

Board of Governors of the Federal Reserve System

The Board Can Improve Its Contract Administration Processes



Office of Inspector General

Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection



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Executive Summary, 2020-FMIC-B-012, March 30, 2020

The Board Can Improve Its Contract Administration Processes

Findings

The Board of Governors of the Federal Reserve System's Division of Financial Management (DFM) can improve its contract administration processes as well as related internal controls. Specifically, Procurement has not established an effective internal control system to monitor contracting officer's representatives' (CORs) performance of their duties. CORs are not always fulfilling their contract administration responsibilities; they approved invoices that did not meet invoice approval requirements and did not submit all required contractor performance evaluation forms. Additionally, we found that Procurement did not (1) execute internal controls on contract modifications and COR Acknowledgment forms and (2) extend standard purchase orders as required by policy.

CORs do not appear to be adequately trained to fulfill their responsibilities; COR training is not required prior to commencing COR duties, and refresher training is not required by Board policy. In addition, COR training is not tailored to various experience levels; new CORs and experienced CORs attend the same training.

Finally, contracting officers entered incomplete and inaccurate contract information into the relevant database, and DFM does not have a comprehensive contract closeout process that ensures all goods and services satisfy the contract terms.

Recommendations

Our report contains recommendations designed to improve compliance with Board policies and procedures and improve the effectiveness of internal controls associated with contract administration. In its response to our draft report, the Board concurs with our recommendations and outlines actions that have been or will be taken to address each recommendation. We will follow up to ensure that the recommendations are fully addressed.

Purpose

The objective of this audit was to assess the Board's compliance with laws, regulations, and Board policies and procedures applicable to contract administration, as well as the effectiveness of the Board's internal controls related to contract administration. We focused on the Board's contract administration processes from postaward to contract closeout.

Background

Contract administration is the oversight of a contract to ensure that a contractor meets all terms, conditions, and requirements of the contract, including providing all required goods or services. It begins upon contract award and ends after final acceptance of the work required by the contract and final payment to the contractor. Contract administration requires coordination between DFM and the division receiving the goods or services. We examined the following contract administration processes: invoice approval and payment, contract file maintenance and review, contractor performance evaluations, contract renewal, and contract closeout.

The Board awarded approximately \$450 million in contracts for goods and services in 2018. Our scope for this audit included a nonstatistical, risk-based sample of 20 contracts from a population of 1,185 contracts with an invoice date in 2018.



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Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection

Recommendations, 2020-FMIC-B-012, March 30, 2020

The Board Can Improve Its Contract Administration Processes

Finding 1: Procurement Should Establish a Comprehensive COR Oversight Program

Number	Recommendation	Responsible office
1	Strengthen COR oversight by establishing a comprehensive COR monitoring program.	Division of Financial Management
2	Work with the COO and the division directors to establish an accountability mechanism for CORs.	Division of Financial Management

Finding 2: CORs Can Better Execute Their Responsibilities During Contract Administration

Number	Recommendation	Responsible office
3	Work with invoice approvers to ensure compliance with specific contract requirements and Procurement policies and procedures.	Division of Financial Management
4	Review the contract invoiced for \$27,000 to ensure that invoices were properly charged in accordance with the contract requirements and Board procedures, and correct errors as needed.	Division of Financial Management
5	Work with the division directors to ensure that CORs submit contractor performance evaluations to Procurement in accordance with Board procedures.	Division of Financial Management

Finding 3: Procurement Can Better Execute Its Responsibilities During Contract Administration

Number	Recommendation	Responsible office
6	Ensure that internal controls over contract modifications and COR Acknowledgment forms are executed properly.	Division of Financial Management
7	Ensure that standard POs are extended in accordance with the Board's <i>Acquisition</i> policy.	Division of Financial Management
8	Work with the division directors to ensure that Procurement is notified when a COR assignment changes.	Division of Financial Management

Finding 4: The COR Training Program Can Be Improved

Number	Recommendation	Responsible office
9	Reassess the current COR training program and consider expanding the program to include training tailored to various levels of experience and training focused on specific topics.	Division of Financial Management
10	Update Board policies or procedures to require <ol style="list-style-type: none">CORs to attend COR training prior to performing the duties of a COR.CORs to attend refresher training.	Division of Financial Management

Finding 5: The Contract Data Maintenance and Validation Process Can Be Improved

Number	Recommendation	Responsible office
11	Update and implement an effective validation process that ensures that all contract data entered into the system are accurate and complete.	Division of Financial Management
12	Ensure that all current contract data are accurate and complete before they are transferred to a new procurement data system.	Division of Financial Management

Finding 6: The Contract Closeout Process Can Be Improved

Number	Recommendation	Responsible office
13	Develop and implement a comprehensive contract closeout process and determine whether the Board should fully comply with or modify the current <i>Closing Purchase Orders</i> procedures.	Division of Financial Management




Office of Inspector General

Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection

MEMORANDUM

DATE: March 30, 2020

TO: Ricardo A. Aguilera
Chief Financial Officer
Board of Governors of the Federal Reserve System

FROM: Michael VanHuysen 
Assistant Inspector General for Audits and Evaluations

SUBJECT: OIG Report 2020-FMIC-B-012: *The Board Can Improve Its Contract Administration Processes*

We have completed our report on the subject audit. We conducted this audit to assess the Board of Governors of the Federal Reserve System’s compliance with laws, regulations, and Board policies and procedures applicable to contract administration, as well as the effectiveness of the Board’s internal controls related to contract administration.

We provided you with a draft of our report for review and comment. In your response, you concur with our recommendations and outline actions that have been or will be taken to address our recommendations. We have included your response as appendix C to our report.

We appreciate the cooperation that we received from the Division of Financial Management. Please contact me if you would like to discuss this report or any related issues.

cc: Patrick J. McClanahan
Steve Bernard
Kimberly Briggs
Cheryl Patterson



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Introduction

Objective

The objective of this audit was to assess the Board of Governors of the Federal Reserve System’s compliance with laws, regulations, and Board policies and procedures applicable to contract administration, as well as the effectiveness of the Board’s internal controls related to contract administration. This audit focused on the Board’s contract administration processes from postaward to contract closeout.

The Board defines *contract administration* as oversight of a contract to ensure that a contractor meets all terms, conditions, and requirements of the contract, including providing all required goods and services.¹ Contract administration begins after a contract has been awarded and ends after final acceptance of the work effort and final payment to the contractor. Contract administration requires coordination between the Division of Financial Management (DFM) and the division receiving the goods and services. We examined the following contract administration processes: invoice approval and payment, contract file maintenance and review, contractor performance evaluations, contract renewal, and contract closeout.

The Board awarded approximately \$450 million in contracts for goods and services in 2018.² We initiated this audit because we have not conducted a comprehensive audit of the Board’s contract administration processes in over a decade. Our scope for this audit included a nonstatistical, risk-based sample of 20 contracts from a population of 1,185 contracts with an invoice date in 2018. The results from our sample cannot be projected to the entire population.

Our population excluded currency shipment contracts, construction contracts, and Office of Inspector General contracts. The Board has implemented policies and procedures to govern the acquisition of goods and services; it is not required to comply with the *Federal Acquisition Regulation* (FAR). Details on our scope and methodology are provided in appendix A, and a glossary of terms is provided in appendix B.

Background

DFM’s Role in the Contract Administration Process

The Board is authorized to procure goods, services, and real property under section 10 of the Federal Reserve Act.³ The Board has delegated administrative authority to execute its internal administrative functions, including procurement, through the following delegation documents:

¹ The Board defines *contract* as any type of written agreement, regardless of form, for the acquisition of goods, services, or real property.

² Board of Governors of the Federal Reserve System, *Report to the Congress on the Office of Minority and Women Inclusion*, March 2019.

³ Section 10, paragraphs 3 and 4, of the Federal Reserve Act (12 U.S.C. §§ 243 and 244).

