

Office of Inspector General Corporation for National and Community Service

AUDIT OF CORPORATION FOR NATIONAL AND COMMUNITY SERVICE OFFICE OF PROCUREMENT SERVICES

OIG REPORT NUMBER 06- 40



Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

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This report was issued to Corporation management on August 11, 2006. Under the laws and regulations governing audit follow-up, the Corporation is to make final management decisions on the report's findings and recommendations no later than February 11, 2007, and complete its corrective actions by August 11, 2007. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



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Office of Inspector General
Corporation for National and Community Service

The Office of Inspector General engaged Cotton & Company LLP to conduct a performance audit of the Corporation for National and Community Service's (Corporation) Office of Procurement Services for the period October 1, 2003, through September 30, 2005.

The primary objectives were to determine if the Corporation had an effective procurement system in place during the period and if the system complied with applicable laws and regulations, policies, and procedures. Our methodology included reviewing procurement files and related Corporation accounting records and conducting interviews and discussions with procurement and other Corporation personnel. We identified specific control weaknesses and deficiencies and developed recommendations designed to improve procurement functions and procedures.

We conducted our procedures in accordance with generally accepted government auditing standards. We were not engaged to, and did not perform a financial statement audit, the purpose of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the OIG, Corporation for National and Community Service and U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

A handwritten signature in black ink, appearing to read "Michael Gillespie".

Michael Gillespie, CPA, CFE
Partner

**OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE**

**REPORT ON PERFORMANCE AUDIT OF THE
OFFICE OF PROCUREMENT SERVICES
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE**

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RESULTS IN BRIEF

The Office of Inspector General (OIG) engaged Cotton & Company LLP to conduct a performance audit of the Corporation for National and Community Service's (Corporation) Office of Procurement Services (OPS) for the period October 1, 2003, through September 30, 2005. We conducted our audit in accordance with generally accepted government auditing standards.

The primary audit objectives were to determine if the Corporation had an effective procurement system in place during the period and if the system complied with applicable laws and regulations, policies, and procedures.

We identified deficiencies in the procurement process in three broad categories. Specifically, we found:

1. Policies and Requirements

OPS employees did not adhere to *Federal Acquisition Regulation* (FAR) requirements and the Corporation's procurement policies. We identified the following instances in which OPS personnel were either unaware of or misinterpreted requirements:

- A. Contract-funded amounts exceeded the Corporation's contractual obligation.
- B. Contracting Officer Technical Representatives (COTRs) exceeded their authority.
- C. Contractor invoices were not billed in accordance with contract terms.
- D. Contracting personnel did not perform adequate price reasonableness evaluations.
- E. Awards to other than small businesses were not justified.
- F. Office of Human Capital approval for a temporary-services contract was not obtained.

2. Records Management

OPS records were inaccurate, inadequate, or incomplete, and, thus, FAR compliance could not be assured. We identified the following:

- A. Contract terms and modifications contained errors.
- B. Procurement files and forms were incomplete.

- C. Corporation reporting in Federal Procurement Data System (FPDS) contained errors.
- D. Contracts were not closed out in a timely manner.

3. Management and Procurement Operations

Policies and assigned responsibilities were not current and known by all OPS personnel. This can weaken overall OPS management and procurement operations. Specifically:

- A. The Corporation did not properly designate and communicate procurement oversight responsibilities.
- B. The Corporation's procurement policy document was outdated.
- C. OPS did not perform a thorough self-assessment in the Fiscal Year (FY) 2005 Federal Manager's Financial Integrity Act (FMFIA) process.

BACKGROUND

The Corporation was created by the National and Community Service Trust Act of 1993. Through several programs, it offers Americans of all ages and backgrounds the opportunity to participate in community-based service programs. These programs include AmeriCorps, Learn and Serve America, and Senior Corps.

OPS procures \$40-\$50 million in goods and services annually through contracts, delivery orders, purchase orders, and blanket-purchase agreements. In addition, the Corporation has five regional service centers. Contracting officers at these service centers have authority for procurements up to \$50,000. Service center procurements exceeding \$50,000 are the responsibility of OPS. Also, the Office of Inspector General (OIG) procures its own goods and services.

EXIT CONFERENCE

An exit conference with Corporation representatives was held on June 9, 2006. The Corporation response to this report is included as an appendix. In addition, we have included our summary of the Corporation's comments on each finding and recommendation. The Corporation's responses, when fully implemented, should correct the findings.

OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to determine if the Corporation:

- Procured supplies and services in an efficient and effective manner and in compliance with applicable laws, regulations, policies, and procedures.
- Reported procurement statistics accurately to the General Services Administration.
- Received goods and services in accordance with contract terms.
- Used procurement information to manage procurement operations effectively and efficiently.
- Closed contracts in a timely manner.
- Established effective internal controls with regard to procurement.
- Documented and assessed its acquisition processes, procedures, and management controls in accordance with FMFIA.

The scope of our audit was limited to purchase instruments (contracts, purchase orders, blanket purchase agreements, etc.) awarded by OPS in FYs 2004 and 2005. It included related pre-award actions that occurred prior to FY 2004 and limited tests (with regard to closing contracts in a timely manner) for those contracts that were awarded prior to FY 2004 but were open during FYs 2004 and 2005.

