Office of Inspector General

December 29, 2000
Evaluation Report No. 00-007

MCI Voice and Video Contract – Contract Monitoring

Office of Congressional Relations and Evaluations

DATE: December 29, 2000

MEMORANDUM TO: Arleas Upton Kea
Director, Division of Administration

FROM: Stephen M. Beard
Assistant Inspector General

SUBJECT: *MCI Voice and Video Contract—Contract Monitoring*
(EVAL-00-007)

The Office of Congressional Relations and Evaluations has completed a review of FDIC's efforts to monitor the Corporation's Voice and Video Long Distance Services Contract (Contract) with MCI WorldCom, Inc. (MCI). The objective of our review was to determine whether FDIC effectively and efficiently monitored the Contract. This report presents the results of the last in a series of reviews that we have performed of this Contract. In total, our efforts have identified monetary benefits of almost $4.2 million.

We saw evidence that oversight managers (OMs) reviewed all invoices and Contract modifications and that invoices were processed timely. Further, OMs consistently identified invoice errors related to trunk lines and taxes for which FDIC should not have been billed. OMs also monitored day-to-day telecommunication operations.

Nevertheless, contract monitoring could have been improved. In addition, ACSB and DIRM's review of invoices could have been more effective and conducted more efficiently. Several factors contributed to the monitoring issues that we identified, including frequent OM changes, and oversight coordination and communication problems. ACSB and DIRM have taken actions that should improve the efficiency of the invoice review process and have scheduled OM training that should address contract oversight coordination and communication. Further, in a draft of this report, we recommended: improved market research for contracts vulnerable to price changes, transition procedures for oversight manager changes, and contract-specific monitoring plans that would better protect the Corporation's interests.

We provided DOA with the draft report on November 8, 2000. DOA provided a written response on December 18, 2000. Management agreed with each of our recommendations. DOA's written response is included in its entirety as Appendix IV of this report. Appendix V presents our assessment of DOA's response and shows that we have a management decision for each recommendation.

EXECUTIVE SUMMARY

This report presents the results of our review of FDIC's efforts to monitor the MCI WorldCom, Inc. (MCI) Voice and Video Long Distance Services Contract (Contract). This report is our final product in a series of evaluations of the Contract. In December 1999, we reported on MCI's compliance with a price warranty clause associated with the remaining 2 years of the Contract. In September 2000, we reported on MCI's compliance with Contract terms and conditions during the first 39 months of the Contract. To date, these evaluation efforts have identified monetary benefits of almost $4.2 million.

We saw evidence that oversight managers (OMs) reviewed all invoices and Contract modifications and that invoices were processed timely. Further, OMs consistently identified invoice errors related to trunk lines and taxes for which FDIC should not have been billed. OMs also monitored day-to-day telecommunication operations. Nevertheless, contract monitoring could have been improved. Specifically, FDIC could have done more to:

- Administer the Contract price warranty,
- Assess the impact and appropriateness of the Contract intrastate surcharge, and
- Review Contract invoices more effectively and efficiently.

FDIC could have done more to ensure MCI's compliance with a Contract price warranty before executing option years to the Contract. The Contract included a price warranty to keep long distance rates competitive. Prior to the execution of each Contract option year, MCI certified in writing that its pricing was in compliance with the price warranty. FDIC accepted MCI's self-certification without requiring supporting information from MCI or conducting independent pricing research. In an earlier report, we estimated that FDIC could have saved $326,863 to $465,750 during the first 2 option years of the Contract had MCI matched pricing available to most other government agencies under Federal Technology Service (FTS) contracts.

We concluded that FDIC could have done more to assess the impact and appropriateness of a Contract modification to institute an intrastate surcharge (surcharge). MCI charged FDIC for a surcharge that was not initially supported by MCI's government tariff or the Contract. In addition, after amending the tariff and Contract to include the surcharge, MCI calculated the surcharge incorrectly. As a result, FDIC paid $1.17 million in surcharges over the first 3 years of the Contract that were not supported by tariff and risked paying almost $850,000 more in surcharges during the final 2 years of the Contract.

Finally, we concluded that ACSB and DIRM's review of invoices could have been more effective and conducted more efficiently. Several factors contributed to the monitoring issues that we identified, including frequent OM changes, and oversight coordination and communication problems. ACSB and DIRM have taken actions that should improve the efficiency of the invoice review process. ACSB and DIRM have also scheduled OM training that should address contract oversight coordination and communication.

Recommendations

For large, multi-year contracts, especially for procurements involving rapidly changing industries such as telecommunications, we believe FDIC would benefit by keeping abreast of industry trends and pricing for the purposes of making option year decisions. Accordingly, we recommended the Director, Division of Administration:

1. Expand APM Section 4.C. *Market Research*, to encourage market research as a standard contract monitoring responsibility of oversight managers for assessing the continued price reasonableness of selected procurements, such as those involving:

   - Multi-year terms being considered for option renewal,
   - Price warranties or most favored customer guarantees, and
   - Highly competitive or rapidly evolving industries.

We believe FDIC's efforts to monitor technical or complex contracts such as the MCI Contract could benefit from contract-specific monitoring plans and improved coordination and communication between contract administrators. Accordingly, we recommended the Director, Division of Administration:

2. Develop transition procedures to ensure that, when oversight manager changes occur, information and documents related to the affected contract are provided to the new oversight manager to maintain oversight continuity, and

3. For selected contracts, develop a contract-specific monitoring plan that would:

   - Identify the primary risks to the Corporation under the contract,
   - Specify a methodology or approach for reviewing contractor invoices, and
   - Delineate any contract-specific oversight responsibilities between the CO and OM

Management Response

The Director, Division of Administration (DOA), provided the Corporation's written response to a draft of this report on December 18, 2000. DOA agreed with, and provided the requisites of a management decision for, each of our recommendations.

TABLE OF CONTENTS

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of our review was to determine whether FDIC effectively and efficiently monitored the Contract. To accomplish our objective, we:

- Reviewed the Contract and modifications to understand terms, conditions, and price structure.

- Interviewed representatives from the Acquisition and Corporate Services Branch (ACSB), and the Division of Information Resources Management (DIRM) to understand their contract monitoring roles and responsibilities.

- Reviewed applicable procurement and program office files pertaining to the Contract.

- Mapped the invoice review process.

- Analyzed invoices received in 1999 to determine median invoice processing time frames.

- Reviewed applicable FDIC guidance pertaining to contract monitoring.

- Researched contract administration best practices using the Internet. We specifically reviewed publications from the Office of Federal Procurement Policy (OFPP).

- Interviewed representatives from the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) about contract monitoring best practices.

We conducted our fieldwork from March 2000 through June 2000 in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*. Our reporting of the results was delayed by other priorities, including completion of a concurrent review of MCI billings under the Contract and review of a case being presented to FDIC's Board of Directors involving technology associated with voice and video long distance services.

BACKGROUND

FDIC awarded the Contract to MCI effective November 1, 1996 for a total amount of $16.4 million over 5 years. Under the terms of the Contract, MCI provided nationwide voice and video long distance services including: outbound, inbound (800), trunks, calling cards, video teleconferencing, fax and dial-up data services. From Contract inception through January 2000, MCI billed almost $9 million under the Contract.

The Contract included a price warranty clause that required MCI to adjust Contract pricing each option year to match pricing offered to other MCI customers or otherwise available under General Services Administration (GSA) contracts. The primary intent of the price warranty was to keep FDIC long distance rates competitive with rates available under GSA's Federal Technology Service (FTS). During the first few years of the contract, AT&T and Sprint were vendors under FTS2000. In December 1998 and January 1999, GSA selected Sprint and MCI respectively as vendors under FTS2001. In an earlier report, we estimated that FTS rates decreased by about 30 percent over the first 3 years of the Contract.[1]

In addition to the Contract price schedule, FDIC's long distance rates were regulated by MCI Telecommunications Corporation Tariff FCC No. 7, *Government Telecommunications Services* (Tariff No. 7), originally effective February 22, 1991. It appears that Option No. 388 of the Tariff provided for most of the domestic rates and charges paid by FDIC under the Contract. Until May 2000, tariffs were the governing document in common carrier relationships with customers. In short, when discrepancies existed between a tariff, contract, or any other statement or promise made by a carrier, such as MCI, the tariff prevailed.

With respect to contract administration and monitoring, ACSB was responsible for administration of the Contract. DIRM's Telecommunications Section was responsible for contractor oversight. Both ACSB and DIRM shared responsibility for certain contract-monitoring functions, such as the invoice review process.

PRICE WARRANTY CLAUSE

FDIC could have done more to ensure MCI's compliance with a Contract price warranty before executing option years to the Contract. Prior to the execution of each Contract option year, MCI certified in writing that its pricing was in compliance with the Contract. MCI did not change its rates as the result of any of the price warranty certifications for the first 3 option years. FDIC accepted MCI's self-certification without requiring supporting information from MCI or conducting independent pricing research.

MCI's self-certification was legally sufficient to comply with the price warranty. Thus, FDIC officials believed they had accomplished the intent of the price warranty. However, FDIC and MCI established the FTS program as the pricing standard for evaluating the price competitiveness of the MCI Contract. In our opinion, obtaining an annual price comparison between the FTS program and the MCI Contract, especially once MCI became an FTS vendor, would have been a prudent contract-monitoring step.

