OFFICE OF THE INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE

Follow-up Audit of the Corporation's Procurement Operations

OIG Audit Report Number 00-12
June 6, 2000

Prepared by:

Cotton & Company LLP
333 North Fairfax Street, Suite 401
Alexandria, Virginia 22314

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This report was issued to Corporation management on September 25, 2000. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than March 26, 2001, and complete its corrective actions by September 25, 2001. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of the Inspector General
Corporation for National and Community Service

CORPORATION
FOR NATIONAL
SERVICE

Follow-up Audit of the Corporation's Procurement Operations
OIG Audit Report Number 00-12

The Office of the Inspector General engaged Cotton & Company to conduct a follow-up audit of the Corporation for National and Community Service's procurement operations. In a fiscal year 1998 audit, OIG found that the Corporation lacked an effective procurement system and that the Corporation's procurement process was vulnerable to fraud, waste, and abuse.

This follow-up audit assessed the Corporation's current procurement operations, and particularly, the effectiveness of corrective action implemented in response to the previous OIG audit report. Cotton & Company concentrated its testing in the period after corrective actions had reportedly been made by the Corporation, in order to assess the effectiveness of those corrective actions. The audit was conducted in accordance with *Government Auditing Standards, 1994 Revision.*

This current audit concludes that the Corporation's procurement process is still vulnerable to fraud, waste and abuse. The rate of errors discovered by the auditors is significant, and in the judgment of the auditors, indicates that the Corporation's internal controls are not working effectively. The auditors noted that nine of 19 previously identified deficiencies still exist. Therefore, the auditors also conclude that the Corporation has not taken adequate corrective action on the prior report's recommendations. We have reviewed the report and work papers supporting its conclusions and agree with the findings and recommendations presented.

We provided a copy of a draft of this report to the Corporation for comment. The Corporation's response (Appendix 2) to the draft report disagrees with the findings and recommendations. CNS acknowledges that errors were made in procurement, but goes on to state that the errors were minimal and did not rise to the level of significance that they should be reported.

Inspector General
1201 New York Avenue, NW
Washington, DC 20525

COTTON & COMPANY LLP

CERTIFIED PUBLIC ACCOUNTANTS

333 NORTH FAIRFAX STREET • SUITE 401 • ALEXANDRIA, VIRGINIA 22314

CHARLES HAYWARD, CPA, CFE, CISA
MATTHEW H. JOHNSON, CPA, CGFM

DAVID L. COTTON, CPA, CFE, CGFM
MICHAEL W. GILLESPIE, CPA, CFE
SANDRA A. HADLEY, CPA, CGFM

CATHERINE L. NOCERA, CPA
COLETTE Y. WILSON, CPA

June 6, 2000

Inspector General
Corporation for National Service

At your request, we conducted a follow-up audit of the Corporation for National Services procurement operations.

Our audit was conducted in accordance with *Government Auditing Standards, 1994 Revision,* applicable to performance audits. The enclosed report sets forth results in brief; background; objectives, scope, and methodology; findings and recommendations; management controls; conclusions; and current status of prior audit findings.

We understand that this audit was requested for the purpose of determining if (1) the Corporation's corrective actions in response to OIG Report No. 98-24 are adequately designed and responsive to the deficiencies identified in that report and (2) the corrective actions have been implemented and have resulted in improvements to the Corporation's procurement operations.

COTTON & COMPANY LLP

By: _____
David L. Cotton, CPA, CFE, CGFM

703/836-6701 • FAX 703/836-0941 • HTTP://WWW.COTTONCPA.COM • E-MAIL: DCOTTON@COTTONCPA.COM

OFFICE OF THE INSPECTOR GENERAL
CORPORATION FOR NATIONAL SERVICE

FOLLOW-UP AUDIT OF THE CORPORATION'S
PROCUREMENT OPERATIONS
OIG AUDIT REPORT NUMBER 00-12

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RESULTS IN BRIEF

We conducted a follow-up audit of the Corporation's procurement operations. Our audit was conducted in accordance with *Government Auditing Standards, 1994 Revision,* applicable to performance audits.

Office of Inspector General (OIG) Audit Report No. 98-24, issued September 30, 1998, found that the Corporation had inadequate procedures for contractor selection and award and contract administration, monitoring, and oversight. The primary objectives of our audit were to assess if (1) the Corporation's corrective actions in response to OIG Report No. 98-24 are adequately designed and responsive to the deficiencies identified in that report and (2) the corrective actions have been implemented and have resulted in improvements to the Corporation's procurement operations.

We noted that 9 of the 19 deficiencies noted previously still exist. Further, the Corporation did not issue all policies and procedures designed to address the prior procurement audit findings until more than a year after the prior audit report was issued. (*See page 5.*)

We concluded that the Corporation has not taken adequate corrective action on the prior-report recommendations and continues to be vulnerable to fraud, waste, and abuse. We further concluded that the Corporation's contracting and procurement operations continue to be a material weakness and should be reported as such under the Federal Managers' Financial Integrity Act (FMFIA).

We identified the following deficiencies:

- The Corporation continues to use an illegal contracting form:
  - It currently has several contracts that include cost-plus-percentage-of-cost provisions. (*See page 6.*)
  - The memorandum of decision supporting award of an advertising contract provides that the contractor will not credit the Corporation for commissions earned from the media. Also, Section B.2 of the contract requires the Corporation to pay a 15-percent markup on advertising placements if the contractor does not receive a commission (cost-plus-percentage-of-cost). (*See page 8.*)
- The Corporation continues to make unauthorized commitments. We noted a number of instances in which vendors and contractors provided services before being issued a contract or purchase order:
  - Three purchase orders for annual requirements were issued after the vendor had started providing services. (*See page 9.*)
  - Two facilities support contracts were awarded after the contractor had begun providing services. (*See page 11.*)

- A purchase order for advertising was issued on September 29, but the first invoice for these services covered the September issue. (*See page 13.*)

- The Corporation continues to be in noncompliance with the Federal Acquisition Streamlining Act. It awarded four purchase orders under $100,000 to firms not classified as small businesses without documented justification. (*See page 13.*)

- The Corporation continues to inadequately evaluate bids and proposals. It made calculation errors in analyzing offeror cost proposals on two of the contract awards tested. (*See page 15.*)

- The Corporation continues to perform inadequate reviews of contractor payments. Three payment vouchers did not agree with purchase-order terms or with supporting documentation. (*See page 16.*)

- The Corporation continues to be in noncompliance with the Prompt Payment Act (PPA). We noted the following (*see page 17*):

  - Of 25 purchase-order payments tested, five were paid late and thus incurred a PPA interest penalty. The Corporation underpaid the interest due on the five late payments, because it had not updated the Treasury Renegotiation rates in Momentum (the Corporation's accounting system) since September 13, 1999.

  - Several invoices on contracts reviewed were paid late and incurred interest penalties.

  - We noted that invoices were stamped "received" more than 15 days after the invoice date on 8 of the 25 purchase orders tested.

- The Corporation continues to make unsupported and prohibited credit card purchases, as follows (*see page 19*):

  - Nine credit card statements were not signed by the cardholder, and one was not signed by the approving official.

  - Several credit card statements had charges for Internet connections.

  - One credit card statement had charges that exceeded the Corporation's purchase card ceiling.

  - Six of the 42 tested cardholder statements had some missing documentation.

- We noted additional instances of inconsistent or inadequate contract terms. Five of the contracts tested were awarded to hotels. Inconsistencies exist between contract provisions and work orders issued by the Corporation for two of these. In addition, winning proposals for

two hotel contracts did not include gratuities in prices proposed for meals, although gratuities were included in the vendor invoices. (*See page 21.*)

- The Corporation continues to award sole-source purchase orders without adequate justification. The purchase-order worksheets for purchases from GSA multiple award schedule vendors do not indicate the selection basis. Three of the purchase orders tested were for services. GSA service ordering procedures require that ordering offices prepare a request for quotes, transmit these to contractors, and evaluate the quotes to select a contractor. (*See page 22.*)

BACKGROUND

The Corporation was created by the National and Community Service Trust Act of 1993. Through several programs, the Corporation offers Americans of all ages and backgrounds the opportunity to participate in community-based service programs. These programs include AmeriCorps, VISTA, the National Civilian Community Corps (NCCC), Learn and Serve America, and the Senior Volunteer Program. The Corporation also oversees continuing activities initiated by two predecessor agencies: the Commission for National and Community Service and ACTION.

On September 30, 1998, the OIG issued a report (No. 98-24) on an audit of the Corporation's contract and procurement processes and procedures during the period October 1996 through February 1998. This report concluded that the Corporation lacked an effective procurement system, and that it had not complied with all applicable statutory and regulatory requirements. Further, the Corporation had inadequate procedures for contractor selection and award and contract administration, monitoring, and oversight. Moreover, the number, nature, and significance of the audit findings indicated that the Corporation's procurement process was vulnerable to fraud, waste, and abuse.

In response to the audit report, the Corporation issued a Management Decision dated August 6, 1999. On January 27, 2000, the Audit Resolution Manager notified the OIG that all corrective action related to OIG Report No. 98-24 had been completed, and that all of the planned actions described in the Management Decision had been implemented. This corrective action included changes to policies and procedures, as well as contract specific-actions. The Corporation issued Policy No. 350 (Procuring Supplies and Services) on September 30, 1999, and Procurement Directives Nos. 001 through 007 on December 17, 1999.

Contract-specific actions included:

- The Corporation began collection proceedings to recover $8,209 in fees charged on a cost-plus-percentage-of-cost basis under Contract No. 96-743-1002.

- The Corporation modified Contract No. 97-743-1005 to eliminate contradictory contract terms regarding the reimbursement of general and administrative (G&A) costs.

- The Corporation allowed three contracts identified in the prior audit as personal services contracts to expire.

- The Corporation recovered $94,091.20 of approximately $452,000 identified in the prior audit as overpaid indirect costs under Contract No. 94-002. (This contract is currently under audit by the Office of Inspector General).