The scope did not include purchases made with non-appropriated funds. It also did not include purchase-card acquisitions or purchase awards made by the regional service centers, OIG, or other entities outside of Headquarters. Finally, the audit scope did not include FYs 2004 and 2005 modifications to purchase instruments initially awarded prior to FY 2004. Total FYs 2004 and 2005 procurements within the scope of our audit are as follows:

Award Type	No.	FY 2004	FY 2005	Total
Contracts/modifications	70	\$282,829	\$8,964,314	\$9,247,143
Task/delivery orders	185	5,754,964	7,505,814	13,260,778
Interagency agreements and modifications	56	5,026,618	3,228,486	8,255,104
Purchase orders	874	4,661,320	4,080,597	8,741,917
Blanket-purchase agreement calls	38	<u>801,691</u>	<u>278,351</u>	<u>1,080,042</u>
Total	<u>1,223</u>	<u>\$16,527,422</u>	<u>\$24,057,562</u>	<u>\$40,584,984</u>

Our methodology included reviewing procurement files and related Corporation accounting records and conducting interviews and discussions with procurement and other Corporation personnel. Our testing procedures included:

- Reviewing the Corporation's policies and procedures for adherence to the FAR.

- Interviewing procurement personnel and reviewing documentation to assess the extent of the employees' experience and training.
- Stratifying procurement awards by dollar amount and selecting a random sample of awards from each stratum for testing. We tested each sample item for compliance with the FAR and Corporation policies and procedures. We also verified that these were accurately reported to FPDS.
- Obtaining contract closeout information and testing a judgmental sample of contracts closed out during FYs 2004 and 2005 for FAR compliance.
- Obtaining information on the status of pre-FY 2004 procurements and testing this information for completeness and accuracy.
- Obtaining information on bid protests filed during FYs 2004 and 2005 and testing a sample for FAR compliance.
- Reviewing the OPS FY 2005 FMFIA risk assessment and discussing the preparation of this assessment with procurement personnel. We also obtained an understanding of the extent to which procurement processes are included in the Corporation's FY 2006 assessment of internal controls over financial reporting (required by Office of Management and Budget Circular A-123).

FINDINGS AND RECOMMENDATIONS

1. Policies and Requirements

A. Contract-Funded Amounts Exceeded the Corporation's Contractual Obligation

We noted three instances in which OPS funded indefinite-quantity contracts for amounts that exceeded the Corporation's contractual obligation, as follows:

- The Corporation issued a blanket purchase agreement (BPA) to CDW Government in February 2004 for computer-related software, hardware, and miscellaneous parts. The BPA states that the government is obligated only to the extent of authorized orders and calls made under the BPA. The BPA, however, was modified several times to obligate funding. Modification No. 7 to the BPA increased funding to \$358,000 and extended the performance period through February 28, 2007. FAR Section 13.303, *Blanket Purchase Agreements*, states that BPAs are essentially charge accounts and should not cite accounting and appropriation data. Each BPA funding modification contained such data.

- The Corporation awarded a contract to Wyndham Hotel, O’Hare (Chicago), in December 2004 to provide lodging, food, and meeting space for pre-service orientations. Initial funding was \$170,500. This contract was modified on June 22, 2005, to increase total funding by \$499,432 to \$669,932. We noted that:
 - i. The original contract stated that the Corporation would guarantee orders of at least \$60,000 and the initial funding should not have exceeded this amount.
 - ii. The modification exceeded the original contract ceiling of \$516,076 for six events, but did not increase the scope of work. The contract files contained work orders issued under this contract for five 2005 events totaling \$268,176, or \$401,756 less than the funded amount. The contract specialist initially stated that the contract was increased to enable the program office to obligate the funds to avoid losing them, but OPS representatives later stated that the modification was executed because the anticipated number of training participants increased.
- The Corporation issued a contract to the Research Foundation of SUNY in FY 2004 to perform a field network study. The contract stated that all work was to be acquired by task order. The Corporation, however, funded \$198,719 at the time of contract award, before a task order was issued.

The GAO Red Book, *Appropriations Law*, Chapter 7, states that:

In a variable quantity contract (requirements or indefinite-quantity), ...obligations occur as work orders or delivery orders are placed...Thus, in a variable quantity contract...in which there is no liability unless and until an order is placed-there would be no recordable obligation at the time of award.

To the extent that the Corporation has funded indefinite-contracts in amounts exceeding delivery orders placed, it has overstated its obligations and may be violating the Anti-Deficiency Act.

Recommendation: We recommend that OPS limit amounts funded on indefinite-quantity contracts (including BPAs) to the amount stated in issued task or delivery orders.

Corporation Response: The Corporation agrees with the recommendation. OPS no longer cites accounting and appropriation data on blanket purchase agreements. On indefinite-quantity contracts, the Corporation will only obligate funds for the minimum quantity stated in the contract and the remainder of funding will be obligated on task/delivery orders as they are placed against the contract.

B. COTRs Exceeded Their Authority

COTRs performed duties that were outside the scope of their responsibilities and for which they did not have contracting authority. COTRs are responsible for providing technical direction, inspection, and acceptance of contract deliverables. Only the contracting officer has the authority to issue task orders or to make contract modifications. We identified two contracts for which the COTR authorized work exceeding his or her authority:

- **Contract with the Research Foundation of SUNY.** This \$850,914 contract, as modified, states that all work will be acquired by a task order, and that orders may be issued only by the contracting officer. The contract file did not, however, contain copies of a task order, and we found no evidence in the file that task orders were issued to the contractor. OPS representatives explained that the COTR failed to provide the task orders or copies to OPS. Indications are that the COTR issued task orders directly to the contractor.
- **Contract with Government Technology Services, Inc. (GTSI) for a next-generation Internet Protocol-based voice, data, and video communications system.** This contract expired on June 17, 2005. On May 24, 2005, however, GTSI sent the COTR a letter stating that all contract deliverables had been provided except for 132 engineering support hours. The COTR signed the letter and returned it to GTSI without forwarding a copy to OPS. The contract was not modified to extend the June 17 completion date. The COTR subsequently approved, and the Corporation paid a \$12,743 invoice for the remaining hours claimed from July through December 2005.

