



**U.S. OFFICE OF PERSONNEL
MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDITS**

Final Audit Report

**AUDIT OF THE U.S. OFFICE OF PERSONNEL
MANAGEMENT'S OFFICE OF PROCUREMENT
OPERATIONS' CONTRACT MANAGEMENT
PROCESS**

Report Number 4A-CA-00-15-041
July 8, 2016

-- CAUTION --

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EXECUTIVE SUMMARY

Audit of the U.S. Office of Personnel Management's Office of Procurement Operations' Contract Management Process

Report No. 4A-CA-00-15-041

July 8, 2016

Why Did We Conduct The Audit?

The objectives of our audit were to:

- Assess the internal controls over the Office of Procurement Operations' (OPO) post-award management process and determine if Contracting was deobligating contract funds, according to the Federal Acquisition Regulation (FAR).
- Analyze the Calyptus Consulting Group's independent strategic assessment report and determine if recommendations were valid for procurement compliance, procurement oversight, and acquisition certification and training.
- Determine if the OPO was promptly reporting, investigating and referring suspension and debarment cases, according to the FAR and its internal policies and procedures.

What Did We Audit?

The Office of the Inspector General has completed a performance audit of the U.S. Office of Personnel Management's (OPM) OPO contract management process. Our audit fieldwork was conducted from September 10 through December 16, 2015, at OPM headquarters, located in Washington, D.C.



Michael R. Esser
*Assistant Inspector General
for Audits*

What Did We Find?

We determined that OPM needs to strengthen its controls over its contract management process. Our audit identified three areas requiring improvement, as follows:

- **OPO Lacks Strong Internal Controls over Its Contract Management Operations**
OPO did not have strong internal controls over procurement compliance, procurement oversight, workload and staffing, and acquisition certification and training operations.
- **Inaccurate Contract Amounts Reported in OPM's Information Systems**
For 22 out of 60 contracts we reviewed, the contract amounts reported in the Consolidated Business Information System differed from the contract amounts reported in OPO's contract files. In addition, OPO was unable to provide 17 out of 60 contract files for our review.
- **Weak Controls over the Contract Closeout Process**
OPO could not provide a listing of contract closeouts for fiscal years 2013 and 2014. In addition, for 60 contracts we reviewed, we identified 46 where OPO did not initiate the contract closeout process.

ABBREVIATIONS

Calyptus	Calyptus Consulting Group
CBIS	Consolidated Business Information System
CO	Contracting Officers
CS	Contracting Specialists
FAR	Federal Acquisition Regulation
FPDS	Federal Procurement Data System
FY	Fiscal Year
GAO	U.S. Government Accountability Office
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
OPO	Office of Procurement Operations
[REDACTED]	[REDACTED]
RFP	Request for Proposal
RFQ	Request for Quotation
SAM	System for Award Management

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I. BACKGROUND

This final audit report details the findings, conclusions, and recommendations resulting from our performance audit of the U.S. Office of Personnel Management's (OPM) Office of Procurement Operations' (OPO) contract management process. The audit was performed by OPM's Office of the Inspector General (OIG), as authorized by the Inspector General Act of 1978, as amended.

This audit was conducted based on the results of the OPO risk assessment performed in fiscal year (FY) 2015 by OIG's Internal Audits Group. The purpose of the risk assessment was to understand OPO's processes and determine areas of high risk. We identified OPO's contract management process as a high-risk activity for the following reasons:

1. OPM contracts¹ may not be in compliance with the Federal Acquisition Regulation (FAR) and OPM policies. Specifically, in our risk assessment we identified three out of five contract files that did not contain the required documentation, such as the Independent Government Cost Estimate, market research (quotes), or acquisition plan to support the award of the contract.
2. OPO may not have adequate supervision over contract actions due to the lack of sufficient staffing.
3. Other Federal government agencies could hire fraudulent contractors if contractor performance is not entered into the Contractor Performance Assessment Rating System, which should be performed by OPO contract specialists on contracts nearing or at the end of their life cycle.

OPO's Contracting Management Process

During our audit, the Office of Procurement Operations, formerly the Contracting office within Facilities, Security and Contracting, was reorganized and now reports directly to OPM's Director. The Facilities, Security and Contracting office is now Facilities, Security and Emergency Management.

OPO performs its contract management functions in the Theodore Roosevelt Building (Headquarters) in Washington D.C., Boyers and Philadelphia, Pennsylvania. At the time of our audit, OPO consisted of five teams² that provided centralized contract management to OPM's

¹ Contracts means contracts, orders, agreements, and calls.

² Towards the end of the audit, there was a reorganization that has realigned the duties and function of the OPO and the five teams have since changed as well as their roles and responsibilities. The updated roles and responsibilities were not part of our audit work and have not been validated.

program offices to support the operations and Government-wide mission of OPM, in accordance with the FAR. These teams included the:

Service Team: Handles service related purchase requests, service contract awards and post-award administration for all of OPM's program offices.

Information Technology Team: Handles information technology procurement services and product needs for OPM's program offices.

Vendor Management Team: Directly funded by Human Resources Solutions to support the Training and Management Assistance program when awarding contracts for Human Resources Solutions.

Boyers Contracting Team: Directly funded by Federal Investigative Services to handle their contracts over \$150,000. Federal Investigative Services established an internal contracting team to handle contracts of \$150,000 and under.

Procurement Policy and Innovation: Streamlines and updates OPO's contracting policies and procedures, manages the suspension and debarment program, and assists other teams in performing contract specialist and administrative responsibilities, such as inputting the contractor's performance into the Contractor Performance Assessment Rating System.

Contracting officers (CO) and contract specialists (CS) are responsible for awarding and managing the life of a contract through the periods before, during and after award, including contract closeout.