Price Warranty Was Included in the Contract to Keep Rates Competitive

In October 1996, the Senior Contract Specialist issued a Recommendation for Award memorandum to the Associate Director, Acquisition Services Branch (ASB). This memorandum discussed the process that ASB and DIRM followed for awarding the Contract to MCI, including the price comparison conducted between MCI's offer and similar services provided by AT&T under FTS2000. The price comparison found that MCI's pricing was substantially lower than

[1] *MCI Voice and Video Contract-Intrastate Surcharge and Other Compliance Issues* (EVAL-00-005), dated September 29, 2000

FTS2000. However, the memorandum noted that FTS2000 included price control mechanisms that could erode price differences in the later years of the Contract and recommended that ASB periodically verify price reasonableness using the Contract price warranty provision, as follows:

> "…ASB recommends the administrative contracting officer compare prices at the end of each contract year (before exercising the option) to ensure FDIC continues to receive competitive, cost-effective pricing during the life of the contract."

Price Warranty Monitoring Responsibilities Needed Clearer Definition

We concluded that responsibility for monitoring the price warranty could have been more clearly defined. There was some confusion between ACSB and DIRM regarding how the price warranty should have been implemented and monitored. In our opinion, future contracts with price warranties could benefit from a clear delineation of monitoring roles, responsibilities, and expectations between the procurement and program offices at contract inception.

Section 7.D.3.b. of FDIC's *Acquisition Policy Manual* (APM) charges the OM with determining the level of oversight necessary to adequately monitor the contract, including developing a monitoring plan for considering the complexity of various deliverables and overseeing such things as deadlines, time frames, and inspection and acceptance requirements. We did not find any relevant criteria in the APM that addressed price warranties or guidance for conducting price reviews before executing contract options.

Section 7.B.5 of the APM also requires the CO to prepare a Contract Administration Plan (CAP) for all contracts with total estimated value of $100,000 or greater to ensure the OM and CO have a common understanding of both the contractor's and FDIC's obligations under the contract. The CAP should address deliverables due, list contract modifications, reconcile invoices paid against the contract ceiling price, and list option dates and option notice dates that are required to be provided to the contractor. The CAP also establishes agreement between the CO and OM as to what constitutes acceptable performance. ACSB and DIRM did not prepare a monitoring plan or CAP for this Contract.

During interviews, we noted that FDIC contract and program officials held differing views about whose role it was to monitor the price warranty and how monitoring should have been accomplished. For example, the Chief, Telecommunications Section told us that he was aware that long distance rates had decreased and that FDIC was paying too much for long distance. However, he stated that DIRM did not have a vehicle to verify specific rates with vendors or to communicate that knowledge to ACSB. The Section Chief pointed out that a few years ago the program office was not allowed to contact vendors. As discussed later, ACSB began allowing OMs to contact vendors about 2 years ago and added a section to the APM on market research in March 2000.

The CO indicated that ACSB had, in fact, monitored the warranty by requiring MCI to certify its compliance with the price warranty before exercising each option year. However, the Chief, Headquarters Operations Unit, concluded that the price warranty was ACSB's responsibility and concluded that ACSB could have done more to monitor MCI's compliance with the warranty.

In our view, price warranty monitoring was a shared responsibility. Consistent with the APM's "team concept," ACSB or DIRM's Contract Management Section (CMS) should have been responsible for tracking the price warranty event, reviewing pricing, and pursuing any warranty-related pricing negotiations. The OM and Telecommunications Section should have been responsible for monitoring industry trends and developments and assessing whether pricing was reasonable. In a separate report, we estimated that FDIC could have saved $326,863 to $465,750 over the first 2 contract option years, had MCI honored the terms of the price warranty and lowered its long distance rates commensurate with rates available under FTS2000.[2] In our opinion, FDIC might have achieved those savings had the Corporation clearly delineated responsibilities and established a more thorough process for monitoring the Contract price warranty.

Most DIRM contracts were multiple-year, time and materials (T&M) contracts awarded to vendors from the GSA Federal Supply Schedule (FSS). At the time of our review, DIRM had four contracts with price warranty clauses, of which two were the MCI Voice and Video and MCI Wide Area Network (WAN) contracts. Shortly after our initial review of the Contract price warranty, ACSB initiated price warranty discussions with MCI under the WAN contract.[3] The CO informed us that during his tenure at FDIC he was unaware of the Corporation ever enforcing a price warranty. The CO further questioned the benefit of price warranties given the difficulties that DIRM and ACSB had encountered enforcing the MCI Voice and Data contract warranties.

Opportunities Existed for Managing Contract Pricing Through Option Year Negotiations

A broader issue facing FDIC is whether the Corporation should make more of an effort to negotiate option year pricing under multi-year agreements prior to exercising contract options, especially within rapidly changing industries such as telecommunications. Long distance pricing dropped significantly over the term of the Contract. Since the start of the FTS2000 contract in 1988, usage rates dropped from a national average of 27 cents per minute to a fiscal year 2000 estimate of 4.1 cents per minute. GSA reported that per minute prices would drop to less than 1 cent per minute by the end of the FTS2001 contract.

The March 31, 2000 version of the APM included a new section with guidance for performing market research. The APM encouraged program offices to conduct market research when planning for future acquisitions and for identifying firms and goods or services available in the marketplace. The APM allows program offices to make contacts with industry sources and representatives to keep abreast of current industry developments. The APM did not discuss market research in the context of making option year decisions.

---

[2] *Ibid.*
[3] *MCI Voice and Video Contract—Price Warranty*, (EVAL-99-009), dated December 20, 1999.

The Federal Acquisition Regulation (FAR) Part 17.207, *Exercise of Options,* indicates that a CO should exercise options only after determining that the option is the most advantageous method of fulfilling the Government's need, considering price and other factors. The FAR requires the CO to make his determination to exercise the option on the basis that: "An informal analysis of prices or an examination of the market indicates that the option price is better than prices available in the market or that the option is the more advantageous offer." FDIC was not required to follow FAR.

Several of the other banking agencies that we visited were not required to follow FAR, but did so as a matter of course. Representatives from OTS and FRB told us their procurement functions implemented the spirit of FAR and routinely conducted market-pricing reviews prior to exercising option years for multi-year contracts. For example, FRB's Procurement Section used option year decisions to ensure that contract pricing remained competitive. At each option year, the Contract Specialist (CS) verified that contract pricing was still competitive within the industry. FRB used the option year decision to negotiate more competitive pricing with the vendor. The CS and Contracting Officer's Technical Representatives (COTRs) read trade journals, news articles and other periodicals to keep abreast of industry developments. Further, FRB's option year price review was a shared responsibility--the CS made the actual calls to vendors to request pricing quotes and the COTR reviewed the quotes to ensure pricing was valid and comparable.

For large, multi-year contracts, especially for procurements involving rapidly changing industries such as telecommunications, we believe FDIC would benefit by keeping abreast of industry trends and pricing for the purposes of making option year decisions. FDIC would be in a better position to assess whether existing pricing was reasonable, and possibly seek pricing reductions, regardless of the whether the contract had a price warranty or other guarantee. Indeed, MCI's rationale for agreeing to provide FTS2001 pricing under the Voice Contract was not because MCI agreed with the price warranty, but because FDIC was a valued customer. One could argue that FDIC achieved FTS2001 pricing because of competition within the industry, not because of the Contract price warranty.

Accordingly, we recommended the Director, DOA:

1. Expand APM Section 4.C. *Market Research*, to encourage market research as a standard contract monitoring responsibility of oversight managers for assessing the continued price reasonableness of selected procurements, such as those involving:

    - Multi-year terms being considered for option renewal,
    - Price warranties or most favored customer guarantees, and
    - Highly competitive or rapidly evolving industries.

INTRASTATE SURCHARGE

MCI inappropriately applied a surcharge on FDIC intrastate calls. FDIC paid $1.17 million in surcharges over the first 3 years of the Contract that were not supported by tariff and risked paying almost $850,000 more in surcharges during the final 2 years of the Contract. FDIC took some steps to protect the Corporation's interests. However, we concluded that FDIC could have done more to assess the impact and appropriateness of the surcharge.

History of Surcharge

MCI billed a per-minute surcharge for most of FDIC's intrastate calls. This surcharge was not included in the original Contract price schedule. FDIC questioned MCI about the charge and withheld payment to MCI for about a year. MCI informed FDIC in early 1997 that its tariff allowed MCI to bill the surcharge. However, it does not appear that MCI modified its tariff to include the surcharge until late 1997. FDIC signed a payment agreement with MCI in April 1998 for intrastate surcharges billed, but not paid, during 1997.

In a prior report, we identified inconsistencies between the Contract and Tariff No. 7 regarding how MCI should have calculated the surcharge and concluded that, of the $1.2 million that MCI billed for the surcharge, almost $1.17 million was not supported by the tariff.[4] At our suggestion, ACSB asked MCI to discontinue the surcharge, to which MCI agreed effective February 2000. Overall, we identified and reported questioned costs and funds put to better use totaling $2 million associated with the intrastate surcharge. MCI agreed to refund past surcharges and eliminate future surcharges totaling $1.72 million.