- *Administrative Governor's Delegations of Administrative Authority*
- *Chief Operating Officer's Delegations of Administrative Authority*

Under the *Administrative Governor's Delegations of Administrative Authority*, the Administrative Governor delegates responsibility for administrative oversight of the Board's operations and resources to the chief operating officer (COO). In the *Chief Operating Officer's Delegations of Administrative Authority*, the COO delegates to the chief financial officer (CFO) the responsibility and authority (1) to approve all agreements and memorandums that obligate the Board to make payments or entitle the Board to receive payments and (2) to procure goods, services, and real property for use in conducting the operations of the Board as approved in the budget or by an authorized program change request, among other authorities. The CFO is also responsible for formulating, approving, and implementing Board policy related to procurement. The COO delegates to the chief acquisition officer the authority to act as the Board's contracting officer (CO) to procure goods and services. DFM carries out the authorities delegated by the COO.

Within DFM, Procurement and Accounts Payable are the functions involved with the Board's contract administration processes. Procurement has been delegated the authority and responsibility for procuring all the goods, services, and real property needed by the Board. Procurement staff must document the acquisition process in the contract file per the requirements in the Board's *Acquisition Procedures*. All contracts must be initiated, finalized, and administered by Procurement. Accounts Payable receives invoices from contractors and enters the information into Oracle, which generates and sends an email notification to the appropriate contracting officer's representative (COR) or other authorized division staff member, asking them to approve the invoice in Oracle. Once approved in Oracle, the invoice is then routed back to Accounts Payable for final review and approval.

CO Responsibilities

COs are Procurement employees who have the required delegated authority to initiate, administer, and terminate contracts on behalf of the Board. COs work with the COR throughout all phases of the procurement process. COs help the end user manage the contract from award to closeout, ensure that the user is briefed on the duties and responsibilities of the COR, and ensure that the COR Acknowledgment form is signed by the COR.⁴

COs are responsible for creating and maintaining the contract files. COs use Oracle E-Business Suite to enter and maintain contract data. The *Acquisition Procedures* instruct COs and managers to validate key contract data entered into Oracle so that all divisions can access accurate data from one source.

COR Responsibilities

The *Procurement Manual for Technical Personnel* states that contract administration is a team effort shared by both COs and CORs. Divisions or offices funding a contract must designate a COR to act as the CO's representative to perform specific functions under awarded contracts and to represent the CO in administering technical and program details within the scope of the contract.

⁴ A COR Acknowledgment form is formal documentation of the authorization given to a COR to assist the CO in the technical monitoring and administration of the contract.

CORs act within a scope of authority as delegated by the CO. This delegation gives CORs the responsibility to assist the CO in the monitoring and administration of the contract and is formalized in the COR Acknowledgment form. COR responsibilities include

- keeping the CO apprised of the status of the contract
- performing necessary inspections
- accepting goods or services
- reviewing invoices and deciding whether to approve them for payment
- maintaining all documentation needed to support payments and contractor performance
- completing contractor performance evaluations

CORs are not authorized to make any representations or commitments of any kind on behalf of the CO or the Board and do not have the authority to alter the contractor's obligations or change the terms and conditions of any contract. Contractors are officially notified of the COR's name through the Notice of Contract Award. If there is a change in the assigned COR for a contract, a contract modification is issued to the contractor naming the new COR.

COR Training

Procurement offers and conducts COR training sessions several times per year. The *Acquisition* policy requires CORs to take a training session within 6 months of being designated a COR. The policy also directs Procurement to offer periodic training on the *Acquisition* policy and *Procurement Procedures*. Additionally, Procurement communicates on the Board's internal website that CORs must take a refresher training once every 3 years.

The Board's COR training covers various topics, such as the acquisition process, COR responsibilities, and updates to policy related to contract administration and contractor performance. The manager in charge of procurement policy and compliance (procurement policy and compliance manager), tracks CORs' training and notifies via email those CORs who need to fulfill the 3-year refresher training requirement prior to each scheduled training session.

The Board's Contract Administration Processes

The Invoice Approval and Payment Process

Before Accounts Payable pays an invoice, the COR must review, certify, and approve the invoice for payment. *Accounts Payable Procedures* and *Acquisition Procedures* outline division approval requirements for reviewing and approving contractor invoices. In determining whether to approve an invoice for payment, CORs or authorized division staff members typically verify the following:

- All goods or services on the invoice were received.
- Work performed or supplies received met contract specifications, including due date.
- Hours charged on contracts match time sheets and reflect hours actually worked, as required by the contract.

- Information on the invoice matches that on the purchase order (PO), specifically, supplier name, PO number, line description, invoice quantity, unit price, and period covered.
- The invoice date is not earlier than the date supplies or services were provided.
- The extended price is correct.
- Shipping costs (when applicable) agree with the terms of the contract.
- The invoice does not include tax.

In addition, in its contracts the Board may require the contractor to submit additional information on invoices for the goods or services provided. The COR may approve, reject, or request additional information before escalating the invoice.

The Contract File Maintenance and Review Process

The Board's *Acquisition* policy states that Procurement shall document the acquisition process in the contract file as required. In 2018, Procurement issued a series of procurement instructions addressing topics such as contract file review processes, internal compliance reviews, and requirements for exercising options.

The Board's *Acquisition* policy states that the COR must maintain all documentation needed to support payments and contractor performance.

The Contractor Performance Evaluations Process

The *Procurement Manual* requires that CORs prepare a contractor performance evaluation for all contracts, either upon contract completion or annually, whichever comes first. Upon completing the contractor performance evaluation, CORs must forward the evaluation to Procurement.

CORs rate contractor performance, and Procurement categorizes the evaluations as *acceptable* (no concern identified) or *issues* (concern identified). When there are concerns identified in the evaluation, the responsible Procurement manager receives the evaluation and works with the assigned CO and the COR to resolve the issue. The *Procurement Manual* states that poor contractor performance must be immediately documented and reported to Procurement. Procurement removes from the Board's bidder list contractors that consistently receive negative evaluations. Procurement management told us that contractor performance evaluations are one of several factors they use to determine whether to award a contract. The evaluation also contains a section for CORs to rate how well Procurement supported the COR during the performance period. The rating factors are timeliness, responsiveness, and knowledge.

The Contract Renewal Process

To foster the use of competitive acquisition methods, the Board's *Acquisition* policy and related procedures state that Board contracts cannot exceed a 60-month term, including all options to renew. The initial contract term can only cover the period from the effective date of the contract to the end of the next fiscal year.

The Contract Closeout Process

The closeout process typically includes a number of tasks, such as verifying receipt of goods or services, verifying final payment to the contractor, and confirming that POs were closed and remaining funds deobligated; in addition, the contractor confirms in writing that the Board has met the terms of the contract and is not liable for any further claims.

The May 2007 *Closing Purchase Orders* procedures provides guidance on the required steps that the COR or the division administrator (DA) and the CO should take to close contract line items and deobligate excess funds. The COR or the DA is to notify Procurement via email of contract line items that can be closed and remaining funds that can be deobligated.



Finding 1: Procurement Should Establish a Comprehensive COR Oversight Program

Procurement has not established an effective internal control system to monitor CORs' performance of their duties. The Board's *Delegations of Administrative Authority* policy states that any individual who is delegated a function and re-delegates authority has a duty to monitor the work of the individuals to whom they redelegate. Procurement has delegated certain contract administration responsibilities to CORs. The U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* and the Committee of Sponsoring Organizations of the Treadway Commission state that management should establish and operate monitoring activities to identify and correct internal control deficiencies in a timely manner. Procurement management stated that they have not established a comprehensive COR oversight program because the CORs are not within their management chain and therefore are outside DFM's authority. The lack of a comprehensive COR oversight program or framework may contribute to COR performance deficiencies and prevent Procurement from identifying and correcting issues within the contract administration process.

