



# Office of Inspector General

September 2006  
Report No. 06-026

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**FDIC's Contract Administration**

## EVALUATION REPORT

*Office of Audits*



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## Background and Purpose of Evaluation

Heightened corporate-wide attention to contract administration is critical to ensuring the Corporation receives cost-effective, quality performance from contractors because the FDIC is increasingly relying on contractors to accomplish its mission.

Contract administration begins after contract award and ends when goods or services have been accepted and the contractor has received final payment. The contractor's progress must be closely monitored to identify potential problems that could impact contractor performance.

Contract administration includes the efforts of both the contracting and program offices. Effective contract administration (1) helps to ensure that the contractor delivers the required goods or services according to the contract delivery schedule and (2) includes monitoring cost, schedule, and technical performance and ensuring that payments are authorized and supported.

Our evaluation objective was to assess the strengths and weaknesses of the FDIC's contract administration policies, procedures, and practices for ensuring that contract cost, schedule, and performance requirements are met.

To view the full report, go to [www.fdicig.gov/2006reports.asp](http://www.fdicig.gov/2006reports.asp)

## FDIC's Contract Administration

### Results of Evaluation

During our evaluation, the Acquisition Services Branch (ASB) had a number of initiatives in progress. Specifically, ASB had streamlined contract administration by (1) moving toward larger consolidated contracts, including participation in interagency contracting efforts; (2) centralizing contracting efforts that were formerly administered in FDIC regional offices; and (3) increasing procurement card purchasing limits to include smaller recurring contracts. ASB also defined new competency and skill requirements, pursued targeted recruitments to address skills gaps, and reduced overall staff by approximately 50 percent since the beginning of 2005.

As ASB continues to transform its acquisition function, we concluded that ASB and senior FDIC management needs to devote additional attention to the following areas:

- **Acquisition Workforce Planning**—The FDIC could improve its administration of large and complex contracts by implementing human capital strategies to develop and manage the Corporation's acquisition workforce, which includes Contract Specialists, Oversight Managers, and Technical Monitors. The FDIC has implemented certain strategies for ASB contracting staff, but additional work is required for Oversight Manager staff.
- **Acquisition Procedures**—ASB needs to complete revision of its *Acquisition Policy Manual* to reflect organizational changes, new acquisition approaches, process changes, and system changes.
- **Administration of Contracts**—ASB's electronic system of record for contract file documentation did not contain important documents for a sample of contracts that we reviewed. In addition, Contract Specialists and Oversight Managers are not preparing contract administration and monitoring plans, which could assist in managing contracts. Also, ASB and the FDIC's Project Management Office need to do more to establish earned value management as a tool for managing large or complex contracts, such as system development efforts.
- **Contract Management System**—ASB currently does not have an effective information system for managing contracts. Although the FDIC's New Financial Environment (NFE) integrates financial and procurement information to some extent, ASB has identified a number of gaps between current procurement business processes and NFE system capabilities.
- **Contract Close Out**—ASB has a large backlog of completed contracts that needs to be formally closed out. A number of these contracts were transferred to off-site storage and purged from the FDIC's contract listing. Thus, ASB does not have a definitive listing of all contracts that need to be closed.

### Recommendations and Management Response

We made 13 recommendations for improvement. Addressing these issues should help to ensure an efficient, effective, and accountable contract administration process and better position the FDIC to control costs, meet scheduled timeframes, and ensure contractor performance. DOA concurred with all recommendations and has planned or initiated actions that are responsive to each recommendation.

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## ACRONYMS

APM	<i>Acquisition Policy Manual</i>
ASB	Acquisition Services Branch
APS	Automated Procurement System
BOA	Basic Ordering Agreement
CAP	Contract Administration Plan
CCR	Central Contractor Registration
CEFile	Contract Electronic File
CMIA	Contract Monitoring Information Application
CO	Contracting Officer
COR	Contracting Officer's Representative
COTR	Contracting Officer's Technical Representative
CU	Corporate University
DIR	Division of Insurance and Research
DIT	Division of Information Technology
DOA	Division of Administration
DOF	Division of Finance
DRR	Division of Resolutions and Receiverships
EPRIS	Electronic Procurement Routing Invoice Solution
EVM	Earned Value Management
EVMS	Earned Value Management System
FAI	Federal Acquisition Institute
FDL	FDIC Digital Library
FIMS	Financial Information Management System
GAO	Government Accountability Office
HRB	Human Resources Branch
IT	Information Technology
MSPB	Merit Systems Protection Board
MSS	Management Support Section
NFE	New Financial Environment
OM	Oversight Manager
OMB	Office of Management and Budget
OMMP	Oversight Management Monitoring Plan
PAB	Procurement Administrative Bulletin
PMO	Project Management Office
PMP	Performance Management Program
PO	Purchase Order
RUP	Rational Unified Process
TM	Technical Monitor
UAT	User Acceptance Testing



**DATE:** September 29, 2006

**MEMORANDUM TO:** Arleas Upton Kea, Director  
Division of Administration

**FROM:** Russell A. Rau [Electronically produced version; original signed by Russell A. Rau]  
Assistant Inspector General for Audits

**SUBJECT:** *FDIC's Contract Administration*  
(Report No. 06-026)

This report presents the results of our evaluation of the FDIC's administration of contracts. Specifically, the objective of this evaluation was to assess the strengths and weaknesses of the FDIC's contract administration policies, procedures, and practices for ensuring that contract cost, schedule, and performance requirements are met. Appendix I provides details on our objective, scope, and methodology.

## **BACKGROUND**

Under the Federal Deposit Insurance Act<sup>1</sup> the FDIC can enter into contracts using private-sector firms to provide goods or services and establish policies and procedures to administer the contracts. The authority to establish policies and procedures for the Corporation's contracting program has been re-delegated by the Board of Directors to the Director, Division of Administration (DOA). DOA's Acquisition Services Branch (ASB) issues contracting guidance for the Corporation through the *Acquisition Policy Manual* (APM).

The Contracting Officer (CO) is responsible for contract administration. Only a CO may enter into a contract, make a contract modification, or change a contractual commitment. The CO is responsible for ensuring compliance with the contract and may delegate certain authorities to other personnel such as the Oversight Manager (OM) and Technical Monitors (TM). Effective contract administration (1) ensures that the contractor delivers the required goods or performs the work according to the statement of work or delivery schedule in the contract and (2) includes monitoring cost, schedule, and technical performance and ensuring that payments are properly authorized and supported.

Oversight management involves overseeing the technical performance requirements of the contract and is primarily the responsibility of the OM and TM. These personnel work in the program office that is the recipient of the services being provided. The program office for which the work is being performed is responsible for ensuring that adequate resources are available for monitoring contractor performance. The Corporation's exposure to risk is greater with increased

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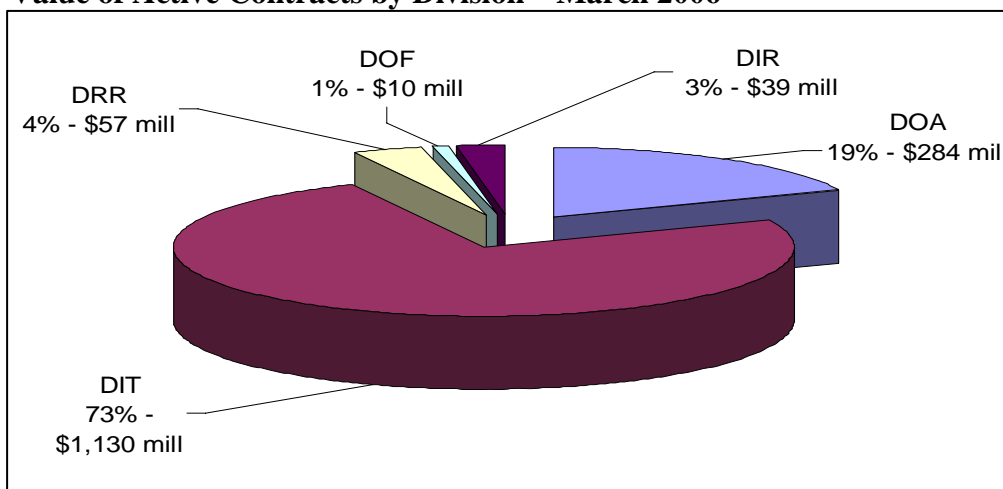
<sup>1</sup> 12 United States Code § 1819.

reliance on outsourcing if contracts are not properly managed. Maintaining strong internal controls and effective oversight of contracting activities is critical to the success of contract administration.

During our review, we used the Government Accountability Office (GAO) report entitled, *Framework for Assessing the Acquisition Function at Federal Agencies* (GAO Framework),<sup>2</sup> as a guide to assess the FDIC's contract administration efforts. GAO developed this framework to enable high-level, qualitative assessments of the strengths and weaknesses of the acquisition function at federal agencies. The framework is built on a foundation of strong internal control. Agency management is responsible for establishing and maintaining effective internal control, which includes the plans, methods, and procedures used to meet missions, goals, and objectives. Appendix II provides additional details on the GAO Framework that we used in planning and conducting our evaluation.

Over the past few years, the FDIC has increased its reliance on outsourcing for areas such as information technology (IT) infrastructure services support, IT application system development, and facilities maintenance. At the same time, the FDIC has reduced its corporate staff, including ASB contracting staff. Accordingly, it is important that the FDIC have an acquisition workforce with the right skills, current acquisition procedures, tools, and strategies to manage contracts and information systems that can readily provide information needed to manage contracts and monitor contractor performance. The following figure presents a breakout of FDIC contract dollars, by division, as of March 2006.

**Value of Active Contracts by Division—March 2006**



Source: Quarterly Contracting Report to the FDIC Board of Directors.

<sup>2</sup> GAO-05-218G, dated September 2005.

## RESULTS OF EVALUATION

During our evaluation, ASB had a number of initiatives in progress to improve the efficiency and effectiveness of contract administration at the FDIC. ASB had enhanced the proficiency of acquisition staff, streamlined acquisition operations, and reduced the number of contracts by:

- recruiting Contract Specialists possessing specific skills and competencies and developing a training program and required curriculum for Contract Specialists;
- reducing contracting personnel by approximately 50 percent and centralizing at FDIC headquarters those contracting efforts formerly administered in regional offices; and
- moving toward larger consolidated contracts, including through participation in interagency contracting efforts; and
- increasing procurement card purchasing limits to include smaller recurring contracts.