Contract Modification Was Within Contracting Officer's Delegated Authority

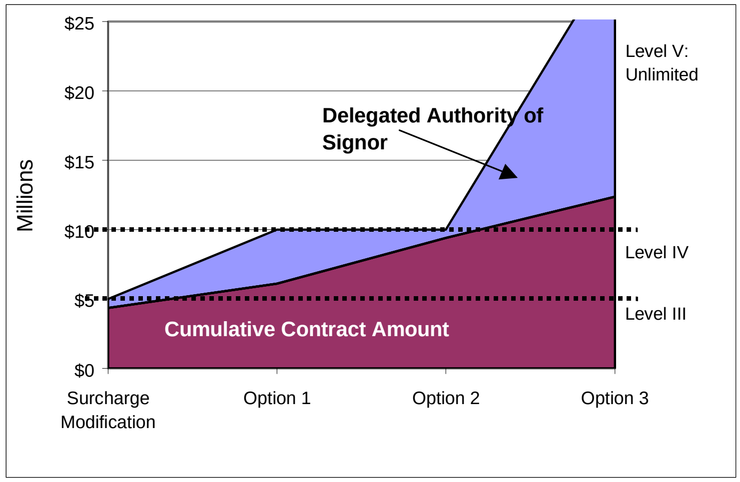
We concluded the CO acted within his delegated authority when he approved the modification to institute the intrastate surcharge and signed the payment agreement. FDIC required that contracts for goods or services be executed by a warranted CO appointed by FDIC. ACSB administered a five-tiered CO Warrant Program based on contract officer training, experience and position. The CO for the Contract was a Level III officer and had the authority to execute:

- Contracts including task orders, delivery orders, and purchase orders with total estimated value, including options, up to $5,000,000;
- Administrative changes and modifications where the change or modification resulted in total fees for the modified contract or task order not exceeding $5,000,000; and
- Basic Ordering Agreements with approved expenditure authority not in excess of $5,000,000.

[4] *MCI Voice and Video Contract—Intrastate Surcharge and Other Compliance Issues.*

The CO explained that for multi-year contracts, such as the MCI Contract, once cumulative procurement costs, including obligated funds and modifications, exceeded the CO's contract execution authority, all subsequent modifications had to be executed by a higher-tiered CO with the adequate level of authority. For example, the Associate Director, ACSB signed the original Contract because it was valued at more than $15 million. The CO was able to sign modifications during the base year of the Contract until the cumulative Contract value exceeded $5 million. The Chief, Headquarters Operations Unit, a Level IV CO, then signed modifications until cumulative costs exceeded his authority. Figure 1 presents the cumulative Contract amounts over the first few years of the Contract, and the corresponding delegated authority amounts of the signors.

Figure 1: Delegated Authority Levels Under the Contract



Source: Interviews and contracting file.

FDIC Took Steps to Protect the Corporation's Interests

We found that ACSB and DIRM did take some steps to protect the Corporation's interests while negotiating the surcharge. First, ACSB and DIRM initially rejected MCI surcharge invoices and refused to pay MCI invoices for about a year while discussing the surcharge. Second, ACSB and DIRM attempted to negotiate better surcharge terms to reduce the cost impact to FDIC.

The APM states a change to a contract is considered substantive if it alters the rights and obligations of the parties. An example of a substantive change is a change in the amount of fees to be paid to the contractor, as was the case with the modification instituting the intrastate surcharge. The APM outlines steps the OM and CO should take prior to executing a substantive change to a contract. Table 1 presents those steps:

Table 1: OM and CO Responsibilities for Executing Substantive Contract Modifications

Oversight Manager Responsibilities:	Contracting Officer Responsibilities:
• Identify the requirement for a modification; • Determine whether the modification cost will exceed approved expenditure authority; • Prepare a detailed, written explanation of the reason for and nature of the change or modification; • Jointly with the CO, participate in any contractor negotiation pursuant to the need for the modification; and • If appropriate, provide a Justification for Noncompetitive Procurement.	• Determine whether the requested modification is within the scope of the contract; • With the support of the OM, negotiate changes required by the modification; • Execute the modification with the contractor; • Provide executed originals of the modification to the contractor and the contract file; and • Provide a copy of the modification to the OM. • Determine whether the Legal Division should review the proposed modification to confirm it is within the scope of the contract.

Source: FDIC's Acquisition Policy Manual

The OM and CO generally complied with most of the responsibilities listed above in executing the intrastate surcharge modification. However, in carrying out these responsibilities, we believe ACSB and DIRM could have gained a better understanding of the impact and appropriateness of the surcharge by:

- Performing a more in-depth cost analysis,
- Requesting supporting tariff documentation from MCI, or
- Requesting that the Legal Division review the tariff.

As noted earlier, the impact of the intrastate surcharge on the MCI contract was fairly significant. We estimate the intrastate surcharge increased contract expenditures by about 13 percent. However, we concluded that our observations related to the intrastate surcharge were neither systemic nor common to other DIRM contracts. Further, FDIC has been successful in recouping most of the past intrastate surcharge costs and eliminating future surcharges. Accordingly, we are not making recommendations for the Corporation related to the intrastate surcharge.

INVOICE REVIEW PROCESS

We saw evidence that all Contract invoices received some level of review and were generally processed timely. Further, ACSB and DIRM consistently identified recurring invoice errors related to trunk lines and taxes for which FDIC should not have been billed. DIRM also monitored day-to-day telecommunication operations. However, we concluded that ACSB and DIRM's review of invoices could have been more effective and conducted more efficiently. Several factors contributed to the monitoring issues that we identified, including frequent OM changes, and oversight coordination and communication problems. ACSB and DIRM took actions that should improve the efficiency of the invoice review process. Further, ACSB and DIRM scheduled OM training that should address contract oversight coordination and communication.

FDIC Processed Invoices Consistently and Timely

MCI submitted monthly invoices to FDIC. ACSB consistently date stamped, filed, and entered invoice information into the Correspondence Control Management (CCM) and Accounts Payable and Purchase Order (APPO) systems, and forwarded invoices timely to DIRM for review. CMS received, logged, and distributed invoices to the appropriate OM, and then monitored the status of the invoice review process within DIRM. We saw evidence that the OM generally reviewed all invoices. The OMs consistently identified recurring unsupported charges such as taxes for which FDIC should not have been billed and charges for trunk lines that had been disconnected. In most cases, CMS and the OM processed MCI invoices well within ACSB-established invoice review time frames. Further, the OM monitored invoice amounts against the Contract ceiling as required by the APM.

Oversight Manager Changes Impacted Oversight Continuity

The continuity of oversight was impacted by frequent OM changes. We identified at least seven OM changes over the term of the MCI Contract. In fact, the Contract had four different OMs during a 10-month period concurrent with our evaluations. We saw indications that new OMs were not always receiving the historical Contract information that they needed to perform adequate oversight. For example, one OM that we spoke with had not seen a copy of the Contract. Another OM was unaware of Modification No. 24, signed in February 2000, which imposed FTS2001 pricing and eliminated the intrastate surcharge. Table 5 presents the timing of OM changes and corresponding significant events under the Contract.

Table 5: Oversight Manager Changes

Period	OM Changes	Significant Contracting Event
1996		
4th Qtr		Contract Award
1997		
1st Qtr	X	Intrastate Surcharge
2nd Qtr		Intrastate Surcharge
3rd Qtr		Intrastate Surcharge
4th Qtr		Intrastate Surcharge Price Warranty
1998		
1st Qtr	X	Intrastate Surcharge
2nd Qtr	X	
3rd Qtr	X	Price Warranty
4th Qtr		
1999		
1st Qtr		
2nd Qtr		
3rd Qtr	X	Price Warranty
4th Qtr		
2000		
1st Qtr	X	Rate Change (Mod 24)
2nd Qtr	X	

Source: ACSB and DIRM Contract Files

Neither the APM nor the *Oversight Manager Training* program addressed transition of oversight responsibilities. We concluded that a process for transitioning historical oversight information between OMs would have helped to maintain oversight continuity under the Contract. We believe ACSB could accomplish this through a brief checklist or by expanding the contents of the CAP.

ACSB and DIRM Could Have Reviewed Invoices More Effectively

The APM included guidance clarifying CO and OM invoice review responsibilities. The APM consistently stressed the importance of a team approach to contracting. Table 2 presents relevant APM guidance.

Table 2: APM Invoice Review Responsibilities

Manual Reference	APM Guidance
APM 7.A.1.d.	Contract administration is performed primarily by the Oversight Manager and Contracting Officer, who function as a team. The Contracting Officer is the focal point between FDIC and the contractor regarding contract administration. The Oversight Manager is the focal point between FDIC and the contractor regarding contractor oversight. These responsibilities must be closely coordinated to avoid apparent contradictions and to present a single FDIC position to the contractor.
APM 7.B.2	Contracting Officer and Oversight Manager should verify costs incurred and billed to FDIC under the contract and monitor expenditures against the contract ceiling.

Manual Reference	APM Guidance
APM 7.G.1	In order to successfully monitor contract performance, the Oversight Manager must fully understand the contractual requirements and perform the following functions: • Ensure that costs incurred are in accordance with the contract rate schedule and within the contract ceiling price; • Review invoices to ensure accuracy and verify technical acceptance of goods or services delivered.
APM 7.I.6.b.	Contractor invoices will be reviewed by ASB and the appropriate Oversight Manager prior to payment. • The Contracting Officer is primarily responsible for reviewing the invoice to ensure that it is correct, complies with the terms and conditions of the contract and total contractor payments, and payments in process do not exceed the specified contract, purchase order or task order contract limits and program office approved expenditure authority. • The Oversight Manager will review the contractor invoice to ensure the invoice properly reflects the goods and services received; all goods and services billed have been inspected and accepted; the total payments and payments in process do not exceed the contract ceiling price and the approved expenditure authority; and the invoice does not contain any errors or discrepancies.
APM Exhibit XX	Invoice Review Checklist for Oversight Managers. The checklist includes the following: • Are the invoices mathematically correct and do amounts on the attached summary sheets, supporting schedules or receipts agree with the invoiced amounts? • Have the services been itemized and billed at the units and rates contained in the contract, purchase order or task order fee schedule?