We also noted the following discrepancies with work orders issued under contract with the Wyndham Hotel, O'Hare. The contract specifies unit prices for lodging, meals, and conference space for six events, the first to be held on February 8, 2005, and states that all work will be acquired by work order, and that work orders may be issued only by the contracting officer. We found that:

- Each work order copy in the file included a signature block for the contracting officer, but none had been signed.
- Work Order No. 1 was issued for an April 17, 2005, event. OPS representatives have been unable to identify a work order for the first event, which was held in February 2005.
- The files did not contain a copy of Work Order No. 4.

These circumstances also indicate that the COTR authorized the contractor to perform services, thus exceeding his or her authority.

This violates both contract conditions and the Corporation's Procurement Policy No. 350, Section I.4., which states:

The COTR is not authorized to issue or approve changes to the contract or enter into any agreement, contract modification, or any other matter changing the cost or terms and conditions of the contract.

FAR Section 1.602-1 states:

Contracting officers have authority to enter into, administer, or terminate contracts and make related determinations and findings. Contracting officers may bind the Government only to the extent of the authority delegated to them.

FAR Section 16.504, (a) *Indefinite-quantity contracts*, states: “The Government places orders for individual requirements.” Further, FAR Section 16.505, (a)(2), *Ordering*, states:

Individual orders shall clearly describe all services to be performed, or supplies to be delivered so the full cost or price for the performance of the work can be established when the order is placed. Orders shall be within the scope, issued within the period of performance, and be within the maximum value of the contract.

FAR Subpart 4.8, Government Contract Files, Section 4.801(a), *General*, states:

The head of each office performing contracting, contract administration, or paying functions shall establish files containing the records of all contractual actions.

COTRs do not have contracting authority, thus all orders issued by COTRs are unauthorized commitments. In addition, failure to document and monitor all issued orders and other contract actions could result in contract spending that exceeds the authorized contract ceiling.

Recommendation: We recommend that OPS prohibit COTRs from issuing task orders on indefinite-quantity contracts. We further recommend that OPS enhance COTR training to ensure that all COTRs fully understand the limits of their authority and ramifications of actions that exceed this authority.

Corporation Response: The Corporation agrees with the recommendation. The annual COTR training reemphasizes the duties and responsibilities and specifically stresses the areas of technical direction and limitations of authority. OPS will also emphasize that any COTR exceeding their authority will be suspended and be required to undergo additional formal COTR certification training to be reinstated.

C. Contractor Invoices Were Not Billed in Accordance with Contract Terms

Corporation staff did not approve and pay invoices in accordance with contract terms. Four contractors submitted invoices and were compensated on a basis other than that specified in the contract, as follows:

- **Contract to the Research Foundation of SUNY to perform a field network study for \$198,719 (October 2004).** The contract states that it is a fixed price/time-and-materials contract, and incorporates FAR Clause 52.232-7, Payments Under Time-and-Materials and Labor-Hour Contracts. That clause states that hourly rates shall include wages, indirect costs, general and administrative (G&A) and profit. The SUNY invoices, however, were billed on a cost reimbursable basis. SUNY claimed labor and G&A costs (at SUNY's predetermined rate of 28 percent of modified total direct costs) separately. Furthermore, the SUNY invoices billed for fringe benefits on labor which was not included in the original contract award amount.
- **Purchase Order to GTSI for \$318,292 to provide a voice, data, and video communications system (May 2004).** This award was made under GTSI's Scientific and Engineering Workstation Procurement III (SEWP) contract with the National Aeronautics and Space Administration (NASA). The SEWP contract states that all supplies and services furnished are to be specified by issuance of firm-fixed-price delivery orders.

GTSI, however, billed \$12,743 for employee services at an hourly rate that was not specified in the contract. OPS representatives stated that the purchase order should have been written to reflect the agreed-upon hourly rates. This, however, would violate the terms of the SEWP firm-fixed-price contract.

- **Purchase Order to Oracle (September 2004).** Vendor invoices do not agree with purchase-order terms. This purchase order was issued on September 17, 2004, for software support. Unit prices billed did not correspond to the purchase order. For example, the invoiced quarterly-support price for Product support, 1 Oracle Database Enterprise Edition, was \$4,061. The purchase-order price is \$9,610 for one year.
- **Contract to the Radisson Hotel, O'Hare, for event lodging, meals, and meeting rooms (January 2004).** The contract specified unit prices for meals and stated that these are "inclusive of gratuity and any other charges." The vendor invoice paid for Work Order #6, however, included a \$50 "chef's fee for grilling." In addition, Work Order #1 authorized \$3,500 for audio-visual materials, but the Corporation was invoiced \$4,723.

In some cases, Corporation staff apparently allowed these invoice deviations to accommodate the contractor. In other cases, Corporation staff may not have thoroughly reviewed the contractor's invoice before approving payment. By allowing contractors to invoice on terms

other than those specified in the contract, the Corporation runs the risk that it will pay more than it should under a contract, or that it will pay for services or supplies that are outside the contract scope.

Recommendation: We recommend that OPS establish procedures to ensure that all vendor invoices are reviewed for accuracy and adherence to award terms before they are approved for payment. The importance of these procedures should also be emphasized during all COTR training sessions.

Corporation Response: The Corporation agrees with the recommendation. The annual COTR training reemphasizes the need to review invoices to ensure the Corporation is receiving the services/supplies before approving payment.