Nevertheless, effective contract administration at the FDIC is being hampered by weaknesses in acquisition workforce planning, acquisition procedures, administration of contracts, and contract management systems. Table 1 presents a summary of the results of our review.

**Table 1: Summary of Evaluation Results**

	<b>Evaluation Observations</b>
<b>ACQUISITION WORKFORCE PLANNING</b>	<p><b>ASB Reorganization and Downsizing:</b> ASB’s efforts to restructure its workforce were protracted by a lengthy separation process for surplus staff and delays in the recruitment of new staff with required skills and competencies. This situation was largely outside of ASB’s control but impacted ASB’s ability to effectively administer FDIC contracts.</p> <p><b>Strategic Management of Oversight Managers:</b> The FDIC needs to define the skills and competencies that OMs should possess and establish a training program for developing OMs. Further, the FDIC currently does not consider contract oversight when evaluating OMs’ performance.</p>
<b>ACQUISITION POLICIES AND PROCEDURES</b>	<p>ASB needs to revise its APM to reflect ASB’s current acquisition approach, process changes, and financial system changes.</p>
<b>ADMINISTRATION OF CONTRACTS</b>	<p><b>Contract File Documentation:</b> Contract Electronic File (CEFile), ASB’s electronic system of record for contract documentation, did not contain important procurement-related documents for a sample of contracts that we reviewed. This is a recurring condition that we have noted in prior audits and that DOA internal review staff has previously reported.</p> <p><b>Contract Administration Plan (CAP)/Oversight Management Monitoring Plan (OMMP):</b> None of the contracts in our sample included contract administration or oversight management monitoring plans.</p> <p><b>Earned Value Management (EVM):</b> The FDIC needs to do more to establish policy and dedicate trained program resources for applying EVM techniques to large, complex contracts.</p> <p><b>Contract Closeout:</b> ASB has a backlog of approximately 3,000 completed contracts that need to be formally closed out.</p>

	<b>Evaluation Observations</b>
<b>CONTRACT MANAGEMENT SYSTEM</b>	The FDIC currently does not have an effective information system for managing contracts. Although the New Financial Environment (NFE) integrates financial and procurement information to some extent, ASB has identified a number of gaps between current procurement business processes and NFE system capabilities. ASB has plans to implement a new automated procurement system, which is urgently needed to help ensure that well-informed business decisions are made.

Source: OIG Analysis.

Some of these areas are within ASB’s ability to address. However, several areas will require cooperation with other divisions. Contract administration has corporate-wide implications and thus requires a corporate focus and senior-level management attention. Considering the FDIC’s reliance on outsourcing and the risk associated with our findings taken collectively, we are recommending that the FDIC consider including contract administration as a high-vulnerability area<sup>3</sup> in the *FDIC’s Annual Report* and devote sustained management attention to the contract administration function. Addressing the issues discussed in this report should help to ensure an efficient, effective, and accountable contract administration process that helps to control costs, meet scheduled timeframes, and ensure contractor performance.

## **ACQUISITION WORKFORCE PLANNING**

ASB has taken efforts to complete its reorganization and associated downsizing; however, the FDIC could improve its administration of contracts by implementing human capital strategies to develop and manage the Corporation’s acquisition workforce. ASB has implemented certain strategies for managing contracting staff such as identifying skills needs and gaps, pursuing targeted recruitments to address skill gaps, and establishing a training curriculum to develop staff. However, the FDIC could do more to manage, develop, and hold accountable OMs responsible for overseeing contracts.

### **ASB Reorganization and Downsizing**

ASB’s efforts to restructure its workforce were protracted by a lengthy separation process for surplus staff and delays in the recruitment of new staff with required skills and competencies. These personnel issues impacted ASB’s ability to effectively administer FDIC contracts.

During 2004, DOA branches and regional offices conducted organizational self-assessments to find opportunities for streamlining organizational structures, business processes, and staffing composition to better meet the needs of the Corporation. Each DOA component, including ASB, developed a proposal for making adjustments in their respective organizations. ASB proposed a strategy for consolidating contracting operations in Washington, continuing to gain efficiencies through contract consolidation, expanding the procurement credit card program, and leveraging corporate buying power. ASB predicted that these and other measures would lead to the elimination of up to 40 positions nationally.

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<sup>3</sup> As defined by FDIC’s internal management control program, high-vulnerability areas should be disclosed in the FDIC’s annual statement of assurance on internal accounting and administrative control as required by the Federal Managers Financial Integrity Act.



We saw evidence that ASB pursued these strategies, made organizational changes, and reduced corporate staff by:

- Consolidating regional contracting operations in ASB headquarters and eliminating 18 staff positions in the regional offices.
- Consolidating or otherwise greatly reducing the number of contracts at the FDIC. In 2004, the FDIC issued about 1,000 new purchase orders and contracts. During 2006, ASB expects to issue fewer than 200 purchase orders and contracts—an 80-percent reduction. Consolidation of individual IT contracts into the Infrastructure Services Contract and IT Application Services contract are examples of new FDIC approaches for contract services. ASB representatives noted that contract consolidation simplifies the administration of contracts and strengthens the FDIC’s ability to hold the contractor accountable for performance.
- Working closely with clients to encourage the appropriate use of procurement cards and convenience checks. Instead of writing individual formal contracts for low-cost, recurring actions, such as for a residential appraisal, ASB transitioned many of these actions to the procurement card.

Consistent with its plans to transition to larger, more complex procurements, ASB re-evaluated its existing staffing mix, identified competencies and skills gaps, and pursued targeted recruitments for positions such as business advisors and procurement analysts. Table 2 presents ASB headquarters and regional staffing levels before and after ASB downsizing and targeted recruitment efforts.

**Table 2: ASB Staffing Changes**

<b>Location</b>	<b>Pre-Reorganization Staffing Levels (2005)</b>	<b>ASB Surplus Staff</b>	<b>Buyouts, Resignations, and Other</b>	<b>New Hires</b>	<b>Post-Reorganization Staffing Levels</b>
Headquarters	51	(27)	(10)	10	24
Regional	20	(18)	0	0	2
<b>Total</b>	<b>71</b>	<b>(45)</b>	<b>(10)</b>	<b>10</b>	<b>26</b>

Source: ASB.

ASB’s efforts to restructure its workforce were protracted by a lengthy separation process for surplus staff and delays in recruiting new staff. First, the FDIC’s Chief Operating Officer announced the FDIC’s corporate-wide downsizing initiative in October 2004; however, the FDIC elected to retain DOA surplus staff until September 2006 and has pursued placement of surplus staff in other vacant positions within the Corporation. Second, ASB’s proposed business strategy was based on the timely recruitment of new staff with needed skills and competencies. However, the recruitment process took about 20 months. ASB hired its final four staff in July and August 2006.<sup>4</sup> As a result, ASB operated for almost 2 years with a number of critical vacancies and staff that were targeted for surplus and generally had little stake in the office’s success. This situation had a negative impact on ASB’s ability to effectively manage ongoing procurements.

<sup>4</sup> Two additional non-surplus ASB staff have also left the FDIC, resulting in two additional vacancies.

## Strategic Management of Oversight Managers

In April 2005, the Office of Management and Budget (OMB) issued policy letter 05-01, *Developing and Managing the Acquisition Workforce*, to establish a government-wide framework for creating a federal acquisition workforce with the skills necessary to deliver best value supplies and services, find the best business solutions, and provide strategic business advice to accomplish agency missions. The policy letter defines the acquisition workforce to include Contracting Officer's Representatives (COR), Contracting Officer's Technical Representatives (COTR), and program and project managers.<sup>5</sup> The policy letter requires agency Chief Acquisition Officers to develop and maintain an acquisition career management program to ensure the development of a competent professional workforce to support the accomplishment of an agency's mission. The policy letter also requires Chief Acquisition Officers to develop basic and refresher training requirements to ensure CORs and COTRs are adequately trained for the functions they perform and to establish agency requirements for their continuous learning.

The Corporation is not required to follow the OMB policy letter; however, the policy presents sound workforce planning guidance that most of the federal government is required to follow and could serve as best practices for the FDIC.

Moreover, a December 2005 Merit Systems Protection Board (MSPB) report, *Contracting Officer Representatives: Managing the Government's Technical Experts to Achieve Positive Contract Outcomes* (MSPB Report), notes that COR human capital plans should:

- address the number of CORs that the agency will need now and in the future, and the competencies CORs should have,
- identify current CORs and the competencies that they possess, and
- include strategies for addressing any skills and succession planning gaps.

Further, a December 2003 Federal Acquisition Institute (FAI), *Report on Competencies for the Contracting Officer's Technical Representative (COTR) Job Function* (FAI Report), identified critical competencies, such as problem solving, writing, and project management, that underlie effective COTR performance for use in guiding training and development efforts. The report also identified the following three reform challenges facing the federal acquisition community:

- first, the narrow view of the COTR as administrator constrains these individuals' ability to influence and build partnerships across program and contracting offices;
- second, COTR-related responsibilities are viewed as an afterthought and are not taken seriously, providing little encouragement or motivation from stakeholders; and
- third, the increase in the use of service-based contracts presents an ability gap for technically-oriented COTRs who are accustomed to managing technically-based contracts.

The FDIC faces similar challenges with its OMs. During our review, we noted that the FDIC does not maintain a skills repository of FDIC OMs on their historical contract experience, competencies, or training courses attended. Further, the FDIC has not identified the competencies its OMs should possess. Additionally, the FDIC has not developed a formal

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<sup>5</sup> COR and COTR responsibilities and duties are similar in nature to the FDIC's OM responsibilities.

selection process—with selection criteria and input from ASB and program office management—for nominating OMs to complex or large contracts. Finally, the FDIC generally treats oversight management as a collateral duty assignment, even for large and complex procurement efforts. As a result, the FDIC may not have a strategic understanding of the skills that the Corporation’s OMs require, a practical knowledge of the number and skills that existing OMs possess, or empirical information identifying skills gaps for use in determining human capital solutions.