Source: FDIC's Acquisition Policy Manual

The APM called for a dual review of invoice charges by ACSB and the program office. However, the original OM had a strong telecommunications background and the technical knowledge to comprehensively review invoices. Thus, ACSB and DIRM mutually agreed to forego the CS' review of invoices and rely solely on the OM's review. The CS signed invoices, but did not verify the accuracy of invoice charges.

As discussed above, a number of OM changes occurred over the term of the Contract and the OM invoice review arrangement was apparently not communicated to succeeding OMs. The OM in place at the time of our review was unaware of the CS' limited involvement in the invoice review process. In June 2000, the CO indicated that ACSB had resumed having the CS review invoices for accuracy.

DIRM OMs did review invoices, but it appeared the OMs primarily concentrated on trunk lines and specific feature charges that MCI had historically billed incorrectly. For example, MCI routinely billed for a trunk line at one of the Pennsylvania Avenue buildings that had been disconnected early in the Contract. MCI also incorrectly billed for Wide Area Telecommunications (WATs) service, and occasionally, for Federal and State taxes. The Corporation consistently identified and disallowed those charges. However, we did not see evidence that OMs analyzed invoice summary or detail pages, or performed reasonableness tests of invoice charges for long distance usage charges that constituted the bulk of the billings.

ACSB and DIRM staff consistently referenced the complexity of the Contract and volume of invoices as challenges in monitoring the Contract. Each month, MCI provided six separate invoices for telecom services containing thousands of pages of call detail records (CDR). MCI also provided VNET and 800 CDRs in electronic format. Further, some charges, such as usage rates for international calls were not addressed in the price schedule and instead were contained in MCI's Tariff No. 7.

Nevertheless, most of the Contract rates were based on postalized, per minute or per call rates that were clearly stated in the price schedule. Each invoice was also supported by a usage summary that totaled calls, minutes and charges. We estimate that the CS and OM could have assessed the reasonableness of more than 90 percent of the Contract charges using the usage summary pages and rates contained in the price schedule. Table 3 presents an example of a spreadsheet that FDIC could use to assess the reasonableness of contractor billings. The CS or OM would enter invoice information into columns B and C, price schedule rates into column D, then use the spreadsheet program to calculate columns E and F.

Table 3: Example Invoice Review Checklist for VNET Calls

(A)	(B)	(C)	(D)	(E)	(F)
Access Type	**Invoice Charges**	**Minutes**	**Contract Rate**	**Oversight Calculation**	**Difference**
Dedicated Access					
Dedicated	$ 14,770.47	369,454.8	$ 0.040	$ 14,778.19	$ (7.72)
Shared	$ 34,648.50	526,664.7	$ 0.065	$ 34,233.21	$ 415.29
Dial-1 Access					
Dedicated	$ 2,622.04	39,387.9	$ 0.065	$ 2,560.21	$ 61.83
Shared	$ 15,112.21	148,619.0	$ 0.100	$ 14,861.90	$ 250.31
Totals	$ 67,153.22			$ 66,433.51	$ 719.71

Source: OIG Generated.

Such a spreadsheet could be used to assess the reasonableness of VNET, 800, and Calling Card calls. FDIC could further assess invoice reasonableness through:

- Trend analyses—whether overall charges for services are fairly constant over time or consistent between regional and field offices.

- Reconciliation with Trunk Line activity—whether invoice usage information agrees with individual trunk line statistics.

Such contract monitoring steps might not be necessary or appropriate for all contracts. ACSB and the program office should determine the need for such steps based on contract cost, complexity, and risk to the Corporation. ACSB noted that the APM already required development of a CAP for all procurements with fees exceeding $100,000 and suggested that the CAP could be expanded to include monitoring steps specific to a particular contract.

ACSB and DIRM Could Have Reviewed Invoices More Efficiently

ACSB established informal invoice review time frames for complying with Prompt Payment Act provisions. These time frames were loaded into CCM and used to monitor the status of invoice processing by the procurement office, program office, and Division of Finance (DOF) Disbursement Operations Unit. Table 4 presents ACSB's invoice review time frames.

Table 4: Invoice Review Time Frames

Division	Staff/Office	Calendar Days Per Individual	Total Days Per Division
ACSB	Procurement Analyst	2	8
	Contract Specialist	6	
DIRM	Contract Management Section	3	11
	Oversight Manager	8	
DOF	Disbursement Operations Unit	6	6
Total			25

Note: Unless otherwise noted, all time frames are expressed in calendar days.
Source: ACSB

We reviewed processing time frames for MCI Contract invoices received during 1999. ACSB's informal invoice processing time frames allowed ACSB and the OM 8 days each to review an invoice. We found that for invoices received during 1999, ACSB spent a median of 2 days and OMs spent a median of 4 days reviewing invoices. Appendix I, Figures 3 & 4 present the results of our analysis.

We mapped the invoice process and identified several opportunities for streamlining the process without impacting the quality of the invoice review. Appendix I, Figure 5 presents a process map of the MCI invoice review process. The shaded process blocks signify those steps that we believed could be consolidated, eliminated or conducted concurrently to allow the OM more time to review the invoice. Individually, none of these steps consumed an inordinate amount of time. However, all told, these steps reduced the OM's review time by almost 50 percent.

- Invoice tracking within DIRM: During the period of our review, all MCI invoices processed through DIRM started and ended with CMS. A CMS management analyst logged receipt of each invoice into CCM, recorded a date when the invoice should be returned to CMS--8 days from the date of invoice receipt by DIRM, distributed the invoice to the appropriate OM, and filed a copy of the invoice in a tickler file. The management analyst then reviewed the tickler file daily for invoices in process that exceeded the 8-day time frame. Following the OM's review, the invoice was sent back to CMS. The management analyst removed the invoice from the tickler file, logged the invoice out of CCM and forwarded the invoice to DOF for processing and payment. Our understanding is that CMS will be largely removed from the invoice process under FDIC's new invoice processing system, which is discussed below.

- Budget verification: The invoice was next forwarded to a Telecommunications Section computer specialist (Specialist) before and following the OM's review. The Specialist monitored the contracting budget for each of the Telecommunication Section's contracts. The Specialist entered the invoice amount into a stand-alone spreadsheet program to verify that contract expenditures were within the approved contract budget authority. Following the OM's review, the Specialist again received the invoice package and recorded the actual invoice amount approved by the OM into the spreadsheet. We believed these two steps could be consolidated and/or conducted concurrently outside of the direct invoice review process.

- Project code reconciliation: The invoice was next forwarded to a management analyst (Analyst) within DIRM's Fiscal Management Section who ensured that contract expenditures were properly allocated to DIRM project codes. However, all of the contract expenditures under the MCI Contract fell under a single project code. The Analyst indicated that he simply initialed the invoice package and forwarded it to CMS. The Analyst indicated that, in his opinion, there really was not a need for him to see invoices from the MCI Voice and Video or MCI WAN contracts.

Based on our work, DIRM has already eliminated each of the above-mentioned steps from the MCI Contract invoice process. We believe DIRM's actions should provide the OM a greater amount of time to review invoice charges. It should be noted that Figure 5 is specific to the MCI Voice and Video and MCI WAN Contracts and does not necessarily present the invoice process for other DIRM contracts. The Chief, DIRM Contracts Unit told us that ACSB and DIRM were reviewing the efficiency of business processes for other DIRM contracts concurrent with our review.

Moreover, in September 2000, FDIC began implementation of the Electronic Procurement Request and Invoicing System (EPRIS), a 2-phased, DOA-led project, to redesign FDIC's invoice routing and approval process. EPRIS will implement the routing and approval functionality of the Accounts Payable and Purchase Order System (APPO) and eliminate the use of CCM to process invoices. Under phase 1a, information from paper invoices will be manually entered into EPRIS, then routed and approved electronically. Under phase 1b, scheduled for implementation by year-end 2001, vendors will submit invoices electronically via the Internet. The physical flow of information will also change under EPRIS. Invoices will be provided to the CS and OM concurrently for parallel review. We also understand that CMS will no longer be involved in the invoice process since EPRIS will presumably route invoice information to the appropriate OM and automatically monitor processing time frames.

In our opinion, the concurrent review of invoices planned under EPRIS makes sense from a process efficiency standpoint and should afford the CS and OM a greater amount of time to ensure that invoices are accurate and reflect the services received.

We researched the Internet and identified best practices for contract administration developed by the Office of Federal Procurement Policy (OFPP). The results of our research and excerpts from an OFPP guide are included as Appendix II. We also spoke with three federal banking agencies to solicit best practices for monitoring information technology contracts and processing invoices.

None of the three agencies involved their procurement office in the invoice review process. At FRB and at OTS, invoices were sent directly to the COTR for invoice review, then forwarded to the accounting department for payment.[5] At OCC, telecommunications invoices were received by the accounting section and forwarded to Information Technology Services, where the invoice was reviewed by a section similar to CMS, then returned to the accounting department for payment. A summary matrix of the results of our discussions with FRB, OCC and OTS is included as Appendix III.

Oversight Coordination and Communication Could Be Improved

In each of the above observations, oversight coordination and communication between ACSB and DIRM could have been improved. The OIG has also reported coordination and communication issues associated with other DIRM contracts. CMS, DIRM's contract liaison function, had several controls in place to coordinate procurement activity, including maintaining contract-specific files to identify contracting events such as option year decisions and holding weekly status meetings with ACSB to discuss individual contract issues. Nevertheless, communication regarding this contract was not always as good as it needed to be.