Procurement Does Not Exercise Its Redelegated Authority to Monitor CORs

Procurement is not exercising its redelegated authority to monitor CORs to ensure compliance with contract terms and Procurement policies during contract administration. Although Procurement has issued guidance that covers aspects of contract administration oversight, the guidance does not include a process for monitoring CORs. During our fieldwork, we identified instances in which CORs approved invoices that did not meet contract terms and did not complete required contractor evaluations.

The Board's *Delegations of Administrative Authority* policy states that any individual who is delegated a function can redelegate the function, but the individual retains that delegated authority. It further states, "Those who re-delegate authority have a duty to monitor the work of the individuals to whom they re-delegate." In addition, the *Procurement Manual* states that monitoring contract performance and contract administration is essential to the procurement process and for ensuring that contractors use and manage resources in a manner that meets the Board's expectation regarding quality, timeliness, and cost. The manual highlights that contract administration is a team effort between the COR and Procurement staff.

GAO's *Standards for Internal Control in the Federal Government* states that management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. Moreover, the Committee of Sponsoring Organizations of the Treadway Commission states that monitoring allows organizations to identify and correct internal control problems in a timely manner, to produce more accurate and reliable information for use in decisionmaking, and to be in a position to provide periodic assertions on the effectiveness of internal controls.

Procurement management stated that it has not established a comprehensive process to review CORs' performance of their duties because Procurement lacks authority over CORs. COR selection is determined

by the division that has acquired goods or services, not DFM. It is up to each division to determine whether the COR responsibility is reflected in the COR's annual performance document. Procurement management also stated that divisions should be held accountable for the performance of the CORs in their divisions. The delegations of authority direct the individuals to whom authority is delegated the responsibility to monitor the work they have redelegated. In the case of DFM, Procurement is delegated the authority to administer contracts. Procurement then further delegates this authority to CORs.

Based on our review of audit reports, other federal agencies have established various approaches for COR oversight. In one agency, the CO is responsible for performing periodic reviews of invoices to ensure that the program office and the COR are performing their duties. Another agency dictates that CORs' supervisors are responsible for supporting their employees in meeting the demands of the COR position, familiarizing themselves with CORs' responsibilities and duties, and considering CORs' performance as a part of CORs' annual performance appraisals.

In the absence of a comprehensive COR monitoring program, Procurement may not know whether CORs are executing their delegated authority effectively. Further, the lack of monitoring can cause operational risks, such as CORs incorrectly approving invoices and CORs not adequately documenting contractor performance.

Recommendations

We recommend that the director of DFM

1. Strengthen COR oversight by establishing a comprehensive COR monitoring program.
2. Work with the COO and the division directors to establish an accountability mechanism for CORs.

Management Response

The CFO concurs with our recommendations. Regarding recommendation 1, the response states that DFM will create a procurement instruction outlining the process and procedures for a COR program. The COR program will consist of requirements for the nomination process, training, records management, and invoice management. The response also states that the COR program will include a robust audit of COR records and overall performance. DFM will establish criteria and a COR nomination process, and this process will be incorporated into the COR program, updated as appropriate, and validated against the COR training rosters and COR program requirements.

Regarding recommendation 2, the response states that DFM and the COO will engage with division directors to make CORs' performance expectations more explicit. Specifically, DFM will create a performance management objective with success measures that could be used by divisions for all individuals nominated to serve as CORs. DFM will remain available to offer feedback on CORs' performance as part of the performance management process.

OIG Comment

The actions described by the CFO appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.



Finding 2: CORs Can Better Execute Their Responsibilities During Contract Administration

CORs are not consistently fulfilling their contract administration responsibilities. We identified instances in which CORs did not verify that all invoice requirements were met before approving invoices for payment or completing contractor performance evaluations. The COR Acknowledgment form states that duties and responsibilities within the scope of the COR's authority include reviewing invoices and monitoring the contractor's performance. The *Procurement Manual* explains that the COR must evaluate and document contractor performance to ensure quality performance on future contracts. CORs noted that they did not approve invoices in accordance with invoice requirements because they were not fully aware of their responsibilities, they delegated responsibilities to other team members, or they employed a modified method for approving invoices that differs from the expected approach outlined in the contract. CORs stated that they did not submit contractor performance evaluations because they did not have enough time to complete the evaluation, they only completed the form if there was an issue, or they did not recall receiving a request from Procurement to complete the form. If CORs do not review invoices properly, the Board could be overpaying or not receiving goods or services consistent with the contract terms that the agency may have already paid for. Additionally, if contractor performance evaluations are not completed, Procurement may not have information regarding contractor performance and may also miss opportunities to receive feedback from the CORs and improve its operations.

CORs Approved Invoices That Did Not Meet Contract Terms

We found invoices for which (1) the labor category and the hourly rate were not listed in the contract, (2) vendors billed the Board for service rates that differed from those stated in the contract, and (3) vendors billed the Board for labor hours that had not been approved in compliance with the contract. Specifically, we identified three contracts or POs that did not meet contract terms:

- On a contract invoiced for more than \$3,200,000, we found that 23 of 28 invoices submitted by the contractor included a labor category and an hourly rate that did not match the approved labor categories and hourly rates in the contract. Further, all 23 invoices contained hourly charges for a labor category not identified in the contract. The COR stated that they provided verbal approval to the contractor to add the additional labor category to meet the needs of the project. The COR also stated that they were not fully aware of their responsibilities because they had only been a COR for a couple of months. The Board's *Acquisition* policy states that any change to a contract, including modifications, must be issued in writing and signed by the CO. The policy also states that the COR is not authorized to make any representations or commitments of any kind on behalf of the CO or the Board. On this contract, the Board paid over \$260,000 in invoices that did not comply with the contract for labor categories and hourly rates.

- On a contract for services invoiced for about \$27,000 in the 2018 performance period, we found that the 11 paid invoices billed had over 100 instances of a service being provided, and all 11 invoices included a rate that did not match the contract rate. Some rates were higher than the rate noted on the contract and some rates were lower, depending on the type of services provided. In addition, the invoices included additional charges and discounts that were not included in the contract. This contract had two CORs. One of the CORs noted that they were only responsible for ensuring that the services listed on the invoice were actually provided; the second COR noted that the day-to-day responsibilities of administering the contract and conducting a line-item review of the associated invoices were delegated to a third person who was not a COR.
- On a labor-hour contract invoiced for \$800,000, we found that 22 of 35 invoices had supporting time sheets that were submitted for approval but were not approved by the Board project manager as required by the contract. The specific contract requires that work time sheets, with the contractor's signature, be submitted for approval by the project manager prior to submission to the Board for payment. The project manager must approve each provider's time sheet before the contractor submits an invoice to the Board for the services. For this contract, the Board uses software to enter and approve labor hours. The manager indicated that if the time sheet is not approved before the invoice arrives, an email is sent to the project manager requesting approval of the time sheet. To test this, we requested email approvals for 9 invoices. Division staff were only able to provide approvals for 3 of the 9 instances that we reviewed.

The Board's *Acquisition* policy explains that CORs review invoices and decide whether to approve them for payment. Both the *Accounts Payable Procedures* and the *Acquisition Procedures* outline the sections of the invoice that the COR should review. Specifically, the procedures state that the COR shall ensure that the hours charged on contracts match time sheets and reflect hours actually worked.

In all three instances outlined above, the CORs acknowledged failure to meet contract terms. If CORs do not review invoices to ensure that the contractor has complied with contract requirements for invoice-supporting information, the Board could be overpaying and receiving incorrect goods and services, thus heightening the risk of potential fraudulent charges.

CORs Did Not Submit Contractor Performance Evaluation Forms for All Contracts

CORs did not always complete the contractor performance evaluations and submit them to Procurement. Fourteen of the contracts in our sample should have had an evaluation completed for 2018; performance evaluations were missing for 9 of the 14 contracts.⁵

The *Procurement Manual* explains that the COR must evaluate and document contractor performance to ensure quality performance on future contracts. The manual requires that CORs complete the performance evaluation upon completion of the contract or annually, whichever comes sooner. The procurement policy and compliance manager reviews evaluations and stores them on Procurement's

⁵ Procurement explained that standard POs and U.S. General Services Administration POs do not require completion of a contractor performance evaluation. In our sample of 20 contracts, 4 are standard POs and 2 are U.S. General Services Administration POs.