**Training and Development:** The GAO Framework notes that “creating an acquisition workforce with the right skills and capabilities can be a challenge, given changes to acquisition processes, the introduction or expansion of alternative contracting approaches, and increased reliance on services provided by the private sector.” The Framework also states that “investing in training for the acquisition workforce is critical to ensuring adequate oversight of the quality, cost, and timeliness of goods and services delivered by third parties.”

Under its reorganization, ASB identified a need for more experienced, proficient Contract Specialists. ASB established training requirements for Contract Specialists in order to develop staff with the right skills and knowledge. ASB is requiring that all Contract Specialists complete the five courses presented in Table 3 by December 2007. A mandatory training program will help to ensure that Contract Specialists develop consistent skills to better manage current and future contracts. Additionally, ASB has partnered with the FDIC’s Corporate University (CU) and coordinated with FAI to include self-paced, computer-based training courses on the CU Web site.

**Table 3: Training Requirements**

<i>Mandatory Contract Specialist Training Curriculum</i>
Acquisition Procurement Planning II
Advanced Pricing Analysis
Negotiation Strategies and Techniques
Advanced Course in Contract Administration
Advanced Course in Contract Law

Source: ASB.

Further, ASB’s *2006 Policy and Operations Section Priorities Plan* (ASB Plan) identifies training as a high-level goal and includes five related tasks (presented in Table 4) that ASB plans to accomplish.

**Table 4: ASB Plan for Training**

Description	Status
(1) Revise on-line training: procurement card, OM.	
(2) Develop topic-specific training as new policies are issued and major changes are made.	
(3) Hold regular workshop training sessions (45 minutes) based on real examples.	First session scheduled for September 2006
(4) Get ideas from ASB COs (pool the floor to find out what areas COs would like training in or clarification on existing policy).	Interviews were completed in August 2006
(5) CO Warrant Program: Review/update Warrant Program policy/procedures as necessary.	

Source: ASB Policy & Operations Section Priorities Plan.

A training curriculum for Contract Specialists is a positive step; however, the FDIC also needs to establish a more intensive curriculum for FDIC’s OMs. Currently, the APM requires that OMs successfully complete the instructor-led *Oversight Management Training* or the Web-based

*Oversight Management Instruction.* This is a one-time requirement that must be met before an OM is assigned oversight responsibility for a specific contract.

We determined that 27 percent of current OMs completed the required OM training course within the past 5 years.<sup>6</sup> In addition, for the five contracts we selected for detailed review, we determined that four of the five OMs took the required oversight management class within the past 2 years. The remaining OM took the class 9 years ago. In May 2006, ASB issued Procurement Administrative Bulletin (PAB) No. 2006-05, *General Reminders of Contracting Officer's Role in Appointing Oversight Managers*, which reminded COs to ensure that OMs have successfully completed the *FDIC Oversight Manager* on-line training course before issuing the *Letter of OM Confirmation*.

We completed ASB's on-line training for OMs to understand the content and presentation of the course. The OM training addressed OM responsibilities and duties required for contract administration. However, the FDIC needs to expand its curriculum for OMs to ensure that they develop the skills and abilities to effectively manage FDIC contracts. We obtained information from the FAI/Defense Acquisition University Web site, which included suggested COR training in topics such as: Market Research, Scheduling, Performance-Based Services, Work Breakdown Structure, and Contractual Incentives. Many of these course subjects are relevant to the FDIC's contracting environment.

The lack of adequately trained OMs puts the Corporation at risk of not having personnel with adequate skill sets to effectively manage contracts and may limit opportunities for cost savings in the acquisition of goods and services for the FDIC.

**Holding OMs Accountable and Rewarding Them for Good Performance:** The MSPB Report notes that to hold CORs accountable for their contracting work, agencies must first ensure that CORs are clearly informed about their responsibility and authority and then assess their performance in completing these duties. The report concluded that CORs who are rated on the performance of their contracting work also reported more positive contract outcomes, especially in terms of timeliness, quality, and cost, than did CORs who were not rated on their contracting work.

Additionally, the FAI Report found that study participants viewed that COTR responsibilities were not taken seriously due to the lack of a clear relationship between performing those responsibilities and an individual's performance appraisal. Participants stated that no mechanism currently exists to incorporate COTR responsibilities into formal performance appraisal forms. Additionally, the report noted that COTR responsibilities are not rewarded on an informal basis, further contributing to the view of the COTR role as a secondary responsibility.

An FAI representative that we contacted indicated that the Department of Commerce rated CORs' contract oversight performance. We reviewed the Department of Commerce's *Commerce Acquisition Manual*, which included a section entitled, *Contracting Officer Representative Certification Program*. The manual included sample Performance Management

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<sup>6</sup> To determine the 27 percent, we compared a CU listing of OM class attendees for the past 5 years against a list of OMs from the *NFE Purchase Order Summary Report*.

Program (PMP) language for CORs regarding contract management in a “meets/does not meet” format with the following measures:

- regularly communicates with the CO,
- resolves technical issues in a timely manner,
- submits contract deliverables on time, and
- provides accurate and complete submissions to the CO.

Further, both the COR’s supervisor and the CO have input into this rating.

The FDIC does not have a specific job classification for OMs. Instead, OM responsibilities are addressed in various job classifications throughout the FDIC. Specifically, the position description for an IT Specialist<sup>7</sup> working for the Division of Information Technology (DIT), states as one duty “monitoring contractor performance, reviewing and evaluating contractor deliverables, and reviewing contractor invoices.” The PMP for IT Specialists has four performance criteria: Technical/Analytical Skills, Organizational Skills, Oral Communication and Interpersonal Skills, and Written Communication Skills. Each employee is rated as meets or does not meet for the performance criteria listed. However, contract oversight management is not currently a separate PMP component or specifically discussed in the existing PMP criteria.

### **Recommendations:**

We recommend that the Director, DOA:

1. Establish a program for strategically managing the Corporation’s OMs. This program should include a:
  - listing of desired competencies and skills for OMs;
  - skills repository for OMs that identifies their contract oversight experience, competencies, and skills and training courses attended;
  - training curriculum for OMs; and
  - documented process for nominating OMs to large or complex contracts that includes ASB input or concurrence with the individual nominated to serve as OM.
2. Coordinate with the FDIC’s Human Resources Branch and Legal Division to determine the feasibility of including, in OM’s performance ratings, performance criteria related to overseeing and administering contracts.

## **ACQUISITION POLICIES AND PROCEDURES**

ASB needs to place a higher priority on completing revisions to the APM to reflect organization changes, new acquisition approaches, process changes, and system changes. The need for revised procedures becomes increasingly important as ASB hires staff who may not be familiar

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<sup>7</sup> We selected the DIT position because as of March 2006, DIT accounted for approximately 73 percent of the dollar value of active contracts by client divisions within FDIC.

with ASB processes. Clear and current procedures help to ensure that management’s directives and intentions are carried out. ASB acknowledged that the APM needs to be revised and is currently in the process of updating individual sections of the manual.

In this regard, the GAO Framework states:

Policies and processes embody the basic principles that govern the way an agency performs the acquisition function. Ideally, policies and processes clearly define the roles and responsibilities of agency staff, empower people across the agency to work together effectively to procure desired goods and services and establish expectations for stakeholders to strategically plan acquisitions and proactively manage the acquisition process. To be effective, policies and processes must be accompanied by controls and incentives to ensure they are translated into practice. Policies and processes that fail to address these objectives contribute to missed opportunities to achieve savings, reduce administration burdens, and improve acquisition outcomes.

ASB last updated the APM in May 2004 to: (1) establish a revised set of policies and procedures for procuring goods and services on behalf of the Corporation in its corporate, receivership, and conservatorship capacities; and (2) identify roles and responsibilities for all FDIC employees involved in the pre-solicitation, solicitation, proposal evaluation, award, and contract administration phases of the procurement process. ASB also issued various interim policies in 2004 and 2005 to communicate changes in the FDIC’s acquisition process and five PABs in 2006 covering various contracting issues.

Based on our interviews with ASB officials and our review of the APM, we concluded that the APM does not currently reflect (1) processes and procedures for consolidated and bundled contracts; (2) new systems such as the FDIC’s NFE; (3) elimination of systems such as the Electronic Procurement Routing Invoice Solution (EPRIS) and the Contract Monitoring Information Application (CMIA), which were replaced by NFE; (4) changes in the procurement card program and expanded use of the procurement card for recurring and low-cost actions; and (5) ASB’s new organization structure and business advisor approach to contract management. Without current policies and procedures, ASB lacks assurance that management’s directives and intentions will be consistently carried out.

During our evaluation, ASB prepared a *2006 ASB Policy and Operations Section Priorities Plan*, which included initiatives and timeframes for completing necessary actions to implement ASB’s reorganization. Specifically, ASB identified, as high-level plan tasks, the restructuring of the APM, adding levels of guidance and incorporating revised contracting general provisions. Under this section, ASB identified seven specific tasks that need to be accomplished to complete the revisions to ASB policies, as shown in Table 5. ASB provided completion dates for most tasks that it identified.

**Table 5: ASB Plan for Revision of Policies and Procedures**

Task Description	Status/Estimated Completion
Conduct benchmarking against other agencies’ acquisition policies and procedures.	Completed in August 2006.
Develop the infrastructure and convention for all guidance, including ASB Web site.	Task is in progress.

<b>Task Description</b>	<b>Status/Estimated Completion</b>
APM: Restructure to include high-level guiding principles, including all general provisions, regulatory, and statutory and corporate requirements.	No target date for completion.
Acquisition Procedures: Develop more specific procedure guidance for ASB personnel specifically.	No target date.
PABs: The purpose of PABs is to send general information/instruction/reminders to contracting personnel.	As required.
Acquisition Letters to broader population.	As required.
Standard Operation Procedures: Internal Controls Specific User Manuals (Quick-Reference Guides): -OM User Reference Manual -Procurement Card User Manual	Development of user manuals is in progress. OM reference manual is nearing completion. Procurement Card Brochure is being printed.

Source: ASB Policy & Operations Section Priorities Plan.