D. Contracting Personnel Did Not Perform Adequate Evaluations of Price Reasonableness

OPS staff did not document justifications for purchase-order awards, as required. We noted several instances in which the Corporation received only one vendor quote in response to a request for quotations, but the contract file did not contain a statement of price reasonableness or any indication that contracting personnel had evaluated the reasonableness of the single quote.

The simplified acquisition pricing memorandum for each of the following procurements stated, as justification for price reasonableness, that only one vendor submitted a quote. Award files contained no documentation to support further analysis or evaluation of the reasonableness of the single quotes. The awards were:

- Purchase Order to MDK Cleaning Services for \$47,037.
- Purchase Order to Double Tree for \$33,000.
- Purchase Order to the Northwest Regional Lab for \$18,980. The simplified acquisition pricing memorandum for this award stated that competition was secured from at least two bidders, but a memorandum in the file stated that only one vendor submitted a proposal. No evaluation of price reasonableness was documented in the file.

FAR Subsection 13.106-3(a), *Basis for award*, states that before making an award, the contracting officer must determine that the proposed price is fair and reasonable. If only one vendor quote is received, the contracting officer is to include a statement of price reasonableness in the contract file. This statement can be based on market research, price lists, catalogs, the contracting officer's personal knowledge, or any reasonable basis.

OPS contracting personnel appear to be either unaware of the FAR requirement for documenting price reasonableness or do not understand the requirement. Not establishing

and documenting the fairness and reasonableness of contract award amounts could result in misspending by the Corporation.

Recommendation: We recommend that OPS provide training to its contracting personnel on FAR requirements for establishing price reasonableness. We further recommend that the contracting officer be required to document the determination of price reasonableness and retain this information in the file for each award for which only one quote is received.

Corporation Response: The Corporation agrees with the recommendation. OPS staff received additional training in establishing price reasonableness. Contracting Officers have been instructed to review all awards to insure price reasonableness has been determined, especially in one quote situations.

E. Awards to Other than Small Businesses Were Not Justified

We identified six purchase orders within the \$2,500 to \$100,000 range for small business set-asides that were not awarded to small businesses. The contract files did not contain documentary evidence that OPS attempted to set aside these awards for small businesses or justification for award to other than a small business. The purchase orders were:

- Provo Marriott, \$96,590 for lodging, food, and meeting space for Corporation events.
- Hilton Philadelphia, \$45,494 for lodging, food, and meeting space for Corporation events.
- Double Tree Hotel, \$33,000 for lodging, food, and meeting space for Corporation events.
- Holiday Inn Executive Center, \$67,413 for lodging, food, and meeting space for Corporation events.
- Northwest Regional Educational Lab, \$18,980 for youth development training.
- Franklin Covey, \$3,710 for training services.

FAR Section 19.201(a), *General Policy*, states that it is the policy of the Government to provide maximum practicable opportunities in its acquisitions to small businesses.

FAR Subsection 19.502-2(a), *Total small business set-asides*, states:

Each acquisition of supplies or services that has an anticipated dollar value exceeding \$2,500, but not over \$100,000, is automatically reserved exclusively for small business concerns and shall be set aside unless the

contracting officer determines there is not a reasonable expectation of obtaining offers from two or more responsible small business concerns that are competitive in terms of market prices, quality, and delivery. If the contracting officer does not proceed with the small business set-aside and purchases on an unrestricted basis, the contracting officer shall include in the contract file the reason for this unrestricted purchase.

The OPS contracting officer explained that the Corporation has been unable to identify hotels qualifying as small businesses that can meet its delivery schedule and requirements for hosting events. This justification, however, was not documented in the contract files for these procurements. OPS thus cannot demonstrate that it is adhering to government policy and complying with FAR requirements.

Recommendation: We recommend that OPS provide training to its contracting personnel on FAR requirements for small business set-asides. We further recommend that OPS ensure that its award files document the justification for each action between \$2,500 and \$100,000 that is not set aside for small business.

Corporation Response: The Corporation agrees with the recommendation. The OPS staff has received additional training to ensure a Determination and Finding is placed in all files when small businesses cannot meet the requirements or delivery schedule. Contracting Officers have been instructed to ensure this documentation is in the file prior to award.

F. Office of Human Capital Approval for a Temporary-Services Contract Was Not Obtained

A purchase order to provide acquisition support services was awarded to Snelling Metro Personnel Services in May 2004. This purchase order funded a contract specialist and a procurement technician to assist OPS until full-time staff could be recruited. The contract performance, as modified, was extended from May 2004 through January 2006, or 20 months. Corporation Policy No. 350 requires that the Office of Human Capital (OHC) approve the use of any temporary services firm for more than 120 days. OPS did not obtain OHC approval for this contract.

Corporation policy allows use of temporary agencies on a short-term basis, but states that the Corporation does not have the authority to award personal services contracts, except temporary and intermittent consultant services under 5 USC § 3109(b), which allows the Corporation to contract for temporary services for not more than one year.

Further, FAR Section 37.112, *Government use of private sector temporaries*, requires acquisition of temporary services to comply with agency policy. Use of temporary services for an extended period of time could result in a violation of the FAR.

Recommendation: We recommend that, in the future, OPS obtain all necessary OHC approvals before awarding future temporary services contracts. We further recommend that OPS ensure that all such contracts do not exceed Corporation limits.

Corporation Response: The Corporation agrees with the recommendation. OPS will obtain approval from Human Capital prior to award of any temporary services contract. All such contracts will be closely monitored to ensure they do not exceed the time limits established by policy.