Regardless of the number of controls, processing systems, or status meetings, the ultimate success of contract monitoring depends largely on how well contract administrators understand individual procurements and apply that knowledge when making day-to-day contract monitoring decisions. Specifically, it is critical that CS and OMs understand the:

- Terms and conditions of the contract,
- Nature and impact of all modifications and changes to the contract,
- Delineation of contract administration and monitoring responsibilities,
- Risks that the contract poses to the Corporation,
- Specific approach to be used for monitoring performance and assessing billings under the contract, and
- Industry or business that is the subject of the procurement.

DIRM and ACSB have scheduled training sessions with OMs to discuss oversight coordination and issues arising from recent OIG audits. We understand these sessions will include a discussion of specific OM and CS responsibilities and contract monitoring expectations.

We believe the efforts that ACSB and DIRM have taken or planned will help to improve the effectiveness and efficiency of FDIC's contract administration efforts, particularly in the invoice review process. However, we believe FDIC's efforts to monitor technical or complex contracts such as the MCI Contract could benefit from contract-specific monitoring plans and improved

[5] COTR is the FAR term used to describe the role of the OM; the technical administrator of government contracts.

coordination and communication between contract administrators. Accordingly, we recommended that the Director, DOA:

2. Develop transition procedures to ensure that, when oversight manager changes occur, information and documents related to the affected contract are provided to the new oversight manager to maintain oversight continuity, and

3. For selected contracts, develop a contract-specific monitoring plan that would:

   - Identify the primary risks to the Corporation under the contract,
   - Specify a methodology or approach for reviewing contractor invoices, and
   - Delineate any contract-specific oversight responsibilities between the CO and OM

Monitoring plans may not be necessary for all procurements. We suggest that ACSB develop criteria, such as dollar value of contract, type of contract (e.g., fixed price, T&M), and complexity of the contract for when contract-specific monitoring plans would be required. ACSB suggested the CAP could be expanded to include sections for contract-specific monitoring plans and for maintaining oversight continuity during OM transitions.

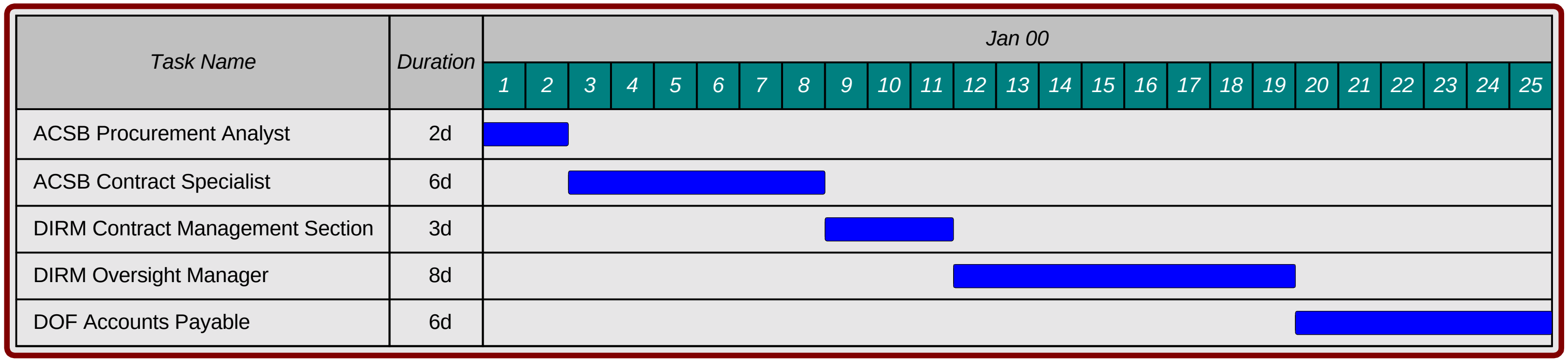
CORPORATION COMMENTS AND OIG EVALUATION

The Director, DOA provided the Corporation's written response to a draft of this report on December 18, 2000. The response is presented as Appendix IV to this report. Appendix V presents our assessment of DOA's response and shows that we have a management decision for each recommendation.

APPENDIX I: PROCESSING TIME FRAMES FOR REVIEWING INVOICES

ACSB developed target processing time frames for Contract and program office staff to follow when reviewing and approving invoices. Figure 3 presents ACSB's time frames by function.

Figure 3: ACSB Invoice Processing Time Frames



We reviewed MCI Voice and Video Contract invoices received during 1999 and analyzed elapsed time frames for each step of the invoice review process. ACSB and the OM should have collectively had about 16 days to review an invoice. Based on our review, we determined ACSB was only using 2 days to review invoices and the OM was only using 4 days, for a total of 6 days. Figure 4 presents the results of our analysis of 1999 invoices.

Figure 4: 1999 Median Invoice Review Time Frames

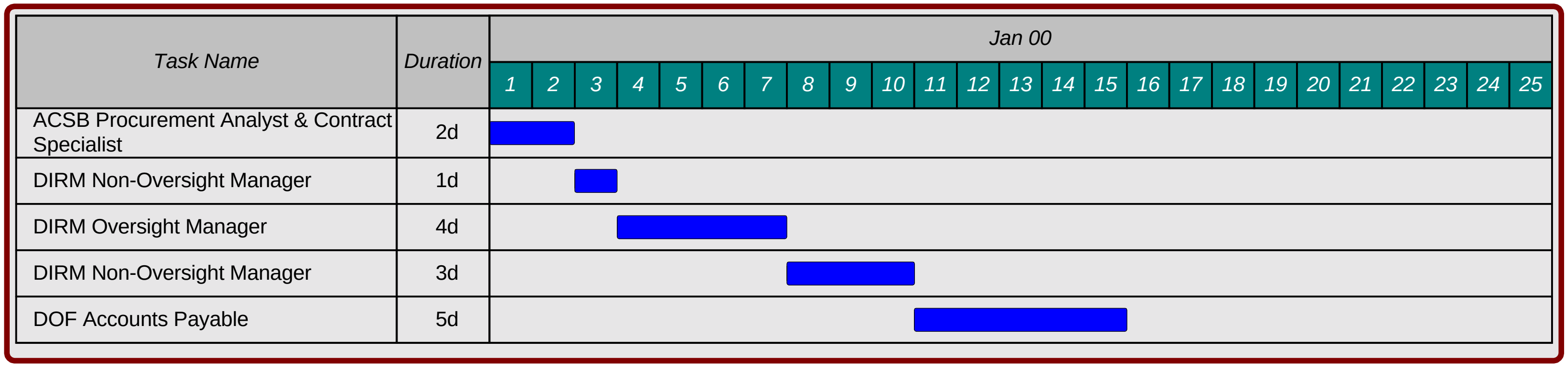
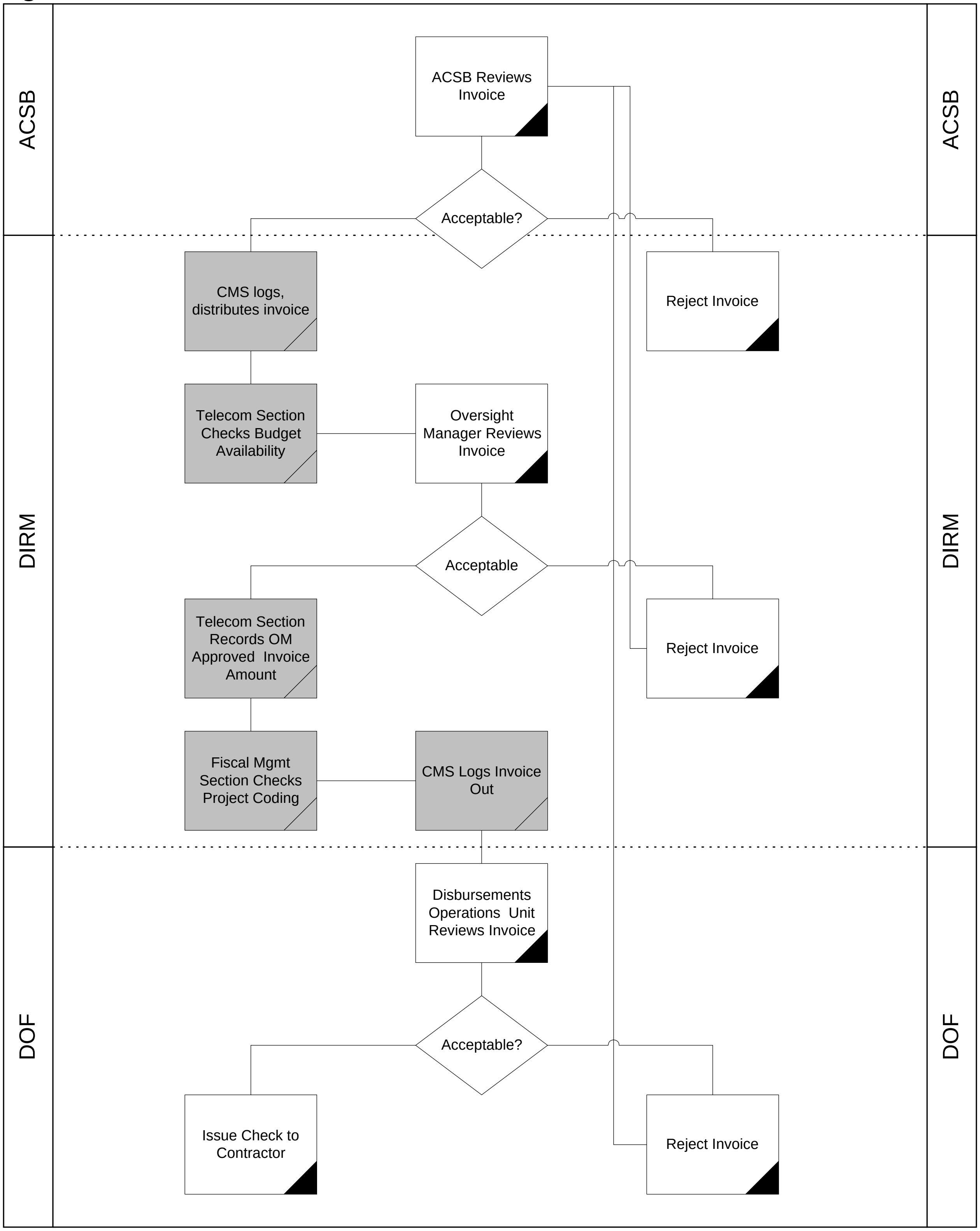