ASB indicated that their efforts to revise the APM, including the tasks above, have been delayed due to a lack of staff resources to work on the APM revisions and because of higher priorities within ASB. In August 2006, we confirmed that the FDIC was still in the process of revising the APM. ASB did not provide our office estimated milestone dates for completing the APM update but noted that ASB had contracted with Acquisition Solutions, Inc., to review the FDIC’s standard contract document, existing contract clauses, and general provisions to eliminate redundant or duplicative clauses. ASB also noted that it could use Acquisition Solutions in the future, if needed, to draft revised APM procedures.

### **Recommendation**

We recommend that the Director, DOA:

3. Establish firm target dates and devote dedicated resources for completing the APM and related contracting documents, contract clauses, and provisions.

### **ADMINISTRATION OF CONTRACTS**

ASB and program offices could improve the ongoing management of contracts following contract award. We found that the CEFile, ASB’s official system of record for contract documentation, was incomplete. Moreover, Contract Specialists and OMs did not routinely prepare CAPs or OMMPs for a sample of contracts that we reviewed. We also concluded that the FDIC needs to do more to establish a policy and dedicate program resources for applying EVM techniques to large or complex contracts. Finally, ASB needs to devote resources and establish milestones to resolve a large backlog of expired contracts that have not been formally closed out. These efforts should help to ensure that the Corporation adequately documents contract events and has more effective tools and techniques in place for monitoring cost, schedule, and contractor performance.

### **Contract File Documentation**

GAO’s *Standards for Internal Control in the Federal Government* states that “... all transactions and other significant events need to be clearly documented, and the documentation should be

readily available for examination. The documentation should appear in management directives, administrative policies or operating manuals and may be in paper or electronic form.” CEFfile became the official contract file of record for ASB headquarters on August 1, 2003. ASB issued Interim Acquisition Policy Number 2004-5 entitled, *CEFile*, which states:

CEFile is the FDIC’s official contract file of record and applies to all acquisition personnel in the Headquarters and Regional Contracting Offices. For the purposes of this memorandum, this policy shall be applied to all procurements at all dollar thresholds in order to ensure proper contract file management. Using CEFfile is an essential responsibility of all personnel required to maintain official contract files.

Maintaining the official contract file in CEFfile is an ongoing and continuous process. It is the responsibility of both the Contract Specialist and the Oversight Manager to ensure that their CEFfile is current, accurate, and complete. An official electronic contract file should document the basis for the acquisition and the award, the assignment of contract administration, and any subsequent actions taken by the contracting office. The documentation in the files shall be sufficient to constitute a complete history of the transaction for the purpose of (a) providing a complete background as a basis for informed decisions at each step in the acquisition process; (b) supporting actions taken; (c) providing information for reviews and investigations; and (d) furnishing essential facts in the event of litigation or congressional inquiries.

The interim policy noted that in addition to maintaining ASB records related to the contract, the OM should maintain contract-related records in CEFfile.

DOA developed a Contract Electronic File Desk Companion (Desk Companion), which provides a basic overview of CEFfile and serves as a reference for users. The Desk Companion notes that CEFfile is part of FDIC’s Digital Library (FDL), which is a corporate electronic repository used to store and manage electronic documents as well as electronic images of paper documents. The purpose of the FDL is to improve information management and enhance corporate data sharing of corporate documents by maintaining them in a single repository that provides various access levels, as appropriate, to FDIC staff.

The Desk Companion also includes a section entitled, *Acceptable Name Identifiers for Documents in the FDL*, which lists document names for a number of specific contracting-related documents. However, it is unclear whether this section is intended to provide a definitive listing of the required contract documents that should be included in a particular contract file.

Inadequate contract file documentation has been a recurring issue for ASB. Several audit and evaluation reports have identified contract file documentation findings.<sup>8</sup> Further, DOA’s

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<sup>8</sup> These OIG reports include: (1) *Contract Solicitation and Evaluation*, Report No. 05-029, dated August 2005, which referenced a separate memorandum that was issued to management regarding contract file documentation. The memorandum, dated July 11, 2005, identified missing documentation in the solicitation phase and justification for the noncompetitive procurement phase of the contracts reviewed; (2) *FDIC’s Use of Consultants*, Report No. 05-003, dated January 18, 2005, which reported that official contract files did not always contain evidence that contracts had been properly justified, planned, or managed; and (3) *XBAT Contracting and Project Management*, Report No. 04-014, dated March 26, 2004, which identified problems with retaining an original contract in the official contract file and retaining copies of the Contract Administration Plan.



Management Support Section (MSS) issued several internal review reports that included file documentation findings, including a post-award review report dated, September 24, 2004, and an internal review report dated, June 10, 2005. The latter report included repeat findings related to contract file documentation such as incomplete and poorly organized contract documentation within CEFile, inconsistent application of CEFile guidance among ASB users, and a lack of contract documentation to support procurement actions.

The June 2005 MSS report also included observations related to OMs. Specifically, of 24 contracts reviewed, MSS found no evidence that OMs had uploaded OM files into CEFile, making it difficult to ascertain whether contractors had delivered goods or met the service deliverables as required under the contract. MSS also found the general correspondence between OMs and Contract Specialists documented in CEFile to be limited.

We reviewed contract file documentation within CEFile for a judgmental sample of five contracts, each over \$100,000 in value, and found that CEFile did not include all required documentation to provide the FDIC with a complete history of contract actions. For example, we did not see evidence of:

- a CAP or an OMMP in CEFile for any of the five contracts reviewed,
- the Central Contractor Registration (CCR)<sup>9</sup> for three of the five contracts reviewed, and
- acceptable contractor background investigation results for three of the five contract files reviewed.

Moreover, we saw no evidence that OM files were included in CEFile for any of the five contract files that we reviewed.

We could not determine with certainty why Contract Specialists and OMs were not consistently recording key contracting documents and events in CEFile. An MSS internal review report concluded that OMs might not have been aware that they were required to include their OM files in CEFile. In this regard, several of the OMs for the five contracts in our sample that we reviewed were unaware of CEFile. Further, we noted that neither the CEFile interim policy nor the Desk Companion included a definitive listing of the contract documents or contract events that should be included in CEFile. Additionally, other than the MSS internal review efforts, ASB does not have an oversight or monitoring program in place to periodically verify that CEFile contains accurate and complete information. Finally, we saw no evidence that adequacy of contract file documentation was factored into the performance appraisal process for OMs.

### **Contract Administration Plan/Oversight Management Monitoring Plan**

COs and OMs did not prepare CAPs or OMMPs for the five contracts we reviewed. The APM requires that the CO, with the assistance of the OM, prepare a CAP immediately following contract award. In addition, the APM states that the OM should complete and use the OMMP to assist in performing oversight activities for complex contracts. Both plans assist the CO, OM,

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<sup>9</sup> A CCR ensures that an awardee is properly registered with the FDIC. The CO is required to review the CCR before contract award.

and TM in administering contracts to ensure that contract requirements are being met by the contractor.

The FDIC's APM states that a CAP is required for all contracts and task order services having a total estimated value of \$100,000 and greater. The objective of the CAP is to ensure that the OM and CO have a common understanding of both the contractor's and FDIC's obligations under the contract. The CO prepares the CAP, with the assistance of the OM, immediately following contract award and no later than the post-award conference, if one is to be held. A copy of the CAP is also provided to the OM.

The APM also states that the OM must determine what level of oversight is necessary to ensure that the contractor makes satisfactory progress toward the successful completion of the contract. To assist in performing oversight activities for complex contracts for services, the OM should complete and use the OMMP. A copy of the OMMP should be provided to the CO, and any other member on the oversight team who might benefit. The OMMP should be updated during performance to reflect any changes to the contract and be redistributed. OMs may supplement the elements of the monitoring plan, as needed.

Acquisition best practices guidance that we reviewed also recommended the use of contract administration plans to assist in managing contracts. For example, the GAO Framework identifies the use of contract monitoring plans or risk-based strategies for tracking contractor performance as an indicator that agencies are effectively monitoring and providing oversight to contractors.

During our review of the five selected contracts, we did not find evidence that the Contract Specialist had prepared a CAP or that the OM prepared an OMMP for any of the five contracts. Based on our discussions with ASB officials, we concluded that the CAP, as currently designed, may not meet ASB's needs for a plan to effectively monitor contracts. However, Contract Specialists and OMs should be using some type of tool or mechanism to document an approach to providing oversight and monitoring for complex or large procurements and to preserve oversight continuity in the event of changes in Contract Specialist or OM designation. Without the plans or other mechanisms for facilitating oversight, the FDIC increases the risk that contractors may not perform all of the required services under the contract.

### **Earned Value Management**

EVM is one method to monitor a project's progress in terms of cost and schedule, which provides insights into performance. In consolidating contracts and streamlining the acquisition process, the FDIC needs to consider using EVM as a tool to administer large, complex procurement efforts, such as IT system development contracts.

EVM is mandatory for most government agencies. OMB issued Memorandum M-05-23, *Improving Information Technology (IT) Project Planning and Execution*, dated August 4, 2005, which required most federal agencies to use an EVM System (EVMS) for all new major IT projects, ongoing major IT developmental projects, and high-risk projects to better ensure improved execution and performance as well as promote more effective oversight. The OMB memorandum required agencies to develop EVMS policies no later than December 31, 2005.

The memorandum also offered information on resources and training to assist in developing and implementing EVMS policies. We confirmed that the FDIC is not required to follow the OMB memorandum.

EVM is an effective way to manage and assess project performance. EVM is a principled approach to establishing and managing acquisition and project performance metrics. It is a method of determining a project's status by comparing the time-phased value of work planned to the value of the work achieved and actual costs expended. The key to an effective EVM system is the ability to allocate the budgeted cost of work to be performed over the scheduled period of performance for a cost account that, in turn, is directly related to the contract work breakdown structure. EVM integrates the evaluation of the project scope of work, schedule, and budget to optimize project planning and control.

Although EVM is not a requirement at the FDIC, FDIC officials indicated that DIT's Project Management Office (PMO) will establish a policy for the use of EVM in large and complex projects. In this regard, the PMO indicated that the FDIC had taken the following actions.