2. Records Management

OPS records were inaccurate, inadequate, or incomplete, and FAR compliance could not be assured.

A. Contract Terms and Modifications Contained Errors

We identified discrepancies and contradictions in contract terms and modifications, as follows:

- The Corporation awarded a contract to perform marketing strategies and media support services to Hill & Knowlton in March 2005. The contract states it is fixed-price with a current ceiling of \$1,723,654 but specifies the labor rates to be billed. Hill & Knowlton invoices were billed on a time-and-materials basis, which, according to OPS representatives, was the contract intent.
- Purchase orders and modifications to several awards contained discrepancies in amounts:
 - i. A purchase order to provide acquisition support services was awarded to Snelling Metro Personnel Services for \$106,375 in May 2004. The purchase order detail, however, totaled \$74,050, and this was the amount carried forward as the “previous total” on Modification No. 1 to this purchase order. OPS representatives explained that one of the positions to be funded was deleted prior to the purchase order award, but all appropriate changes were not made to the purchase order document.
 - ii. A purchase order to administer the alternative dispute resolution program was awarded to the Center for Dispute Settlement in March 2004. The description for Modification No. 2 to this purchase order, dated February 2005, states that the purpose of the modification was to increase the total obligation from \$45,045 to \$63,800, but the funding section shows a new contract total of \$60,000, and the funding increase as \$42,900. OPS representatives could not explain this discrepancy.
- A contract with the Wyndham Hotel, O’Hare, included the following discrepancies:

i. Contract work orders authorized lodging and meals at rates per participant that are not detailed in the contract, which specifies unit prices per event. The rates are derived from the contractor's proposal, but the contract does not incorporate these rates.

ii. Due to a typographical error, unit prices in the contract award did not agree with the base-year total.

iii. The contract effective date was February 1, 2005. Section B.4, Date of Incurrence of Costs, states:

The contractor is entitled to reimbursement for costs in an amount not-to-exceed \$60,000 on or after February 8, 2005 which if incurred after this order had been issued, would have been reimbursable under the provisions of this contract.

This clause is confusing, because the contract was effective prior to February 8, 2005; and inappropriate, because the contract was fixed-unit price, not cost reimbursable.

These errors occurred when OPS staff did not review contract documents to ensure accuracy and internal consistency prior to contract award. Errors and omissions in contract documents can result in misunderstandings between the Corporation and its suppliers and can result in contract over- or under-payments.

Recommendation: We recommend that OPS perform quality control reviews of procurement documents prior to award, to ensure that terms are accurate and complete; award amounts are internally consistent; and contract language is unambiguous.

Corporation Response: The Corporation agrees with the recommendation. Contracting Officers have been instructed to thoroughly review each file prior to award. This review will consist of ensuring all documents supporting the award are in the file, all award amounts are consistent and accurate, and the intent of the action is clear to all parties.

B. Procurement Files and Forms were Incomplete

OPS contract files and procurement forms were incomplete, as follows:

- The file for a contract to Hill & Knowlton included an approved procurement request for Modification No. 14, increasing the contract ceiling by \$352,375, but did not include a task plan or any other documentation to support the increased amount. Also, no evidence was contained in the file to show that the contracting officer had reviewed the price reasonableness for this modification.

- The file for an indefinite-quantity contract with the Provo Marriott was missing Work Order No. 1.
- OPS used a standard simplified acquisition pricing memorandum (OPS Form 11) to document its compliance with FAR requirements on these acquisitions. This form is to be completed at contract award and signed by both the contract specialist and the contracting officer. This form was not completely filled out for the following procurements:
 - i. The contracting officer did not sign the OPS Form 11 for purchase orders to the:
 - Provo Marriott
 - Holiday Inn Executive Center
 - Allied Technology Center
 - ii. Neither the contracting officer nor the contract specialist signed OPS Form 11 for a purchase order to Information Network.
- The contracting officer did not sign the Justification for Other than Full and Open Competition for a sole-source purchase order award to Congressional Quarterly.

In addition, OPS could not provide the contract file for a FY 1998 contract with Cherokee Information Services, Inc. Its records indicate that this contract was closed out on July 22, 2005.

FAR Section 4.801, *General*, states:

The head of each office performing contracting, contract administration, or paying functions shall establish files containing the records of all contractual actions.

FAR Section 4.805, *Storage, Handling and Disposal of Contract Files*, requires that all contracts and related records be retained for at least 3 years following final contract payment.

OPS's Procurement Directive No. 007, *Reviewing Award Files*, establishes guidelines for assuring that procurement files contain complete records of all award actions. OPS personnel are apparently not following these guidelines. Not fully documenting all reviews, justifications, and approvals can result in deviations from FAR and Corporation policy. Also, the Corporation lacks documentation that may be necessary to address contract issues and that could be useful in assessing contractor past performance for future awards.

Recommendation: We recommend that OPS establish quality control procedures to ensure that all contract files are complete, and that all necessary forms are properly signed in accordance with Procurement Directive No. 007.

Corporation Response: The Corporation agrees with the recommendation. OPS staff received training in the review of award files in accordance with Procurement Directive No. 007. Contracting Officers will ensure all files are complete with all required signatures.

C. Corporation Reporting in FPDS Contained Errors

FPDS collects, processes, and disseminates statistical data on Federal contracting. Congress, the Government Accountability Office, Executive Branch agencies, and the public rely on this data for information on agency contracting actions and the achievement of small business goals.

