



U.S. Department of Agriculture



Office of Inspector General
Northeast Region

Audit Report

Office of Procurement and Property Management Review of Acquisition Planning and Processing

Report No. 89017-01-Hy
February 2007



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



February 9, 2007

REPLY TO

ATTN OF: 89017-01-Hy

TO: Boyd K. Rutherford
Assistant Secretary for Administration

ATTN: Art Goldman
Audit Liaison
Office of Operations
Departmental Administration

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Office of Property and Procurement Management (OPPM) Review of
Acquisition Planning and Processing

This report presents the results of our audit of the management U.S. Department of Agriculture's Acquisition Planning and Processing by the OPPM. This report identified that the OPPM had not developed an adequate system of oversight for component agency acquisition activity. Your response to the official draft, dated January 18, 2007, is included as exhibit A. Excerpts of your response and the Office of Inspector General's position are incorporated into the Findings and Recommendations section of the report. Based on your response, we were able to reach management decision on the report's two recommendations. Please follow your internal agency procedures for reporting final action to the Office of the Chief Financial Officer.

Please note that Departmental Regulation 1720-1 requires final action to be completed within 12 months of management decision. We appreciate the courtesies and cooperation extended to us by members of your staff during this audit.

Executive Summary

Office of Procurement and Property Management Review of Acquisition Planning and Processing (Audit Report No. 89017-01-Hy)

Results in Brief

This report presents the results of the Office of Inspector General's (OIG) review of the Departmental Administration (DA), Office of Procurement and Property Management's (OPPM) oversight of acquisition planning and processing among the U.S. Department of Agriculture (USDA) component agencies. Our objective was to evaluate OPPM's internal control and management practices directed to minimize fraud, waste, and abuse, and to maximize the effectiveness of USDA contracting activities. Specifically, we assessed whether OPPM maintains an appropriate system of internal control over contract functions including oversight of the procurement activities of USDA component agencies.

In fiscal year (FY) 2005, USDA obligated approximately \$4.4 billion for products and services. Purchases of subsistence/agricultural (food) commodities from commercial sources represented \$2.2 billion of what USDA bought and purchase card transactions accounted for another \$491 million in services. The remaining \$1.7 billion was for non-commodity and non-purchase card acquisitions. Our review was limited to controls over non-commodity and non-purchase card contracting activity, as purchase card and commodity operations have been the subject of recent OIG audits. Hurricane Katrina occurred during our fieldwork period and as OIG has ongoing reviews of USDA Hurricane Relief activities, we did not include these activities as part of this audit.

OPPM previously recognized that problems existed in the USDA component agency legacy acquisition systems and that the systems did not provide for standardized business processes or suitable enterprise-wide controls of acquisition activity. In response, USDA designed and implemented the Integrated Acquisition System (IAS) to provide a single enterprise-wide acquisition system.¹ OPPM officials stated they relied primarily upon the IAS to ensure component agencies complied with Government and USDA acquisition policies. We found IAS had the potential to aid in meeting control objectives; however, it does not provide control over all areas and by itself cannot ensure that all control objectives of the acquisition process are met. OPPM did not implement procedures to confirm that component agencies comply with requirements not controlled by IAS. For example, IAS cannot fully ensure compliance with such requirements as issuing solicitations and monitoring contractor performance. As a result, USDA management has

¹ We did not audit IAS operations and are expressing no opinion on the accuracy of the system's description or its operations. At the time of our fieldwork IAS was not fully operational throughout USDA.

reduced assurance that component agencies followed all procurement requirements and that taxpayer funds are protected from waste and abuse.

Additionally, we found that OPPM has not upgraded the Automated Workforce Tracking System (AWTS). OPPM developed the AWTS to meet Governmentwide mandates requiring executive agencies to collect and maintain standard acquisition workforce personnel data in a management information system.

**Recommendations
In Brief**

We recommend that OPPM develop and implement: (1) procedures to ensure that component agencies comply with established acquisition requirements which are not controlled by IAS, and (2) a plan to expand the data handling capabilities of the AWTS to ensure it can handle the volume of records from all component agencies.