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our primary audit objectives were to determine if:

- Corrective actions taken by the Corporation in response to OIG Report No. 98-24 are adequately designed and responsive to the deficiencies identified in that report.

- Corrective actions have been implemented and have resulted in improvements to the Corporation's procurement operations.

Scope and Scope Limitations

The audit scope was limited to the Corporation's Headquarters procurement activity from October 1, 1998, to March 31, 2000. We conducted a limited review of two cooperative agreements active during the current audit period. Because the Corporation's revised procurement policies and procedures were not effective until September 30, 1999, we concentrated most of our transaction testing on those contract actions and purchase orders issued during the fourth quarter of Fiscal Year (FY) 1999 and the first half of FY 2000. Procurements during this period encompassed 10 contracts and 105 purchase orders. We also tested credit-card purchase activity from October 1, 1998, to March 31, 2000. We completed our fieldwork on June 6, 2000. We did not audit the allowability of costs claimed under any procurements, and we did not test compliance with terms of specific contracts, purchase orders, or cooperative agreements to the extent necessary to provide financial and compliance opinions on any procurements. We did not review procurements made by the five Corporation service centers.

Methodology

Our methodology included reviews of procurement files, cooperative agreement files, and related Corporation accounting records and discussions with procurement personnel. We also interviewed other appropriate Corporation personnel. We reviewed 10 contract files (all those awarded during the period described above), two cooperative agreement files, a judgmental sample of 33 purchase order files, and a judgmental sample of 42 credit-card statements to determine if the Corporation's corrective actions had been implemented and had resulted in improvements to the Corporation's procurement operations.

FINDINGS AND RECOMMENDATIONS

The Corporation Did Not Take Corrective Actions in a Timely Manner.

The Corporation did not complete its corrective actions in response to the prior audit in a timely manner. Audit Report No. 98-24 was issued September 30, 1998. The Corporation issued Policy No. 350, Procuring Supplies and Services, on September 30, 1999. It did not, however, issue Procurement Directives Nos. 001 through 007 designed to address a number of the prior procurement audit findings, until December 17, 1999. Further, in response to the finding that purchase orders contain inconsistent and contradictory terms, the Corporation's corrective actions include installation of a new Desktop Procurement System. This system was not installed until the fourth quarter of FY 2000.

OMB Circular A-50, Audit Follow-up, Paragraph 8.a. states: "Agencies shall assign a high priority to the resolution of audit recommendations and to corrective action. Systems for resolution and corrective action must meet the following standards:...(2)...Resolution shall be made within a maximum of six months after...receipt of the report by the Federal Government. Corrective action should proceed as rapidly as possible."

Corporation Policy No. 101, Section II.C, Final Action, states: "Final action must be completed within twelve months of the date the audit report was issued."

The Corporation's failure to implement appropriate corrective actions on a timely basis has extended the Corporation's vulnerability to fraud, waste, and abuse.

Recommendation

We recommend that the Corporation implement monitoring and oversight procedures to ensure that corrective action is taken in a more timely manner.

Corporation Management's Comments

While the Corporation will accept valid criticism of the time it took to initiate procedures, it does not agree that this delay extended its vulnerability to fraud, waste, and abuse. The Corporation has implemented monitoring and oversight procedures that now provide it with adequate assurance that corrective actions are taken in a timely manner. In addition, the Corporation's senior management is actively and directly involved in monitoring and overseeing improvements in the Corporation's operations.

Among the tools utilized by the Corporation to provide reasonable assurance that corrective actions are implemented is the Action Plan. The Action Plan includes specific goals, objectives, individual tasks, and milestone dates for completing actions. Goal 9 in the Action Plan specifically addresses the Corporation's procurement operations. Senior management regularly reviews the status of actions under the plan and maintains detailed documentation in support of completed actions. In addition to its use by the

Corporation to monitor corrective actions, the Action Plan is transmitted to the Congress for its use in overseeing the Corporation's operations.

Furthermore, the Corporation maintains information on audit recommendations in an audit resolution database. The database is used to generate reports to management on the status of corrective actions and milestones for completing various tasks. Management review of these reports has resulted in the reprioritization of work to focus staff attention on actions coming due. In fact, reports from the database are periodically provided to the OIG.

Finally, to provide an objective review of the issues presented in this audit report, the Corporation will seek contractor support to provide assistance in reviewing its contracting operations and correcting the areas determined to be weaknesses or vulnerabilities. The Corporation has recently contracted with Acquisition Solutions, Inc., obtaining a subscription service for acquisition support. This service will provide "on-call" research assistance on a transaction-by-transaction basis. This will enable the Corporation to seek expert guidance on contracts and purchase orders in advance of the action in those areas that have proven troublesome in the past.

The Corporation Continues to Use an Illegal Contracting Form.

During our review, we noted two findings related to cost-plus-percentage-of-cost (CPPC) contracts:

Finding 1

OIG Report No. 98-24 identified a time-and-materials (T&M) contract under which the contractor was billing for other direct costs (ODCs) plus a 4-percent fee. This is a cost-plus-percentage-of-cost (CPPC) arrangement. The Corporation's corrective action was to modify the contract to delete the 4-percent fee and to recover these fees from the contractor. We found, however, that the Corporation continues to issue contracts with CPPC provisions. We identified eight, as follows:

- Contract No. 199911220001 includes a 5-percent purchase fee on clothing and support items.
- Contract No. 97-743-1006 includes a fixed 14.77-percent consultant handling rate on consultant costs.
- Contract No. 200003060001 includes a fixed 15-percent materials handling rate on other direct costs.
- The Corporation currently has five hotel contracts under which vendors are billing gratuities at 18-percent of meal costs.

FAR 16.102{c} states: "The cost-plus-a-percentage-of-cost system of contracting shall not be used."

In addition, FAR 16.601{b}{2} states: "When included as part of material costs, material handling costs shall include only costs clearly excluded from the labor-hour rate. Material handling costs may include all appropriate indirect costs allocated to direct materials in accordance with the contractor's usual accounting procedures consistent with Part 31."

The FAR does not allow CPPC contracts, because this form of contracting provides an incentive to increase costs and a disincentive to control costs.

OPS is modifying Contract No. 200003060001 to include FAR 52.216-7, Allowable Cost and Payment, and intends a similar modification to Contract No. 97-743-1006. This contract clause provides for the establishment of final indirect cost rates based on the contractor's actual cost experience.

Recommendation

We recommend that the Corporation similarly amend Contract No. 199911220001, and that all contract amendments eliminate any reference to the rates as "fixed." We also recommend that the Corporation develop a written policy prohibiting cost recovery as a fixed percentage of direct costs in its contracts. Finally, we recommend that the Corporation negotiate fixed amounts on each work order to reimburse hotel contractors for meal service.

Corporation Management's Comments

The Corporation is not using an illegal contracting form. However, we will amend Contract No. 199911220001 to eliminate any reference to the rates as fixed. We believe that there may be a semantics issue involved here. We do not agree that the orders cited constitute cost-plus-percentage-of-cost contracts. It may be that the terminology being used gives the appearance of cost-plus-percentage-of-cost language; however, the intent here is to provide allowable compensation to contractors for the administrative expense associated with Other Direct Costs. Since the amount of Other Direct Costs cannot be determined in advance, they must be estimated. The impact of these cost elements is usually minor as they generally represent a small percentage of the overall contract value. Handling costs are permitted in accordance with the contractor's usual accounting procedures (see FAR 16.601(b)). In addition, a profit on material costs (as long as the costs are not also included as part of the fixed hourly labor rate) is also permitted (see FAR 16.602(b)(iii)).

We also do not believe the development of a written policy is necessary. In the one example cited, human error was the cause. A policy would not ensure an error is never made again. In the other example, because the number of attendees at an event can change significantly after contract award, negotiating fixed amounts on each work order for meals would result in the waste of Corporation funds. Accordingly, the Corporation will utilize the contract vehicle that will provide the best value to the government as determined on a case-by-case basis.

Auditor's Additional Comments

The Corporation cites FAR 16.602(b)(iii) in its response to the draft audit report. No such FAR section exists. We believe that it intended to cite FAR 16.601(b)(3)(iii); this section, however, only applies "[w]hen the nature of the work to be performed requires the contractor to furnish material that it regularly sells to the general public in the normal course of its business...." This is not applicable to any of the contracts described above.

We continue to believe that the Corporation needs a written policy prohibiting cost-plus-percentage-of-cost contracts. It is obvious from the contracts that we reviewed, and from the Corporation's response to our draft audit report, that there is confusion regarding what constitutes a cost-plus-percentage-of-cost contract. A written policy would ensure that employees are aware of the prohibition and should clear up this confusion.

Finding 2

The Corporation also issued Contract No. 99-743-4002 for advertising services in Fiscal Year 1999. This is a time and materials contract with a provision for reimbursement of other direct costs. The memorandum of decision for this contract states that the contractor will not provide a discount on commissions it earns from the media for advertisements placed on the Corporation's behalf. In addition, Section B.2. of the contract provides a 15-percent markup for ad placements when the media does not pay a commission.

In its proposal, the contractor stated that, in return, it provides certain services (such as advertising development, media planning, copywriting, and proofreading) at no charge. The contract solicitation, however, stated that the Corporation would provide the contractor with camera-ready display and/or classified advertisements, so the Corporation would not require many of these additional services.

FAR 31.201-5, Credits, states: "The applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund."

FAR 16.102 {c} states: "The cost-plus-a-percentage-of-cost system of contracting shall not be used."

Allowing the contractor to retain advertising discounts substantially increases the cost of this advertising to the Corporation. For example, we noted that the contractor billed advertising placement costs of $45,256 for the month of December 1999 alone. At 15 percent, the contractor would have received a $6,788 discount on this advertising that it did not pass along to the Corporation.

Recommendation

We understand from the Director of Procurement that this contract already includes all labor categories necessary to reimburse the contractor for all services related to advertising placement. We recommend that the Corporation amend Contract No. 99-743-4002 to:

- Delete the provision for a 15-percent markup on advertising placement costs.
- Reimburse the contractor for advertising at its net costs.
- Recover all advertising payments in excess of the contractor's net costs.