- A. Prior to Award – The requesting program office inputs the financial information for contract funding obligations into the Consolidated Business Information System (CBIS)³. The CO receives an approved requisition, statement of work, government estimate, market research, and acquisition plan as required from the requesting program office in the Acquisition Tracking System⁴ and assigns the requisition to a CS⁵ to determine the best contract type and award action in use.

³ CBIS is OPM's financial, budgetary and performance information data system and is used for funding of the contracts. Contract specialists have access to the system.

⁴ The Contracting Office's acquisition tracking system stores contract action information that is used, in part, to report information to Contracting Office personnel.

⁵ Contracts can also be assigned to a CO depending upon the nature of the contract requested. For example, this may happen if a CO has worked on a similar contract, or due to limited resources and time restrictions.

Contract Types:

- Indefinite Delivery Indefinite Quantity – Contracts that provide for an indefinite quantity of services for a fixed amount of time. The government places task orders against a basic contract for individual requirements.
- Firm-Fixed-Price – Contract amount is not subject to any adjustments based on the basis of the contractor’s cost experience in performing the contract. FAR 16.202-1 states that “This contract type places upon the contractor maximum risk and full responsibility for all costs and resulting profit or loss.”
- Incentive Contracts – Linking the amount of profit payable under the contract to the contractor’s performance.
- Cost Reimbursement Contracts – Establish an estimate of total cost and establishes a ceiling that the contractor may not exceed.
- Time and Materials – Contract specifies the hourly rate that includes wages, overhead, and profit plus the direct materials used or consumed directly with furnishing the end product or service.
- Labor Hours - Contract specifies the hourly reimbursement rates that include wages, overhead, and profit.

The CS utilizes a commercial off-the-shelf software application known as the [REDACTED] [REDACTED] ([REDACTED])⁶ to obtain a unique solicitation number, after which a Request for Quotation (RFQ) or Request for Proposal (RFP) is issued. The RFQ and RFP are used in negotiated acquisitions⁷ to communicate Government requirements to prospective vendors and to solicit proposals and/or quotations. Upon receipt of the proposals and/or quotations the CO selects a contractor and verifies that the prospective contractor is registered and not on the excluded parties listing in the System for Award Management (SAM). Finally, the CS prepares the contract in [REDACTED], which includes contract clauses outlining OPM’s and the contractor’s role and responsibilities.

B. Award – The CS or CO reviews the contract to ensure the award is in compliance with the FAR requirements. An internal checklist is used for the reviews and filed in the contract folder. The contract specialist or officer will ensure the contractor and program office agree to the terms and conditions of the contract with a signature. Once all signatures are present, the CS or CO awards the contract.

After Award – After the contract is awarded, OPO is responsible for completing post award administrative contract actions, including contract closeouts. OPO utilizes the Federal

⁶ [REDACTED] is a commercial off-the-shelf software used to record and track requisitions, purchase orders and contracts issued by offices and councils within the Executive Office of the President.

⁷ An agency can obtain best value in negotiated acquisitions by using any one or a combination of source selection approaches. For example, in acquisitions where the requirement is clearly definable and the risk of unsuccessful contract performance is minimal, cost or price play a dominant role in source selection.

Procurement Data System (FPDS) in the contracting process after award to collect and report procurement data for contract actions using appropriated funds.

- C. OPO’s contract specialists work with OPM’s program offices’ contract officer representatives to ensure all contracted products and services are received. Upon receiving evidence of physical completion (i.e., final invoice or a deliverable receipt form) the contract specialist is responsible for administering closeouts, which includes determining if excess funds, or available obligations, must be deobligated and returned to the program office from which they originated. FAR 4.804-1(c) includes requirements describing when a contract file shall not be closed, including if (1) the contract is in litigation or under appeal; or (2) in the case of a termination, all termination actions have not been completed.

OPO receives quarterly notification of open contract funding obligations through the Chief Financial Officer’s Open Obligation Report, which identifies the date of the contract’s last invoice. FAR 4.804-5 includes 15 tasks associated with closeout, all of which are critical steps in the process. The CFO’s Open Obligation Report may be used as a tool for Program Offices and OPO members alike to consider and potentially initiate the closeout process.

The contract method is used to determine when unused contract funds should be deobligated, based on FAR timeliness standards as described below:

Contract Method:	FAR Timeliness Standards
<p style="text-align: center;">SIMPLIFIED ACQUISITION</p> <p>Used for purchase orders and blanket purchase agreements. The simplified acquisition threshold is \$150,000.</p>	<p>Closed when the contracting officer receives evidence of receipt of property and final payment, unless otherwise specified by agency regulations.</p>
<p style="text-align: center;">FIRM-FIXED-PRICE</p> <p>The contractor assumes the greatest cost risk by agreeing to perform at a predetermined or fixed price.</p>	<p>Closed within 6 months after the date on which the contracting officer receives evidence of physical completion.</p>

<p style="text-align: center;">INDIRECT COST RATE</p> <p style="text-align: center;">The percentage or dollar factor that expresses the ratio of indirect expense incurred in a given period to direct labor cost.</p>	<p style="text-align: center;">Closed within 36 months of the month in which the contracting officer receives evidence of physical completion.</p>
<p style="text-align: center;">ALL OTHERS</p>	<p style="text-align: center;">Closed within 20 months of the month in which the contracting officer receives evidence of physical completion.</p>

To a limited degree, CBIS, [REDACTED], and FPDS are used by OPO to identify when a contract requires closeout. In order to closeout a contract, OPO must determine the amount of available funds to return to the appropriate program office by subtracting the total amount expended for contract products and/or services received from the total contract amount awarded.