- Established an EVM clause that can be included in the statement of work for contracts awarded by the FDIC.
- Conducted two sessions on EVM for FDIC employees to provide awareness on the EVM program.
- Established a Web site that presents an explanation and examples of how EVM works.

While these measures are positive steps, it is important that the FDIC establish a well-defined EVM program supported by procedures and staff with the skills and abilities to interpret and act upon EVM results and data. In this regard, DOA expressed concern that the FDIC was rushing to include EVM in IT system development contracts without fully considering the cost-benefit of EVM and without ensuring that DIT program managers were sufficiently trained in interpreting EVM results. In this regard, Primavera Systems, Inc.,<sup>10</sup> issued a study in November 2005, *Earned Value Management in the Federal Government*, which surveyed federal government IT decision makers and reported that a significant disconnect exists between the value the federal IT community places on EVM and the associated action being taken to implement EVM. Survey respondents reported unfamiliarity with EVM, lack of trained personnel, and lack of senior management interest as the top challenges surrounding EVM implementation.

## **Contract Closeout**

ASB needs to formally close out a large number of contracts in accordance with the FDIC's APM. Although ASB believes there is limited risk associated with not closing out these contracts, the APM requires formal closeout to verify that all parties to the contract have fulfilled their contract obligations, and there are no open issues or responsibilities remaining.

The APM states that "a contract is completed when all goods or services have been received and accepted; all reports have been delivered and accepted; all administrative actions have been accomplished; all FDIC-furnished equipment and materials have been returned and accounted for

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<sup>10</sup> According to its Web site, Primavera Systems, Inc., is a leading independent provider of collaborative resource, project, and portfolio management solutions.

by the Program Office; and final payment has been made to the contractor. After completion, or termination, the contract must be closed out.” The APM also states that “the purpose of contract closeout is to verify that both parties to the contract have fulfilled their contract obligations, and there are no open issues or responsibilities remaining. It requires close coordination and teamwork between the Oversight Manager and the Contracting Officer.”

In addition, on June 16, 2004, ASB issued Interim Acquisition Policy 2004-7 entitled, *Emphasis on Contract Closeout Procedures*. The purpose of the interim policy was to re-emphasize the current policy regarding closeout of contracts that reside at ASB headquarters. The interim policy applied to all contracts issued and maintained by ASB headquarters personnel and states:

A new emphasis has been placed on the contract closeout process due to an estimated inventory of 4,890 contracts requiring closeout. These contracts have expiration dates that range from 1998 through 2004. The Operations Unit of the Policy and Operations Section has stratified the contracts by dollar value and year, and has presented a “closeout” plan for those contracts. It is imperative that all ASB personnel be cognizant of this procedure in order to achieve the goal of having a significant reduction in completed contracts waiting and requiring closeout by December 31, 2004.

The contract closeout phase provides FDIC assurances that the contractor has fulfilled its contract obligations. Although ASB recognized that closeout of contracts was an issue in June 2004, the problem still exists with approximately 3,000 contracts requiring formal closeout. This situation is exacerbated because ASB does not have a definitive list of many of the older contracts that the FDIC has sent to offsite long-term storage. The uncertainty about the number of contracts in storage resulted, in part, because the FDIC’s Financial Information Management System (FIMS), which preceded NFE, automatically purged contracts from the system after 2 years of inactivity. DOA transferred all hardcopy files for these contracts to offsite long-term storage.

ASB believes there is limited risk associated with contract closeout; however, we determined that there are risks that the FDIC could face when a contract is not closed in a timely manner as shown in Table 6.

**Table 6: APM Requirements and Risk of Non-Performance**

APM Requirement	Risk to the FDIC Associated with Non-Performance of Requirement
Contractor performed all required contractual obligations.	The FDIC did not receive all deliverables required by the contract. The FDIC hires a poor performing contractor for future work.
Payments due to the contractor have been made.	The FDIC either overpaid or underpaid the contractor.
Reconciliation of all advances/FDIC property has been returned.	Advances were not properly accounted for and returned. FDIC property was not returned from the contractor.
All funds or fees due from the contractor, including offsets or demands for payments initiated by the FDIC have been collected.	The FDIC is due funds or fees from the contractor.

Source: OIG Analysis.

ASB has taken efforts to reduce the contract closeout backlog. For example, ASB paid a contractor \$89,753 to perform closeout services during the period October 2005 through

January 2006. The contractor closed approximately 300 contracts during this period. ASB also indicated that six FDIC employees will be assigned the responsibility of closing out the remaining 3,000 contracts. ASB indicated that these contracts would be closed out by the end of 2006, but acknowledged that it may be necessary to adjust its timeframes for completion.

It is important that ASB establish a risk-based, cost-effective approach for resolving the closeout backlog. This approach should do the following:

- Prioritize closing out those contracts that present the most risk to the Corporation.
- Identify and dedicate specific staff or contractor resources that will perform the closeout.
- Consider costs associated with using FDIC employees rather than contract employees to conduct closeout.
- Consider costs for retrieving contract files from offsite storage. We understand that such costs could be \$2.20 to \$3.00 per box of records.
- Establish firm milestone dates for closeout completion.

We also encourage ASB to continue working with the FDIC's Legal Division to determine whether the FDIC could "write off" some of the older expired contracts without performing formal closeout procedures.

## **Recommendations**

We recommend that the Director, DOA:

4. Reiterate to all acquisition personnel, including OMs, the requirement to use CEFile to record contract documentation and events.
5. Issue guidance to Contract Specialists and OMs that lists specific contracting documents and contracting events that should be recorded in CEFile and standardizes the organization and location of required documents within CEFile.
6. Establish an internal quality review program or process for routinely monitoring CEFile to ensure completeness of individual contract file contents.
7. In conjunction with recommendation 2, ensure that the adequacy of contract file documentation is considered in the performance appraisal criteria related to overseeing and administering contracts.
8. Reevaluate whether the CAP and the OMMP are effectively designed to facilitate Contract Specialist and OM administration of large or complex contracts. Revise the CAP and OMMP, as needed, or establish other mechanisms and reiterate to Contract Specialists and OMs the need to complete and utilize those plans or mechanisms.
9. Work with DIT and the Legal Division to establish a more-defined EVM program supported by procedures and resources capable of interpreting and acting on EVM results and data.

10. Coordinate with the Legal Division to determine any legal issues that need to be addressed when closing out open contracts. Depending on legal issues identified, establish a risk-based approach, including time frames and priorities for formally closing out open contracts.
11. Dedicate sufficient resources to close out all open contracts in a timely manner. Consider hiring a contractor to assist in this endeavor if staff is not available.

## **CONTRACT MANAGEMENT SYSTEM**

The FDIC currently does not have an effective information system for managing contracts. Although NFE integrates financial and procurement information to some extent, ASB has identified a number of gaps between current procurement business processes and NFE system capabilities. The Corporation has contracted with Oracle, Inc. (Oracle), to identify how best to use NFE and to suggest other system solutions for managing contracts. Without an effective contract management system, the acquisition workforce may not have ready access to sufficient information to assure proper contract management and oversight or to make informed strategic acquisition decisions.

### **Need for Comprehensive Procurement and Financial Data to Support Management Decisions**

The GAO Framework discusses the need for effective knowledge and information management to provide credible, reliable, and timely data to make acquisition decisions. The framework notes that leading organizations gather and analyze data to identify opportunities to reduce costs, improve service levels, measure compliance with supplier agreements, and provide better management of service providers. Additionally, data collected in support of meaningful metrics can assist agencies in tracking achievement in comparison with plans, goals, and objectives.

GAO further notes that when buying goods and services, many leading organizations have implemented comprehensive systems that integrate contracting, financial, and other data to support management decisionmaking and external reporting requirements. These data:

- track events throughout the life of a contract;
- monitor contractor performance and work progress;
- record and validate the receipt of goods and services; and
- link to human capital systems to obtain information that monitors workload levels of COs and Contract Specialists and workforce training and education.

Finally, GAO notes that new technology tools can generate volumes of data, but the data are meaningless unless they can be translated into relevant, understandable formats for acquisition officials.

## FDIC Contract Information Systems

Historically, ASB maintained information about open and closed contracts using CMIA, a desktop reporting tool that compiled procurement information from FIMS. CMIA provided Contract Specialists, procurement analysts, and OMs the capability to print reports listing their contracts and provided a contract-monitoring tool for managers and supervisors within ASB and FDIC program offices.

The FDIC implemented NFE<sup>11</sup> in May 2005 to improve financial business processes through adaptable and efficient technology, implement an integrated solution to enhance the FDIC's ability to meet current and future financial management and financial information needs, and leverage current technology to redirect resources from transaction processing to analysis, risk management, and decision support. NFE replaced 37 legacy systems, including FIMS and CMIA, and includes a number of modules, such as the general ledger, payables, and receivables. An NFE information sheet included the following information for two NFE procurement-related modules.

***The Purchasing module*** manages all purchasing activities (such as requisitions, change orders, purchase orders, contracts, and shipment receipts) online for efficient, cost-effective procurement of goods and services. The procurement process is streamlined through automated workflow approvals, and E-commerce functionality (e-mail, automatic faxing, and electronic catalogs). The eProcurement module works together with the Purchasing module to deliver E-commerce functionality. Additionally, the Purchasing module allows procurement personnel to carry out the following functions:

- Capture and maintain comprehensive records of the FDIC's buying patterns and additional costs, such as the freight, duty, and setup charges associated with each purchase and provide a complete picture of procurement costs and support contract decisions.
- Maintain supplier information in one location.
- Manage the cost of small-dollar purchases by supporting and controlling the use of procurement cards.
- Enable budget checking and encumbrance/fund accounting during the procurement process for complete commitment control.

***The eProcurement module*** works with the Purchasing module to help manage organizational spending by decentralizing basic purchasing activities and empowering employees to make procurement decisions. This module delivers the following functionality:

- Integrates with suppliers, providing search tools that help the user find the right items to purchase and allows for fast approval of procurement requests.
- Accommodates sophisticated workflow rules for purchasing approval or notification.
- Helps keep track of the availability of funds by using budget checking and commitment control functionality.