Agency Response

OPPM agreed that additional controls through process reviews and increased IAS functionality would strengthen oversight of component agency activities. OPPM plans to issue additional policy to component agencies to increase solicitation and proposal evaluations, strengthen component agency acquisition strategies, and stress the importance of monitoring of contractor performance. Additionally agencies will be required to periodically report to OPPM the results of the reviews. OPPM will also ensure the data handling capabilities of the AWTS can handle the volume of records.

OIG Position

We concur with OPPM's response and have reached management decision for the two recommendations within this report.

Abbreviations Used in This Report

AGAR	Agriculture Acquisition Regulation
AWTS	Automated Workforce Tracking System
CAO	Chief Acquisition Officer
C.F.R.	Code of Federal Regulations
DA	Departmental Administration
FAR	Federal Acquisition Regulation
FS	Forest Service
FY	Fiscal Year
IAS	Integrated Acquisition System
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPPM	Office of Procurement and Property Management
P.L.	Public Law
SARA	Services Acquisition Reform Act
SPE	Senior Procurement Executive
USDA	U.S. Department of Agriculture

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Background and Objectives

Background

The U.S. Department of Agriculture (USDA) procures the products and services it needs on a highly decentralized basis. In addition to the Office of Procurement and Property Management (OPPM), 10 USDA agencies, and 1 USDA mission area have full procurement authority.² These purchases support the delivery of USDA mission-critical activities throughout the United States and the world. In fiscal year (FY) 2005, USDA obligated approximately \$4.4 billion for products and services.

The Office of Management and Budget (OMB) has issued guidance on internal control activities for executive branch agencies of the Federal Government. OMB Circular No. A-123 “Management’s Responsibility for Internal Control” effective October 1, 2005, states:

- “Internal control is an integral component of an organization’s management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.”

The Circular states that management is responsible for developing and maintaining internal control activities that include monitoring. In regards to monitoring, the Circular establishes that:

- “Monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations, or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management’s continuous monitoring of internal control, which should be ingrained in the agency’s operations. If an effective continuous monitoring program is in place, it can level the resources needed to maintain effective internal controls throughout the year.”

The Federal Acquisition Regulation (FAR), located at Title 48 of the *Code of Federal Regulations* (C.F.R.) Chapter 1, was established to codify uniform policies for acquisition of supplies and services by executive agencies pursuant to the Office of Federal Procurement Policy Act of 1974 (Public Law (P.L.) 93-400, as amended). The FAR is the primary regulation used by all Federal executive agencies in the acquisition of supplies and services with appropriated funds.

² Agricultural Marketing Service (commodity purchases only), Agricultural Research Service, Animal and Plant Health Inspection Service, Farm Service Agency, Food and Nutrition Service, Food Safety and Inspection Service, Forest Service (FS), National Resources Conservation Service, Office of the Chief Financial Officer, OIG, and Rural Development.

The Agriculture Acquisition Regulation (AGAR), located at 48 C.F.R. 4, prescribes policies and procedures that implement and supplement the FAR. Additional procurement policy guidance may be found in Departmental regulations.

In 2003, Congress sought to improve contract oversight and execution by enacting the Services Acquisition Reform Act (SARA), Title XIV of P.L. 108-136. SARA requires certain civilian executive agencies to designate a non-career Chief Acquisition Officer (CAO). CAOs must have management of acquisition as their primary duty. The provision also requires executive agencies to have a senior procurement executive (SPE) who is responsible for management of the agency's procurement system.

Within USDA, the Assistant Secretary for Administration has been designated as the CAO. OPPM is part of the Departmental Administration (DA) program area and reports to the Assistant Secretary for Administration. OPPM is designated as the oversight agency for acquisition within USDA. The Director of OPPM, who reports to the Assistant Secretary for Administration, has been designated as the SPE. This designation includes monitoring of acquisition training within USDA, issuing of acquisition regulations and directives throughout USDA, and certifying contract specialists. One of OPPM's primary responsibilities is updating the AGAR and ensuring updated information is relayed to stakeholders.

Objective

Our objective was to evaluate OPPM's internal control and management practices directed to minimize fraud, waste, and abuse and to maximize the effectiveness of USDA contracting activities. Specifically, we assessed whether OPPM maintained an appropriate system of internal control over contract functions including oversight of the procurement activities of USDA component agencies.