Suspension and Debarment Program

OPM’s suspension and debarment program was implemented on January 1, 2013, to impose suspension and debarment actions to protect the Government’s interest. OPM’s suspension and debarment activities begin with OPO receiving an investigative referral from the OIG. The investigative referral could be a violation and/or conviction that was suspected or discovered during the course of a Government contract’s period of performance. The investigative referral must consist of the following:

- summary and rationale for consideration;
- statement of facts;
- copies of any documentary evidence;
- list of parties, including the contractor, principals, and affiliates (including known identifying information such as addressee(s), zip codes, and Dun & Bradstreet’s Number or other identifying number for an individual);
- list of any known investigations, proceedings or claims; may include comments and recommendations of the referring official and any higher level review authority regarding whether to suspend or debar, the period of any recommended debarment, and whether to continue any current engagements; and
- any other appropriate exhibits or documents.

Upon receipt of the investigative referral, Facilities, Security and Emergency Management's management analyst will update their intake log with pertinent information (e.g., subject's name, OIG referral date, OIG's proposal (suspension or debarment)). OPM's Suspension and Debarment Official, who is also the Director of Facilities, Security and Emergency Management, sends a certified letter of proposed suspension or debarment to the subject, which states the action that has or will be taken. The subject has 30 days to respond to the proposed suspension or debarment letter. In SAM, the management analyst will suspend the subject, write a summary for the exclusion, and input the active and termination dates of suspension. In addition, the Director of OPO's Policy and Procurement Innovations notifies the Interagency Suspension and Debarment Committee⁸ that OPM will be the lead agency coordinator for the subject(s).

If the subject does not provide a response, the taken or proposed action remains unchanged. If the subject provides a response, the Suspension and Debarment Committee, which consists of the Director of Policy and Procurement Innovations, the Senior Procurement Executive, the Director of the Office of Procurement Operations, and the management analyst, meet to discuss whether a suspension or debarment should be imposed. The management analyst completes a summary evaluation form and provides it to the suspension and debarment official. The suspension and debarment official reviews the subject's response, the OIG's referral, and any other supporting documentation including the case details and the Committee's recommendations. Based upon the review, the suspension and debarment official makes a final determination for debarment or suspension and responds to the Suspension and Debarment Committee. Finally, the management analyst will update SAM to reflect the final decision.

⁸ The Interagency Suspension and Debarment Committee monitors implementation of Executive Order 12549 and mandates executive departments and agencies to participate in a government-wide system for debarment and suspension, issue regulations, and enter debarred and suspended participants' identifying information on the U.S. General Services Administration list of excluded persons, now known as the System for Award Management.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of our audit were to:

- Assess the internal controls over OPO’s post-award management process, in accordance with the FAR. Specifically, we determined if OPO was deobligating contract funds, according to the FAR.
- Analyze the Calyptus Consulting Group’s (Calyptus) independent strategic assessment report and determine if recommendations were valid for procurement compliance, procurement oversight, and acquisition certification and training.
- Determine if OPO was promptly reporting, investigating, and referring suspension and debarment cases, according to the FAR and its internal policies and procedures.

The recommendations included in this final report address these objectives.

Scope and Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards as established by the Comptroller General of the United States. These 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.

The scope of our audit covered the following areas:

Audit Area	Total Universe	Scope	Source
Suspensions and Debarments	19	October 1, 2013 through September 30, 2014	Facilities, Security and Emergency Management Intake tracking log
Open Obligations	12,940	October 30, 2009 through September 30, 2014	CBIS
Contracts Reviewed by Calyptus	217	October 1, 2013 through September 30, 2014	FPDS

Due to OPO’s inability to provide a universe of closed contracts, we were unable to test the contract closeout process during this audit and excluded the closed contract universe and related fieldwork testing from our audit work.

We performed our audit fieldwork from September 10 through December 16, 2015, at the OPM Headquarters, located in Washington, D.C.

To accomplish the audit objectives noted above, we:

- interviewed OPO personnel, as necessary;
- sampled and tested open obligations;
- verified Calyptus' strategic assessment results; and
- sampled and tested suspensions and debarments.

In planning our work and gaining an understanding of OPM's contract management process, we considered, but did not rely on, OPO's internal control structure to the extent necessary to develop our audit procedures. These procedures were mainly substantive in nature, although we did gain an understanding of management procedures and controls to the extent necessary to achieve our audit objectives. The purpose of our audit was not to provide an opinion on internal controls, but merely to evaluate controls over the processes that were included in the scope of our audit.

Our audit included such tests and analysis of OPO's contract management operations for open obligations, and suspension and debarment, including documented policies and procedures, contract files, suspension and debarment support, and other applicable information, as we considered necessary under the circumstances. The results of our review and tests indicate that with respect to the items tested, OPO needs to strengthen its controls over its contract management operations.

In conducting the audit, we relied to varying degrees on computer-generated data. Due to the nature of the audit, we did not verify the reliability of the data generated by the systems involved. However, while utilizing the computer-generated data during our audit, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.

In performing our audit work, we used IDEA Data Analysis software to select samples for testing in order to accomplish our audit objectives. Our sampling methodology consisted of judgmentally selecting the following from the CBIS FYs 2010 to 2014 Open Obligation Report, as of June 8, 2015:

- 30 out of 8,595 open obligations with last invoice dates and
- 30 out of 4,345 open obligations without last invoice dates.

The samples selected during our review were not statistically based. Consequently, the results from our samples were not projected to the populations.

The preliminary results of our audit were discussed with OPO officials at an exit conference held on December 16, 2015, and were presented in a draft audit report dated March 31, 2016. OPO's comments in response to the draft report were considered in preparing our final report and are included as an Appendix.

III. AUDIT FINDINGS AND RECOMMENDATIONS

For the areas described below, we determined that OPO needs to strengthen its controls over the contract management process.

1. OPO Lacks Strong Internal Controls over Its Contract Management Operations

OPO contracted with Calyptus to perform an independent strategic assessment from October 2014 through March 2015 of OPO's procurement compliance; procurement oversight; workload and staffing; and acquisition certification and training. On April 23, 2015, Calyptus issued their Strategic Assessment Report to OPO, which identified 16 recommendations for OPO.