FAR Subpart 4.6, *Contract Reporting*, requires that federal agencies transmit data on all contract actions over \$2,500 and modifications to those transactions regardless of dollar value to the FPDS. We noted the following errors in the Corporation's FPDS reporting:

- **Purchase Order to Doubletree San Francisco.** The vendor was inaccurately reported as a small business.
- **Purchase Order to Donna Gregory.** The vendor was inaccurately reported as other than a small business.
- **Purchase Order to Congressional Quarterly.** The vendor was inaccurately reported as a small business.
- **Purchase Order to Sharon Fries Britt.** The vendor was inaccurately reported as other than a small business.
- **Purchase Order to Northwest Regional Educational Laboratory.** The vendor was inaccurately reported as a small business.
- **Contract to the National Academy of Public Administration.** This cost-plus-fixed-fee contract was reported as fixed-price.

Inaccurate FPDS information can hamper the Federal Government's ability to accumulate valid statistical data and to determine if it is achieving established acquisition goals, such as awards to small business.

Recommendation: We recommend that OPS emphasize to its contracting personnel the importance of accurate reporting on FPDS. We further recommend that OPS establish quality control procedures to ensure that all contract actions are accurately reported on FPDS.

Corporation Response: The Corporation agrees with the recommendation. OPS staff have been reminded to ensure they accurately enter the business size and contract type. Contracting Officers will ensure proper reporting before award is made.

D. Contracts Were Not Closed Out in a Timely Manner

OPS did not close out any contracts in FY 2004 as the result of staffing constraints. It hired a contractor in FY 2005 to perform contract closeouts, but because of the long period of inactivity, many were not closed out within the time period established by the FAR. We identified the following contracts that were not closed in a timely manner:

- **Contract with STR LLC.** This time-and-materials contract was closed out in March 2005, 22 months after the final invoice was certified.
- **Contract with the Radisson Hotel, O'Hare.** This fixed-price contract was closed out in December 2004, 24 months after the final invoice was paid.
- **Contract with Command Management Services.** This fixed-price contract was closed out in January 2005, 23 months after the final invoice was paid.

FAR Subsection 4.804-1, *Closeout by the office administering the contract*, requires files for firm-fixed-price contracts to be closed out within six months after the contracting officer receives evidence of completion, and requires that other contracts should be closed out within 20 months after receipt of evidence of completion.

OPS is to be commended for procuring assistance in eliminating its backlog of contracts ready for closeout. We are, however, concerned that OPS did not have adequate procedures for identifying these contracts. It relied on program office notification that contracts were complete and had no mechanism for identifying and following up on contract closeouts that may have been overlooked. For example, OPS did not identify its contract with the HEAT Center at Lowry for closeout until April 2006, although this building-lease contract expired in December 2004.

OPS did not have a complete database or a system to track and monitor contracts awarded but not yet closed out. OPS used its Procurement Desktop System (PDS) primarily as a means to generate forms for individual awards and ensure that proper FAR clauses are included. It did not use this system to produce reports and other information needed to track the status of open contracts and identify those ready for closeout.

OMB Circular A-127, *Financial Management Systems*, states that Federal Government financial management systems must:

...provide complete, reliable, consistent, timely and useful financial management information on Federal Government operations to enable central management agencies, individual operating agencies...and other subunits to carry out their fiduciary responsibilities; deter fraud, waste, and abuse of Federal Government resources; and facilitate efficient and effective delivery of programs.

Not identifying and closing out contracts in a timely manner could result in misstatements (e.g., unrecorded receivables and/or overstated obligations) on the agency's financial statements.

Recommendation: We recommend that OPS develop a system for tracking and monitoring the status of all open award actions. We further recommend that OPS use this system to identify and follow up on open awards that may be ready to be closed out.

Corporation Response: The Corporation agrees with the recommendation. OPS and the Accounting Office have developed a report with completion dates to be provided to all Executive Officers and COTRs. This report will provide alerts 90 days prior to contract completion or expiration of the option period. It also will indicate when 75% of available funds have been expended on a contract. This will enable OPS to begin closeout or exercise options on time.

3. Management and Procurement Operations

Policies and assigned responsibilities were not current and known by all personnel, a situation which can weaken overall OPS management and procurement operations.

A. The Corporation Did Not Properly Designate and Communicate Procurement Oversight Responsibilities

The Corporation did not have a designated Competition Advocate during FYs 2004 and 2005. FAR Subpart 6.5, *Competition Advocates*, requires that each agency head designate a Competition Advocate responsible for promoting full and open competition. Competition Advocates are to prepare annual reports on competition activity for the Senior Procurement Executive. FAR Subsection 8.405-6, *Limited Sources Justification and Approval*, also requires the Competition Advocate to approve sole-source awards over \$500,000.

The OPS Director was functioning as the Corporation's Competition Advocate during FYs 2004 and 2005. The Director approved one sole-source award both as the Competition Advocate and as the contracting officer. The OPS Director did not prepare the annual Competition Advocate reports required by the FAR.

In February 2006, the Corporation designated the Deputy Chief Financial Officer (CFO) for Financial Management as the Corporation's Competition Advocate. The role of the Competition Advocate is to promote full and open competition, and thereby reduce costs to the government. Not designating an employee for this position in a timely manner may have resulted in restricted competition in the procurement process and increased acquisition costs.

During our audit, the OPS Director informed us that he was also the Corporation's Senior Procurement Executive. FAR Section 6.501 states that the Competition Advocate should be in a position other than that of the agency's Senior Procurement Executive. We subsequently determined that the Corporation's Deputy CFO for Planning and Program Management was

delegated the authority to act as the Corporation's Senior Procurement Executive on May 5, 2005. We did not identify any instances in which the OPS Director was performing as the Senior Procurement Executive, but we note that misunderstandings regarding lines of authority could result in unauthorized or inappropriate procurement activity.