SharePoint site. Performance evaluations provide insight to Procurement on the CORs' rating of contractor performance, allow Procurement to track contractor issues, and inform Procurement about how well it supported CORs during the performance period. Generally, Procurement removes contractors from the Board's bidders list if they consistently receive negative evaluations.⁶

CORs told us that they did not submit the contractor evaluations for a number of reasons, including that they were listed as the COR for several contracts and did not have enough time to complete the evaluation, they only complete the form if there is an issue, and they did not recall receiving the evaluation request from Procurement.

If CORs do not complete contractor performance evaluations, Procurement may not have information regarding one of several factors used to evaluate contractor performance, which could prevent it from adjusting the Board's bidders list as needed. Further, CORs' failure to complete performance evaluations does not give Procurement the opportunity to learn from CORs how they perceive the support they receive from Procurement.

Recommendations

We recommend that the director of DFM

3. Work with invoice approvers to ensure compliance with specific contract requirements and Procurement policies and procedures.
4. Review the contract invoiced for \$27,000 to ensure that invoices were properly charged in accordance with the contract requirements and Board procedures, and correct errors as needed.
5. Work with the division directors to ensure that CORs submit contractor performance evaluations to Procurement in accordance with Board procedures.

Management Response

The CFO concurs with our recommendations. Regarding recommendation 3, the response states that the COR training presentation and discussion on invoice management was expanded in November 2019 and was incorporated into COR training. Additionally, the response states that DFM will create a checklist for invoice and timesheet review and approval.

Regarding recommendation 4, the response states that DFM began a review of the contract that will include an analysis of all previous payments. DFM will work to resolve any discrepancies with the contractor and expects the net effect to be nominal. Additionally, all individuals associated with the contract have been trained on the contract requirements.

Regarding recommendation 5, the response states that under the newly designed COR program and the related Board procedures, the performance evaluation will be requested but will not be required. The response states that CORs will receive the performance evaluation for completion and will be strongly

⁶ In 2018, Procurement received 208 performance evaluations. Of these, 197 were labeled as *acceptable* and 11 were labeled *issues*. According to Procurement, all issues identified in the 2018 performance evaluations have been closed.

urged to complete the form and return it to Procurement for processing. CORs will also receive a follow-up reminder to complete the evaluation.

OIG Comment

The actions described by the CFO appear to be responsive to our recommendations. We will follow up to ensure that our recommendations are fully addressed.



Finding 3: Procurement Can Better Execute Its Responsibilities During Contract Administration

Procurement staff are not fully executing their contract administration responsibilities. Specifically, COs are not (1) executing internal controls on contract modifications and COR Acknowledgment forms and (2) extending standard POs according to policy. The Board's *Acquisition* policy, *Acquisition Procedures*, and procurement instructions define CO responsibilities for contract modifications, COR Acknowledgment forms, and POs. Procurement management and staff attributed these instances to a misinterpretation of the policy requirements for modifications, a communication breakdown executing COR forms, and the ease of extending standard POs' period of performance without option years rather than negotiating a new contract with the same vendor. Procurement staff's oversights in executing internal controls during contract administration impairs the Board's ability to assess its risk and evidences ineffective contract oversight. Additionally, renewing standard POs against Board policy hinders the Board's efforts to ensure it is continuing to obtain the highest quality goods and services for the best-available prices.

COs Are Not Executing Internal Controls on Contract Modifications and COR Acknowledgment Forms

Among the contracts in our sample, we found instances of ineffective oversight for contract modifications and COR Acknowledgment forms. Specifically, we found two contracts that were missing legal review for modifications valued over \$200,000 and nine instances of missing signed COR Acknowledgment forms, including one in which a CO authorized a COR change through a modification but did not have the COR execute a COR Acknowledgment form.

The Board's *Acquisition* policy states that legal approval is required for all modifications over \$200,000. In explaining one of the reasons for not obtaining a legal approval, a Procurement manager indicated that approval for funds over \$200,000 added to an option year contract modification was not required because the hourly rate was prepriced. The Board's Legal Division expressed a differing point of view by indicating that a legal review for contract modifications over \$200,000 was still required. Legal reviews occur to ensure compliance with the Board's policies, federal contract law, and general law and to measure general risk. If legal reviews are not completed, the Board's Legal Division cannot assess compliance or risk.

The *Acquisition Procedures* states that COs are responsible for having CORs sign COR Acknowledgment forms. The COs we spoke to provided the following reasons why the nine COR acknowledgment forms were not signed:

- They thought the form had been executed and included in the file but were unable to provide evidence of an executed form.

- They thought that two contracts predated the creation of the COR Acknowledgment form.
- They were not notified of the COR change until after the period of performance had ended.

If COs do not have documented COR Acknowledgment forms, COs have no assurance that CORs have accepted their duties and a Board contract may exist that does not have proper COR oversight.

Standard POs Are Not Being Administered as Required by Policy

COs are responsible for awarding POs according to the Board policy. Among the contracts in our sample, we found that three of six standard POs were extended without the POs having options specified in the PO terms or approvals that would allow the PO to be extended beyond the original period of performance. Specifically, the POs did not include any negotiated terms and conditions, option years, or prior approvals from the chief acquisition officer to allow the extension of goods or services. Two of the three standard POs had an initial period of performance of 1 year, and the third standard PO had an initial period of performance of 11 months. One of the three standard POs was extended once for an additional year; another of the three standard POs was extended twice; and one standard PO was extended 7 times, for a total of an additional 7 years. In the last instance, the entire period of performance exceeded the 60-month limit permitted by the Board.

The Board's *Acquisition* policy states that "to foster use of competitive methods, the term of a contract (including all options to renew) generally should not exceed 60 months." The *Acquisition Procedures* states that the "60 month maximum term includes the initial contract term and all options, if exercised." An exception to this requirement is noted in the *Acquisition Procedures*, which states that the chief acquisition officer can determine that exceptional circumstances warrant a contract exceeding 60 months. Procurement Instruction 1801 states that, if appropriate, the PO terms should include standardized language relevant to additional option periods and the dollar amount for each option period.

When asked about these extensions, the CO who renewed all three POs stated that the practice of extending standard POs that do not have option years is easier than negotiating a new contract with the same vendor because it preserves favorable terms the Board received during initial negotiations. Extending standard POs that do not have option years built into the contract deviates from Board policy and can potentially hinder the Board's efforts (1) to ensure that it receives competitive bids, (2) to ensure that the Board is continuing to obtain the highest quality goods and services for the best-available prices, and (3) to ensure that negotiated terms and conditions favorable to the Board that are included in the PO remain legally binding past the initial period of performance.

Recommendations

We recommend that the director of DFM

6. Ensure that internal controls over contract modifications and COR Acknowledgment forms are executed properly.
7. Ensure that standard POs are extended in accordance with the Board's *Acquisition* policy.

8. Work with the division directors to ensure that Procurement is notified when a COR assignment changes.

Management Response

The CFO concurs with our recommendations. Regarding recommendation 6, the response states that DFM will enhance the management review process to ensure that controls over contract modifications are functioning properly. The management review process for POs and contracts will continue to ensure that signed COR Acknowledgement forms are completed. Additionally, DFM will revisit and clarify guidance and documentation requirements for necessary legal reviews of procurement actions to ensure compliance with the Board's *Acquisition* policy.

Regarding recommendation 7, the response states that DFM has issued guidance and conducted training on standard PO extensions. Procurement Instruction 1806 on options was revised in September 2019 to include processes, procedures, and sample wording. In addition, annual training will include guidance on extensions and performance periods and DFM will document and approve any exceptions to the Board's *Acquisition* policy.