Corporation Management's Comments

This contract will be reviewed to ensure that the OIG's concerns are addressed. We will make certain that there is a clear understanding of the rate structure of this contract, that the proposed rates are consistent with the contract rates, and that the contractor is paid for its actual costs for advertisements plus an administrative handling fee. We will advise the contractor of the requirements of FAR 32.201-5, and if a refund is due, will take all necessary steps to collect it.

The Corporation Continues to Make Unauthorized Commitments.

OIG Report No. 98-24 identified several instances in which purchase orders or contracts were issued after vendors had provided the goods or services. We noted three related findings during the current audit:

Finding 1

Of the 33 purchase orders that we tested, 3 (approximately 10 percent) were for annual requirements issued after the vendor had started providing services:

- Purchase Order No. 200001050001 was issued on November 24, 1999, for Fiscal Year 2000 (beginning October 1, 1999) utility services.
- Purchase Order No. 199912100002 was issued on December 13, 1999, for equipment leases beginning October 1, 1999.
- Purchase Order No. 199911230003 was issued November 23, 1999, for leases beginning October 1, 1999.

The Director, OPS, stated that these purchase requisitions were delayed because the Corporation's funding for the year had not yet been authorized and allotted. To the extent that supplies and services were provided before a valid purchase order was issued, these represent unauthorized commitments.

FAR 1.602-3(b)(1) states that: "Agencies should take positive action to preclude, to the maximum extent possible, the need for ratification actions. Although procedures are provided in this section for use in those cases where the ratification of an unauthorized commitment is necessary, these procedures may not be used in a manner that encourages such commitments being made by Government personnel."

Unauthorized commitments expose the government to liabilities arising from disputes, and unauthorized commitments may violate the Anti-Deficiency Act.

Recommendation

When fiscal year funding is delayed, and the Corporation is operating under continuing resolutions, we recommend that it issue incremental purchase orders for required supplies and services based on funding to date.

Corporation Management's Comments

We agree that there is a minor issue here, which is common to most, if not all, Federal agencies. Congress rarely passes the budget in a timely manner and the agencies are forced to operate under one or more continuing resolution.

The orders cited in all three findings are for continuation of essential services. The FAR in subpart 32.703-2 recognizes this situation and permits award of contracts properly chargeable to funds of the new fiscal year before these funds are available as long as the awards are for:

"operation and maintenance and continuing services (e.g., rentals, utilities, and supply items not financed by stock funds)—

(1) Necessary for normal operations and

(2) For which Congress previously had consistently appropriated funds...."

The Corporation will make every effort to ensure timely award of these renewal orders. While the Corporation agrees that it is an undesirable business practice to fail to renew these orders promptly, it disagrees that failure to renew them in a timely manner in all instances constitutes an unauthorized commitment. Each individual situation requires analysis of the facts and circumstances.

FAR 1.602-3 defines an "unauthorized commitment" as an agreement that is not binding solely because the ***Government representative who made it lacked the authority to enter into that agreement on behalf of the Government****. In the Corporation's opinion, failure of the program office to submit the requirement before the expiration of the existing order might be strictly interpreted as an unauthorized commitment; however, most agencies interpret this situation as an administrative oversight, particularly in light of*

the impact of the budget process in this type of occurrence. Traditionally an unauthorized commitment is considered to require a willful action such as when a program official, lacking authority, calls up a firm to fix a piece of office equipment without benefit of an order being in existence. Delays in the procurement office in executing these orders certainly does not fit the criteria for an unauthorized commitment since the Contracting Officer does have the authority to enter into an agreement on behalf of the government.

Many contractors who consider themselves partners with the Federal agencies they service willingly perform in advance of an official order. While they know the risk involved, they understand the budget process and are willing to accept the risk to ensure the agency is promptly serviced. When an order is issued that covers the appropriate period of time, in essence the Contracting Officer is authorizing payment for the period of time involved prior to execution. While there is no specific guidance on this issue, this opinion is a logical outgrowth of the FAR provisions for adding funds to a cost reimbursement contract with a Limitation of Funds Clause (FAR 52-232-22). This clause provides that a contractor is not required to continue to perform when funds are no longer available; however, if the contractor does, it is at its own risk. If funds are later added, any costs the contractor incurred before the date the costs were increased are "allowable to the same extent as if incurred afterward."

In the future, the Office of Procurement Services will request funds availability requisitions from all programs with annual requirements. Future orders will be issued "subject to the availability of funds." The Office of Procurement Services will issue either incremental Purchase Orders for required supplies and services or fund the entire requirement based on funding to date.

Finding 2

In addition, two of the ten contracts that we tested (20 percent) were facilities support contracts awarded after the contractor had begun providing these services, as follows:

- Contract No. 200003060001 provides the AmeriCorps National Civilian Community Corps (NCCC) Southeast Campus with facilities support services. This contract was awarded on March 31, 2000. The contractor, however, began providing services under this contract on March 1, 2000. This was a sole-source small-business 8(a) award. Although the Small Business Administration accepted this contract in February 1999, it was delayed, because the contracting officer did not ask for a contractor proposal until August 16, 1999. The contracting officer abruptly retired in September 1999, and another had to finish the procurement. Procurement representatives could not explain the 6-month delay in requesting the contractor's proposal.

- Contract No. 99-743-4005 provides facilities and maintenance for the NCCC Central Region Campus. This contract was awarded on June 16, 1999; the base period, however, began January 1, 1999. This was a sole-

source award based on no responses to a *Commerce Business Daily* (CBD) notice published in May 1997 and a market survey that failed to identify any other sources capable of satisfying the Corporation's requirement. On November 17, 1998, the contractor was asked to submit a proposal for the period January 1, 1999, through September 30, 2001. The contract file contains no information on actions the Corporation may have undertaken between May 1997 and November 1998. In addition, Amendment No. 1 to this contract, which exercises the first option period (beginning October 1, 1999), was not executed until December 3, 1999.

FAR 7.104(a) states that "Acquisition planning should begin as soon as the agency need is identified."

Recommendation

We recommend that the Corporation develop procedures to assure that contract awards and modifications are made in a timely manner, including monitoring contracting personnel progress on a regular basis, as a means of assuring timely contract awards and modifications.

Corporation Management's Comments

The Corporation has adequate procedures to make contract awards and modifications in a timely manner. It appears that one finding was reported because of a lack of auditor understanding of the issue of pre-contract costs. The FAR has provisions designed to provide Contracting Officers with the flexibility and leeway to obtain needed supplies and services to meet critical delivery requirements. FAR 31.205-32 addresses the allowability of precontract costs, which are costs "incurred before the effective date of the contract directly pursuant to the negotiation and in anticipation of the contract award when such incurrence is necessary to comply with the proposed contract delivery schedule."

Further, as discussed above, the Corporation has several procedures in place to monitor procurement operations and personnel. In addition to those procedures, the CFO meets with the Director of Procurement Services on a weekly basis to discuss the status of procurement operations as part of monitoring all Corporation financial activity. These meetings are used in part to determine the status of contracting issues and to monitor procurement operations. Most delays result from actions that go beyond just the procurement office. By bringing together all senior CFO staff, resolution of problems is quicker and more efficient.

Auditor's Additional Comments

Our finding does not question the "allowability" of the costs incurred by the contractor prior to actual contract award, but rather the potential liability that the Corporation might have if there are disputes regarding services provided prior to the execution of a valid contract and the possibility of Anti-Deficiency Act violations. We fully understand FAR Part 31 and its applicability to contract pricing and negotiation, but it is not relevant here.

The pre-contract costs might be allowable, but this does not mean that the late award of a Federal contract is a prudent business practice.

We believe that the Corporation should determine the cause of the delays in the above-described contract awards and assess whether its current procedures are adequate to prevent such occurrences in the future.

Finding 3

We noted that one purchase order for recruitment advertising was issued after the first advertisements had been placed. The purchase order for these services was issued on September 29, 1999. The first invoice for these services, however, covered two full-page advertisements in the vendor's September issues.

FAR 1.602-3(b)(1) states that: "Agencies should take positive action to preclude, to the maximum extent possible, the need for ratification actions. Although procedures are provided in this section for use in those cases where the ratification of an unauthorized commitment is necessary, these procedures may not be used in a manner that encourages such commitments being made by Government personnel."

Recommendation

We recommend that the Corporation reemphasize to program offices the necessity for advance procurement planning, and remind all employees that only warranted contracting officers have the authority to commit the expenditure of Corporation funds.

Corporation Management's Comments

The Office of Procurement Services has reemphasized to program offices the necessity for advance procurement planning and that only warranted Contracting Officers and purchase cardholders with designated authority have the authority to commit the expenditure of Corporation funds.

Noncompliance with the Federal Acquisition Streamlining Act Continues.

OIG Audit Report No. 98-24 found that the Corporation issued a $25,000 purchase order to a large business on a sole-source basis without determining that no acceptable small business sources were available. Of the 33 purchase orders we tested during the current audit, four (12 percent) under $100,000 were awarded to firms not classified as small businesses, without documented justification. This occurred on the following purchase orders:

- No. 199910010018 for training services.
- No. 199910190002 for hotel lodging.
- No. 200002160007 for hotel lodging.
- No. 200003240001 for hotel lodging.

In each of these cases, the contract specialist erroneously identified the vendor as a small business and did not complete the Justification for Other than Small Business section of the purchase order worksheet (Corporation

Form 9). Information in the procurement file in each case indicated that the businesses were not small businesses.

FAR 19.502-2, Total Set-Asides, states that: "(a) 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, 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 basis for this unrestricted purchase."

Information provided by the Director, OPS, indicates that in each of the identified cases, small businesses were not available to provide the required services. The Corporation is not, however, documenting its compliance with the FAR concerning small business set-asides. Contracts may erroneously be awarded to large businesses when small businesses are available to provide the required supplies or services.