We reviewed Calyptus' Strategic Assessment Report of OPO and supporting documentation, and determined that the findings and recommendations reported by Calyptus are valid and logical. However, OPM is not ensuring that OPO takes appropriate corrective action to address the internal control deficiencies identified.

The U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* states that management "designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. ... [m]anagement should establish and operate monitoring activities to monitor the internal control system and evaluate the results." Common categories of control activities include top-level performance reviews, functional or activity level reviews by management, controls over information processing, physical controls over assets, establishment and review of performance measures and indicators, segregation of duties, proper execution of transactions, accurate and timely recording of transactions, access restrictions to and accountability for resources and records and appropriate documentation of transactions and internal controls.

GAO's *Standards for Internal Control in the Federal Government* also states that "[m]anagement clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. ... Documentation and records are properly managed and maintained."

OPO's weak internal controls and outdated policies led to the reportable deficiencies in Calyptus' Strategic Assessment Report and by not addressing Calyptus' recommendations, OPO's processes could deteriorate to a point in which the reliability of its procurement activities could be jeopardized.

Recommendation 1

We recommend that OPO strengthen its internal controls by working with OPM's Internal Oversight and Compliance office to implement corrective actions to address the findings and recommendations reported in the Strategic Assessment Report issued by Calyptus Consulting Group, Inc., on April 23, 2015.

**OPO Lacks Strong
Internal Controls over
Its Contract
Management
Operations**

OPO's Response:

OPO concurs with this recommendation.

“OPO will work with OPM's Internal Oversight and Compliance (IOC) on the development and maintenance of a corrective action plan to address the findings and recommendations reported in the independent Strategic Assessment Report issued on April 23, 2015. Additionally, OPO will work with IOC to track and monitor the implementation of corrective actions already underway and those yet to be completed.”

2. Inaccurate Contract Amounts Reported in OPM's Information Systems

OPO is not ensuring that the contract data input in CBIS by its staff is accurate and complete.

We requested access to 60 contract files with open obligations reported in the Office of the Chief Financial Officer's CBIS Fiscal Years 2010 to 2014 Open Obligation Report, and determined that the contract amounts reported in the CBIS for 22 of the 60 contracts sampled differed from the contract amounts reported in OPO's contract files. In addition, OPO was unable to provide 17 of the 60 contract files, so we cannot determine if the amounts reported in CBIS were accurate. Details regarding the 39 questioned contracts were provided to OPO separate from this report.

GAO's *Standards for Internal Control in the Federal Government* states that “[m]anagement processes relevant data from reliable sources into quality information within the entity's information system. An information system is the people, processes, data and technology that management organizes to obtain, communicate, or to dispose of information.”

GAO's *Standards for Internal Control in the Federal Government* also states that “[m]anagement designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. ... [m]anagement should establish and operate monitoring activities to monitor the internal control system and evaluate the results.”

**Contract Data Not
Accurately
Reported in CBIS**

Common categories of control activities include top-level performance reviews, functional or activity level reviews by management, controls over information processing, physical controls over assets, establishment and review of performance measures and indicators, segregation of duties, proper execution of transactions, accurate and timely recording of transactions, access restrictions to and accountability for resources and records, and appropriate documentation of transactions and internal controls.

GAO's *Standards for Internal Control in the Federal Government* further asserts that "[m]anagement clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. ... Documentation and records are properly managed and maintained."

By not verifying that staff inputs accurate contract data into CBIS, OPO is unable to determine the correct amount of funds available to return to OPM's program offices upon contract closeout.

Recommendation 2

We recommend that OPO implement internal controls to ensure that contract data, including contract award amounts, is accurately recorded in OPM's information systems, such as CBIS, and the appropriate supporting documentation is maintained.

OPO's Response:

OPO concurs with this recommendation and has begun taking steps to address the recommendation, including:

- "actively engag[ing] the Office of the Chief Financial Officer ... to ensure greater data accuracy across the [REDACTED] and Consolidated Business Information System (CBIS) systems";
- "work[ing] with [Office of the Chief Financial Officer] to review and revalidate past guidance, to train new staff, and to address these contracts" not converted successfully to [REDACTED] and CBIS and that require additional corrective measures;
- "reviewing [the Office of the Chief Financial Officer's weekly mismatch⁹] reports on a regular basis";
- "develop[ing] new, previously unestablished guidance for the file review and compliance process. The action plan ... includes the refreshed/new file review and compliance

⁹ The Office of the Chief Financial Officer completes a weekly mismatch report which is posted to OPM's intranet, THEO. Reports provide top level reasons for mismatches between CBIS and [REDACTED], but do not include differences found between the systems and established contract files.

process policy to be finalized in late fiscal year 2016, early fiscal year 2017. This process will support contract file compliance while validating content against CBIS and [REDACTED] data. In addition, OPO is currently updating the Contract File Table of Contents policy to be finalized and implemented in late fiscal year 2016”; and

- receiving “funding ... in September 2015 for contractor support which includes contract file support and contract closeout. The contract was awarded in September 2015.”

3. Weak Controls over the Contract Closeout Process

OPO needs to strengthen its internal controls over the contract closeout process. Specifically, OPO could not provide a listing of contract closeouts for FY 2013 and FY 2014. In addition, of the 60 contracts we sampled, we identified 46 in which OPO did not initiate the contract closeout process in compliance with the FAR.

The control deficiencies in the contract closeout process exist, in part, due to the following:

- CBIS, [REDACTED], and FPDS not being fully utilized to track and manage contracts that need to or have been closed out.
- The identification of contracts to be closed is a manual, time intensive, process.
- Other OPO responsibilities, such as approving contracts, take precedence over contract closeouts.
- Incomplete or no contract closeout documentation exists in OPO’s contract files.