Regarding recommendation 8, the response states that DFM relies on divisions to notify it of COR assignment changes. DFM continues to stress the importance of communicating all assignment changes during COR training and the COR nomination process. The response states that DFM will also review information from Human Resources on employee separations and transfers as well as the responses to contractor performance evaluations as backup sources of information on COR assignment changes. Additionally, Procurement will send out periodic messages to divisions regarding the importance of timely COR assignment changes.

OIG Comment

The actions described by the CFO appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.



Finding 4: The COR Training Program Can Be Improved

Procurement can enhance its COR training to ensure that CORs are adequately trained to fulfill their responsibilities. COR training is not required prior to commencing COR duties, and refresher training is not required by Board policy. In addition, COR training is not tailored to various experience levels; new CORs and experienced CORs attend the same training. Board policy allows CORs to attend their initial training session up to 6 months after being assigned as a COR, and repeating the training once every 3 years has been communicated to CORs as a requirement on the Board’s internal website but is not documented in Board policy. Revising Board policies or procedures to require CORs to attend training prior to assuming their COR responsibilities and attend refresher training as well as expanding COR training to include training for different levels of experience may lead to fewer contract administration errors, improve compliance with Board policy and contract requirements, improve contract administration consistency across the Board, and reduce fraud risk.

Completion of COR Training Is Not Required Prior to Commencing COR Duties

The Board does not require CORs to attend training prior to performing duties as a COR. The Board’s *Acquisition* policy requires that any employee designated as a COR must take a Board-sponsored or Board-approved course on COR responsibilities. If the employee has not already completed the course prior to commencing COR responsibilities, the employee must take the course within 6 months of designation as a COR.

A Procurement manager could not recall why CORs were allowed to begin their duties as long as they attended training within 6 months after being designated as a COR. One COR stated that years ago, training was held only two or three times per year, and they could not attend because those times conflicted with their schedule. Procurement now offers training multiple times per year⁷; Procurement conducted nine COR training sessions in 2018.

If CORs do not attend the required initial training prior to assuming their duties, they may not understand all aspects of their responsibilities and may not comply with Board policy and contract requirements. As a result, contract administration across the Board may be inconsistent, and the risk of fraud increases.

COR Refresher Training Not Required in Policy

Three of 15 CORs in our sample who had been CORs for more than 3 years did not complete the triennial refresher training. The Board communicates this refresher training requirement to CORs on its internal website, and CORs receive notice from the procurement policy and compliance manager of the need to fulfill this refresher training requirement. The requirement is not documented in policy.

⁷ Procurement conducted five COR training sessions in 2019.

Two of the three CORs we interviewed stated that they had attended refresher training, but Procurement had no record of their attendance at any COR training within the most recent 3-year period. The other COR interviewee indicated that they could not recall why they did not attend the refresher training.

COR training is updated after each session to reflect any changes based on feedback from attendees. If CORs do not attend the required triennial refresher training, they may not have the most up-to-date information to effectively execute their responsibilities, including complying with Board policy and contract requirements. As a result, contract administration across the Board may be inconsistent, and the risk of fraud increases.

COR Training Is Not Tailored to Various Levels of Experience

The Board's *Acquisition* policy states that any employee designated as a COR must take a Board-sponsored or Board-approved course on COR responsibilities. Newly assigned CORs and experienced CORs attend the same COR training, which is not tailored to the varied levels of experience. Although 12 of the 19 CORs that we interviewed said that the training was helpful, others said training could be improved. Specifically, 3 CORs told us that as new CORs, the training really did not prepare them for their day-to-day COR duties; 2 CORs told us there was a lot of information; and one told us that they found it difficult to understand.

As a comparison, some federal agencies use the Federal Acquisition Certification for Contracting Officer's Representatives (FAC-COR) program, which incorporates a combination of training and experience to confer three COR certification levels. Another financial regulator that does not use the FAC-COR program requires completion of basic levels of training prior to progressing to more experienced levels. In addition, it requires certification prior to performing oversight duties.

The procurement policy and compliance manager said that she believes having more experienced CORs attend the same training as new CORs is a benefit because they learn from each other. This manager stated that although Procurement is not convinced that the COR training should be split based on level of experience, spin-off trainings focused on specific topics could be helpful.

If COR training is not tailored to various levels of experience, CORs may not be prepared to execute their responsibilities and protect the Board's interests. Issues described in the various findings throughout the report, such as failure to submit contractor evaluations, improper invoice approval, and improper contract changes may have been averted with an expanded training program.

Recommendations

We recommend that the director of DFM

9. Reassess the current COR training program and consider expanding the program to include training tailored to various levels of experience and training focused on specific topics.

10. Update Board policies or procedures to require
 - a. CORs to attend COR training prior to performing the duties of a COR.
 - b. CORs to attend refresher training.

Management Response

The CFO concurs with our recommendations. Regarding recommendation 9, the response states that DFM will develop various “pop-up trainings” that will focus on specific topics with additional materials and examples beyond what is covered in the current COR training. DFM will also develop a “Board Procurement 101” training for newly hired employees who will participate in the procurement process.

Regarding recommendation 10, the response states that the procedures that will be developed for the COR program will require that all nominees complete COR training prior to serving as a COR. Procurement staff will confirm that an individual has met the training requirement prior to issuing the COR Acknowledgement form. Finally, the COR program procedures will also outline refresher training requirements.

OIG Comment

The actions described by the CFO appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.



Finding 5: The Contract Data Maintenance and Validation Process Can Be Improved

The Board's Oracle system used for contracting purposes contains incomplete and inaccurate data. COs are responsible for manually entering contract data into Oracle, and Procurement management validates the data entered. The *Acquisition Procedures* states that specific key fields, such as the *Original Contract Date*, *Current Contract Date*, *Expiration Date*, *Maximum Contract Date*, and *COR* fields, and the award amount, are to be entered and validated on a monthly basis. COs did not always include complete and accurate contract data when entering a contract line item into Oracle, and Procurement management did not effectively validate the data entered. Incomplete and inaccurate data in Oracle poses a significant risk because it hinders the Board's ability to effectively manage its contracts.

Oracle Contains Incomplete and Inaccurate Contract Information

We used Oracle contract data provided by Procurement to validate key contract information. The contract data are entered into the system and displayed as individual contract line items initiated by a contract action. Generally, a *contract action* is any action that creates or modifies a contract (a complete definition is found in appendix B). In the case of a PO that is created in Oracle, each revision made in the system would be shown as a contract line item. In analyzing the contract line items, we found that Oracle had the following incomplete and inaccurate contract information:

- **Contract line items had incomplete data listed in Oracle.** The contract data provided to us by Procurement included 32 fields and 28,825 contract line items from January 2014 to December 2018. Based on our analysis, Oracle generally consisted of complete data for the following key contract data fields: *Contract Buyer*, *Contract Type*, *PO Number*, *Vendor Name*, *Current Expiration Date*, *Maximum Contract Date*, *Net Award Amount*, and *Action Item Description*; however, the *COR* name and other key contract date fields were not always completed (table 1). Procurement management and COs confirmed that the data are manually entered by the COs, and in certain instances in the past, COs appeared to complete the minimum number of fields required by the system. Procurement management confirmed the validation process was manual, cumbersome, and ineffective. The number of missing data points sharply declined from 2014 to 2017; however, there was a slight increase in 2018.

Table 1. Percentage of Total Contract Line Items Created per Year With Missing Data, by Field

Field	2014	2015	2016	2017	2018
<i>COR Name</i>	9.3	3.6	1.4	0.6	1.7
<i>Original Contract Date</i>	63.7	58.0	33.7	18.2	23.9
<i>Current Contract Date</i>	49.1	43.9	23.0	11.4	12.4

Source: OIG analysis of Board contract data as of April 2019. Percentages are rounded to one decimal point.