Figure 5: MCI Contract: Invoice Review Process



Note: Shaded boxes represent process steps that we suggested could be eliminated or consolidated. DIRM eliminated each of these steps from the Contract invoice review process during our review.

APPENDIX II: CONTRACT ADMINISTRATION BEST PRACTICES

Federal procurement administration has attracted more than its share of executive and legislative interest over the years, from the Vice President's National Performance Review (NPR) to Congress' Federal Acquisition Streamlining Act of 1994. Along those lines, the Office of Federal Procurement Policy (OFPP) developed several best practices documents, including a 1994 guide addressing contract administration. The OFPP interviewed contracting officials with major departments and agencies, as well as the private sector, to develop the guide. OFPP focused on the role of the COTR, identified a number of recurring concerns, and developed best practices to address those concerns. Several of these areas parallel observations raised in this report, such as communication and coordination, clarity of roles and responsibilities, and invoice review expectations.

Contract Administration Best Practices
"The principal problem is that contracting officials often allocate more time to awarding contracts rather than administering existing contracts. This often leads to problems in contractor performance, cost overruns, and delays in receiving goods and services. Several other deficiencies have been noted such as unclear roles and responsibilities of the [COTR]…improperly trained officials performing contract oversight, unclear statements of work that hinder contractor performance, and inadequate guidance on voucher processing and contract closeout."

OFPP Guide to Best Practices for Contract Administration, October 1994

Table 6 presents excerpts from OFPP's guide for Contract Administration. To its credit, the Corporation has implemented several of these practices, such as (1) offering OM training courses, (2) employing a "team approach" to contract administration, and (3) defining general OM roles, responsibilities, and limitations of authority through OM letters of confirmation.

Table 6: Excerpts from OFPP's Best Practices for Contract Administration Guide

Concern	Best Practice

Lack of OM training.	• Establish OM training and certification program:
	  • Continuing education requirements, refresher courses.
	  • Training specific to program effort, especially for complex or technical subjects.
	  • Training level correlated to dollar value and complexity of contracts.
	  • Other courses such as statement of work preparation, project management training, performance-based service contracting

Undefined OM roles and responsibilities	• Emphasize team concept—prepare joint partnership agreement between CO and OM to define how the parties will work together, including milestones for the various actions to be taken by each party. • CO and OM review contract in detail and concur on a specific oversight approach. • Tailor *Letter of Oversight Manager Confirmation* to specific procurement by listing specific duties and tasks relevant to the contract. Have the OM's supervisor sign the letter to indicate an understanding of the OM's responsibilities.

Inadequate surveillance and monitoring of contracts	• OM should develop a procurement-specific, cost-effective Contract Administration Plan (CAP) and follow the CAP to monitor contractor performance. CAP should address/include:
	  • Performance outputs of the statement of work,
	  • A plan or process for quickly and efficiently reviewing invoices.
	  • A quality assurance surveillance plan for evaluating services and products that contractors are required to furnish.

Concern	Best Practice
	• Use customer satisfaction surveys for major contracts for evaluating contractor performance.
Unclear invoice review responsibilities.	• Review first voucher in detail w/ contractor. • Ensure OM understanding that payment of an invoice implies work is progressing as intended and that nature, type, and quantity of effort or materials are in general accord w/ statement of work. • Develop a checklist or some other invoice review form that includes the major cost categories (labor, travel, supplies, other direct costs, subcontract costs) for assessing the reasonableness of the contractor's claimed costs. Such a checklist would help to ensure consistent and complete invoice reviews.
Lack of OM incentives	• Consider OM incentive awards based on criteria such as amount of savings achieved, quality, timeliness, minimum technical contract changes, and customer satisfaction. • Incorporate OM duties into employee's position description and define contract administration as a critical job element in the OM's performance evaluation, especially for employees overseeing large, complex, cost-reimbursement type contracts.
Invoices processed inefficiently.	• Establish performance measurements and time frames for processing invoices (i.e., number of days for review and approval by the contracting officer and OM). • Establish separate post office box for receipt of invoices. • Develop automated invoice tracking systems for processing invoices.

Source: Excerpts from OFPP's *Guide to Best Practices for Contract Administration,* October 1994

We are presenting these practices for two reasons. First, for general information purposes, and second, to demonstrate that the contract administration challenges that FDIC faced under the MCI Contract are fairly common within the federal government. In addition, Appendix III contains a matrix of information on contract administration that we gathered from our contacts with FRB, OCC and OTS. Our goal in this regard is to provide the Corporation balanced, useful information as it continues to adjust and fine-tune FDIC's procurement process going forward.

APPENDIX III: CONTRACT ADMINISTRATION BEST PRACTICES AT BANKING AGENCIES

Information Requested/ Obtained	FDIC	FRB	OCC	OTS
Background and Perspective				
1. Agency employees: HQ Field Total	Employees 2,327 4,193 6,520		Employees: 1059 (includes Admin, ITS and Chief Counsel staff in the districts) 1949 3008	Employees 372 879 1251
2. Name of Information Technology (IT) or information resources division.	Division of Information Resources Management (DIRM)		Information Technology Services (ITS)	Office of information Systems (OIS)
3. Most recent information resource or IT contracting statistics: • IT Contracting actions • IT Contracting dollars • IT actions as percentage of total agency contract actions • IT dollars as percentage of total agency contract dollars	1999 443 $136.6 mill 15 percent 38 percent		1999 215 $26.7 mill 21 percent 50 percent	2000 53 $6.2 mil 19 percent 35 percent
4. Does IT office include telecommunications contracts?	Yes	At this time telecom contracts are not part of FRB's IT Group. FRB plans on shifting responsibility for telecom to IT by the end of 2000. FRB is currently under FTS2001 with Sprint for long distance.	Yes	No. Treasury Department acquires the majority of the required telecom services for OTS. This allows Treasury to take advantage of volume discounts and savings that are passed on to OTS in the working capital fund.
Invoice Processing				
5. Offices/Individuals involved in invoice process	(Old Process) • Vendor submits invoice to ACSB. Invoice logged into correspondence control system and purchase order system. • Contract Specialist (CS) reviews invoice for accuracy/agreement with contract/price schedule. • Invoice routed to DIRM Contract Management Section (CMS), a contract liaison office. CMS Distributes invoice to Telecom Section who checks budget. • Telecom Section forwards invoice to Oversight Manager (OM) who reviews invoice to ensure goods/services were received, verifies accuracy of charges, and authorizes amount of invoice to be paid.	• Vendor submits invoice to Contracting Officer Technical Representative (COTR) • COTR reviews invoice, forwards approved invoice to Accounting. • Accounts Payable (A/P) pays vendor.	• Vendor submits invoice to Accounting & Reports (A&R) in Financial Management Division. • A&R logs the invoice and submits invoice to ITS budget desk • Budget desk logs invoice into Budget Utilization Database (BUD) system and submits invoice to Contracts Management (CM) for validation (within program office). • CM verifies accuracy of time, cost, budget, and project code. CM enters all information into CM databases and creates a voucher for payment • CM returns invoice and voucher to budget desk • Budget desk updates BUD with voucher data to update ITS budget information. Budget desk then forwards invoice and voucher to	• Vendor submits invoice to the COTR. • COTR certifies the invoice and sends to Accounting to pay. • COTR notifies contracts of any invoice problems. • CO and/or COTR return rejected invoices to the contractor(s) until work is satisfactory and/or discrepancies are resolved. • All invoices are paid within 30 days or rejected and returned to the contractor.