Recommendation

We recommend that the Corporation implement policies requiring that the basis for determining each vendor's business classification be documented in the procurement files. We further recommend that the Director, OPS, review this determination and verify, if necessary, that the Justification for Other than Small Business is adequately documented before approving the Corporation Form 9.

Corporation Management's Comments

We disagree with the recommendation to document the file with the basis for determining each vendor's business classification. FAR 19.3 states that a firm is responsible for certifying that it is a small business under the appropriate criteria and that the Contracting Officer shall accept that representation unless another offeror challenges it or the Contracting Officer has a reason to question the certification. Therefore, in written or oral quotations/solicitations, contracting and purchasing officials will follow the FAR procedures and rely on the self-certification of businesses.

While the Corporation attempts to award to a small business whenever possible for orders under the Simplified Acquisition Threshold, there are circumstances when award to them is not possible. To ensure that each file properly documents the basis for award to other than small businesses, the Corporation Form 9 will be amended to provide the format for documenting the reason(s) why an award was not made to a small business.

Auditor's Additional Comments

The Corporation's intended action is not adequate to resolve the above finding. Even with the proposed changes to the Corporation Form 9, the files in the instances noted would not have documented the reasons why an award was not made to a small business, because the contract specialist was operating under the assumption that the vendor was a small business.

Requiring that the contract specialist document the basis for his or her size determination will reduce the possibility that this might recur. If the basis for the determination is the vendor's self-certification, then that should be documented in the files.

The Corporation Continues to Inadequately Evaluate Bids and Proposals.

OIG Report No. 98-24 noted numerous instances in which the evaluation of bids and proposals was inadequate, erroneous, or not adequately documented. We reviewed 10 contract files during the current audit and identified calculation errors in the analysis of cost proposals for the following two hotel contracts:

- One of the Corporation's service centers evaluated proposals for Contract No. 199912210001. In analyzing each vendor's proposal, the service center erroneously calculated the gratuity by applying a percentage to total proposed costs, rather than correctly to only meal costs. The resultant ceiling on this contract was approximately $12,000 higher than it should have been, because the negotiated contract price included gratuity on total costs.

- In analyzing the two responsive proposals for Contract No. 200003100001, the contracting officer made a number of mathematical errors in calculating total costs for the hotel that did not win the contract. (We were able to satisfy ourselves, however, that the contract was properly awarded to the lowest bidder.)

FAR 15.404-1(a)(1) requires that the contracting officer evaluate the reasonableness of offered prices. Corporation Procurement Directive No. 007 requires that award files be complete, accurate, neat, and consistent. Errors in price and cost analyses could result in improper contract awards.

Recommendation

We recommend that the Corporation implement quality control procedures requiring that each preaward price or cost analysis be reviewed and the mathematical accuracy verified before contract award.

Corporation Management's Comments

The Corporation has implemented adequate controls over the award process. In the example cited, human error was the cause and it is impractical to expect that errors will not occasionally occur. However, contracting personnel will be cautioned to pay particular attention to the award analysis documentation, with an emphasis on verifying the mathematical accuracy of the data.

We note that while errors were made, the auditors found that the errors did not result in the selection of a higher priced vendor.

Auditor's Additional Comments

While it is true that the mathematical errors noted did not result in award of the contracts to a higher-priced vendor, this easily could have happened,

because there were no controls to prevent it. It is certainly impractical to expect that errors will not occasionally occur, but controls can be incorporated to reduce the possibility of these occurrences and assure that they are detected and corrected when they do occur. At a minimum, the Corporation's preaward procedures should include a second-party review and verification of each price or cost analysis.

The Corporation Continues to Perform Inadequate Reviews of Contractor Payments.

OIG Report No. 98-24 identified a number of instances in which responsible parties had not verified the mathematical accuracy of invoices or that invoices were in agreement with contract terms. We noted several similar instances in our current audit testing, as follows:

- On Contract No. 99-743-4006, the Corporation approved the first voucher without exception. The attached documentation for this voucher, however, supported $1,125.61 more than the contractor claimed. The invoice evidenced no tickmarks to indicate that amounts charged agreed with supporting detail.

- Purchase Order No. 199910130003 for hotel lodging specified room rates of $150 per night. The October 22, 1999, invoice for these services, however, included charges of $85 per night and $170 per night for several guests. The invoice was approved for payment, and no indication is evident that the different rates were noted and investigated.

- Purchase Order No. 199910010023 for occupational accident insurance for AmeriCorps leaders specified a September 29, 1999, to September 28, 2000 performance period. The October 13, 1999, invoice, however, specifies an August 23, 1999, to August 23, 2000 policy period (although elsewhere on the invoice it includes the purchase order period of performance dates). The invoice was approved for payment, and no indication is evident that the contradictory policy period terms were noted and investigated.

Procurement Directive No. 005 states that the purchasing agent or contract specialist will review invoices to ensure, among other things, that the: "costs to be reimbursed are allowable and allocable to the contract....[and] [a]ny deduction or other necessary corrections to the invoice are identified and withheld from payment." Proper review of vouchers and supporting documentation is necessary to ensure that over- and under-payments do not occur, and that supplies and services received are in accordance with contract terms.

Recommendation:

We recommend that the Corporation add additional details and examples to Procurement Directive No. 005 to instruct purchasing agents and contract specialists on the level of detail that their review should entail.

Corporation Management's Comments

We believe that the detail of Procurement Directive No. 005 is adequate. To help ensure that the problems identified in the audit are eliminated in the

future, the Office of Procurement Services will provide additional training to COTRs and other Corporation personnel involved in reviewing and approving invoices for payment. The training will include samples and case studies to inform attendees of the requirements for invoice review and to reinforce existing knowledge.

The Corporation Continues to be in Noncompliance with the Prompt Payment Act.

OIG Report No. 98-24 identified numerous instances of PPA noncompliance. During the current audit, we noted the following, all of which are similar to the prior audit's findings:

- We tested a sample of 25 purchase-order payments; 5 of these (20 percent) were not paid in time to avoid a PPA interest penalty. In addition, the Corporation underpaid the interest due on these late payments, because it had not updated the Treasury Renegotiation rates in Momentum. It continued to use the 5-percent rate in effect from January to June 1999 until sometime in the third quarter of Fiscal Year 2000. The actual Treasury Renegotiation rates were 6.5 percent from July to December 1999 and 6.75 percent from January to June 2000.

- Several invoices on contracts we reviewed were paid late and incurred interest penalties totaling $987.10, as follows:

Contract No.	Invoice Date	Date Paid	Interest Penalty
99-743-4005	12/23/99	03/22/00	$785.71
99-743-4005	7/99-09/99	12/13/99	$147.86
199910280001	12/14/99	02/08/00	$49.66
199910280001	02/04/00	03/27/00	$3.87

In addition, in 8 of the 25 purchase order payments tested (32 percent), the invoice was stamped "received" more than 15 days after the invoice date.

FAR 32.907 requires that interest on late payments be paid automatically at the Renegotiation Board Interest Rate in effect on the payment due date. FAR 32.905 states that the due date for making an invoice payment is: "The 30th day after the designated billing office has received a proper invoice from the contractor; or the 30th day after Government acceptance of supplies delivered or services performed by the contractor, whichever is later."

The Corporation is incurring unnecessary interest expense. In addition, the Corporation underpaid PPA interest due to vendors. An Accounting representative estimated that PPA interest paid under Momentum is approximately $11,000. If so, the Corporation underpaid at least $3,300 interest during the period in which it had not updated the Treasury Renegotiation rates.

Although contractors for the tested invoices did not demand payment of the penalty, FAR 32.907-1(g) provides that an additional 100-percent penalty is to be paid if a contractor is owed an interest penalty of $1 or more and is not paid this penalty within 10 days after the date the invoice amount is paid.

The Corporation has issued a detailed policy on invoice approval procedures in Policy No. 350. It still requires, however, that all invoices be sent initially to OPS. OPS then forwards the invoice to the program office for certification. A time period for that party's certification and return of the invoice to OPS is not stipulated. If the program office has not already completed a receiving report in Momentum, OPS does not enter the invoice as a payment voucher until this has been done and the invoice certified.

The prior audit recommended that the Corporation require that invoices be sent simultaneously to both OPS and the program offices where the goods or services were received. The program office would then be given a specified number of days in which to acknowledge receipt of the goods or services, verify the accuracy of invoices, approve invoices for payment, and forward these to OPS. This procedure would eliminate the additional time required for OPS to forward the invoice to the program office for certification.

Recommendation:

We recommend that the Corporation review its current procedures for processing vendor payments and identify ways in which this can be expedited. We further recommend that the Corporation ensure that the Treasury Renegotiation rates are updated in Momentum on a regular basis.

Corporation Management's Comments

The Corporation continuously reviews its operations to identify areas where it can improve. The Corporation will continue to strive to reduce late payments; however total elimination is not a realistic goal. We feel it is important to note that some of the criticism of our process ignores normal business practices and does not appear to consider FAR provisions.

For example, it is not unusual for contractors to date invoices days or weeks before they are mailed or before the products or services are delivered. In fact, some contractor's accounting systems will generate an invoice at the same time the order is initially entered. Therefore, it is not a finding that an invoice might be dated as being "received" fifteen or more days after the invoice date. However, it is important to make sure that the invoices are dated at the time of actual receipt and the Corporation has a procedure in place to ensure this.

It is important to note the FAR provisions for when an invoice payment is due. FAR 32.903 states that payment will be based on receipt of a ***proper invoice*** *as defined in the various prompt payment clauses (FAR 52-232-25, 26, and 27). Once a proper invoice is received, the due date is determined by the* ***later*** *of the date of the invoice or the date services were performed or supplies delivered.*

The auditor's suggestion that invoices be sent to both the OPS and the program offices simultaneously imposes an administrative burden on our contractors. We believe that the process can work effectively as currently structured.

As staff become more proficient in the use of the Momentum financial management system we believe that delays in payments caused by the

Corporation will decrease. However, we point out that in the Corporation's old accounting system (Federal Success), there was a process controlled by the Office of Information Technology (OIT) which updated the Treasury interest rates. When Momentum was implemented, the adjustment process was no longer controlled by OIT and was overlooked. Steps have been taken to assure that the Momentum Systems Administrator team updates the rates in Momentum as required.