- **Contract line items had incorrect maximum contract dates listed in Oracle.** We looked at the *Maximum Contract Date* field for all contract line items with an origination date between January 1, 2014, and December 31, 2018. The *Acquisition Procedures* identifies the *Maximum Contract Date* as a field for data collection. Procurement uses this field to identify contracts presumed to be active. Procurement also uses this field to identify (1) which CORs are active and require COR training and (2) which contracts need to have a contractor evaluation completed. We found that this field appeared to contain inaccurate data. For example, 1,355 of 28,825 contract line items on 447 contracts that originated from January 2014 to December 2018 had a maximum expiration date that preceded the contract line item origination date. Procurement management attributed these inaccuracies to the COs not correctly updating the maximum expiration date for the contract line item; further, management indicated that the validation process was manual, cumbersome, and ineffective.
- **Contracts had incorrect CORs listed in Oracle.** Five of 20 contracts had an incorrect COR listed in Oracle. A Procurement manager and a CO attributed the inaccuracies to the divisions or program offices not notifying them that a change had occurred. We found that timeliness in updating the information also contributed to the incorrect COR information. In one additional instance, there was evidence that the CO was aware of the COR change because a modification acknowledging the change had been executed in November 2018, but the COR was not updated in Oracle until February 2019.

The *Acquisition Procedures* outlines a validation process that serves as an internal control for ensuring that contract data entered are accurate. The procedures document states that on a monthly basis, the CO and the Procurement manager or supervisor compare the information on the validation reports pulled from Oracle to the supporting documentation, specifically to review the key data fields and the award amount. Reviewers must initial the validation report upon completion to confirm the data entry in Oracle so that all divisions can access accurate data from one source.

If contract data are entered into Oracle incompletely or inaccurately, DFM cannot properly manage contracts, and Procurement may not know who is reviewing and approving invoices or how many CORs are managing contracts without having attended training. Incomplete or inaccurate data also prevent divisions from accessing accurate information related to their contracts. Further, if the data are not being properly validated, there is no reasonable assurance that the data are accurate, and regardless of changes to the Procurement system, future contract data entered will continue to be unreliable for reporting and management’s decisionmaking purposes.

Management Actions Taken

DFM is part of the team currently working on replacing the Oracle E-Business Suite with a new system that will replace the Board's financial and procurement management systems. As part of this process, DFM is working on a timeline for correcting the data in Oracle. The new system is expected to be implemented by the end of 2021.

Recommendations

We recommend that the director of DFM

11. Update and implement an effective validation process that ensures that all contract data entered into the system are accurate and complete.
12. Ensure that all current contract data are accurate and complete before they are transferred to a new procurement data system.

Management Response

The CFO concurs with our recommendations. Regarding recommendation 11, the response states that DFM will continue to review all contract data in the system for accuracy during manager reviews. Procurement staff will also complete training on how to complete contract data fields in the system. Procurement managers will review validation reports on a monthly basis.

Regarding recommendation 12, the response states that DFM has already begun to ensure that contract data are accurate in the system through manager reviews. DFM will confirm that all contract data are complete and accurate prior to moving to a new procurement data system.

OIG Comment

The actions described by the CFO appear to be responsive to our recommendations. We will follow up to ensure that our recommendations are fully addressed.



Finding 6: The Contract Closeout Process Can Be Improved

DFM does not have a comprehensive contract closeout process, and procedures for closing out contract line items were not being consistently followed. A comprehensive contract closeout process can include a number of tasks, such as (1) verifying receipt of the goods and services, (2) confirming that final payments to the contractor have been made, and (3) ensuring that closure of contract line items and deobligation of remaining funds occurs appropriately. GAO states that clear, transparent, and consistent policies and processes are needed to implement strategic decisions through acquisitions and that closing contracts is a key step in the contracting process. We learned from interviewees that there is no contract closeout process and that procedures for closing out contract line items are not being followed consistently because staff involved in contract administration believe it poses a minimal risk to the Board. Without a comprehensive contract closeout process, the Board cannot be assured that all goods and services are received in accordance with contract terms, final payments are processed, unused funds are timely deobligated, and the Board is protected from any future claims that could be made by a contractor.

DFM Does Not Have a Comprehensive Contract Closeout Process, and Procedures for Closing POs Are Not Followed

DFM does not have a comprehensive contract closeout process. GAO has reported that closing contracts is a key step in the contracting process and that not closing contracts exposes the federal government to financial risk. The FAR states that the contract administration office is responsible for initiating administrative closeout of the contract after receiving evidence of its completion, which is considered an industry best practice. Additionally, the FAR establishes time standards for closing a contract, which ensures timely deobligations.

We found that the lack of a comprehensive closeout process and noncompliance with procedures for closing contract line items have led to the following deficiencies in the administration of Board contracts:

- **Tracking contract closures.** Procurement does not track the actual date that contracts end; it tracks the contract's maximum not-to-exceed expiration date. For example, if a 5-year contract, including option years, is terminated after the 1st year, the Procurement system would still show that the contract is active and expected to expire at the end of the 5 years.
- **Ensuring final payments.** The Board has received invoices from contractors after the contract line items have been closed and funds are no longer available. Accounts Payable management confirmed that every year, the Board receives a few invoices after contract line items have been closed, which we concluded to mean that the CORs were not ensuring that all invoices were received and reviewed for payment. Accounts Payable management stated that it does not consider the associated dollar amount to be a significant expense to the Board.

- **Timely deobligations.** DFM is not enforcing its *Closing Purchase Orders* procedures, which require the COR or the DA to notify Procurement via email when contract line items can be closed and remaining funds can be deobligated. Only 3 of 19 CORs we interviewed confirmed that they have contacted Procurement to close a contract line item or deobligate funds. Four of the 11 COs we interviewed stated that they would sometimes receive requests for closing out contract line items. The remaining COs either stated that they have never received a request to close contract line items and deobligate funds, stated that they were not aware of any closeout policies or procedures, or did not provide a direct response regarding the procedures.
- **Clear roles and responsibilities.** There is a lack of clear guidance in determining what procedures to follow when contract goods and services have been completed, such as who should be monitoring contract closures and expiration dates; which program offices should be notified that the contract has ended and who is responsible for notifying them; or who ensures the contractor confirms that all obligations and payments have been satisfied.

DFM management told us that it has not established a comprehensive closeout process because there is little risk associated with not having such a process. DFM management added that the Board does not rely on the deobligation of excess funds to cover other expenses, as other government agencies do. Additionally, most of the contracts at the Board are firm fixed price and do not require deobligation, and controls exist to prevent paying a labor-hour contractor that submits an invoice against excess funds.

Establishing a clear and comprehensive contract closeout process is a critical step to ensuring that all administrative steps have been completed and all contractual obligations have been met. Not tracking when contracts close prevents the Board from accurately determining how many contracts are actively open and how many contracts are closed at any given point. Further, allowing contractor claims, such as the receipt and payment of invoices, after contract line items have been closed can increase the risk of fraudulent activity. Payment of late invoices also raises concern about whether CORs were conducting a final review to ensure that payments were made in accordance with contract terms. Lastly, timely deobligation provides opportunities for the Board to economize funds by using unspent obligated funds for other Board needs.

Recommendation

We recommend that the director of DFM

13. Develop and implement a comprehensive contract closeout process and determine whether the Board should fully comply with or modify the current *Closing Purchase Orders* procedures.

Management Response

The CFO concurs with our recommendation. The response states that DFM will develop a contract closeout process that fully captures internal procedures for closing out procurements, as appropriate, with contractors and in the procurement data system. DFM will consider the features within the new procurement data system and requirements of divisions when designing the contract closeout process. Once the contract closeout process is established, DFM will track compliance.

OIG Comment

The actions described by the CFO appear to be responsive to our recommendation. We will follow up to ensure that our recommendation is fully addressed.



Appendix A: Scope and Methodology

Our objective was to assess the Board’s compliance with applicable laws, regulations, and Board policies and procedures, as well as the effectiveness of the Board’s internal controls related to contract administration. The scope of our audit included postaward administration of Board contracts that were active from January 1, 2018, through December 31, 2018.