Information Requested/ Obtained	FDIC	FRB	OCC	OTS
	• Invoice goes back to budget official who records authorized invoice amount in separate budget system. • Invoice goes to another DIRM official to verify that contract charges are appropriately allocated to DIRM project codes. • Invoice goes back to CMS who logs invoice out of tracking system. • Invoice routed to DOF Disbursement Operations Unit for payment.		A&R for payment	
6. Systems Involved	Accounts Payable and Purchase Order System Correspondence Control Management System DIRM stand-alone PC-based budgeting spreadsheet	Oracle-based system with separate modules for procurement, invoicing, and A/P. System was designed for Ford Motor Company so it is not ideal for FRB. However, it does allow for procurement functions to be managed electronically within a single system.	• BUD system - Excel database • Personal CM system - Excel database • Accounts Payable system	Procurement uses OTS accounting system to award GSA orders, and purchase orders $\leq$ \$100K and some commercial item acquisitions $\leq$ \$5mil. IPRO is currently used for non-commercial items and contracts $\geq$ \$100K.
7. Allowed time frames for invoice processing.	Contract Specialist – 6 days Oversight Manager – 8 days Accounts Payable – 6 days	No specific invoice processing time frames. Prompt Payment Act (PPA) drives invoice processing time frames. Representative did not believe that FRB had any problems meeting PPA requirements.	No response.	PPA serves as the standard for timely processing of invoices. Given the size of OTS and relationship between the COTR, contracting officer and accounting, OTS manages the invoicing process in a manner that ensures contractors receive payment within 30 days.
8. Any electronic invoice processing systems in use?	EPRIS --will be module of A/P system. • Phase 1a will allow for electronic routing of invoice approval forms. • Phase 1b will support electronic submission of invoices and supporting documentation from vendor.	Oracle-based system allows procurement functions to be managed electronically within a single system. Vendors still provide paper copies of supporting documentation, such as time sheets, and those documents are routed to the COTR manually for review.	No response.	OTS pays invoices via on-line payment and collection system (OPAC). Contractors are required to complete and submit an automatic clearinghouse (ACH) form to facilitate electronic payment via OPAC.
9. Does agency have any flow-charts, process maps or narratives detailing the invoicing process.	FDIC provided GAO/Division of Finance cycle process memo for the A/P process. Cycle memo includes the invoice process.	No. FRB's invoice review process is abbreviated.	No response.	N/A – invoicing process is abbreviated.

10. Any contract liaison function within the IRM program office?	Yes. CMS serves as liaison between ACSB and DIRM for virtually all contract and requisition related activity. Functions include:
	• Processing procurement actions,
	• Receiving, logging, and distributing invoice to OM.
	• Monitoring invoice time frames to ensure invoices are processed timely.
	• Reviewing all contract modification requests,
		No. None needed.	Yes. Contract Management liaison (one staff person) within ITS. Performs the following functions:
			• Coordinates Acquisition/Change of Contracting Services
			  • Prepare contract proposal
			  • Prepare requisitions for approval
			  • Post and track job requests
			  • Prepare contract modifications
			• Perform Contractor Oversight
			  • Coordinate funds expenditure
				Yes. OIS has a dedicated individual who serves as the liaison between OIS and procurement management for all requisitions and contracting related matters. In addition, as required, COTRs are appointed for individual contracts. The COTRs routinely monitor contractor performance and communicate with the liaison and contractor officer(s) regarding contractor performance.

Information Requested/ Obtained	FDIC	FRB	OCC	OTS

	• Tracking all purchase requisitions,
	• Collecting/monitoring “burn rate” information from OMs.
	• Maintaining status report and monitoring all DIRM contract actions, requests, etc…
			activities
			• Reconcile bills
			• Create year end accruals
			  • Monitor and measure contract fulfillment
			• Create and monitor individual work orders
			• Validate performance and time
			• Monitor progress of projects and contract personnel
			• Monitor contracts for compliance
			• Maintain dialog with contractor
			  • Provide COTR and contractor non-technical direction & guidance
			• Interpret and provide advice on all procurement legal and regulatory issues and requirements related to vendor contracting
			• Provide guidance on OCC procedures
			  • Pay vendor
			    • Create invoices
			    • Verify and reconcile invoice data
			    • Approve vendor payments
			    • Submit to Finance for payment
			• Ensure Compliance (with requirements and contract terms)
			  • Maintain up-to-date hands on knowledge of the Federal Acquisition Regulation (FAR) and related statutes
			  • Develop and implement ITS contract policies, standards and procedures
			  • Oversee ITS and contract personnel compliance
			• Report on Contracts
			  • Create reports (e.g. monthly report to ITS managers)
			    • Contract mandated
			    • Administrative
			    • Treasury
			    • CIO contractor trend analysis
			  • Forecast cost
			    • Assess skill levels and cost
			    • Project monthly cost or	

Information Requested/ Obtained	FDIC	FRB	OCC	OTS

			duration
			• Maintain Documentation
			  • Outsourcing documentation
			  • Vendor documentation
			  • Vendor contract documentation
			  • Contract personnel data (e.g. email list, timesheets, call order, etc.)
			  • Contract databases
			    • Treasury data
			    • Financial data
			    • Budget data
			• Serve as Liaison
			  • Between ITS/Vendor
			    • Review contract performance
			    • Policies and procedures
			    • Replacement discussions/exit interviews
			  • Between ITS/Customer
			    • Perform contract rep duties
			      • Act as project manager
			      • Acquire contracting services
			  • Between ITS/Acquisitions (e.g. weekly meetings, planning, operational)
			  • Between OCC/Treasury
			• Perform Security Activities
			  • Initiate background checks
			  • Perform emergency termination activities
			  • Perform pre-exit interview	

Price Warranties/Price Reasonableness				
11. Do contracts include price warranties or favored customer clauses? If so how are warranties monitored? Has agency enforced any price warranties?	Some FDIC contracts do include price warranties, although the number of non-GSA schedule/contracts with price warranties are decreasing. FDIC does not routinely monitor price warranties.	No. FRB manages pricing changes through the option year decision. CS and COTRs check marketplace pricing at each option year to ensure that pricing remains competitive. FRB also includes contract language requiring vendors to provide the latest equivalent equipment at the same price quoted in the price warranty, to guard against equipment obsolescence.	No.	When appropriate, OTS uses FAR Clause 52.215-22 "Price Reduction for Defective Cost or Pricing Data" to ensure that the contract price is fair and reasonable. Most OTS contracts are awarded based on adequate competition so contracting officers negotiate fair and reasonable prices prior to award. This clause is particularly useful in sole source actions. The clause helps contracting officers to ensure that prices remain fair and reasonable throughout contract performance and provides a mechanism to recover over-payments. For contracts

Information Requested/ Obtained	FDIC	FRB	OCC	OTS
				negotiated with option years and/or quantities, contracting officers test the market to ensure that exercise of the option is still the most advantageous means of satisfying the requirement in accordance with the Federal Acquisition Regulation (FAR) Part 17.207. Generally, this is accomplished through effective market research. As a best practice, OTS uses Internet Based Market Research.
12. Which office's role is it to monitor price warranties—the procurement section, the program office, or both?	It is primarily ACSB's responsibility to monitor the price warranty, with technical input about industry trends, etc… from the program office.	Shared responsibility. CS makes calls to the marketplace to determine pricing. COTR reviews pricing to make sure it's valid and comparable.	N/A	Primary responsibility to monitor contract pricing belongs to the contracting officer. However, since the COTR has the technical expertise and monitors contractor performance, the COTR keeps the contracting officer apprised of issues that could potentially impact pricing.
13. For industry specific contracts such as telecommunications, what does agency do to keep abreast of industry developments such as technology, pricing, industry standards, etc…	For telecommunications contract, FDIC's efforts to keep abreast with industry pricing trends were limited.	For complex or technical contracts, FRB assigns COTRs with industry experience. As mentioned above, the CSs check pricing at each option year. This is also a FAR requirement. FRB is not required to to follow FAR but implements the spirit of selected FAR tenets.	• Attend various conferences, seminars, classes sponsored by government and private industry • Subscribe to various trade journals • Communicate with peers in other government agencies and private sector	OTS "tests the market" by attending trade shows, reading trade journals and papers, conducting Internet-based market research, and participating in vendor outreach programs.
14. For multi-year contracts, does agency perform any work/research to ensure that contract pricing is still reasonable prior to exercising each contract option year? If so, what methods has agency used to re-confirm reasonableness of pricing?	The March 2000 version of the APM encouraged market research when planning for future acquisitions, but did not address doing so when making option year decisions. An APM revision planned for March 2001 will require market research for contracts deemed vulnerable to price changes before options are exercised.	Yes. CSs review trade journals and periodicals and perform marketplace price checks before exercising option years to ensure that vendor pricing is competitive.	Yes, options are exercised consistent with the FAR.	Yes, OTS follows spirit of FAR and tests the market before exercising each option to ascertain that market conditions have not changed to the extent that would make option exercise inappropriate.
Roles, Training, Monitoring Plan				
15. What are Contract Specialist and Oversight Manager/COTR roles with respect to reviewing invoices?	CS responsible for ensuring invoices are correct and prices charged agree/comply with terms and conditions of contract, and that total payments don't exceed contract limits. OM responsible for ensuring that invoice reflects the goods and services that FDIC actually received, inspecting goods and services, ensuring that payments do not exceed contract ceiling price, and that invoice contains no errors or discrepancies.	CS is not involved in invoice processing. COTR is responsible for reviewing invoices and ensuring goods and services were received. CS assists in marketplace price research during option year decisions.	ITS CM liaison is responsible for ensuring that invoice reflects the goods and services that OCC actually received, inspecting goods and services, ensuring that payments do not exceed contract ceiling price and that invoice contains no errors or discrepancies.	COTR monitors contractor performance, assesses the quality of deliverables (goods/services) and is responsible for reviewing and certifying invoices for payment. In addition, COTR informs the contracting officer of problems requiring corrective actions. Last year, COTRs received on-site COTR training provided by the Treasury Acquisition Institute. This CD-ROM COTR training is provided on an as-needed basis.
16. Does agency have policies and/or form letters delineating CS and	Policies contained in FDIC's *Acquisition Policy Manual*. OM provided a form	Representative provided FRB's *Procurement Manual for Technical*	Yes, but not provided.	Yes, the contracting administration plan outlines duties/responsibilities of parties