Details regarding the 46 contracts that we questioned were provided to OPO separate from this report.

FAR Subpart 4.804-5(a), *Procedures for closing out contract files*, states, “[t]he contract administration office is responsible for initiating (automated or manual) administrative closeout of the contract after receiving evidence of its physical completion. At the outset of this process, the contract administration office must review the contract funds status and notify the contracting office of any excess funds the contract administration office might deobligate.”

FAR Subpart 4.804-1(a), *Closeout by the office administering the contract*, states that:

“(1) Files for contracts using simplified acquisition procedures should be considered closed when the contracting officer receives evidence of receipt of property and final payment, unless otherwise specified by agency regulations.

(2) Files for firm-fixed-price contracts, other than those using simplified acquisition procedures, should be closed within 6 months after the date on which the contracting officer receives evidence of physical completion.

(3) Files for contracts requiring settlement of indirect cost rates should be closed within 36 months of the month in which the contracting officer receives evidence of physical completion.

(4) Files for all other contracts should be closed within 20 months of the month in which the contracting officer receives evidence of physical completion.”

GAO’s *Standards for Internal Control in the Federal Government* states that “[m]anagement clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. ... Documentation and records are properly managed and maintained.”

As a result of the control deficiencies identified for the contract closeout process, as well as the issues identified under Finding 2 of this report, we cannot determine if \$108,880,417 in remaining open obligations, associated with the 46 questioned contracts, are still available for use by OPM’s program offices.

Recommendation 3

We recommend that OPO develop an accurate inventory of FYs 2013 and 2014 contracts ready for closeout.

OPO’s Response:

OPO concurs with this recommendation and two immediate actions were taken to address this recommendation:

- (1) “Adjustment of the total number of federal contracting staff to better align with workload; as well [as] provide policy development and compliance/oversight functions.”
- (2) “A significant list of contracts potentially ready for closeout action was developed in conjunction with the [Office of the Chief Financial Officer] and various program offices, which was provided to the contractor” It is important to note that numerous deobligations earmarked for action are not ready for closeout for various reasons, and the list provided does not merely isolate 2013 and 2014 contracts but presents a list of contracting actions ranging back to 2004. OPO is working towards closing out not only actions from 2013 and 2014, but actions across the full list.”

OPO Did Not Initiate the Closeout Process for More Than \$108 Million in Open Contract Obligations

Recommendation 4

We recommend that OPO establish and implement management controls to ensure that contracts are tracked and managed through the closeout process and adequate documentation is maintained in the contract files, including evidence of contract completion and closeout.

OPO's Response:

OPO concurs with this recommendation.

“OPO is currently in the process of developing file review checklists and updating guidance on the file review process.” See OPO's response to recommendation 2.

Recommendation 5

We recommend that OPO provide documentation to verify that the closeout process has been administered on the open obligations for the 46 contracts questioned.

OPO's Response:

OPO concurs with this recommendation.

“Resource limitations continue to be an impeding factor in OPO's ability to adequately support contract closeout ... As OPO is able to gain critical additional resources necessary in successfully supporting the closeout process, contracting actions ready for closeout shall be appropriately addressed, to include those on the OIG contracts questioned list, and the supporting tracking, management, oversight, and compliance efforts associated with the closeout process are thoroughly and completely conducted.”

Recommendation 6

We recommend that OPO deobligate the \$108,880,417 in open obligations, for the 46 contracts questioned, if support cannot be provided to show that the contract should remain open and the funds are still being utilized.

OPO's Response:

OPO concurs with this recommendation.

“Through OPO and [O]CFO collaboration, a review of the deobligation and closeout processes is underway. It is expected that these efforts will produce an agency strategy for addressing and prioritizing those critical actions. As OPO is able to gain additional resources necessary in successfully supporting both the deobligation and closeout processes, contracting actions ready for closeout and funds available for deobligation shall be appropriately addressed.”

IV. MAJOR CONTRIBUTORS TO THIS REPORT

INTERNAL AUDITS GROUP

██████████, Auditor

██████████, Auditor

██████████, Lead Auditor

██████████, Auditor

██████████, Auditor-in-Charge

██████████, Senior Team Leader

██████████, Group Chief

APPENDIX



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

600 Arch St., Suite 3400, Philadelphia, PA 19106

Office of
Procurement Operations

May 5, 2016

MEMORANDUM FOR:

[REDACTED]
Chief
Internal Audits Group

FROM:

NINA M. FERRARO
Senior Procurement Executive
Office of Procurement Operations

NINA
FERRARO

Digitally signed by NINA
FERRARO
Date: 2016.05.05
13:10:10 -04'00'

SUBJECT:

Draft Report on the Audit of the U.S. Office of Personnel Management's Office of Procurement Operations' Contract Management Process (Report No. 4A-CA-00-15-041)

Thank you for providing us the opportunity to respond to the Office of the Inspector General (OIG) Draft Report on the Audit of the U.S. Office of Personnel Management's Office of Procurement Operations' Contract Management Process, dated March 31, 2016.

We recognize that even the most well run programs benefit from external evaluations and we appreciate your input as we continue to enhance our program. Our responses to your draft recommendations are provided immediately below.

GENERAL COMMENTS ASSOCIATED WITH THE DRAFT REPORT

Overall the Office of Procurement Operations (OPO) is in agreement with the recommendations presented in this draft report. In an attempt to strengthen the final document we recognized several areas where suggested revisions would more accurately reflect the data and circumstances presented, thereby ensuring a complete report suitable for public release. Those areas are provided below for further consideration.

Page 1, within the "OPO Contracting Management Process" it is noted that a reorganization occurred during the audit. We recommend that an additional line be added here that clearly states the reorganization realigned duties and functions and that the five teams listed have since changed as well as their roles and responsibilities. OPO would be pleased to provide the breakdown of the reorganized team with new team functions for inclusion in the report, to ensure it represents the most current information available.