Auditor's Additional Comments

Of the purchase order payments we tested, 20 percent included PPA interest penalties. In addition, 32 percent had vendor invoices that were stamped "received" more than 15 days after the invoice date. These percentages appear high, and we believe these are an indication that the process is not working effectively as currently structured. We understand that the prompt payment due date is based on receipt of a proper invoice. In none of the instances noted above was payment late or delayed, because invoices were deemed improper.

The Corporation Continues to Make Unallowable and Unsupported Credit Card Purchases.

The prior audit found problems with missing documentation, prohibited purchases, and missing cardholder or approval signatures. We noted similar instances during the current audit as follows:

- Supporting documentation was missing on some transactions on 6 of the 42 cardholder statements tested. Transactions lacking documentation totaled $9,394.60, or about 9 percent of the amount tested.

- Cardholder or approval signatures were missing on 9 of the 42 statements tested (21 percent).

- Five transactions totaling $149.65 were for internet connections. The Corporation's small-purchase-card regulations stipulate that telecommunications services cannot be purchased using the credit cards.

- One cardholder charged three transactions exceeding the Corporation's $2,500 small-purchase-card ceiling.

Corporation Policy No. 350 sets forth the procedures for use and control of the Governmentwide Commercial Credit Card. Among the requirements are the following:

- Cardholders are responsible for maintaining documentation related to all credit card purchases.

- When the statement of account is reconciled, the cardholder is to forward it to the Approving Official, along with copies of charge or cash register receipts.

- The cardholder must know what types of purchases are prohibited under the purchase card program.

The Corporation considers the Internet connection fees to be subscription charges. Policy No. 350, however, defines telecommunications services as "the transmission, emission, or reception of signals, signs, writing, images, sounds, or intelligence of any nature by wire, cable, satellite, fiber optics, laser, radio, or any other electronic, electric, electromagnetic, or acoustically coupled means."

The cardholder whose purchases exceeded the Corporation's small-purchase-card ceiling is a contracting officer. She has a delegation of authority, signed by the Director of Procurement, that permits her to purchase supplies and services not to exceed $100,000 with her credit card. Policy No. 350, however, only allows cardholders to make micro-purchases (purchases up to $2,500) with the credit card. We identified three charges over this ceiling, totaling $57,390.

We examined three cardholder file reviews performed by OPS in February and March 2000. OPS performs these reviews on a random basis. We noted that these were thorough and well documented. Each identified findings necessitating additional cardholder training.

Recommendation

We recommend that the Corporation take steps to ensure that existing control policies and procedures are strictly enforced. We recommend that all exceptions to policies be documented in writing, with appropriate approvals.

Corporation Management's Comments

The Office of Procurement Services continues to emphasize the need to provide adequate documentation in support of purchase card acquisitions. Because the Office does not review each cardholder's purchases, we have elected to review cardholders' activity on a random basis or where there are indications of inappropriate use. Where serious deficiencies are noted, appropriate action has been taken. The Office of Procurement Services will review the files of the cardholders noted in this finding to ascertain whether they have any of the reportedly missing documentation.

While all new purchase cardholders are given training, a refresher course will be developed to address many of the concerns raised in the audit. Everyone who has a purchase card will be required to attend. In addition, the Office of Procurement Services has instructed all Corporation cardholders to add a line to their monthly statement for either their signature or the Approving Official's signature. All cardholders will also be informed that the use of their card for "telecommunication" charges will result in the immediate cancellation of the card. The Director of Procurement Services will also document exceptions, such as those cardholders authorized to use the card to purchase goods or services in excess of $2,500.

The Corporation Continues to Have Instances of Inconsistent or Inadequate Contract Terms.

During our review, we noted the following two findings related to inconsistent or inadequate contract terms:

Finding 1

OIG Audit Report No. 98-24 identified a contract with conflicting terms. We did not note instances of this during the current audit, but did note that work orders were issued under two contracts for amounts that exceeded ceilings established by the contracts, as follows:

- Contract No. 200001120001 specified that other direct costs were not to exceed $250 per work order. The January 10, 2000, work order, however, was issued with an allowance for miscellaneous costs of $500.

- We noted that two work orders exceeded contract-specified prices:

Work Order No.	Event Dates	Contract Ceiling	Work Order Amount	Difference
1	11/02-04/99	$22,798	$23,033	$ 235
3	01/31-02/02	$25,335	$27,668	$2,333

FAR 16.505(2) states that: "Orders must be within the scope, period, and maximum value of the contract."

Failure to ensure that the cost of work ordered is consistent with contract terms can result in Anti-Deficiency Act violations.

Recommendation

We recommend that the Corporation further strengthen its efforts to assure that contracts include all intended terms and conditions.

Corporation Management's Comments

While the Corporation agrees with the finding of inconsistencies in the orders cited, it disagrees that these errors resulted in the contract maximum value being exceeded and the potential for an Anti-Deficiency Act violation. However, work orders should conform to the terms of the contract and the Corporation will strengthen its efforts to assure that contracts and work orders are consistent.

The Corporation will also ensure that orders that include an estimated total that is based on various quoted rates will include those rates on the order to ensure full agreement of the parties and accuracy of billing.

Finding 2

We also noted two contracts for hotel services that did not include all relevant terms and conditions. In both cases, the winning proposals did not mention or include gratuities in the prices proposed for meals. The resulting contracts did not incorporate the contractor's proposed rates, but set forth a not-to-exceed amount for each event based on the contractors' total proposed cost for each event. An 18-percent gratuity was applied to meal costs on the

vendors' invoices. For Contract No. 199910280001, this resulted in a much higher charge per meal than that proposed. The proposal for this contract specified a per-person meal rate of $102 for each of the three events included in our review; the hotel charged $103.90 per meal plus an additional 18 percent for gratuities.

The Corporation's Procurement Directive No. 006 states that: "All award documents must accurately and completely reflect all terms and conditions agreed to between the contractor and the government."

Incomplete contract terms potentially can lead to misunderstandings between the Government and the contractor as well as to disputes about claims both by and against the Government. In addition, failure to incorporate all cost elements in the bid evaluation and subsequent contract award could result in award to other than the lowest bidder and contract cost overruns. Furthermore, the addition of a fixed percentage to costs on these invoices is illegal under the FAR, as noted in the finding on pages 6 to 8 of this report.

Recommendation

We recommend that the Corporation ensure that all contracts are clearly stated and include all pertinent terms and conditions. We also recommend that the Corporation recover all costs paid exceeding amounts proposed by hotel contractors.

Corporation Management's Comments

While the Corporation believes that these contracts and their terms and conditions are clearly stated, we will take steps to ensure that future contracts are as clear as possible and that all relevant terms and conditions are included in the contract or order. On acquisitions similar to those cited for hotel services, the Corporation will include line item pricing in the contract itself as part of the "not-to-exceed" ceiling.

From examining the orders in question, the Corporation believes that no costs have been paid exceeding amounts proposed and that no refunds are due.

Auditor's Additional Comments

The Corporation did not respond to our findings that the 18-percent gratuity was (a) not consistent with the contract terms and (b) illegal; and should be recovered.

The Corporation Continues to Award Sole Source Purchase Orders Without Adequate Justifications.

The prior audit identified numerous purchase orders awarded on a sole source basis without adequate justification. We noted no such instances during the current audit, but did find that the Corporation routinely purchases from GSA multiple-award-schedule vendors. The purchase order worksheets for these indicate that only one quotation was obtained and states as justification: "GSA schedule – already competed." In our testing of 33

purchase orders, we noted that 9 contained this justification. Of those nine, two were for equal employment opportunity investigation services, and one was for website redesign services.

FAR 8.402 states: "Procedures in this subpart apply to Federal Supply Schedule contracts. Occasionally, special ordering procedures may be established. In such cases the procedures will be outlined in the 'Federal Supply Schedules'."

GSA Federal Supply Schedules, Ordering Procedures for Services, states: "(a) When ordering services, ordering offices shall- (1) Prepare a request for quotes....(2) Transmit the request for quotes to contractors...(3) Evaluate quotes and select the contractor to receive the order."

The FAR does not require that the use of GSA Advantage! or vendor price lists be documented in the purchase order file for supplies. Sound business practices dictate that the Corporation demonstrate that it is obtaining the best value in purchasing goods and services. Failure to document this consideration on larger purchases could allow purchasers to steer contracts to favored vendors and could enable purchasers to solicit bribes or kickbacks.

Recommendation

We recommend that the Corporation follow GSA ordering procedures when procuring services on the GSA schedule. We further recommend that the Corporation establish a reasonable threshold over which its determination of best value must be documented when purchasing supplies using GSA multiple award schedules.

Corporation Management's Comments

The Corporation believes it is following required procedures and that the orders cited are not "sole source" awards. FAR 8.404(a) states:

> *"Orders placed against a Multiple Award Schedule (MAS), using the procedures in this subpart are considered to be issued* ***using full and open competition****..."*

This same FAR reference goes on to say that:

> *"...ordering offices need not seek further competition, synopsize the requirement, make a separate determination of fair and reasonable pricing, or consider small business programs. GSA has already determined the prices of items under schedule contracts to be fair and reasonable. By placing an order against a schedule using the procedures in this section,* ***the order office has concluded that the order presents the best value and results in the lowest overall cost alternative*** *(considering price, special features, administrative costs, etc.) to meet the Government's needs."*

Nevertheless, the Corporation will take steps to ensure that future GSA schedule orders are annotated with the rationale for award on Corporation Form 9.

Auditor's Additional Comments

The Corporation's response does not address any planned action to ensure compliance with GSA ordering procedures when procuring services on the GSA schedule. We believe that this point needs to be satisfactorily addressed before this issue can be resolved.