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<sup>11</sup> The FDIC selected PeopleSoft Financials as the optimal enterprise financial software for NFE.

The FDIC paid \$45.4 million through March 31, 2006 for the purchase of NFE, which included the Purchasing and eProcurement modules. Neither ASB nor Division of Finance (DOF) personnel responsible for the NFE installation could provide a breakdown of the cost of the individual modules. However, DOF officials stated that roughly 25 percent of the NFE project's 851 user requirements were related to the procurement function.

### **Effectiveness of the Current Contract Information System**

Based on our interviews with ASB and DOF officials and our reviews of NFE procurement- and system-related documents and reports, we concluded that NFE provides some, but not all, of the information that ASB requires to effectively administer FDIC contracts. NFE integrates financial and procurement information to some extent. NFE also provides some valuable information to Contract Specialists and other members of the acquisition workforce, such as contract amount and the Contract Specialist and OM assigned. However, NFE does not provide certain information that would be useful to ASB in managing contracts. For example:

- NFE does not directly associate basic ordering agreement (BOA) or multiple award contracts with individual task orders placed against the BOA. NFE currently duplicates the overall BOA amount and individual task order amounts, resulting in inflated total contract dollar amounts in summary management reports. An example of a multiple award contract is DIT's IT Application Services contract.
- NFE does not distinguish between one-time purchases, such as a purchase of supplies, and formal contracts that require ongoing management. In this regard, ASB was not able to readily provide workload information for the number and dollar amount of formal contracts assigned to individual Contract Specialists or OMs.
- NFE does not effectively associate individual contracts with the requesting FDIC division or office. NFE determines the requesting division by identifying the FDIC employee who initially requested the procurement and accessing Microsoft Outlook to determine to which division or office the employee is assigned. If the employee has moved to another division or left the Corporation, NFE could return inaccurate information.
- NFE does not provide the capability to identify contracts with certain attributes such as those with privacy information.
- NFE establishes multiple contract numbers for individual contracts that have expenses in both FDIC's corporate and receivership capacity. This situation creates contractual risk in making sure that payments are recorded under the correct contract. This situation could also become confusing if the FDIC's resolution activity increases and ASB correspondingly has to administer more contracts with corporate and receivership funding attributes.
- NFE incorrectly identifies some contracts as being expired when those contracts are active. ASB thought that this situation had been corrected, but NFE is still reporting inaccurate information for some contracts.



- NFE cannot identify contract type, such as time-and-materials or fixed-price contracts, or whether a contract is performance-based. NFE also cannot identify whether a procurement is competitive or non-competitive or whether a contractor is a small or disadvantaged business.
- NFE does not readily track non-monetary modifications to contracts, such as administrative modifications, option exercises, changes in key personnel, or new work or task additions. ASB is currently tracking these modifications manually, and the modification numbers in NFE do not directly align with the actual contract modification numbers.

Further, at the outset of our review, ASB and DOF indicated that NFE contained some data inaccuracies resulting from the data conversion from FIMS to NFE. As a result, ASB experienced reporting errors with contracting management reports such as the: (1) Alert Report, which notifies the Contract Specialist and OM of contract milestones and contract funding levels; and (2) Purchase Order Summary Report, which provides status information about individual purchase orders. During early 2006, ASB provided NFE system information to FDIC OMs and asked them to confirm the number of and information about active contracts, including the accuracy of the final expiration dates and OMs as stated in NFE. In August 2006, we confirmed that the accuracy of these reports had not been corrected, and ASB was still not distributing those reports to COs and Contract Specialists to facilitate their management of active contracts.

### **ASB Effort to Identify Technical Solutions to Maximize the Use of NFE**

In September 2005, ASB requested approval to award a noncompetitive \$300,000 contract to Oracle to provide consulting services to assist the ASB in reviewing current business practices and in developing and implementing technical solutions for maximizing ASB's use of NFE.<sup>12</sup> In its rationale for the contract, ASB noted that since the implementation of NFE, ASB had identified numerous gaps between current business processes and NFE system capabilities. Specifically, ASB noted that entering, modifying, deleting, canceling, closing, and approving purchase orders, contracts, and modifications had been more labor-intensive than expected and that NFE reporting capabilities had made it difficult to manage the status of pending and awarded contractual actions. ASB retained Oracle, which had recently purchased PeopleSoft and the proprietary rights to the PeopleSoft products, as the only firm that fully understood the complete capabilities of the PeopleSoft application. The contract period ended June 30, 2006, and ASB stated that it would address the contractor's recommendations once the contract was completed. Table 7 on the next page explains specific areas of focus and tasks to be performed by Oracle.

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<sup>12</sup> As of August 23, 2006, ASB officials stated that the FDIC has spent about \$99,000 on the Oracle contract.

**Table 7: Tasks to be Performed by a Consultant for Maximizing ASB’s Use of NFE**

<b>Areas of Focus</b>	<b>Tasks to be Performed</b>
<b>Business Process Reviews</b>	Conduct interviews with key staff, managers, and client organizations, as appropriate, to gain an understanding of the current business process.
<b>System Review</b>	Review the FDIC’s current use of the system for entering, modifying, deleting, canceling, closing, and approving transactions in the procurement-related processes.
<b>Evaluation of Processing Changes</b>	Evaluate current use of the system and make recommendations on data entry and processing changes that can be implemented without any system configurations or customizations to streamline the entry process, and increase the efficiency of entering and recording transactions for procurement-related processes.
<b>Gap Analysis</b>	Develop a gap analysis that compares the procurement-related business processes to the FDIC’s use of the system, including recommendations on the most efficient method of resolving the gaps through system configuration or customization.  Provide recommendations and alternatives to solve gaps in the areas of requisition, purchase orders, and procurement cards.
<b>Change Control</b>	Prepare required documentation to request configuration or customization changes for the FDIC’s change control process.
<b>Reporting</b>	Assess reporting needs of the organization, and recommend necessary changes to the current reporting environment to meet the business needs of the organization at the staff and management levels.
<b>Workflow</b>	Assess the current use of workflow in procurement-related processes, and make recommendations that will optimize workflow utilization.
<b>Procurement-Related Process</b>	Assist in addressing procurement-related processing or system problems that arise during the period of performance of the contract.

Source: ASB contract file.

In August 2006, we confirmed that ASB had received the results of the work performed by Oracle. ASB had developed an Issues Log with 33 entries and assigned 24 issues to Oracle for research. According to ASB, Oracle resolved all 24 issues by recommending either configuration changes to NFE, which consisted of activating available NFE functionality, or ASB business process changes to better accommodate NFE. Oracle did not make any system programming changes to NFE to address the issues. DOA characterized the resolved issues as incremental improvements but noted that NFE does not provide ASB with the information that it needs to manage FDIC procurements. We concluded that the lack of an effective contract management system presents an unacceptable level of risk not only to ASB, but also to the entire Corporation. In this regard, ASB is working with DIT to implement an automated procurement system that will interface with NFE and provide better management information.

### **System Requirements**

As discussed earlier, NFE contained over 200 procurement-related user requirements. In some cases, individual requirements had been modified, not fully implemented, or deleted. In other cases, requirements had been technically implemented but did not meet ASB’s expectations or its interpretations of what the requirements entailed. As a result, ASB is pursuing implementation of an automated procurement system that interfaces with NFE. In our view, ASB needs to provide the acquisition workforce with ready access to sufficient information to assure proper management and oversight of contracts and to make informed strategic acquisition decisions integral to long-term corporate success. To do so, ASB should clearly define its requirements for the automated procurement system, including its intended relationship with NFE.

## **Recommendations**

We recommend that the Director, DOA:

12. Work with DOF and DIT to promptly remediate inaccuracies in the Alert Report and Purchase Order Summary Report and resume distribution of corrected informational reports to COs and Contract Specialists.
13. Work with DOF and DIT to define requirements for the new automated procurement system, including to address the NFE shortcomings identified in this report.

## **CORPORATION COMMENTS AND OIG EVALUATION**

The Director, DOA, provided a written response, dated September 29, 2006, to a draft of this report. DOA's response is presented in its entirety in Appendix III. DOA concurred with each of the 13 recommendations and described planned actions with estimated completion dates ranging from October 2006 through December 2007. DOA's planned actions, and actions taken to date, are responsive to our recommendations, and we considered all recommendations resolved. However, these recommendations will remain open until we have determined that agreed-to corrective actions have been completed and are effective. Appendix IV contains a summary of DOA's responses to our recommendations.

## OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess the strengths and weaknesses of the FDIC's contract administration policies, procedures, and practices for ensuring that contract cost, schedule, and performance requirements are met.

We performed our evaluation from November 2005 through August 2006 in accordance with generally accepted government auditing standards. We performed field work in the FDIC's Headquarters offices in Washington, D.C., and Arlington, Virginia.

To accomplish our objectives, we reviewed:

- the APM, ASB interim policies, and the CEFile Desk Companion;
- GAO report entitled, *Framework for Assessing the Acquisition Function at Federal Agencies*;
- OMB policy letter 05-01, *Developing and Managing the Acquisition Workforce*;
- FAI's *Report on Competencies for the Contracting Officer's Technical Representative (COTR) Job Function*;
- Department of Commerce's *Commerce Acquisition Manual* and report entitled *Contracting Officer Representative Certification Program*;
- a December 2005 MSPB report, *Contracting Officer Representatives: Managing the Government's Technical Experts to Achieve Positive Contract Outcomes*; and
- ASB-provided training materials, Management Reports, and ASB's *2006 Policy and Operations Section Priorities Plan*.

We also performed Internet research related to the Office of Federal Procurement Policy, GAO, and EVM. In addition, we interviewed FDIC officials involved in the contract administration process from DOA, DIT, DOF, and the Legal Division.

### **Reliance on Computer-based Data, Internal Controls, Fraud and Illegal Acts, and Compliance with Laws and Regulations**

We obtained reports from the FDIC's Training Management Learning System and NFE relating to procurement. We did not test the reliability of the data or the controls in the underlying systems. Not performing assessments of computer-based data did not affect the results of our evaluation. In addition, we reviewed documentation contained in ASB's CEFile.

Our evaluation program included evaluation steps for providing reasonable assurance of detecting fraud and illegal acts. None were identified.