Our scope for this audit included a nonstatistical, risk-based sample of 20 Board contracts, which included approximately \$31 million in invoices with a performance period in 2018. Our population included 1,185 contracts that received at least one invoice with an invoice date in 2018 (table A-1). Our population excluded currency shipment contracts, construction contracts, and OIG contracts, and our sample excluded Federal Financial Institutions Examination Council–awarded contracts. The results from our sample cannot be projected to the Board’s entire population of contracts.

Table A-1. Contracts Reviewed for the Current Audit

Contract type	Population of 2018 active contracts	Sample contracts	Sample contract 2018 invoiced amount
Basic ordering agreement	65	5	\$9,838,922
Contract	153	9	\$15,631,489
Standard PO	775	4	\$3,456,066
U.S. General Services Administration schedule PO	192	2	\$1,831,935
Total contracts	1,185	20	\$30,758,412

Source: OIG analysis.

We also assessed the reliability of the contract award data pulled from the Board’s Oracle E-Business Suite. Procurement provided us with an Excel spreadsheet containing awarded contract data entered into Oracle from January 2010 to April 2019. We analyzed the accuracy and completeness of the contract award data entered from January 1, 2014, to December 31, 2018, by (1) identifying the percentage of key data fields that were not complete and left empty for all contract actions and (2) verifying the accuracy of the data in key contract data fields for the 20 contracts in our sample. The 2014–2018 time period was selected because a Board contract cannot exceed a 5-year period of performance, so our population of active contracts in 2018 can include contracts that began as early as 2014.

To accomplish our objective, we interviewed 11 COs, which included two Procurement managers and the Procurement assistant director; 19 CORs; and the procurement policy and compliance manager. We also met with staff from Accounts Payable.

We reviewed the following internal Board policies and procedures and reports:

- *Acquisition* policy (2015 and 2018)
- *Acquisition Procedures* (2015)
- *Chief Operating Officer’s Delegation of Administrative Authority* (2018)
- *Invoice and Payments Policy* (2013 and 2018)
- *Procurement Manual for Technical Personnel* (2017)
- *Closing Purchase Orders* procedures (2007)
- *Accounts Payable Procedures* (2016 and 2018)
- *COTR Records - Recordkeeping Requirements* (2015)
- *Recordkeeping Requirements for Contracting Officer’s Representative (COR) Records* (2018)
- Procurement Instructions 1801, 1803, 1804, 1806, and 1809
- *Report to the Congress on the Office of Minority and Women Inclusion—March 2019*

Additionally, we reviewed audit reports by GAO and other federal agencies to identify contract management best practices. Audit team members also attended a Board COR training session, and one member attended the Board Procurement Customer Forum in 2019.

Our review and testing focused on five areas that relate to contract administration:

- **Contract invoices.** We requested all invoices for the 20 contracts in our sample that had an invoice date from January 1, 2018, through March 31, 2019. This period allowed us to capture and analyze all invoices for the 20 contracts in our sample—a total of 872 invoices—that had a period of performance from January 1, 2018, through December 31, 2018. We determined whether the CORs approved the invoices in compliance with the contract terms and Board policy and procedures.
- **COR training.** We reviewed Procurement’s spreadsheet that tracks COR training and determined whether CORs were being trained in compliance with Board policy.
- **Contractor performance evaluation.** We obtained and reviewed all contractor performance evaluations received by Procurement in 2018 to determine whether evaluations were being submitted and used effectively.
- **Postaward contract file maintenance.** We reviewed the COs’ postaward contract files for the 20 contracts in our sample to determine whether contract files were being maintained in compliance with Board guidance.
- **Contract closeout.** We reviewed the closeout of 3 of the 20 contracts that had a maximum period of performance of December 31, 2018; reviewed Board policies for closeout procedures; and interviewed DFM staff to understand the contract closeout process and its effectiveness.

We conducted our fieldwork from May 2019 to January 2020. We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.



Appendix B: Glossary

acquisition—The Board’s purchase of goods, services, or real property for use in conducting the operations of the Board as approved in the Board’s budget or by a program change request. It includes all functions pertaining to the purchasing process, including the description of requirements, the solicitation and selection of sources, the award of contracts and POs, and contract administration.

basic ordering agreement (BOA)--A contract that does not have a fixed delivery date or fixed quantity of required goods or services. Its purpose is to establish a pricing structure, a performance period, and procedures for ordering and payment.

contract—Any type of written agreement, regardless of form, for the acquisition of goods, services, or real property.

contract action—An action resulting in a contract, including actions for additional supplies or services outside the existing contract scope, but not including actions that are within the scope and under the terms of the existing contract, such as contract modifications issued pursuant to the Changes clause or funding and other administrative changes.

contract line item—The method with which supplies or services procured are identified in the contract. The FAR requires each line item (1) to be identified separately from other items; (2) to have a single unit price or total price; (3) to have a separate delivery schedule, period of performance, or place of performance; and (4) to have a single accounting classification citation (the Board uses contract line item numbers).

contract modification—Any written change in the terms and conditions of the contract.

contracting officer (CO)—A Board employee who has the required delegated authority to sign contracts on behalf of the Board.

contracting officer’s representative (COR)—An authorized representative of the CO who is acting within a scope of authority as delegated by the CO. The COR is appointed by the division to represent the CO in administering technical details within the scope of the contract. The COR keeps the CO apprised of the contract’s status, performs necessary inspections, accepts goods and services, and approves invoices for payment. This position was formerly called *contracting officer’s technical representative*, or COTR.

deobligation of funds—A downward adjustment of previously recorded obligations.

Federal Acquisition Certification for Contracting Officer’s Representatives (FAC-COR) program—A program for acquisition professionals in the federal government performing contract management activities and functions. The Board does not follow the FAC-COR program.

Oracle E-Business Suite—The Board’s primary accounting application.

purchase order (PO)—A short-form contract document between the Board and a contractor to buy an off-the-shelf item for goods or services with a simple description.

statement of work (SOW)—The document that describes and defines the work activities and deliverables a vendor must provide in order to successfully perform the contract.

U.S. General Services Administration schedule—Long-term governmentwide contracts with commercial companies that provide access to commercial products and services at fair and reasonable prices to the government. These contracts have preestablished pricing, terms, and conditions.

Appendix C: Management Response



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

DIVISION OF
FINANCIAL MANAGEMENT

March 18, 2020

Michael VanHuysen
Assistant Inspector General for Audits and Evaluations
Board of Governors of the Federal Reserve System
Washington, DC 20551

Dear Michael,

Thank you for the opportunity to comment on the draft report, *The Board Can Improve Its Contract Administration Processes*. We appreciate the Office of Inspector General's (OIG) effort in developing the report and the recommendations to improve compliance and effectiveness of internal controls associated with the Board's contract administration.

There were six findings in the report with thirteen recommendations. We agree with the recommendations offered in the report and provide our response for each recommendation to the OIG.

We value your objective, independent viewpoints and appreciate the professionalism demonstrated by all OIG personnel during the entire audit process. We look forward to working with your office on the resolutions.

Regards,

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AGUILERA RICARDO AGUILERA
Date: 2020.03.18
17:30:45 -04'00'

Ricardo Aguilera
Director and Chief Financial Officer
Division of Financial Management
Federal Reserve Board

cc: Pat McClanahan, Chief Operating Officer

www.federalreserve.gov

Response to Recommendations Presented in the Draft OIG Report *“The Board Can Improve Its Contract Administration Processes”*

Overall, templates, training documentation, and procedural guidance created for Contracting Officer Representatives (CORs) as a result of the recommendations listed below will be incorporated into the COR SharePoint site. Through the continuous monitoring and updating of the COR SharePoint site, DFM can ensure that the site remains a helpful repository of applicable documents for all individuals working with procurements or authorized to be named as CORs. All attendees of COR Training are automatically given access to the COR SharePoint site and access can be requested for other individuals at any time.

Recommendation 1: Strengthen COR oversight by establishing a comprehensive COR monitoring program.