MANAGEMENT CONTROLS

As described in the Objectives, Scope, and Methodology section of this report, one of the primary objectives of this audit was to determine if the Corporation's corrective actions have resulted in improvements to the Corporation's procurement operations. To meet this objective, we obtained an understanding of the management controls placed in operation, and we assessed control risk. Our audit was not designed to uncover fraud, but to assess whether the Corporation's controls are adequately designed to prevent or detect fraud, waste, and abuse.

Because of the number and nature of findings discussed in this report that relate to breakdowns in established or required procedures, we concluded that controls were not adequate to protect assets and prevent or detect fraud, waste, and abuse. Based on the fact that additional findings were noted in the current audit in 9 of the 19 finding areas from the prior audit, we have concluded that the Corporation has not implemented appropriate corrective actions, and the Corporation continues to remain vulnerable to fraud, waste, and abuse.

CONCLUSIONS

The primary objectives of the audit were to determine if (1) corrective actions taken by the Corporation in response to OIG Report No. 98-24 are adequately designed and responsive to the deficiencies identified in that report and (2) corrective actions have been implemented and have resulted in improvements to the Corporation's procurement operations.

We noted additional findings in 9 of the 19 areas reported as deficient in the prior audit. Our findings were generally not of the magnitude found in the prior audit. The sample of transactions we tested, however, was relatively small, consisting primarily of procurement activity from September 30, 1999 (the date of issuance of the new procurement policies and procedures) to March 31, 2000.

We had no findings in the areas of restriction of competition, inadequate and inappropriate statements of work, use of personal service contracts, cost and pricing data inappropriately obtained, monitoring of indirect cost rates, monitoring of cooperative agreements, contract file completeness, unreconciled purchase order tracking systems, and control over micro purchases of equipment. Based on our testing, we found that the

Corporation's corrective actions in these areas were adequately designed and responsive to the deficiencies noted in the prior audit report.

Based on the fact that we noted additional findings in the current audit in 9 of the 19 finding areas from the prior audit, we conclude that the Corporation has not implemented sufficient corrective actions, these actions have not resulted in sufficient improvements to the Corporation's procurement operations, and the Corporation continues to remain vulnerable to fraud, waste, and abuse. The Corporation thinks that many of these are minor problems not serious enough to warrant additional actions. According to the Chief Financial Officer, correcting these would only be a matter of achieving a greater level of perfection. We are concerned that these "minor" problems have continued to exist for years, although brought to the attention of Corporation management on several occasions. We also are concerned that the lack of concern about any adverse effects of these conditions indicates that the "tone at the top," which is an essential factor for establishing good internal controls, is counterproductive in signaling that following prudent business practices and doing the best job possible are not important to Corporation management.

Office of Management and Budget Circular A-123 defines a material weakness as: "A deficiency that the agency head determines to be significant enough to be reported outside the agency (i.e. included in the annual Integrity Act report to the President and the Congress)."

In view of the number and nature of the findings cited in this report and the fact that appropriate and effective corrective actions have not been taken to resolve many of the prior audit findings, it is our opinion that the condition of the Corporation's contracting and procurement operations is a material weakness and should be reported as such to the President and Congress under FMFIA.

CURRENT STATUS OF PRIOR AUDIT FINDINGS

The status of OIG Report No. 98-24 findings is summarized in the appendix. This summary shows that 10 of the 19 findings from that report are not yet resolved. These ten include a prior audit finding on unit-price purchase orders containing firm fixed-price language. This finding should be resolved when the Corporation implements a new desktop procurement system in late Fiscal Year 2000.

APPENDIX 1

Appendix 1

CORPORATION FOR NATIONAL SERVICE
PROCUREMENT FOLLOW-UP AUDIT
STATUS OF REPORT NO. 98-24 FINDINGS

Reported Findings	Prior Recommendation	Status
Time-and-materials contract allowed the contractor to apply a percentage fee to other direct costs (ODCs).	All fees claimed on ODCs by the contractor are contrary to the FAR and should be recovered by the Corporation.	Unresolved. The Corporation is recovering fees, but we noted similar findings; see pages 6 to 9.
Contract included inconsistent and contradictory terms.	The Corporation should establish a control procedure to assure that every contract accurately and completely includes all intended contract terms and conditions.	Adequately designed but not operating effectively. We noted similar findings; see pages 21 to 24.
Purchase orders included inconsistent and contradictory terms.	The Corporation should take immediate steps to require specific prices and payment terms to be clearly stated in every purchase order.	Improved, but not yet resolved. We noted two unit-price purchase orders in our testing with firm-fixed-price language. This language is currently "whited out" when OPS prepares purchase orders. Corporation representatives stated that this will be resolved with a new desktop procurement system to be implemented in late FY 2000.
Corporation awarded a $25,000 purchase order to a large business on a sole-source basis without determining that no acceptable small business sources were available.	The Corporation should take steps to ensure compliance with FAR 13.105(a) and FAR 19.502-2(a) in the future.	Unresolved. We noted a similar finding; see pages 13 to 15.
Purchase orders awarded on a sole-source basis without adequate justification.	The Corporation should assure that at least three sources are solicited for all procurements between $2,500 and $25,000 and that complete and detailed justifications and supporting documentation are prepared and filed when the contracting officer determines that competition is not possible.	Unresolved. We noted a similar finding; see pages 22 to 24.
Competition on contracts unnecessarily and inappropriately restricted.	The Corporation should issue the call for procurement requirements each year in conjunction with and as part of each year's budget call.	Resolved. The Corporation is not coordinating the forecasting procedure with the budgeting process, but requests acquisition forecasting by August 1 of each year.
Contract for facilities support services had an inadequate and inappropriate statement of work.	The Corporation should implement control procedures to ensure that contract statements of work accurately reflect the work to be done under the contracts.	Resolved. The Corporation modified the contract to correct inconsistencies in the statement of work.

CORPORATION FOR NATIONAL SERVICE
PROCUREMENT FOLLOW-UP AUDIT
STATUS OF REPORT NO. 98-24 FINDINGS

Evaluation of bids and proposals inadequate, erroneous, or not adequately documented.	The Corporation should implement strengthened control procedures designed to provide positive assurance that evaluations of bids and proposals are made in full accordance with FAR requirements and that all selection decisions are accurately and completely documented.	Unresolved. We noted a similar finding; see pages 15 and 16.
Unauthorized personal services contracts used.	The Corporation should either cease using personal services contracts or seek OMB and Congressional approval to use such contracts.	Resolved. The Corporation allowed the contracts cited to expire and has filled the vacated positions with Corporation employees.
Cost and pricing data unnecessarily and inappropriately obtained.	The Corporation should cease demanding cost-and-pricing data in instances in which adequate price competition exists and in the other instances stipulated in FAR 15.804-1(a).	Resolved.
Unauthorized commitments made.	The Corporation should assure that all current and new employees are made aware of the need for advance procurement planning and that all current and that only warranted contracting officers have the authority to commit the expenditure of Corporation funds.	Adequately designed, but not operating effectively. We noted similar findings; see pages 9 to 13.
Unallowable and unsupported credit card purchases made.	The Corporation should take steps to ensure that existing control policies and procedures are strictly enforced. The Corporation revised the delegation of authority that all cardholders are required to sign to stipulate that the cardholder will be held personally responsible and accountable for transactions that violate the *Small Purchase Card Guide's* policies and procedures.	Unresolved. We noted similar findings; see pages 19 and 20.
Indirect cost rates on cost-reimbursable contracts not adjusted.	The Corporation should require all contractors with contracts having a cost-reimbursable component to submit indirect cost rate proposals for all completed years and take steps to recover all over-claimed indirect costs and interest.	Resolved. On September 9, 1998, the Corporation recovered $94,091.20 from the contractor cited in the previous report. The contract is being audited by the OIG.

CORPORATION FOR NATIONAL SERVICE
PROCUREMENT FOLLOW-UP AUDIT
STATUS OF REPORT NO. 98-24 FINDINGS

Reviews of contractor payments inadequate.	The Corporation should establish a systematic and documented procedure under which every contractor invoice will be verified for accuracy and consistency with contract terms and conditions before it can be paid.	Unresolved. We noted a similar finding; see pages 16 and 17.
Prompt Payment Act noncompliance noted.	Invoice payment processing procedures should be changed. Invoices should be sent simultaneously to both OPS and the program offices (COTRs) where the goods or services were received. The receipt dates should be stamped on the invoices at that time.	Unresolved. We noted a similar finding; see pages 17 to 19.
Monitoring and cost control over cooperative agreements inadequate.	The Corporation should establish and document detailed procedures on monitoring cooperative agreements.	Resolved.
Contract file completeness should be improved.	The Corporation should implement stringent supervisory review procedures to assure that contract files are complete, accurate, and consistent.	Resolved.
Three separate and nonintegrated tracking systems used for purchase orders.	The Corporation should reevaluate the need for all three systems; determine if a single system can fulfill these needs; and take steps to prevent the duplication of information and assure that information maintained is current, accurate, and complete.	Resolved.
Centralized control over computer and other valuable assets lacking.	The Corporation should establish control procedures for routinely placing valuable assets under centralized recordkeeping controls.	Resolved.

APPENDIX 2

CORPORATION
FOR NATIONAL
SERVICE

MEMORANDUM

DATE: September 11, 2000

TO: Luise Jordan
Inspector General

FROM: Tony Musick
Chief Financial Officer

SUBJECT: Draft Audit Report 00-12, *Follow-up Audit of the Corporation's Procurement Operations*

I have reviewed your report on the Office of the Inspector General (OIG) follow-up audit of the Corporation's procurement operations. I am pleased to see that OIG has concluded that the Corporation's procurement policies and procedures are adequately designed and have resulted in improvements to the Corporation's procurement operations. The report suggests that improvements in the Corporation's procurement operations should have been quicker in coming. I agree. As is the case in many Federal agencies, it is not uncommon to take longer than seems necessary to implement change. Since I began my tenure at the Corporation I have worked aggressively to accelerate improvements in the Corporation's operations and will continue to do so during the remainder of my term. To this end, I would hope to be able to work with you and your Office more closely in the future, outside of the traditional "auditor-auditee" relationship, to facilitate the improvement that we both seek and our customers deserve.