We also identified and reviewed laws, regulations, policies, and procedures that were applicable to our evaluation of ASB's contract administration process.

**GAO FRAMEWORK FOR ASSESSING THE ACQUISITION FUNCTION**

Cornerstones	Elements	Critical Success Factors
<b>Organizational Alignment and Leadership</b>	Aligning Acquisition with Agency’s Missions and Needs	<ul style="list-style-type: none"> <li>• Assuring Appropriate Placement of the Acquisition Function</li> <li>• Organizing the Acquisition Function to Operate Strategically</li> <li>• Clearly Defining and Integrating Roles and Responsibilities</li> </ul>
	Commitment from Leadership	<ul style="list-style-type: none"> <li>• Clear, Strong, and Ethical Executive Leadership</li> <li>• Effective Communications and Continuous Improvement</li> </ul>
<b>Policies and Processes</b>	Planning Strategically	<ul style="list-style-type: none"> <li>• Partnering with Internal Organizations</li> <li>• Assessing Internal Requirements and the Impact of External Events</li> </ul>
	Effectively Managing the Acquisition Process	<ul style="list-style-type: none"> <li>• Empowering Cross-Functional Teams</li> <li>• Managing and Engaging Suppliers</li> <li>• Monitoring and Providing Oversight to Achieve Desired Outcomes</li> <li>• Enabling Financial Accountability</li> </ul>
	Promoting Successful Outcomes of Major Projects	<ul style="list-style-type: none"> <li>• Using Sound Capital Investment Strategies</li> <li>• Employing Knowledge-Based Acquisition Approaches</li> </ul>
<b>Human Capital</b>	Valuing and Investing in the Acquisition Workforce	<ul style="list-style-type: none"> <li>• Commitment to Human Capital Management</li> <li>• Role of the Human Capital Function</li> </ul>
	Strategic Human Capital Planning	<ul style="list-style-type: none"> <li>• Integration and Alignment</li> <li>• Data-Driven Human Capital Decisions</li> </ul>
	Acquiring, Developing, and Retaining Talent	<ul style="list-style-type: none"> <li>• Targeted Investments in People</li> <li>• Human Capital Approaches Tailored to Meet Organizational Needs</li> </ul>
	Creating Results-Oriented Organizational Cultures	<ul style="list-style-type: none"> <li>• Empowerment and Inclusiveness</li> <li>• Unit and Individual Performance Linked to Organizational Goals</li> </ul>
<b>Knowledge and Information Management</b>	Identifying Data and Technology that Support Acquisition Management Decisions	<ul style="list-style-type: none"> <li>• Tracking Acquisition Data</li> <li>• Translating Financial Data into Meaningful Formats</li> <li>• Analyzing Goods and Services Spending</li> </ul>
	Safeguarding the Integrity of Operations and Data	<ul style="list-style-type: none"> <li>• Ensuring Effective General and Application Controls</li> <li>• Data Stewardship</li> </ul>

Source: *Framework for Assessing the Acquisition Function at Federal Agencies*, GAO, September 2005.

## CORPORATION COMMENTS



**Federal Deposit Insurance Corporation**  
3501 Fairfax Drive, Arlington, VA 22226-3500

Division of Administration

September 29, 2006

**MEMORANDUM TO:** Stephen M. Beard  
Deputy Assistant Inspector General for Audits

**THROUGH:** John Bovenzi  
Deputy to the Chairman and Chief Operating Officer

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

**SUBJECT:** Management Response to the Draft OIG Evaluation Report Entitled,  
*FDIC's Contract Administration*

This is in response to the subject Draft Office of Inspector General (OIG) Report, issued August 25, 2006. In its report, the OIG identified 13 recommendations.

While we recognize that improvements can be made to the contract administration process, we appreciate that the OIG noted that the Division of Administration's Acquisition Services Branch (ASB) has a number of initiatives in progress to improve the efficiency and effectiveness of contract administration. This response outlines our planned corrective actions for each of the recommendations cited in the OIG's Report.

#### MANAGEMENT DECISION

##### **Finding: Strategic Management of Oversight Managers (OMs)**

**Condition:** The lack of adequately trained OMs puts the Corporation at risk of not having personnel with adequate skill sets to effectively manage contracts and may limit opportunities for cost savings in the acquisition of goods and services for the FDIC.

**Recommendation 1:** That the Director, Division of Administration (DOA) establish a program for strategically managing the Corporation's OMs. This program should include a:

- Listing of desired competencies and skills for OMs;
- Skills repository for OMs that identifies their contract oversight experience, competencies, and skills and training courses attended;
- Training curriculum for OMs; and
- Documented process for nominating OMs to large or complex contracts that includes ASB input or concurrence with the individual nominated to serve as OM.

**Management Response 1:** DOA concurs with this recommendation.

**Corrective Action:** DOA believes that a program to strategically manage the Corporation's OM workforce is a crucial element in creating a results oriented acquisition workforce focused on partnering, performance, quality and accountability through all phases of the acquisition cycle. Some efforts, such as development of an appropriate OM training curriculum are in process and efforts have already been initiated with Corporate University (CU) to provide the required training to include a CU approved action plan and budget. In July 2006, a Principal Contract Analyst was assigned to oversee OM programs and serve as the primary liaison on OM issues. This individual will be responsible for developing a comprehensive evaluation of OM needs as they relate to the current acquisition environment at FDIC. The program will include benchmarking against other Federal Agencies to determine best practices in management of the OM function, and appropriate practices for FDIC will be incorporated into the program.

**Date of Completion:** March 31, 2007

**Recommendation 2:** That the Director, DOA coordinate with the FDIC's Human Resources Branch and Legal Division to determine the feasibility of including, in OM's performance ratings, performance criteria related to overseeing and administering contracts.

**Management Response 2:** DOA concurs with this recommendation.

**Corrective Action:** Initial contacts have been made with representatives from DOA's Human Resources Branch (HRB) and the Legal Division regarding this recommendation. Several issues were identified that must be considered. Further discussions and coordination will be undertaken with HRB and the Legal Division to develop a corporate position on the feasibility of including contract management performance criteria in the OM performance work plans.

**Date of completion:** November 30, 2006

**Finding: Acquisition Policies and Procedures**

**Condition:** ASB needs to place a higher priority on completing revisions to the APM to reflect organization changes, new acquisition approaches, process changes, and system changes.

**Recommendation 3:** We recommend that the Director, DOA establish firm target dates and devote dedicated resources for completing the APM and related contracting documents, contract clauses, and provisions.

**Management Response 3:** DOA concurs with this recommendation.

**Corrective Action:** A team composed of contract policy and legal personnel has begun work on updating the APM and related contracting documents. A dedicated ASB project lead has been designated to keep the effort on course. Additionally, a dedicated representative from FDIC Legal Division has been assigned to the project. The proposed restructuring project entails revising the APM to be a policy document with implementing procedures contained in a separate guide. This will minimize the number of changes that must be made to the APM as the acquisition environment evolves and will allow procedures to be modified more easily as

organization needs change. In addition to revising the APM, this team is tasked with creating templates, standard documents, best practice guides, web-based tools, and training.

To date, the team has benchmarked the APM against policy manuals from other government agencies who are also exempt from the Federal Acquisition Regulation, reviewed previous OIG audits to identify those items that need immediate corrective action, interviewed all ASB contracting personnel to solicit recommendations for what to work on first, and begun to draft the revised APM. Incremental release of portions of the revised APM along with the accompanying set of specific procedures will occur throughout the process. By August 2007, ASB will have a complete draft of the revised APM ready for review and coordination through the corporate directives procedure.

**Date of completion:** December 31, 2007

**Finding: Administration of Contracts**

**Condition:** ASB and program offices could improve the ongoing management of contracts following contract award.

**Recommendation 4:** We recommend that the Director, DOA reiterate to all acquisition personnel, including OMs, the requirement to use CEFile to record contract documentation and events.

**Management Response 4:** DOA concurs with this recommendation.

**Corrective Action:** As acknowledged by the OIG, ASB has issued policy and guidance on the use of CEFile as the official contract file of record. Most recently, Procurement Administrative Bulletin 2006-07, issued August 31, 2006, provided contract specialists further guidance on establishing contract files in CEFile and reiterated the requirement to enter file documentation on a timely basis. ASB has also included this requirement in the Oversight Manager Refresher training. ASB will issue another memorandum to remind all contract specialists and oversight managers of their responsibility to maintain and adequately document their respective contract files in CEFile. This memorandum will reference the existing policy and guidance. The Letter of Oversight Manager Confirmation appointing the OM will be modified to include the requirement for the use of CEFile.

**Date of Completion:** October 31, 2006

**Recommendation 5:** We recommend that the Director, DOA issue guidance to contract specialists and OMs that lists specific contracting documents and contracting events that should be recorded in CEFile and standardizes the organization and location of required documents within CEFile.

**Management Response 5:** DOA concurs with this recommendation.



**Corrective Action:** ASB's implementation of Interim Acquisition Policy (IAP) #2004-5 *Implementing CEFile*, dated August 10, 2004, established the requirement to maintain electronic contract files. That guidance did not eliminate the existing requirement for contract specialists and oversight managers to maintain the contract documents identified on the contracting file checklists (APM Exhibits XXII and XXVII) in the contract file. The CEFile Desk Companion section entitled, *Acceptable Name Identifiers for Documents in the FDL*, provided guidance for naming documents and standardizing the organization and location of required documents within CEFile. Understanding that business practices have evolved, ASB will review and update the contracting file checklists and CEFile Desk Companion to reflect current policy and procedures. ASB will provide additional written guidance to contract specialists and oversight managers which will standardize the organization and location of required documents within CEFile.

**Date of Completion:** December 31, 2006

**Recommendation 6:** We recommend that the Director, DOA establish an internal quality review program or process for routinely monitoring CEFile to ensure completeness of individual contract file contents.