Recommendation: We recommend that the Corporation ensure that the designated Competition Advocate performs all duties and responsibilities required by the FAR and Corporation policy. We further recommend that the Corporation ensure that all personnel are fully informed of their roles, responsibilities, and limits on their authority.

Corporation Response: The Corporation agrees with the recommendation. The designated Competition Advocate is fully aware of the duties required of the position. All aspects of FAR Section 6.501 are being followed, and the annual report has been submitted to the Senior Procurement Executive. All OPS personnel are aware of their roles and responsibilities and authority limitations.

B. The Corporation's Procurement Policy Document Was Outdated

Corporation Policy No. 350, *Procuring Supplies and Services*, establishes the Corporation's procedures for procuring supplies and services. The current policy, dated June 26, 2001, is being revised to reflect changes in Federal procurement practices, as well as minor Corporation procedural changes. Section H, *Accepting and Paying for Supplies and Services*, of this policy had not, however, been updated to reflect May 2005 changes in the Corporation's vendor-payment approval and processing procedures.

The policy identifies OPS as the point of receipt for all invoices at Headquarters, and states that the contracting officer approves all contract invoices prior to payment. Since May 2005, however, Finance has been designated as the receipt point for invoices, and most contract invoices are solely approved by the COTR. Outdated policies regarding vendor-invoice payment procedures can cause misunderstandings about responsibilities for invoice approvals and result in Prompt Payment Act (PPA) interest penalties on late payments.

Policy No. 350 also does not address contract closeout procedures. The OPS Director stated that all contract closeouts are performed in accordance with the FAR, but that the Corporation did not have any internal policies and procedures for the process. Such policies are necessary to inform all Corporation staff of their respective responsibilities and ensure the prompt closeout of all completed contracts.

Recommendation: We recommend that OPS revise Policy No. 350, as necessary, to incorporate current vendor-payment procedures and to establish contract closeout procedures.

Corporation Response: The Corporation agrees with the recommendation. OPS Policy No. 350 is being revised to include current vendor payment procedures and contract closeout procedures in addition to numerous other changes and updates, including new purchase card procedures.

C. OPS Did Not Perform a Thorough Self-Assessment During the FY 2005 FMFIA Process

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to provide annual assurance statements on their internal controls. To meet this requirement, the Corporation has established a management control program that requires all operational areas, including OPS, to perform self assessment once every three years. The self assessment is designed to help OPS assess its risks and controls in place to minimize these risks. The Corporation includes these self assessments as support for its annual assurance statements.

OPS performed a FY 2005 self assessment by completing a Corporation questionnaire, which includes questions on 11 areas, such as organizational control environment and resource stewardship. Next, the preparer rates risk in these areas as high, medium, or low. The completed questionnaire, however, did not include a thorough assessment of OPS operations.

OPS did not include the detail required by Corporation policy to support each response. In addition, the risk assessment in each area was not always consistent with, or supported by, its responses. For example, OPS assessed control environment risk as low, even though its responses indicated that it is addressing problems with employee training and competence and budget issues. Conversely, OPS assessed a medium risk in procurement services, although its responses indicated no deficiencies in this area.

Not properly evaluating and documenting risk assessments could result in the Corporation providing inaccurate assurance on its internal controls.

Recommendation: We recommend that the Corporation communicate to OPS the importance of performing complete self-assessments for FMFIA reporting. We further recommend that the Corporation review each assessment for internal consistency and completeness and follow up with OPS on responses that have not been properly documented.

Corporation Response: The Corporation agrees with the recommendation. The Director, OPS, did not have a thorough understanding of the concepts of the report, but now can respond to all future questions in a more accurate and understanding manner.

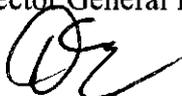
APPENDIX

CORPORATION'S RESPONSE TO DRAFT AUDIT REPORT

Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

Date: July 31, 2006

To: Carol Bates
Assistant Inspector General for Audit

From: David Eisner 
Chief Executive Officer

Subject: Response to OIG Draft Audit Report, *Review of the Corporation for National and Community Service Office of Procurement Services*

Thank you for the opportunity to review and comment on the draft audit report on your review of the Office of Procurement Services (OPS). While we are pleased that the audit demonstrated continued improvement in this area, the Corporation is committed to further strengthening its internal control over procurement operations and agrees with the recommendations made in the report. To that end, OPS made significant improvements to Corporation Policy No. 350, *Procuring Supplies and Services*, which are in the internal clearance process, and held a training session for contracting officer technical representatives (COTRs) in June and has scheduled another for November.

OPS provides specific responses to each of the 13 recommendations on the attachment, noting that 12 of the corrective actions have been completed; therefore, this response serves as notice of final action for those items. The final corrective action will be completed upon issuance of revised Policy No. 350.

The Corporation would also like to express its appreciation for the effort your staff and the staff of Cotton & Company applied to make this a successful and productive audit.

Attachment

cc: Jerry Bridges, Chief Financial Officer
Bill Anderson, Deputy CFO for Financial Management
Ritchie Vinson, Director, Office of Procurement Services



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Corrective Actions

Recommendation 1 A – OPS limit amounts funded on indefinite-quantity contracts (including BPAs) to the amount stated in issued task or delivery orders.