Management Response: DFM agrees with this recommendation. Specifically, DFM will create a Procurement Instruction outlining the process and procedures for a COR Program. The overall COR Program will consist of requirements for the nomination process, training, record management, and invoice management. The COR Program will include a robust audit of COR records and overall performance. The success of the COR Program will be contingent upon the support of Division Directors and the ongoing monitoring of the individuals named as CORs. Therefore, DFM will work with Division Directors to ensure the COR Program meets expectations of the procurements the CORs will support as well as overall performance expectations of the CORs as individuals (see Recommendation 2). DFM will establish criteria and a COR nomination process. This process will be incorporated into the COR Program, updated as appropriate, and validated against the COR Training rosters and COR Program requirements.

Recommendation 2: Work with the COO and the Division Directors to establish an accountability mechanism for the CORs.

Management Response: DFM agrees with this recommendation. DFM and the COO will engage with Division Directors to make CORs’ performance expectations more explicit. Specifically, DFM will create a performance management objective with success measures that could be utilized by Divisions for all individuals nominated to act as CORs. DFM, as always, will be available to offer feedback on COR performance as part of the performance management process.

Recommendation 3: Work with invoice approvers to ensure compliance with specific contract requirements and Procurement policies and procedures.

Management Response: DFM agrees with this recommendation. The COR Training presentation and discussion on invoice management was expanded in November 2019 and was incorporated into COR Training. Additionally, DFM will create a checklist for invoice and timesheet review and approval. The checklist will be incorporated into COR Training and distributed to Divisions. DFM will offer a training opportunity on the guidance at the onset and create ongoing “pop-up training” specifically on invoice management, timesheet review, and timesheet approval.

Recommendation 4: Review the contract invoiced for \$27,000 to ensure that invoices were properly charged in accordance with the contract requirements and Board procedures, and correct errors as needed.

Management Response: DFM agrees with this recommendation. DFM began a review of this contract to include an analysis of all previous payments, which involves discussions with both parties to ensure that all services and payments are accounted for accurately. DFM will work to resolve any discrepancies with the contractor and expects the net impact to be nominal. Additionally, all individuals associated with the contract have received training on the contract requirements.

Recommendation 5: Work with the Division Directors to ensure CORs submit contract performance evaluations to Procurement in accordance with Board procedures.

Management Response: DFM agrees with this recommendation. Receipt of completed evaluations on contractors' performance is ideal yet not necessarily required. Procurement captures information on vendor performance on an ongoing basis throughout the year. The likelihood of continuing to do business with a poorly performing contractor is minimal. Therefore, under the newly designed COR Program and the related Board procedures, the performance evaluation will be requested, but will not be required. Technical Points of Contact (TPOCs) and CORs will receive the performance evaluation for completion and will be strongly urged to complete the form and return to Procurement for processing. Evaluations, favorable or unfavorable, are reviewed and handled accordingly. TPOCs and CORs will also receive a follow up reminder to complete the evaluation. The development of the nomination process for individuals authorized to act as CORs will be critical in assisting the completion tracking of performance evaluations.

Recommendation 6: Ensure that internal controls over contract modifications and COR Acknowledgement Forms are executed properly.

Management Response: DFM agrees with this recommendation. We have enhanced the management review process to ensure that controls over contract modifications are functioning properly. The management review process for Purchase Orders (POs) and Contracts will continue to ensure that signed COR Acknowledgement Forms are completed. Additionally, DFM will revisit and clarify guidance and documentation requirements for necessary legal reviews of procurement actions to ensure compliance with the Board's *Acquisition* policy.

Recommendation 7: Ensure that standard POs are extended in accordance with the Board's *Acquisition* policy.

Management Response: DFM agrees with this recommendation. The extension of POs greatly depends on the specific procurement and agreements already in place. We issued general and situational guidance through procedural documents and we conducted training on the standard PO extensions. Procurement Instruction 1806 (Options) was revised and issued September 2019 to include processes, procedures, and sample wording. DFM also conducted training for Procurement prior to end of year deadlines to discuss option renewals in accordance with the Board's *Acquisition* policy. In addition,

annual training will include guidance on extensions and performance periods. Further, we will document and approve any exceptions to the Board's *Acquisition* policy.

Recommendation 8: Work with the Division Directors to ensure that Procurement is notified when a COR assignment changes.

Management Response: DFM agrees with this recommendation. We rely on Divisions to notify us of COR assignment changes. We will continue to stress the importance of communicating all assignment changes during COR Training and the COR nomination process. We will also review the separation/transfer report and the responses to contractor performance evaluations as back-up sources for capturing COR assignment changes. Additionally, Procurement will send out periodic messages to Divisions regarding the importance of timely COR assignment changes.

Recommendation 9: Reassess the current COR training program and consider expanding the program to include trainings tailored to various levels of experience and training focused on specific topics.

Management Response: DFM agrees with this recommendation. After each COR Training, participants are invited to complete a survey, which allows DFM to capture feedback and improvement opportunities. We incorporate survey results into future training. We will conduct surveys and use feedback to improve all Procurement training. Additionally, DFM will develop various "pop-up trainings" that will focus on specific topics with additional materials and examples beyond what is covered in the current COR Training. DFM will also develop a "Board Procurement 101" training for newly hired employees who will participate in the procurement process.

Recommendation 10: Update Board policies or procedures to require (a) CORs to attend training prior to performing the duties of a COR; and (b) CORs to attend refresher training.

Management Response: DFM agrees with this recommendation. As part of the procedures developed for the COR Program, all individuals nominated to act as a COR will be required to complete COR Training prior to execution of contract award or modification naming the individual as COR. Contract Specialists shall confirm the training requirement was met prior to issuance of COR Acknowledgement Letter. The COR Program procedures will also outline refresher training requirements for individuals nominated to act as a COR.

Recommendation 11: Update and implement an effective validation process that ensures that all contract data entered into the system are accurate and complete.

Management Response: DFM agrees with this recommendation. DFM will continue to review all contract data in the system for accuracy during manager reviews. The Procurement team will also complete training on contract data fields in the system. Managers will review the validation report on a monthly basis.

Recommendation 12: Ensure that all contract data are accurate and complete before they are transferred to a new procurement data system.

Management Response: DFM agrees with this recommendation. We have already begun to ensure contract data is accurate in the system through manager reviews. We will confirm that all contract data is complete and accurate prior to the transfer to a new procurement data system.

Recommendation 13: Develop and implement a comprehensive contract closeout process and determine whether the Board should fully comply with or modify the current *Closing Purchase Orders* procedures.

Management Response: DFM agrees with this recommendation. DFM will develop a contract closeout process that fully captures internal procedures for closing out procurements, as appropriate, with contractors and in the procurement data system. We will design the process based on the features within the new procurement data system and requirements of Divisions. Once the contract close out process is issued, we will track compliance with the closeout process.



Abbreviations

CFO	chief financial officer
CO	contracting officer
COO	chief operating officer
COR	contracting officer's representative
DA	division administrator
DFM	Division of Financial Management
FAC-COR	Federal Acquisition Certification for Contracting Officer's Representatives
FAR	<i>Federal Acquisition Regulation</i>
GAO	U.S. Government Accountability Office
PO	purchase order

Report Contributors

Bettye Latimer, Project Manager

Jackie Ogle, Project Manager

Dave Horn, Project Lead

Laureen Cepeda, Auditor

Dedjrik Jefferies, Auditor

Jennifer Venzor, Auditor

Hau Clayton, Senior Forensic Auditor

Fay Tang, Statistician

Cynthia Gray, Senior OIG Manager for Financial Management and Internal Controls

Michael VanHuysen, Assistant Inspector General for Audits and Evaluations

Contact Information

General

Office of Inspector General
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Mail Stop K-300
Washington, DC 20551

Phone: 202-973-5000

Fax: 202-973-5044

Media and Congressional

OIG.Media@frb.gov



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OIG Hotline
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Mail Stop K-300
Washington, DC 20551

Phone: 800-827-3340

Fax: 202-973-5044