our survey work from March 2010 to August 2010. The survey work efforts were performed in accordance with the generally accepted government accounting standards (GAGAS) and the survey did not assess the effectiveness of the program's management control structure.

## **Background**

In April 2007, the MSO entered into a contract with Electronic Data Systems, Inc. (EDS) to provide a shared/central fee-based service of personnel identification management to the federal government's employees and its contractors. The MSO currently has 79 customer agencies within the federal government system, and its core services include the issuance and maintenance of the HSPD-12 cards. To participate and receive services under the HSPD-12 program, each customer agency is required to sign an Interagency Agreement (IA) with the MSO.

In addition, the MSO is responsible for processing HSPD-12 customer billings. Specifically, the MSO reviews and monitors EDS invoices<sup>1</sup>; prepares detailed invoices for customer agencies; and prepares a monthly Intra-governmental Payment and Collections (IPAC) summary for the GSA Office of the Controller for processing. The Office of the Controller is responsible for processing IPAC transactions on behalf of the MSO.

### ***HSPD-12 Billing Process***

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The billing process begins when the MSO receives invoices from EDS. There are two invoices that are sent to the MSO: (1) a public voucher and (2) a detailed billing listing of products and services at cost and at markup. Once these invoices are received, the MSO reconciles the detailed listing to the public voucher to ensure that they are mathematically correct and are in agreement. Furthermore, the MSO ascertains whether the markup percentages included on the detailed billing listing are correct<sup>2</sup>.

If there are discrepancies between the public voucher and the detailed billing listing, the MSO contacts EDS to resolve the discrepancies. If there are no discrepancies, the MSO will modify the data so that the EDS data is compatible with the MSO's Management Reporting Tool (MRT). The billing data is then uploaded into MRT. Once it is uploaded, the MSO ensures that the markup fees are correct.

The MSO also maintains an internal fund tracking spreadsheet to make sure the customer agency has enough funding available in order to continue receiving services under the program. If the funding level is anticipated to go below 50% within the near future, the MSO will notify the customer and request additional funding. To obtain additional funding, an addendum to the existing IA will have to be agreed upon, signed, and resubmitted to the MSO.

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<sup>1</sup> EDS Invoices are billed two months in arrears.

<sup>2</sup> The MSO informed EDS that it was going to increase its markup percentage; as a result, EDS started to apply the new markup percentage on their invoices. However, the MSO subsequently decided not to increase the markup percentage, and accordingly notified EDS. Although the MSO has made requests to EDS several times to correct the markup percentage, as of August 20, 2010, EDS has not taken any action on this matter.

After verifying that the markup fees are correct and the agency has enough funding, the MSO utilizes MRT to generate a detailed billing report and forwards it to the appropriate points of contact within the finance and program departments at each customer agency. The MSO also prepares a summary of all charges, on a monthly basis, by IA – an IPAC Summary – and forwards it to the Office of the Controller to be input into the Office of IT Integration Management System (OMIS) for processing.

## **Survey Results**

### ***Results in Brief***

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Our survey work found weaknesses related to internal controls over the HSPD-12 billing process. Specifically, we noted the following:

- Invoices submitted by the contractor (EDS) do not include the proper markup percentages;
- Separation of duties and routine supervisory reviews could improve the MSO's billing process; and,
- Instances of insufficient funding to cover HSPD-12 services that were already provided.

### ***Survey Finding #1: Invoices submitted by the HSPD-12 contractor do not include the proper markup percentages***

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During our discussions with MSO personnel, and during our review of invoices submitted by EDS, we noted that the invoices do not include the correct markup percentages. Because the invoices are submitted to the MSO with the incorrect markup percentages, the MSO's workload is significantly increased. Therefore, the risk for human-error in the billing process greatly increases as the MSO attempts to rectify the issue by adjusting the percentages manually when uploading billing data into MRT. According to the contractor's statement of work, EDS is required to directly invoice GSA's MSO customer agencies for services rendered and to include the successful contractor's contract price, plus GSA's indicated markup, on the invoice.

### ***Survey Finding #2: Separation of duties and routine supervisory reviews could improve the MSO's billing process***

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During our survey, we noted that there was only one person, an external contractor hired by the MSO, who processed customer billings on behalf of the MSO. Specifically, the external contractor was the only person responsible for receiving EDS invoices; subsequently making standardization and compatibility edits; and manually correcting the markup percentages for each customer agency.

The external contractor was also responsible for using MRT to generate invoices which were ultimately forwarded to the customer agencies. Furthermore, we noted that the supervisor was not consistently involved in reviewing the monthly billings processed by the external contractor on a regular basis. Therefore, there is an absence of separation of duties and routine independent (or supervisory) review within the MSO's HSPD-12 billing process. According to the Government Accountability Office's *Standards for Internal Controls in the Federal Government*, segregation of duties and independent (or supervisory) review are two of the key control activities that help reduce the risk of error or fraud.

**Survey Finding #3: Instances of insufficient funding to cover HSPD-12 services that were already provided**

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Lastly, we noted that there were eight customer agencies that did not have sufficient funding for services they had already received. In these instances, the MSO withheld the bill and did not forward the IPAC information to the GSA Office of the Controller for processing until the funding became available. Consequently, the GSA Office of Controller was not aware of the customer agencies that had IAs with insufficient funding.

Additionally, for one of the aforementioned eight customer agencies, the MSO granted access rights<sup>3</sup> to its employees without verifying to see if the corresponding IA for the agency was signed. In the case of the other seven customer agencies, the financial addendums (i.e., Interagency Agreement Amendments) that were needed to obtain additional funding were not signed in a timely manner (i.e., additional funding was not received before the bill is due for processing in OMIS). The MSO explained that services were provided to the customer agencies that did not have adequate funding to prevent suspension of the HSPD-12 card.