You should know that there are several conclusions and comments with which I strongly disagree.

First, the report identifies several instances where an error had been made in some aspect of the procurement process. While these types of procedural errors are not unusual in procurement offices that must deal with over 1,500 pages of guidance in the Federal Acquisition Regulation (FAR) alone, they are neither egregious nor indicative of fraud, waste, or abuse. They are, simply, mistakes. However, irrespective of the scope of the errors, the report concludes that the Corporation's procurement operations as a whole constitute a material weakness. This is a leap, in my view, and one that I strongly disagree with. None of the errors found, taken alone or in the aggregate, could result in a material loss to the Corporation. Further, the auditors found no instances of fraud, waste, or abuse. While I most emphatically agree that the errors warrant management's attention and corrective action, they simply do not rise to the level of significance that they should be considered for reporting outside of the agency. This, in and of itself, would be a waste and divert limited resources from the Corporation's mission. Considering these facts, I believe this conclusion is unfounded.

While we will continue to work diligently to improve in those areas, it would appear to be more profitable to focus not on procedural errors, or process, but results. Again, it is important to take a balanced approach. It would be wonderful if there was a failsafe way to ensure that errors or irregularities could not occur. However, as the Inspector General is aware, internal controls can only provide reasonable assurance that a particular control objective is achieved. Moreover, when determining what those controls are to be, the cost of the controls must be weighed against the benefits to be achieved. It would clearly not be wise to spend large resources to assure error-free operations if the cost were that the Corporation's work cannot be done. I believe that with the policies and procedures that the Corporation has implemented, coupled with the new procurement system that was implemented in Headquarters late this year and will be implemented in the Service Centers in fiscal 2001, the Corporation has achieved the proper balance. The nature, number, and timing of the errors identified in the OIG report bear this conclusion out.

Second, the report accuses me of being indifferent to the OIG's findings and of setting the tone that "following prudent business practices and doing the best job possible are not important to Corporation management." This allegation about my personal feelings and views is simply not factual and should not be a part of the report. My view is this: I expect each individual working for the Corporation to do the best job they are capable of doing without exception. This expectation is different than saying errors are not allowed. Mistakes are a fact of life. However, the Corporation has put into place policies and procedures to minimize the effect of those mistakes that are made and correct errors that are identified. As I read the report and assess the findings cited, I can only conclude that the Corporation's policies and procedures have been effectively implemented in all material respects.

Finally, the report makes several recommendations that, in my view, are too general to be useful and do not provide adequate guidance to address the findings raised in the report. Additionally, in some instances the recommendations address areas that were outside the scope of work performed by the auditors. I believe that it would be more constructive if the recommendations were directed at resolving the ***cause*** of identified problems, were action-oriented and specific, and were both feasible and cost effective. In fact, this is the standard that is set forth in GAO's *Government Auditing Standards*.

During the course of the audit, Corporation comments on your preliminary findings were provided to the auditors with the expectation that there would be a dialog and discussion of the issues raised. Unfortunately and inexplicably, this did not take place. Accordingly, please delete the material previously provided and replace it with the following responses to the findings and recommendations raised in your report.

It is my hope that together we can find a constructive way to work in closer harmony for the good of the organization we have both pledged to support.

Appendix 1 – Responses to OIG Findings And Recommendations

OIG Finding 1:

"The Corporation Did Not Take Corrective Actions in a Timely Manner"

OIG Recommendation 1a:

"We recommend that the Corporation implement monitoring and oversight procedures to ensure that corrective action is taken in a more timely (sic) *manner."*

While the Corporation will accept valid criticism of the time it took it to initiate procedures, it does not agree that this delay extended its vulnerability to fraud, waste, and abuse. The Corporation has implemented monitoring and oversight procedures that now provide it with adequate assurance that corrective actions are taken in a timely manner. In addition, the Corporation's senior management is actively and directly involved in monitoring and overseeing improvements in the Corporation's operations.

Among the tools utilized by the Corporation to provide reasonable assurance that corrective actions are implemented is the Action Plan. The Action Plan includes specific goals, objectives, individual tasks, and milestone dates for completing actions. Goal 9 in the Action Plan specifically addresses the Corporation's procurement operations. Senior management regularly reviews the status of actions under the plan and maintains detailed documentation in support of completed actions. In addition to its use by the Corporation to monitor corrective actions, the Action Plan is transmitted to the Congress for its use in overseeing the Corporation's operations.

Furthermore, the Corporation maintains information on audit recommendations in an audit resolution database. The database is used to generate reports to management on the status of corrective actions and milestones for completing various tasks. Management review of these reports has resulted in the reprioritization of work to focus staff attention on actions coming due. In fact, reports from the database are periodically provided to the OIG.

Finally, to provide an objective review of the issues presented in this audit report, the Corporation will seek contractor support to provide assistance in reviewing its contracting operations and correcting the areas determined to be weaknesses or vulnerabilities. The Corporation has recently contracted with Acquisition Solutions, Inc., obtaining a subscription service for acquisition support. This service will provide "on-call" research assistance on a transaction-by-transaction basis. This will enable the Corporation to seek expert guidance on contracts and purchases orders in advance of the action in those areas that have proven troublesome in the past.

OIG Finding 2:

"The Corporation Continues to Use an Illegal Contracting Form"

OIG Recommendation 2a:

"We recommend that the Corporation similarly amend Contract No. 199911220001, and that all contract amendments eliminate any reference to the rates as 'fixed.' We also recommend that the Corporation develop a written policy prohibiting cost recovery as a fixed percentage of direct costs in its contracts. Finally, we recommend that the Corporation negotiate fixed amounts on each work order to reimburse hotel contractors for meal service."

The Corporation is not using an illegal contracting form. However, we will amend Contract No. 199911220001 to eliminate any reference to the rates as fixed. We believe that there may be a semantics issue involved here. We do not agree that the orders cited constitute cost-plus-percentage-of-cost contracts. It may be that the terminology being used gives the appearance of cost-plus-percentage-of-cost language; however, the intent here is to provide allowable compensation to contractors for the administrative expense associated with Other Direct Costs. Since the amount of Other Direct Costs cannot be determined in advance, they must be estimated. The impact of these cost elements is usually minor as they generally represent a small percentage of the overall contract value. Handling costs are permitted in accordance with the contractor's usual accounting procedures (see FAR 16.601(b)). In addition, a profit on material costs (as long as the costs are not also included as part of the fixed hourly labor rate) is also permitted (see FAR 16.602(b)(iii)).

We also do not believe the development of a written policy is necessary. In the one example cited, human error was the cause. A policy would not ensure an error is never made again. In the other example, because the number of attendees at an event can change significantly after contract award, negotiating fixed amounts on each work order for meals would result in the waste of Corporation funds. Accordingly, the Corporation will utilize the contract vehicle that will provide the best value to the government as determined on a case-by-case basis.

OIG Recommendation 2b:

"We recommend that the Corporation amend Contract No. 99-743-4002 to:

- *Delete the provision for a 15-percent markup on advertising placement costs.*
- *Reimburse the contractor for advertising at its net costs.*
- *Recover all advertising payments in excess of the contractor's net costs."*

This contract will be reviewed to ensure that the OIG's concerns are addressed. We will make certain that there is a clear understanding of the rate structure of this contract, that the proposed rates are consistent with the contract rates, and that the contractor is paid for its actual costs for advertisements plus an administrative handling fee. We will advise the contractor of the requirements of FAR 32.201-5, and if a refund is due, will take all necessary steps to collect it.

OIG Finding 3:

"The Corporation Continues to Make Unauthorized Commitments"

OIG Recommendation 3a:

"When fiscal year funding is delayed, and the Corporation is operating under continuing resolutions, we recommend that it issue incremental purchase orders for required supplies and services based on funding to date."

We agree that there is a minor issue here, which is common to most, if not all, Federal agencies. Congress rarely passes the budget in a timely manner and the agencies are forced to operate under one or more continuing resolutions.

The orders cited in all three findings are for continuation of essential services. The FAR in subpart 32.703-2 recognizes this situation and permits award of contracts properly chargeable to funds of the new fiscal year before these funds are available as long as the awards are for:

> "operation and maintenance and continuing services (e.g., rentals, utilities, and supply items not financed by stock funds)—
>
> (1) Necessary for normal operations and
>
> (2) For which Congress previously had consistently appropriated funds..."

The Corporation will make every effort to ensure timely award of these renewal orders. While the Corporation agrees that it is an undesirable business practice to fail to renew these orders promptly, it disagrees that failure to renew them in a timely manner in all instances constitutes an unauthorized commitment. Each individual situation requires analysis of the facts and circumstances.

FAR 1.602-3 defines an "unauthorized commitment" as an agreement that is not binding solely because ***the Government representative who made it lacked the authority to enter into that agreement on behalf of the Government***. In the Corporation's opinion, failure of the program office to submit the requirement before the expiration of the existing order might be strictly interpreted as an unauthorized commitment; however, most agencies interpret this situation as an administrative oversight, particularly in light of the impact of the budget process in this type of occurrence. Traditionally an unauthorized commitment is considered to require a willful action such as when a program official, lacking authority, calls up a firm to fix a piece of office equipment without benefit of an order being in existence. Delays in the procurement office in executing these orders certainly does not fit the criteria for an unauthorized commitment since the Contracting Officer does have the authority to enter into an agreement on behalf of the government.

Many contractors who consider themselves partners with the Federal agencies they service willingly perform in advance of an official order. While they know the risk involved, they understand the budget process and are willing to accept the risk to ensure the agency is promptly serviced. When an order is issued that covers the appropriate period of time, in essence the Contracting Officer is authorizing payment for the period of time involved prior to execution. While there is no specific guidance on this issue, this opinion is a logical outgrowth of the FAR provisions for adding funds to a cost reimbursement contract with a Limitation of Funds Clause (FAR 52-232-22). This clause provides that a contractor is not required to continue to perform when funds are no longer available; however, if the contractor does, it is at its own risk. If funds are later added, any costs the contractor incurred before the date the costs were increased are "allowable to the same extent as if incurred afterward."