To accomplish our objectives, we performed fieldwork at OPPM Headquarters located in Washington, D.C. We reviewed the controls in place at the time of our audit. We conducted our review through interviews and review of Federal and USDA regulations, procedures, and records. We reviewed OPPM controls over the USDA acquisition policymaking and acquisition oversight functions. Our review did not include commodity and purchase card contracting activity.

Findings and Recommendations

Section 1. OPPM Acquisition Oversight

Finding 1

OPPM Has Not Developed an Adequate System of Oversight for Component Agency Acquisition Activities

OPPM has not maintained an appropriate system of oversight over all the non-commodity and non-purchase card acquisition processes of component agencies. This occurred because OPPM relied primarily upon the Integrated Acquisition System (IAS) to ensure component USDA agencies complied with Government and USDA acquisition policies. IAS, however, cannot fully ensure compliance with such requirements as issuing solicitations and monitoring contractor performance. OPPM did not implement procedures to confirm that component agencies comply with requirements not controlled by IAS. Accordingly, USDA management has reduced assurance that component agencies followed all acquisition requirements and that taxpayer funds are protected from waste and abuse.

OMB Circular No. A-123 “Management’s Responsibility for Internal Control” states that management is responsible for developing and maintaining internal control activities that include monitoring. In regards to monitoring, the Circular establishes that:

- “Monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations, or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management’s continuous monitoring of internal control, which should be ingrained in the agency’s operations.”

AGAR, Title 48 C.F.R. § 401.6, dated January 1, 2005, states:

- “(a) The authority and responsibility vested in the Secretary to manage USDA’s acquisition function is delegated through the Assistant Secretary for Administration to the SPE. This broad authority includes, but is not limited to, the following responsibilities... (5) Evaluating and monitoring the performance of USDA’s acquisition system.”

OPPM officials stated USDA previously recognized that the component agency legacy systems did not provide standardized business processes or suitable enterprise-wide controls of acquisition activity. In response, USDA designed and implemented IAS to provide a single enterprise-wide

acquisition system. OPPM officials stated they relied upon IAS to provide controls over component agency operations. They noted that IAS:

- Eliminated stovepipe systems of component agencies;
- Interfaced with the corporate USDA accounting system;
- Provided full commitment accounting;
- Enabled the standardization of policies; and
- Divided accountability and authority between users of the system.

We did not audit IAS operations; therefore, we are providing no opinion on OPPM's description of the system or the effectiveness of its operations. At the time of our fieldwork, IAS was not fully operational throughout USDA.

As described, IAS will aid in meeting control objectives over several areas of the acquisition process. IAS produces a daily transaction report for management which provides information on system usage, transaction totals, outstanding transactions, and corporate accounting system approvals. Reports on help desk operations are also available. However, it does not provide control over all areas of the acquisition process and by itself cannot ensure that taxpayers' funds are protected from waste or abuse. For example, IAS cannot fully ensure compliance with requirements over:

- Issuing solicitations;
- Handling proposals;
- Evaluating proposals; and
- Monitoring contractor performance.

OPPM did not implement procedures to confirm that component USDA agencies comply with requirements not controlled by IAS. No controls, such as direct reviews by OPPM or alternatives such as mandated internal assessments, peer reviews consisting of component agency procurement staff reviewing each others operations, or periodic reporting to OPPM of results of any component agency internal reviews, had been established. OPPM officials stated that they have not performed direct oversight reviews since the early 1990s, because acquisition activity is delegated to component agencies. Further, they informed us that their budget requests to fund staff positions to perform oversight of component agency contracting functions have been repeatedly denied by Congress. OPPM officials did not have documentation to support these requests.