Page 2, A. "Prior to Award", we suggest that other critical Program Office responsibilities be

represented in this section. Acquisition planning and requirements development which are critical steps in the pre-award phase are not mentioned. For example, we suggest that the second sentence be revised to include the following “...an approved requisition, statement of work, government estimate, market research, and acquisition plan as required from the requesting program office.....”

Page 2, “Contract Type, Firm Fixed Price”, we suggest referencing the Federal Acquisition Regulation (FAR) 16 definition and associated language here as the FAR 42 references seem somewhat out of place for the particular section. Additionally, we suggest “firm-fixed-price” be used throughout, where applicable.

Page 3, similarly, top level representation of the process may omit critical steps and/or over-generalize certain terms.

- First paragraph on the page (after the bullets) use caution with the blanket use of “CS”. For example, the third sentence should read, “...CO selects a contractor.....” the CS does not have the authority to make such a decision.
- Following paragraph, the terms “RFQ” and “RFP” as well as “proposals” are referenced in association with each other. Please note a proposal and a quotation are different solicitation instruments under the FAR, and represent different processes and procedures in terms of authorities and manner in which awards are made. We suggest that, at a minimum, the term “proposals” be replaced with “proposals and/or quotations.” We also suggest that the report include a note explaining that the term “contract” as used throughout the report, means “contracts, orders, agreements, and calls”, all of which are different and represent varying processes and procedures under the FAR.

Page 4, second paragraph, the process by which OPO and the applicable Program Office administer a contract is more extensive than represented. For example, those contracting officer’s representative (COR) duties and functions are outlined in established OPM Contracting Policy 1.602-2, which is being refreshed by OPO at this time. Those efforts are extensive and include monitoring performance, reviewing routine deliverables and addressing invoices. Additionally, the closeout process which is outlined in established OPM Contracting Policy 4.804 is extensive and represents shared responsibility between both OPO and the applicable Program Office. For example, physical completion of the effort is not the only requirement for closeout. FAR 4.804-5 includes 15 represented tasks associated with closeout, all of which are critical steps in the process.

Page 4, the Open Obligation Report itself, does not permit the ability to administer contract closeouts. The closeout process is extensive and requires Program Office initiation, among other requirements. This does not appear to be fully depicted in the report. Additionally, the Open Obligation Report includes active contract actions that are not in a position to be closed out

because performance is still ongoing. Suggest stating that “CFO’s Open Obligation Report” may be used as a tool for Program Offices and Contracting members alike to consider and potentially initiate the closeout process.”

Page 5, we recommend all references to the “Realty Specialist” be removed and replaced with “Management Analyst” to accurately reflect the current title of the position held by the OPO team member supporting the Suspension and Debarment program.

Page 21, upon further discussion with the OIG team member [REDACTED] on April 20, 2016, the quantity of contract actions referenced within recommendations 5 and 6 should be adjusted to 46.

RESPONSES TO THE DRAFT REPORT RECOMMENDATIONS

Recommendation 1

We recommend that the Office of Procurement Operations strengthen its internal controls by working with OPM’s Internal Oversight and Compliance (IOC) office to implement corrective actions to address the findings and recommendations reported in the Strategic Assessment Report issued by Calyptus Consulting Group, Inc., on April 23, 2015.

Management Response: CONCUR

As offered in our response to the Notice of Findings and Recommendations (NFR) # 4, dated January 22, 2016, OPO will work with OPM’s Internal Oversight and Compliance (IOC) on the development and maintenance of a corrective action plan to address the findings and recommendations reported in the independent Strategic Assessment Report issued on April 23, 2015. Additionally, OPO will work with IOC to track and monitor the implementation of corrective actions already underway and those yet to be completed. Many of the efforts represented in the action plan, discussed with the OIG team on November 20, 2015, have already been successfully executed and numerous others are underway.

Recommendation 2

We recommend that the Office of Procurement Operations implement internal controls to ensure that contract data, including contract award amounts, is accurately recorded in OPM’s information systems, such as CBIS, and the appropriate supporting documentation is maintained.

Management Response: CONCUR

As offered in our response to Notice of Findings and Recommendations (NFR) #5, dated January 26, 2016, OPO has actively engaged the Office of the Chief Financial Officer (OCFO) to ensure greater data accuracy across the [REDACTED] and Consolidated Business Information System (CBIS) systems. At this time CFO maintains ownership over the [REDACTED] and CBIS systems and the

interface between the two. It is important to note that when [REDACTED] and CBIS were introduced at OPM in 2009, a large scale transition was required to upload those contracts awarded before the introduction of the new systems. Since this time, OPO has incurred significant turnover of personnel and leadership. OCFO has advised the current OPO leadership team that those contracts converted successfully in the past were done so through OCFO and OPO (formerly FSC) collaborative efforts based on previously issued guidance. Other contracts, however, continue to require additional corrective measures and OPO plans to work with OCFO to review and revalidate past guidance, to train new staff, and to address these contracts. In addition, OCFO completes a weekly mismatch report which is posted to THEO. Those reports provide top level reasons for mismatches between CBIS and [REDACTED], but do not include differences found between the systems and established contract files. OPO, exercising greater control, is reviewing these reports on a regular basis to further understand if a mismatch is represented in the [REDACTED] and CBIS data, whether the inconsistency is also represented in the contract file, and if so the approach taken to address the variances. A mismatch that is completely validated by the corresponding OPO Contracting Officer (CO) in coordination with OCFO shall be corrected, through a modification or update to the respective system. Additionally, through the contract closeout process which OPO will continue as resourcing permits, those dated inconsistencies from the past shall be addressed.