In the future, the Office of Procurement Services will request funds availability requisitions from all programs with annual requirements. Future orders will be issued "subject to the availability of funds." The Office of Procurement Services will issue either incremental Purchase Orders for required supplies and services or fund the entire requirement based on funding to date.

OIG Recommendation 3b:

"We recommend that the Corporation develop procedures to assure that contract awards and modifications are made in a timely manner, including monitoring contracting personnel progress on a regular basis, as a means of assuring timely contract awards and modifications."

The Corporation has adequate procedures to make contract awards and modifications in a timely manner. It appears that one finding was reported because of a lack of auditor understanding of the issue of pre-contract costs. The FAR has provisions designed to provide Contracting Officers with the flexibility and leeway to obtain needed supplies and services to meet critical delivery requirements. FAR 31.205-32 addresses the allowability of precontract costs, which are costs "incurred before the effective date of the contract directly pursuant to the negotiation and in anticipation of the contract award when such incurrence is necessary to comply with the proposed contract delivery schedule."

Further, as discussed above, the Corporation has several procedures in place to monitor procurement operations and personnel. In addition to those procedures, the CFO meets with the Director of Procurement Services on a weekly basis to discuss the status of procurement operations as part of monitoring all Corporation financial activity. These meetings are used in part to determine the status of contracting issues and to monitor procurement operations. Most delays result from actions that go beyond just the procurement office. By bringing together all senior CFO staff, resolution of problems is quicker and more efficient.

OIG Recommendation 3c:

"We recommend that the Corporation reemphassize (sic) *to program offices the necessity for advance procurement planning, and remind all employees that only warranted contracting officers have the authority to commit the expenditure of Corporation funds."*

The Office of Procurement Services has reemphasized to program offices the necessity for advance procurement planning and that only warranted Contracting Officers and purchase cardholders with designated authority have the authority to commit the expenditure of Corporation funds.

OIG Finding 4:

"Noncompliance with the Federal Acquisition Streamlining Act Continues"

OIG Recommendation 4a:

"We recommend that the Corporation implement policies requiring that the basis for determining each vendor's business classification be documented in the procurement files. We further recommend that the Director, OPS, review this determination and verify, if necessary, that the Justification for Other than Small Business is adequately documented before approving the Corporation Form 9."

We disagree with the recommendation to document the file with the basis for determining each vendor's business classification. FAR 19.3 states that a firm is responsible for certifying that it is a small business under the appropriate criteria and that the Contracting Officer shall accept that representation unless another offeror challenges it or the Contracting Officer has a reason to question the certification. Therefore, in written or oral quotations/solicitations, contracting and purchasing officials will follow the FAR procedures and rely on the self-certification of businesses.

While the Corporation attempts to award to a small business whenever possible for orders under the Simplified Acquisition Threshold, there are circumstances when award to them is not possible. To ensure that each file properly documents the basis for award to other than small businesses, the Corporation Form 9 will be amended to provide the format for documenting the reason(s) why an award was not made to a small business.

OIG Finding 5:

"The Corporation Continues to Inadequately Evaluate Bids and Proposals"

OIG Recommendation 5a:

"We recommend that the Corporation implement quality control procedures requiring that each preaward price or cost analysis be reviewed and the mathematical accuracy verified before contract award."

The Corporation has implemented adequate controls over the award process. In the example cited, human error was the cause and it is impractical to expect that errors will not occasionally occur. However, contracting personnel will be cautioned to pay particular attention to the award analysis documentation, with an emphasis on verifying the mathematical accuracy of the data.

We note that while errors were made, the auditors found that the errors did not result in the selection of a higher priced vendor.

OIG Finding 6:

"The Corporation Continues to Perform Inadequate Reviews of Contractor Payments"

OIG Recommendation 6a:

"We recommend that the Corporation add additional details and examples to Procurement Directive No. 005 to instruct purchasing agents and contract specialists on the level of detail that their review should entail."

We believe that the detail of Procurement Directive No. 005 is adequate. To help ensure that the problems identified in the audit are eliminated in the future, the Office of Procurement Services will provide additional training to COTRs and other Corporation personnel involved in reviewing and approving invoices for payment. The training will include samples and case studies to inform attendees of the requirements for invoice review and to reinforce existing knowledge.

OIG Finding 7:

"The Corporation Continues to be in Noncompliance with the Prompt Payment Act"

OIG Recommendation 7a:

"We recommend that the Corporation review its current procedures for processing vendor payments and identify ways in which this can be expedited. We further recommend that the Corporation ensure that the Treasury Renegotiation rates are updated in Momentum on a regular basis."

The Corporation continuously reviews its operations to identify areas where it can improve. The Corporation will continue to strive to reduce late payments; however total elimination is not a realistic goal. We feel it is important to note that some of the criticism of our process ignores normal business practices and does not appear to consider FAR provisions.

For example, it is not unusual for contractors to date invoices days or weeks before they are mailed or before the products or services are delivered. In fact, some contractor's accounting systems will generate an invoice at the same time the order is initially entered. Therefore, it is not a finding that an invoice might be dated as being "received" fifteen or more days after the invoice date. However, it is important to make sure that the invoices are dated at the time of actual receipt and the Corporation has a procedure in place to ensure this.

It is important to note the FAR provisions for when an invoice payment is due. FAR 32.903 states that payment will be based on receipt of a ***proper invoice*** as defined in the various prompt payment clauses (FAR 52-232-25, 26, and 27). Once a proper invoice is received, the due date is determined by the ***later*** of the date of the invoice or the date services were performed or supplies delivered.

The auditor's suggestion that invoices be sent to both the OPS and the program offices simultaneously imposes an administrative burden on our contractors. We believe that the process can work effectively as currently structured.

As staff become more proficient in the use of the Momentum financial management system we believe that delays in payments caused by the Corporation will decrease. However, we point out that in the Corporation's old accounting system (Federal Success), there was a process controlled by the Office of Information Technology (OIT) which updated the Treasury interest rates. When Momentum was implemented, the adjustment process was no longer controlled by OIT and was overlooked. Steps have been taken to assure that the Momentum Systems Administrator team updates the rates in Momentum as required.

OIG Finding 8:

"Unallowable and Unsupported Credit Card Purchases"

OIG Recommendation 8a:

"We recommend that the Corporation take steps to ensure that existing control policies and procedures are strictly enforced. We recommend that all exceptions to policies be documented in writing, with appropriate approvals."

The Office of Procurement Services continues to emphasize the need to provide adequate documentation in support of purchase card acquisitions. Because the Office does not review each cardholder's purchases, we have elected to review cardholders' activity on a random basis or where there are indications of inappropriate use. Where serious deficiencies are noted, appropriate action has been taken. The Office of Procurement Services will review the files of the cardholders noted in this finding to ascertain whether they have any of the reportedly missing documentation.

While all new purchase cardholders are given training, a refresher course will be developed to address many of the concerns raised in the audit. Everyone who has a purchase card will be required to attend. In addition, the Office of Procurement Services has instructed all Corporation cardholders to add a line to their monthly statement for either their signature or the Approving Official's signature. All cardholders will also be informed that the use of their card for "telecommunications" charges will result in the immediate cancellation of the card. The Director of Procurement Services will also document exceptions, such as those cardholders authorized to use the card to purchase goods or services in excess of $2,500.

OIG Finding 9:

"The Corporation Continues to Have Instances of Inconsistent or Inadequate Contract Terms"

OIG Recommendation 9a:

"We recommend that the Corporation further strengthen its efforts to assure that contracts include all intended terms and conditions."

While the Corporation agrees with the finding of inconsistencies in the orders cited, it disagrees that these errors resulted in the contract maximum value being exceeded and the potential for an Anti-Deficiency Act violation. However, work orders should conform to the terms of the contract and the Corporation will strengthen its efforts to assure that contracts and work orders are consistent.

The Corporation will also ensure that orders that include an estimated total that is based on various quoted rates will include those rates on the order to ensure full agreement of the parties and accuracy of billing.

OIG Recommendation 9b:

"We recommend that the Corporation ensure that all contracts are clearly stated and include all pertinent terms and conditions. We also recommend that the Corporation recover all costs paid exceeding amounts proposed by hotel contractors."

While the Corporation believes that these contracts and their terms and conditions are clearly stated, we will take steps to ensure that future contracts are as clear as possible and that all relevant terms and conditions are included in the contract or order. On acquisitions similar to those cited for hotel services, the Corporation will include line item pricing in the contract itself as part of the "not-to-exceed" ceiling.

From examining the orders in question, the Corporation believes that no costs have been paid exceeding amounts proposed and that no refunds are due.

OIG Finding 10:

"The Corporation Continues to Award Sole Source Purchase Orders Without Adequate Justification"

OIG Recommendation 10a:

"We recommend that the Corporation follow GSA ordering procedures when procuring services on the GSA schedule. We further recommend that the Corporation establish a reasonable threshold over which its determination of best value must be documented when purchasing supplies using GSA multiple award schedules."

The Corporation believes it is following required procedures and that the orders cited are not "sole source" awards. FAR 8.404(a) states:

> "Orders placed against a Multiple Award Schedule (MAS), using the procedures in this subpart are considered to be issued ***using full and open competition***..."

This same FAR reference goes on to say that:

> "...ordering offices need not seek further competition, synopsize the requirement, make a separate determination of fair and reasonable pricing, or consider small business programs. GSA has already determined the prices of items under schedule contracts to be fair and reasonable. By placing an order against a schedule using the procedures in this section, ***the order office has concluded that the order presents the best value and results in the lowest overall cost alternative*** (considering price, special features, administrative costs, etc.) to meet the Government's needs."

Nevertheless, the Corporation will take steps to ensure that future GSA schedule orders are annotated with the rationale for award on Corporation Form 9.

cc: Harris Wofford
Wendy Zenker
Bill Anderson
Simon Woodard
Patricia Holiday
Dean Reuter