We also found incomplete data involving the Acquisition Workforce Tracking System (AWTS). OPPM needs to upgrade the AWTS so that the system can handle the volume of data from all component agencies. OPPM developed the AWTS to meet Governmentwide mandates requiring executive agencies to collect and maintain standard acquisition workforce personnel

data in a management information system. Component agencies are responsible for updating and maintaining their agency's training records using the AWTS. AWTS data elements include name, agency, acquisition career specialty, training, and contracting officer authorities. OPPM personnel informed us that while the system had data for most component agencies, few records for FS employees exist, because AWTS did not have the storage capacity to handle the high number of FS employees. Further OPPM had not established a timeframe to obtain the FS information. As the FS employed 528 (52 percent) of USDA's 1,016 GS-1102 Contracting Specialists and GS-1105 Purchasing Agents in FY 2005, this represents a substantial gap in data.

We concluded that although OPPM has taken steps to improve the control over component agency acquisition activities by designing and implementing IAS, this system does not control all the processes in the acquisition process. As a result, additional oversight of component agency activities is needed to ensure compliance with procurement requirements such as issuing solicitation and monitoring contractor performance, and to protect taxpayer funds from waste and abuse. OPPM needs to develop oversight controls for acquisition processes which are not controlled by IAS.

Recommendation 1

Develop and implement additional procedures to ensure that component agencies comply with established acquisition requirements which are not controlled by IAS.

Agency Response

OPPM agreed that additional controls through process reviews and increased IAS functionality would strengthen oversight of component agency activities. By the end of the 4th quarter of FY 2007, OPPM plans to achieve additional controls by:

- issuing policy to increase agency contract review boards specifically addressing solicitation review and proposal evaluation;
- issuing policy to strengthen agency acquisition strategy planning;
- establishing periodic reporting to OPPM of agency's results from these review boards; and
- issuing policy on the importance of monitoring contractor performance and use of the Contractor Performance System database.

OIG Position

We concur with the agency response for this recommendation and have reached management decision.

Recommendation 2

Expand the data handling capabilities of the AWTS to ensure it can handle the volume of records from all component agencies.

Agency Response

OPPM will review the workforce data volume requirements, and work to ensure that AWTS or a replacement system can handle an expanded capability by the 4th quarter, FY 2007.

OIG Position

We concur with the agency response for this recommendation and have reached management decision.

Scope and Methodology

Our review included the controls established for the corporate oversight of USDA component agency procurement activities by OPPM. Overall in FY 2005, USDA obligated approximately \$4.4 billion for procurement activity. Commodity procurements and purchase card operations accounted for \$2.7 billion and were not included in this review as these segments of USDA operations have been recently reviewed by OIG. This audit assessed the adequacy of OPPM's system of controls, including oversight, over the procurement activities of USDA component agencies for non-commodity and non-purchase card activities. We conducted our review at OPPM Headquarters located in Washington, D.C. We reviewed the controls in place at the time of our audit. We conducted our review through interviews and review of Federal and USDA regulations, procedures, and records. To accomplish our audit objectives, we:

- Reviewed Federal and Departmental mandated acquisition regulations, policies, and procedures;
- Interviewed responsible OPPM officials and staff to obtain an understanding of how they performed their responsibilities for acquisition management within USDA;
- Analyzed procurement obligation and acquisition workforce data; and
- Reviewed previous GAO and OIG audits of USDA procurement activities.

Audit fieldwork was performed from April 2005 through October 2005. Hurricane Katrina occurred during our fieldwork for this assignment. In May 2006, we obtained information on the OPPM monitoring efforts for USDA hurricane related procurement activity and information regarding the overall amount of FY 2005 USDA procurement activity. OIG has ongoing reviews of USDA Hurricane Relief activities; therefore, we did not include the activities as part of this audit.

The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

Exhibit A – Agency Response

Exhibit A – Page 1 of 4



United States
Department of
Agriculture

Office of the
Assistant Secretary
for Administration

Office of
Procurement and
Property
Management

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To: Robert W. Young
Assistant Inspector General for Audit
Office of Inspector General

From: Glenn D. Haggstrom
Director
Office of Procurement and Property Management

A handwritten signature in black ink, appearing to read "Glenn D. Haggstrom".

JAN 18 2007

Subject: OPPM Response to OIG Audit 89017-01-Hy

Attached are the Office of Procurement and Property Management (OPPM) responses to the findings identified in OIG Audit 89017-01-Hy.