Most importantly, we noted that the Office of the Controller did not perform formal and scheduled reconciliations between MRT and OMIS. According to the MSO and the Office of the Controller, any discrepancies were handled informally for specific IAs, on an as needed basis, during the year. However, in order to assure better internal control, the Office of the Controller established a schedule to perform the reconciliations on a monthly basis starting in June 2010.

**Conclusion**

During our survey work, we noted weaknesses in the internal controls over the HSPD-12 billing process. Specifically, we noted that the contractor hired to provide HSPD-12 services on behalf of the program does not provide billing data with the correct markup percentages. In addition, implementing separation of duties and more consistent supervisory reviews could improve the HSPD-12 billing process within the MSO, in addition to formally documented and independently

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<sup>3</sup> Access rights granted to employees at customer agencies are for the purposes of processing HSPD-12 access card requests.

reviewed reconciliations. We also noted eight instances in which there was insufficient funding to cover HSPD-12 services that were already provided to customer agencies.

Based on our survey work, we concluded that these conditions exist because billing data received from EDS, the HSPD-12 service provider, is not accurate, and because the MSO does not have written standard operating procedures for the HSPD-12 billing process. Likewise, at the time of our survey, the Office of the Controller did not have any written standard operating procedures for the reconciliations performed between the two systems, MRT and OMIS, used to manage the billing process.

### **Recommendation**

We recommend that FAS, in conjunction with the MSO and the GSA Office of the Controller, work together to improve the billing process over the HSPD-12 program. Specifically, we recommend that:

- the MSO continues to be assertive in its efforts to insist that EDS update its billing invoicing system to include the proper markup percentages for services provided to customer agencies;
- FAS, the MSO, and the Office of Controller collaboratively ensure that reconciliations are routine, formally documented, and independently reviewed; and,
- the MSO formally document and improve its monitoring procedures for ensuring that sufficient funding is secured (available) for customer agencies prior to services being provided.

By addressing these areas of concern, management can further ensure a more efficient and effective HSPD-12 billing process.

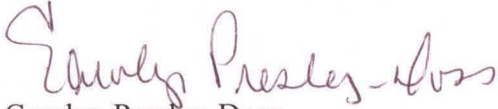
### **Management's Response**

In a response dated October 8, 2010, FAS stated its concurrence with the three recommendations issued by the OIG, and will begin creating action plans to address the recommendations. Management's written comments to the draft report are included in Appendix A.

### **Management Controls**

The objective of our survey work was to determine if there were any weaknesses in the HSPD-12 billing process during our period of review. As part of our survey, we determined that internal controls over the HSPD-12 billing process could be improved. We have included recommendations in this report to address identified control issues.

We would like to thank FAS for the courtesies extended to us during our review. If you have any questions regarding this report, please do not hesitate to call Porsha Pickett-Brower or me, at 202-357-3620.



Carolyn Presley-Doss


Deputy Assistant Inspector General for  
Finance and Information Technology Audits (JA-F)



**GSA Federal Acquisition Service**

October 8, 2010

**MEMORANDUM FOR:** JEFFREY C. WOMACK  
DEPUTY ASSISTANT INSPECTOR GENERAL  
FOR FINANCE AND ADMINISTRATIVE AUDIT OFFICE  
(JA-F)

**FROM:** STEVEN J. KEMPF   
COMMISSIONER  
FEDERAL ACQUISITION SERVICE (Q)

**SUBJECT:** GSA Draft Report, "Audit Survey of the HSPD-12 Billing Process" (Report Number A100136), dated October 7, 2010

Thank you for the opportunity to provide comments on the discussion draft, and for taking our comments into consideration when publishing your draft report. FAS concurs with the three recommendations and will begin creating action plans to address the recommendations. Concurrences are included in the official file or by the correspondence received from the program offices which are attached to the official file.

Please call me at (703) 605-5400 if you have any questions. Your staff may contact Kirk Martinelli at (703) 605-5432 or [kirk.martinelli@gsa.gov](mailto:kirk.martinelli@gsa.gov) for additional information.

cc: Mr. Theodore R. Stehney  
Assistant Inspector General  
for Auditing (JA)



## APPENDIX A – MANAGEMENT’S RESPONSE

### **Federal Acquisition Service Comments on the OIG Draft Report: “Audit Survey of the HSPD-12 Billing Process” (A100136)**

#### General Comments

Since inception of the program, and based on lessons learned in the newly established business process, the FAS MSO has consistently reviewed and modified policies and procedures on an ongoing basis. The modifications have led to the tightening of existing, as well as the establishment of new internal controls. The FAS MSO, in conjunction with the Office of the Controller, has established standard operating procedures for the reconciliation of the MRT and OMIS systems used to support the billing process. This reconciliation was required to be done semi-annually by the GSA Chief Financial Officer; however, the FAS MSO and the Office of the Controller have elected to perform this operation on a monthly basis.

In addition, in recognition of the OIG recommendation, the FAS MSO has established a formal process for the independent review of the monthly billing before submission to the Office of the Controller for processing.

#### Recommendation No. 1

***The MSO continue to be assertive in its efforts to insist that EDS update its billing invoicing system to include the proper markup percentage for services provided to customer agencies.***

FAS concurs.

#### Recommendation No. 2

***FAS, the MSO, and the Office of the Controller collaboratively ensure that reconciliations are routine, formally documented, and independently reviewed.***

FAS concurs.

#### Recommendation No. 3

***The MSO formally document and improve its monitoring procedures for ensuring the sufficient funding is secured (available) for customer agencies prior to services being provided.***

FAS concurs.

**AUDIT SURVEY OF THE HSPD-12 BILLING PROCESS  
REPORT NUMBER: A100136/Q/F/P10001**

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