Information Requested/ Obtained	FDIC	FRB	OCC	OTS
OM/COTR roles and responsibilities? Could we obtain a copy of those responsibilities?	letter outlining authority and role.	*Personnel*, dated January 1999, which delineates roles and responsibilities between CS and COTR. The manual also includes a standard FRB form: Contracting Officer's Technical Representative Acknowledgement of Duties and Responsibilities form.		involved in the contracting process and serves as policy/guidance.
17. Does agency develop a contract administration plan specific to complex procurements to address how contractor performance should be monitored, approaches to reviewing contractor invoices (e.g., such as an invoice review checklist)?	APM requires a CAP for procurements > $100,000. However, CAP does not delineate roles and responsibilities, monitoring approach, or invoice review methodology specific to a particular contract.	No response.	Not at this time; however, the OCC is developing performance-based contracting and a contract monitoring plan will be part of individual contracts.	Procurement management generally develops the contract administration plan. The plan outlines the duties and responsibilities of all parties involved in the contracting process and is an attachment to the contract.
18. Any requirements for CS or OM to receive general contract administration and/or monitoring training?	• Yes. ACSB has contract warrant officer training requirements. • Oms are required to complete FDIC OM Training Course and FDIC Contract Administration Training course and a 1-day refresher course every 3 years.	FRB sends its CSs and COTRs to the Internal Revenue Service Training Center in Oxen Hill, MD. Courses include Writing Performance-Based SOWs, Contract Administration, and COTR Training.	Yes; all COTRs are trained in order to be recertified every 3 years.	No. The COTR training is sufficient.
19. Do CS or OM receive any industry-specific or procurement-specific training prior to assuming responsibility for administering highly technical contracting assignments, such as telecommunications or IT contracts?	The OM assigned for the bulk of the Contract had experience in the telecommunications area.	For complex and/or technical contracts FRB assigns COTRs with experience in that particular industry.	No industry-specific training; COTRs familiar with the subject of the contract effort.	Generally, OTS contracts do not require COTR industry-specific training. However, technical program office personnel may need industry training for complex programs such as the OTS Net Portfolio Value (NPV) initiative.
Best Practices				
20. Best practices, any actions taken by agency that improved the efficiency and/or effectiveness of the contract monitoring process?	FDIC has implemented some best practices such as: • CO/OM training, • EPRIS	• Detailing expectations, deliverables, requirements, all allowable costs/expenses/charges, and penalties for non-performance in the SOW. • Automated/electronic invoicing system.	• Creating the BUD system. Originally the ITS budget desk asked that the BUD system be created so that invoices could be matched with requisitions and that vouchers can be tracked to budget and project codes. Now, until the OCC gets a new financial management system, this will be the vehicle used by the agency to track contractor and project costs. • Creating the CM liaison position in ITS. ITS has approximately 30 COTRs. Now, with the CM position in an advanced stage of development, ITS has one major liaison between ITS and Acquisitions (AQS). Many	• OTS is processing and awarding the majority of contracts ≤$5mil in accordance with commercial item acquisition procedures. This has reduced administrative cost, obtained better pricing, reduced the number of sole source procurements, and reduced procurement administrative lead-time by as much as 80% on some requirements. • OTS is moving toward performance-based service contracting. • OTS researches contractors' past performance records through NIH and DOD contractor performance databases.

Information Requested/ Obtained	FDIC	FRB	OCC	OTS
			repetitive activities are now centralized; requests are coordinated, prioritized, and tracked. Contract budgeting information is more easily planned, forecasts are more accurate, and less effort is needed in handling all of the contract workflow.	
21. Has your agency utilized or accessed any of the best practices suggestions developed by the Office of Federal Procurement Policy (OFPP) or GSA's Office of Governmentwide Policy?		No response.	No response.	Yes. Procurement issues orders against various Government Wide Agency Contracts (GWACS). We also implement streamlined procedures (combined synopsis/solicitations, oral presentations, past performance as evaluation criteria in best value procurements, and we are reviewing our service requirements to determine how many can be awarded as performance based service contracts.

APPENDIX IV: CORPORATION COMMENTS

FDIC
Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429

Division of Administration

December 14, 2000

MEMORANDUM TO: Stephen M. Beard
Assistant Inspector General

FROM: Arleas Upton Kea Arleas Upton Kea
Director, Division of Administration

SUBJECT: Management Response to Draft Report Entitled *MCI Voice and Video Contract—Contract Monitoring*

The Acquisition and Corporate Services Branch (ACSB) has completed its review of the subject Office of Inspector General (OIG) draft report. The OIG made three recommendations to the Director, Division of Administration (DOA) related to two audit findings. This response summarizes our planned corrective actions, and provides expected completion dates and the documentation that will confirm that completion.

Management Decision:

OIG Finding #1: Responsibility For Monitoring Price Warranties Not Clearly Defined

OIG Recommendation #1: Expand the Acquisition Policy Manual (APM) Section 4.C. *Market Research,* to encourage market research as a standard contract monitoring responsibility of oversight managers for assessing the continued price reasonableness of selected procurements, such as those involving:

- Multi-year terms being considered for option renewal,
- Price warranties or most favored customer guarantees, and
- Highly competitive or rapidly evolving industries.

Management Response #1: We agree in principle with the recommendation. The Contracting Officer (CO) and Oversight Manager (OM) will survey market conditions for all contracts determined to be vulnerable to price changes. In those cases, DOA will amend the APM to include a requirement that before a contract option is exercised, the CO and OM will be jointly responsible for conducting this survey. We will also expand APM Section VII – *Options Exercised,* in the Contract Administration Plan (CAP) to include a requirement to consider price reasonableness before exercising option years.

An APM revision will confirm our completion of corrective action. We estimate completion by March 31, 2001.

OIG Finding #2: **Improvements Are Needed On Oversight Coordination and Communication between ACSB and DIRM**

OIG Recommendation #2: Develop transition procedures to ensure that, when oversight manager changes occur, information and documents related to the affected contract are provided to the new oversight manager to maintain oversight continuity.

Management Response #2: We agree with the recommendation. As stated in the APM – Revision 1, under Section 7.B.1.e., OMs are directed to organize and maintain contract files in accordance with the Oversight Manager File Checklist, as provided in APM Exhibit XXVIII. In conjunction with that guidance, Acquisition Section will amend the Letter of Oversight Manager Confirmation, provided as APM Exhibit XVI, to include the responsibility of organizing and maintaining an OM file, as well as instructions for transfer of that file to successor OMs, if applicable. In addition, we will amend Section I of the CAP provided as APM Exhibit XXVII, to include not only the original OM appointment but successor appointments and designation that the current OM files must be transferred to the newly appointed OM.

The APM revisions will confirm our completion of corrective action. We estimate completion by March 31, 2001.

OIG Recommendation #3: For selected contracts, develop a contract-specific monitoring plan that would:

- Identify the primary risks to the Corporation under the contract,
- Specify a methodology or approach for reviewing contractor invoices, and
- Delineate any contract-specific oversight responsibilities between the CO and OM.

Management Response #3: We agree with the OIG recommendation. DOA, as part of our plans to increase focus on contract Oversight Management, has developed a revised Contract Administration Plan that will address the specific points cited above in the OIG recommendation. This plan is scheduled to be implemented by the beginning of 2001.

DOA has also expanded the Post Award Conference to include more contract-specific information to ensure a better mutual understanding of contract terms and conditions the roles and responsibilities of key Contractor and FDIC personnel (including the OM and CO), and clarify issues that might be misunderstood.

The final version of these documents accompanied by any related policy revisions will confirm our completion of corrective action. We estimate completion by January 31, 2001.

If you have any questions regarding the response, you may contact Richard Johnson at (202) 942-3191 or Andrew O. Nickle 942-3190.

APPENDIX V: MANAGEMENT RESPONSE TO RECOMMENDATIONS

This table presents the management responses that have been made on recommendations in our report and the status of management decisions. The information for management decisions is based on DOA management's written response to our draft report.

Rec. Number	Corrective Action: Taken or Planned / Status	Expected or Actual Completion Date	Documentation that will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
1	ACSB will amend the Acquisition Policy Manual (APM) to include a requirement that before a contract option is exercised, the Contracting Officer (CO) and Oversight Manager (OM) will be jointly responsible for surveying market conditions for all contracts determined to be vulnerable to price changes. ACSB will also expand the APM Exhibit XXVII, *Contract Administration Plan* (CAP) to include a requirement to consider price reasonableness before exercising option years.	3/31/01	Amendments to APM	$0	Yes
2	ACSB will amend the APM, Exhibit XVI, *Letter of Oversight Manager*, to include the responsibility of organizing and maintaining an OM file, as well as instructions for transfer of that file to successor OMs. ACSB will also amend Section I of the CAP to include original and successor OM appointments and designate that OM files must be transferred to newly appointed OM(s).	3/31/01	Amendment to APM	$0	Yes

Rec. Number	Corrective Action: Taken or Planned / Status	Expected or Actual Completion Date	Documentation that will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
3	ACSB will revise CAP to address specific points cited in this recommendation. DOA has also expanded the Post Award Conference to include: more contract-specific information to ensure a better mutual understanding of contract terms and conditions, roles and responsibilities of key Contractor and FDIC personnel, and a clarification of issues that might be misunderstood.	1/31/01	Revised CAP and guidance for conducting the Post Award Conference	$0	Yes