If you have any questions or require additional information, please contact Todd Repass at 202-690-1060 or todd.repass@usda.gov.

Attachment

AN EQUAL OPPORTUNITY EMPLOYER

OIG Audit 89017-01-Hy
Office of Procurement and Property Management
Review of Acquisition Planning and Processing

OIG Finding 1 – OPPM Has Not Developed an Adequate System of Oversight for Component Agency Acquisition Activities

OPPM Response to Finding 1: OPPM currently performs comprehensive and detailed, systematic oversight of its procurement activities as evidenced in the recommendation response below. OPPM believes that this Finding should be revised to be “OPPM has not completed implementation of controls and oversight procedures for component agency acquisition activities outside of existing Integrated Acquisition System functionality.”

OIG Recommendation 1 – Develop and implement procedures to ensure that component agencies comply with established acquisition requirements which are not controlled by IAS.

OPPM Response to Recommendation 1 – As discussed in the OIG Audit Report, OPPM has indeed performed a comprehensive oversight evaluation of the USDA acquisition system and implemented detailed process and system capabilities for managing acquisition activities through the Department wide implementation of the Integrated Acquisition System (IAS).

OPPM, OCFO and the agencies determined that the legacy, stovepipe procurement systems which automated limited functionality and segments of the procurement function, did not provide for standardized work processes across USDA and did not provide suitable internal controls from an enterprise point of view. Under the outdated legacy systems and business processes, there were, for example,

- no assurances that sufficient funds existed before a procurement obligation was made,
- no assurances that the requisition had been approved at an appropriate management level,
- procurement reporting to oversight agencies such as GSA was found to be deficient in that there was no reconciliation between the reports produced by the (legacy) SF 279 system and the obligations recorded on the general ledger,
- no transaction based control to assure that the individual signing a contract or purchase order had the appropriate level of a contracting officer’s warrant.

Furthermore, the OIG noted such serious internal control weaknesses of some of these legacy systems, that the use of the system constituted a material weakness, OIG Report 08401-2-FM, dated February 2003.

OPPM, OCFO and the agencies led the design and deployment of new systems and business processes through the IAS implementation to overcome these control

deficiencies. OPPM established multiple oversight and user boards to communicate and manage these new, standardized business processes and system functionalities. These groups include the IAS Steering Board, IAS Configuration Control Board, IAS Business Process Committee, IAS Users Forum, and IAS Error Manager Forum.

With all delegated USDA agencies using IAS during the 3rd quarter of FY 06, OPPM was able to electronically audit a sample of 45 contracts (a sample size agreed to between OPPM and OCFO for A123 purposes) selected from the workload of nine USDA agencies to measure the effectiveness of the internal controls built into the IAS system and interface to FFIS. This audit provided reasonable assurance that effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations was being achieved. There were no material weaknesses identified through the A123 process for IAS.

Through this IAS implementation, OPPM has positioned USDA to be able to perform the most comprehensive and systematic oversight of its procurement activities at any time in its institutional history.

OPPM agrees with OIG in that additional controls achieved through enhanced process reviews and increased IAS functionality will strengthen the current oversight of component agency acquisition activities. OPPM suggests that this recommendation be revised to more appropriately read, “Implement additional procedures to ensure that component agencies comply with established acquisition requirements which are not controlled by IAS.”

OPPM plans to achieve these additional controls by:

- issuing policy to increase agency contract review boards specifically addressing solicitation review and proposal evaluation;
- issuing policy to strengthen agency acquisition strategy planning;
- establishing periodic reporting to OPPM of the agency’s results from these review boards;
- issuing policy on the importance of monitoring contractor performance and use of the Contractor Performance System database;
- enhancing IAS with additional functionality based on coordinated agency feedback and approval of the IAS Configuration Control Board (based on funding and resource availability).

OPPM is scheduled to complete bullets 1 through 4 above by the end of the 4th quarter, FY2007.

OIG Recommendation 2 – Expand the data handling capabilities of the AWTS to ensure it can handle the volume of records from all component agencies.

OPPM Response to Recommendation 2 – OPPM will review the workforce data volume requirements, and work to ensure the system or a replacement system can handle an expanded capability by 4th quarter, FY 2007.