OPO recognizes the need to ensure complete and accurate contract files are available and accessible. Numerous requested files were not available and subsequently did not allow for a complete review. The process of developing, maintaining, and routinely reviewing contract actions and the supporting contract files is critical to the success of not only the contracting office but of OPM. The importance of those efforts required to maintain complete and accurate files was further emphasized through a Senior Procurement Executive (SPE) broadcast bulletin dated October 1, 2015.

One of the recommendations provided in the April 2015 independent review was the implementation of periodic file review compliance checks. OPO is currently in the process of developing file review checklists and updating guidance on the file review process, as an internal control mechanism. OPO is also involved in ongoing efforts to refresh established policies and to develop new, previously unestablished guidance for the file review and compliance process. The action plan developed by OPO based on the recommendations and findings offered through the independent assessment of OPM's contracting operation completed in April 2015, presented to the OIG in November 2015, includes the refreshed/new file review and compliance process policy to be finalized in late fiscal year 2016, early fiscal year 2017. This process will support contract file compliance while validating content against CBIS and [REDACTED] data. In addition, OPO is currently updating the Contract File Table of Contents policy to be finalized and implemented in late fiscal year 2016. This policy will help promote the completeness and accuracy of files in accordance with the FAR.

OPO has taken steps to immediately address those contract files which are incomplete. Additional contractor support to address contract closeout and the proper documentation associated with those efforts has been initiated. Specifically, funding was received by OPO in September 2015 for contractor support which includes contract file support and contract closeout. The contract was awarded in September 2015. The contractor began work on preparing contract files, coordinating with program offices to confirm physical completion of the contract, and notifying vendors of the closeout process, in accordance with OPM's Closeout of Contract Files Policy. In early January 2016 the Contractor finished the first part of the contract close-out requirement and OPO is assessing the results to determine the path forward in completing contract close-out efforts. The above referenced contractor support assisting with contract closeouts has provided critical, additional resources that have during the process of preparing the closeout files been able to locate and consolidate documentation allowing for a complete contract file of record to be assembled. Resource limitations continue to be an impeding factor in our ability to adequately address contract closeout requirements and associated file maintenance. Based on those findings represented within the independent assessment and the OIG audit detailed in the subject draft report, OPO has included resourcing support requests on its unfunded listing. Additionally, we intend to include additional resourcing requests in the FY18 budget formulation process.

OPO is also actively working with OCFO to address the Digital Accountability and Transparency Act of 2014 (DATA Act) requirements which deeply impact the accessibility and accuracy of agency data. Additional steps have also been taken by OPO to engage the Small Agency Council (SAC) which it is an active member of, to further explore how other like-agencies have begun implementing DATA Act requirements. It is anticipated that OPO's efforts associated with addressing the DATA Act, both internal and external, will sure up the accessibility and accuracy of procurement data across our established systems.

Recommendation 3

We recommend that OPM's Office of Procurement Operations identify and provide a listing of FYs 2013 and 2014 contracts ready for closeout to support that OPO has a documented inventory of closed contracts.

Management Response: CONCUR

An independent assessment of OPM's contracting operation, initiated by OPO, was completed in April 2015. One of the recommendations provided by this assessment was to increase the contracting resources to better align with the workload. OIG, in its draft report, further identifies resourcing shortfalls as a primary risk that has contributed to the report findings. Shortfalls in contracting resources is directly associated with this recommendation as well as several more offered below, specifically where critical closeout efforts could not be conducted at the necessary

level because the resources to do so were not available.

Two immediate actions were taken by OPO to begin addressing this recommendation:

- (1) Adjustment of the total number of federal contracting staff to better align with workload; as well provide policy development and compliance/oversight functions. This action included the following:
 - a. Requested and received approval for 11 additional hires over previously approved staffing levels
 - b. Reviewed OMB Benchmarking results for similarly situated contracting offices to assess performance and staffing
 - c. Created and filled new senior positions to support procurement policy development and compliance/oversight functions

Additional contracting staff, including the addition of policy development and compliance/oversight functions, will help to ensure in the future that contracts are closed out timely and in accordance with the FAR and OPM policy and procedures.

- (2) Provided contractor support to address contract closeout. Specifically, a limited amount of funding was received by OPO in September 2015 for contractor support which includes contract file support and contract closeout. The contract was awarded in September 2015. A significant list of contracts potentially ready for closeout action was developed in conjunction with OCFO and various program offices, which was provided to the contractor supporting the above-mentioned contract award.

In response to this recommendation, the above referenced list is being offered. The list was developed in coordination with the OCFO and the deobligation actions they are tracking. It is of critical importance here to note that numerous deobligations earmarked for action are not ready for closeout for various reasons, for example, performance is still active on many of those awards. The list provided does not merely isolate 2013 and 2014 contracts but in effect presents a list of contracting actions ranging back to 2004. In an effort to maintain the momentum generated through recent recommendations received and additional resources recognized, OPO is working towards closing out not only actions from 2013 and 2014, but actions across the full list. Additionally, through a collaborative approach with OCFO, OPO will play a critical role in an agency-wide, comprehensive “war room” event. This event, scheduled for May 11-12, 2016, will cover several topics including end of fiscal year planning and preparation as well as identification of priority deobligation and closeout actions. Furthermore, OPO will continue to actively seek additional funding and resources in order to successfully address critical contract closeout efforts.

Recommendation 4

We recommend that OPM's Office of Procurement Operations establish and implement management controls to ensure that contracts are tracked and managed through the closeout process and adequate documentation is maintained in the contract files, including evidence of contract completion and closeout.

Management Response: CONCUR

Resource limitations continue to be an impeding factor in OPO's ability to adequately support contract closeout, which includes critical tracking and management functions. Inadequate resourcing leading up to this audit has created a significant backlog of actions that need to be addressed. Absent available resources at this time OPO is not able to immediately and successfully address the referenced closeout backlog, while also addressing more current closeout actions and satisfying critical operational efforts that directly impact the day to day mission of OPM.