Corporation response – The Corporation agrees with the recommendation. The Office of Procurement Services has changed procedures and no longer cites accounting and appropriation data on blanket purchase agreements. On IDIQ contracts, we will only obligate funds for the minimum quantity stated in the contract and the remainder of funding will be obligated on task/delivery orders as they are placed against the contract. [Corrective Action Completed]

Recommendation 1 B – OPS prohibit COTRs from issuing task orders on indefinite-quantity contracts. OIG further recommended that OPS enhance COTR training to ensure that all COTRs fully understand the limits of their authority and ramifications of actions that exceed this authority.

Corporation response – The Corporation agrees with the recommendation. The annual COTR training reemphasizes the duties and responsibilities and specifically stresses the areas of technical direction and limitations of authority. OPS will also emphasize that any COTR exceeding their authority will be suspended and be required to undergo additional formal COTR certification training to be reinstated. [Corrective Action Completed]

Recommendation 1 C – OPS establish procedures to ensure that all vendor invoices are reviewed for accuracy and adherence to award terms before they are approved for payment. The importance of these procedures should also be emphasized during all COTR training sessions.

Corporation response – The Corporation agrees with the recommendation. OPS's annual COTR training reemphasizes review of invoices to ensure the Corporation is receiving the services/supplies before approving payment. [Corrective Action Completed]

Recommendation 1 D – OPS provide training to its contracting personnel on FAR requirements for establishing price reasonableness. OIG further recommended that the contracting officer be required to document the determination of price reasonableness and retain this information in the file for each award for which only one quote is received.

Corporation response – The Corporation agrees with the recommendation. OPS staff received additional training in establishing price reasonableness. Contracting Officers have been instructed to review all awards to insure price reasonableness has been determined, especially in one quote situations. [Corrective Action Completed]

Recommendation 1 E – OPS provide training to its contracting personnel on FAR requirements for small business set-asides. OIG further recommended that OPS ensure that its award files document the justification for each action between \$2,500 and \$100,000 that is not set aside for small business.

Corporation response – The Corporation agrees with the recommendation. The OPS staff has received additional training to ensure a Determination and Finding is placed in all files when small businesses cannot meet the requirements or delivery schedule. Contracting Officers have been instructed to ensure this documentation is in the file prior to award. [Corrective Action Completed]

Recommendation 1 F – OPS obtain all necessary Office of Human Capital approvals before awarding future temporary services contracts. OIG further recommended that OPS ensure that all such contracts do not exceed Corporation limits.

Corporation response – The Corporation agrees with the recommendation. OPS will obtain approval from Human Capital prior to award of any temporary services contract. All such contracts will be closely monitored to ensure they do not exceed the time limits established by policy. [Corrective Action Completed]

Recommendation 2 A – OPS perform quality control reviews of procurement documents prior to award to ensure that terms are accurate and complete; award amounts are internally consistent; and contract language is unambiguous.

Corporation response – The Corporation agrees with the recommendation. OPS Contracting Officers have been instructed to do a thorough review of each file prior to award. This review will consist of ensuring all documents to the support the award are in file, all award amounts are consistent and accurate, and the intent of the action is clear to all parties. [Corrective Action Completed]

Recommendation 2 B – OPS establish quality control procedures to ensure that all contract files are complete and that all necessary forms are properly signed in accordance with Procurement Directive No. 007.

Corporation response – The Corporation agrees with the recommendation. OPS staff received training in the review of award files in accordance with Procurement Directive No. 007. Contracting Officers will ensure all files are complete with all required signatures. [Corrective Action Completed]

Recommendation 2 C – OPS emphasize to its contracting personnel the importance of accurate reporting on FPDS. OIG further recommended that OPS establish quality control procedures to ensure that all contract actions are accurately reported on FPDS.

Corporation response – The Corporation agrees with the recommendation. OPS staff have been reminded to ensure they accurately enter the business size and contract type. Contracting Officers will ensure proper reporting before award is made. [Corrective Action Completed]

Recommendation 2 D – OPS develop a system for tracking and monitoring the status of all open award actions. OIG further recommended that OPS use this system to identify and follow up on open awards that may be ready to be closed out.

Corporation response – The Corporation agrees with the recommendation. OPS and the Accounting Office have developed a report with completion dates to be provided to all Executive Officers and COTRs. This report will provide alerts 90 days prior to contract completion or expiration of the option period. It also will indicate when any contract has reached an expenditure rate of 75% of available funds. This will enable OPS to start closeout or exercise options on time. [Corrective Action Completed]

Recommendation 3 A – The Corporation ensure that the designated Competition Advocate perform all duties and responsibilities required by the FAR and Corporation policy. OIG further recommended that the Corporation ensure that all personnel are fully informed of their roles, responsibilities, and limits on their authority.

Corporation response – The Corporation agrees with the recommendation. The designated Competition Advocate is fully aware of the duties required of the position. All aspects of FAR 6.501 are being followed and the annual report has been submitted to the Senior Procurement Executive. All OPS personnel are aware of their roles and responsibilities and authority limitations. [Corrective Action Completed]

Recommendation 3 B – OPS revise Policy No. 350, as necessary, to incorporate current vendor-payment procedures and to establish contract closeout procedures.

Corporation response – The Corporation agrees with the recommendation. OPS Policy No. 350 is being revised to include current vendor payment procedures and contract closeout procedures in addition to numerous other changes and updates, including new purchase card procedures.

Recommendation 3 C – The Corporation communicate to OPS the importance of performing complete self –assessments for FMFIA reporting. OIG further recommended that the Corporation review each assessment for internal consistency and completeness and follow up with OPS on responses that have not been properly documented.

Corporation response – The Corporation agrees with the recommendation. The Director, OPS, did not have a thorough understanding of the concepts of the report but now can respond to all future questions in a more accurate and understanding manner.
[Corrective Action Completed]