Through OPO and CFO collaboration, a review of the deobligation and closeout processes is underway. It is expected that these efforts will produce an agency strategy for addressing and prioritizing those critical actions. As OPO is able to gain additional resources necessary in successfully supporting both the deobligation and closeout processes, controls shall be set to ensure those efforts are properly tracked and managed. Additional policy development and compliance/oversight functions will help to ensure in the future that contracts are closed out and excess funds deobligated in a more timely manner and in accordance with the FAR and OPM policy and procedures.

The process of routinely reviewing contract actions and the supporting contract files is critical to the success of not only the contracting office but of OPM and are not being isolated to the closeout process in review. The importance of those efforts required to maintain complete and accurate files was further emphasized through a SPE broadcast bulletin dated October 1, 2015. One of the recommendations provided in the April 2015 independent review was the implementation of periodic file review compliance checks. OPO is currently in the process of developing file review checklists and updating guidance on the file review process. Subsequently, OPO is currently involved in ongoing efforts to refresh established policies and to develop new, previously unestablished guidance for the file review and compliance process. The action plan developed by OPO based on the recommendations and findings offered through the independent assessment of OPM's contracting operation completed in April 2015, presented to the OIG in November 2015, includes the refreshed/new file review and compliance process policy to be finalized and implemented in late fiscal year 2016, early fiscal year 2017. In addition, OPO is currently updating the Contract File Table of Contents policy to be finalized in late fiscal year 2016. This policy will ensure that files are complete, accurate and in accordance with the FAR.

Additionally, OPO has taken steps to immediately address those contract files which are incomplete. The above referenced contractor support assisting with contract closeouts has provided critical, additional resources that have during the process of preparing the closeout files been able to locate and consolidate documentation allowing for a complete contract file of record to be assembled. As funding is made available, OPO anticipates the continuation of these efforts.

Recommendation 5

We recommend that OPM's Office of Procurement Operations provide documentation to verify that the closeout process has been administered on the open obligations for the 48 contracts questioned.

Management Response:

Upon further discussion with the OIG team member [REDACTED] on April 20, 2016, the quantity of contract actions referenced within recommendations 5 and 6 should be adjusted to 46.

In response to this recommendation, OPO has updated and is providing the list of 46 OIG contracts in question which was updated to include a status of closeout column. Resource limitations continue to be an impeding factor in OPO's ability to adequately support contract closeout, which includes critical tracking and management functions. Inadequate resourcing leading up to this audit has created a significant backlog of actions that need to be addressed, this includes the closeout process. Absent available resources at this time OPO is not able to immediately and successfully address the referenced closeout backlog, while addressing more current closeout actions and satisfying critical operational efforts that directly impact the day to day mission of OPM. As OPO is able to gain critical additional resources necessary in successfully supporting the closeout process, contracting actions ready for closeout shall be appropriately addressed, to include those on the OIG contracts questioned list, and the supporting tracking, management, oversight, and compliance efforts associated with the closeout process are thoroughly and completely conducted.

Recommendation 6

We recommend that OPM's Office of Procurement Operations return \$108,880,417 in open obligations, for the 48 contracts questioned, to the program offices if support cannot be provided to show that the contract should remain open and the funds are still being utilized.

Management Response:

Upon further discussion with the OIG team member [REDACTED] on April 20, 2016, the quantity of contract actions referenced within recommendations 5 and 6 should be adjusted to 46.

In response to this recommendation, OPO has updated and is providing the list of 46 OIG contracts in question which was updated to include a status of closeout column. Resource limitations continue to be an impeding factor in OPO's ability to adequately support contract closeout, which includes critical tracking and management functions. Inadequate resourcing

leading up to this audit has created a significant backlog of actions that need to be addressed, this includes the closeout process. Absent available resources at this time OPO is not able to immediately and successfully address the referenced closeout backlog, while addressing more current closeout actions and satisfying critical operational efforts that directly impact the day to day mission of OPM.

Through OPO and CFO collaboration, a review of the deobligation and closeout processes is underway. It is expected that these efforts will produce an agency strategy for addressing and prioritizing those critical actions. As OPO is able to gain additional resources necessary in successfully supporting both the deobligation and closeout processes, contracting actions ready for closeout and funds available for deobligation shall be appropriately addressed. This includes critical tracking, management, oversight, and compliance efforts associated with the successful execution of the closeout process.

SUMMARY/CONCLUSION

OPO believes that several of the OIG's audit findings and recommendations pertaining to availability and accuracy of agency data are directly associated with the age and present capabilities of OPM's financial/procurement system. The OCFO has requested funding to address interim improvements to CBIS, including but not limited to supporting an upgrade to OPM's contract writing system, [REDACTED]. The current version is no longer supported by [REDACTED], and upgrading to [REDACTED], along with other software upgrades, is expected to provide needed functionality and interfacing with critical systems such as the Federal Procurement Data System, Next Generation (FPDS-NG). If OCFO funding requests are satisfied, OPO expects to begin satisfying recommendations and findings and in turn reducing the level of risk the agency faces. However, such improvements will take time to be implemented/realized and recent increases, some of which only temporary in nature, have not yet been enough to address longstanding gaps that have resulted in a variety of risks in the acquisition lifecycle.

Finally, as a result of OPO's proactive efforts, we were able to self-identify several risks in the acquisition process through our independent contracting assessment completed one year ago. Given those findings and recommendations have now been validated by OIG through this draft audit report, OPO expects to utilize the information to help better support and defend the organization's needs in upcoming budgetary cycles. We note that immediate and interim needs to address Calyptus and OIG findings are subject to additional approval of unfunded needs across the agency.

OPO appreciates the opportunity to respond to the draft findings and recommendations. If you have any questions regarding our response, please contact [REDACTED] at [REDACTED] or [REDACTED]@opm.gov.



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