**Management Response 6:** DOA concurs with this recommendation.

**Corrective Action:** The most critical review of a contract file is the review conducted by the Contracting Officer prior to executing a contract. This is the first, and most vital, step in ASB's quality review program. Numerous policies have been established and reminders have been issued to emphasize the requirement for all contract file documentation to be maintained in CEFile. For example, in August 2005, the ASB Associate Director issued guidance which specifically stated "We will follow the procedures outlined in Interim Acquisition Policy #2004-5. This policy, which was issued on August 10, 2004, states that all contract reviews are to use contract files established in CEFile. Contracting Officers are not to sign any contractual actions (including modifications) unless the contract file is in CEFile." In 2005, ASB placed significant emphasis on the need to load all contract documents into CEFile. By October 31, 2005, every contract specialist was required to confirm that all of their contract files had been established in CEFile and contained all of the required documents needed to properly conduct contract administration.

In addition to the Contracting Officer's review of the contract file, IAP #2004-03 *Implementing Pre- and Post-Award Review Policy*, dated March 4, 2004, established an internal quality review program. Although some of the elements of the program were not fully implemented during the time ASB experienced the most severe personnel shortages, recent hiring actions have enabled ASB to revitalize this program. This program establishes procedures for both pre-and post-award review of contract files by the Policy and Operations Section. These reviews are accomplished by reviewing file documentation within CEFile. These reviews serve as an additional internal control to ensure completeness of file documentation in CEFile. Pre-award reviews have already been reinstated and the required quarterly post-award reviews will be reinstated in the fourth quarter. CEFile and the completeness of individual contract files are a review element.

**Date of Completion:** December 31, 2006

**Recommendation 7:** We recommend that the Director, DOA, in conjunction with recommendation 2, ensure that the adequacy of contract file documentation is considered in the performance appraisal criteria related to overseeing and administering contracts.

**Management Response 7:** DOA concurs with this recommendation.

**Corrective Action:** The standard performance plan in use for all contract specialists includes the performance evaluation criterion, Analytical and Technical Skills, which requires the specialist to demonstrate an up-to-date knowledge of relevant laws, regulations, and policies and to stay apprised of any changes. This knowledge is demonstrated in the adequacy and completeness of the contract documentation. Although contract file documentation is not specifically called out in this performance criterion, "Analytical and Technical Skills" is appropriate for addressing file documentation. Completeness and quality of contract file documentation has been considered during the performance evaluation of contract specialists and contracting officers. The ASB Associate Director will issue a specific reminder to ASB managers to use this criterion to address performance regarding the adequacy of contract file documentation. Additionally, should the Corporation approve the implementation of Recommendation 2, completeness and quality of contract file documentation will be considered during the performance evaluation of oversight managers.

**Date of completion:** Reminder to ASB managers – September 30, 2006  
Decision on Implementing Recommendation 2 regarding Oversight Managers– November 30, 2006

**Recommendation 8:** We recommend that the Director, DOA reevaluate whether the Contract Administration Plan (CAP) and the Oversight Management Monitoring Plan (OMMP) are effectively designed to facilitate contract specialist and OM administration of large or complex contracts. Revise the CAP and OMMP as needed, or establish other mechanisms and reiterate to contract specialists and OMs the need to complete and utilize those plans or mechanisms.

**Management Response 8:** DOA concurs with this recommendation.

**Corrective Action:** DOA agrees that the CAP and OMMP, as currently written, are not adequate tools. Both the CAP and the OMMP are intended to assist the CO, OM, and Technical Monitor in administering contracts to ensure that contract requirements are met. This issue will be addressed during the updating of the APM discussed in Recommendation 3. Benchmarking with other federal agencies will also assist ASB in developing appropriate tools and processes that will provide oversight continuity for all parties involved. DOA will ensure that these tools and processes are included during the APM update. While this effort is underway, a reminder will be issued to all contract specialists and OMs addressing the requirement to complete and follow current guidance on CAPS and OMMPs.

**Date of completion:** Reminder to contract specialists and OMs – October 31, 2006  
Revised CAPs and OMMPs – January 31, 2007

**Recommendation 9:** We recommend that the Director, DOA work with DIT and the Legal Division to establish a more-defined EVM program supported by procedures and resources capable of interpreting and acting on EVM results and data.

**Management Response 9:** DOA concurs with this recommendation.

**Corrective Action:** DOA, DIT and the Legal Division will coordinate to develop a corporate EVM program. Representatives from these organizations have met to discuss establishment of the FDIC EVM program. Additionally, DIT and ASB are working with Corporate University to develop appropriate EVM training that will allow for effective implementation of the EVM program throughout the FDIC.

**Date of completion:** March 31, 2007

**Recommendation 10:** We recommend that the Director, DOA coordinate with the Legal Division to determine any legal issues that need to be addressed when closing out open contracts. Depending on legal issues identified, establish a risk-based approach, including time frames and priorities for formally closing out open contracts.

**Management Response 10:** DOA concurs with this recommendation.

**Corrective Action:** DOA will coordinate with the Legal Division and establish a risk-based plan, including timeframes and priorities, for formally closing out open contracts.

**Date of completion:** November 30, 2006

**Recommendation 11:** We recommend that the Director, DOA dedicate sufficient resources to close out all open contracts in a timely manner. Consider hiring a contractor to assist in this endeavor if staff is not available.

**Management Response 11:** DOA concurs with this recommendation.

**Corrective Action:** As noted in Management Response 10, DOA will develop a plan addressing contract closeouts. As a part of this plan, DOA will consider current staffing levels and workload in order to determine what type of resources will be necessary to close out contracts in a timely manner. If it is determined that internal FDIC resources are not adequate to address this issue, we will pursue obtaining outside assistance.

**Date of completion:** November 30, 2006

**Finding: Contract Management System**

**Condition:** Without an effective contract management system, the acquisition workforce may not have ready access to sufficient information to assure proper contract management and oversight or to make informed strategic acquisition decisions.

**Recommendation 12:** We recommend that the Director, DOA work with DOF and DIT to promptly remediate inaccuracies in the Alert Report and Purchase Order Summary Report and resume distribution of corrected informational reports to contracting officers and contract specialists.

**Management Response 12:** DOA concurs with this recommendation.

**Corrective Action:** DOA has recently initiated several processes that will enhance the availability and accuracy of contract information obtained from NFE. In August 2006, DOA worked with DIT to determine reporting query changes required to ensure accurate expiration dates are stated on the Alert Report and Purchase Order (PO) Summary Report. DIT anticipates these changes will be completed by October 2006. Upon completion, reports will be distributed to all contracting officers and contract specialists. DOA also conducted training for acquisition personnel on a new process for linking individual task orders to the basic contract, thereby eliminating the risk of duplicate contract values being reported on summary management reports.

**Date of Completion:** November 30, 2006

**Recommendation 13:** We recommend that the Director, DOA work with DOF and DIT to define requirements for the new automated procurement system, including to address the NFE shortcomings identified in this report.

**Management Response 13:** DOA concurs with this recommendation.

**Corrective Action:** In cooperation with DIT, DOA recently awarded a task order for the acquisition of an Automated Procurement System (APS). The objectives of the APS are consistent with the recommendations of the OIG. Following the Rational Unified Process (RUP) prescribed by DIT, the core functionality of APS is scheduled for completion in December 2007.

**Date of Completion:** December 31, 2007

If you have any questions regarding this response, FDIC's point of contact for this matter is William Gately. Mr. Gately can be reached at (703) 562-2118.

cc: James H. Angel, Jr., OERM  
Michael E. Bartell, DIT

## MANAGEMENT RESPONSES TO RECOMMENDATIONS

This table presents the management response on the recommendations in our report and the status of the recommendations as of the date of report issuance.

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Monetary Benefits	Resolved: <sup>a</sup> Yes or No	Open or Closed <sup>b</sup>
1	<p>DOA responded that a program to strategically manage the Corporation's OM workforce is a crucial element in creating a results oriented acquisition workforce focused on partnering, performance, quality and accountability through all phases of the acquisition cycle. DOA has initiated some efforts such as</p> <ul style="list-style-type: none"> <li>• development of an appropriate OM training curriculum with CU, and</li> <li>• assigning a Principal Contract Analyst to oversee OM programs and serve as the primary liaison on OM issues.</li> </ul> <p>The liaison will also develop a comprehensive evaluation of OM needs. Lastly, DOA will benchmark against other federal agencies to determine best practices in management of the OM function and incorporate appropriate practices at the FDIC.</p>	March 31, 2007	\$0	Yes	Open
2	<p>DOA has made initial contacts with representatives from DOA's Human Resources Branch (HRB) and the Legal Division and DOA will continue discussions and coordination to develop a corporate position on the feasibility of including contract management performance criteria in the OM performance work plans.</p>	November 30, 2006	\$0	Yes	Open
3	<p>A team composed of contract policy and legal personnel has begun work on updating the APM and related contracting documents. In addition to revising the APM, this team is tasked with creating templates, standard documents, best practice guides, web-based tools, and training.</p>	December 31, 2007	\$0	Yes	Open

APPENDIX IV

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Monetary Benefits	Resolved: <sup>a</sup> Yes or No	Open or Closed <sup>b</sup>
	To date the team has benchmarked the APM against policy manuals from other governmental agencies which are exempt from the FAR, reviewed past OIG audits, interviewed ASB contracting staff, and begun drafting a revised APM.				
4	ASB has issued policy and guidance on the use of CEFile as the official contract file of record. ASB will issue another memorandum to remind all Contract Specialists and OMs of their responsibility to maintain and adequately document their respective contract files in CEFile. ASB will also modify the Letter of Oversight Manager Confirmation to include the requirement for the use of CEFile.	October 31, 2006	\$0	Yes	Open
5	ASB will review and update the contracting file checklists and CEFile Desk Companion to reflect current policy and procedures. ASB will provide additional written guidance to Contract Specialists and OMs which will standardize the organization and location of required documents within CEFile.	December 31, 2006	\$0	Yes	Open
6	DOA identified the CO's review of the contract file prior to contract execution as the most vital step in ASB's quality review program. DOA also referenced Interim Acquisition Policy No. 2004-03 <i>Implementing Pre- and Post- Award Review Policy</i> , dated March 4, 2004, which established an internal quality review program. DOA acknowledged that some of the elements of the program were not fully implemented during the time ASB experienced the most severe personnel shortages. DOA has since revitalized the program. Pre-award reviews have already been reinstated and the required quarterly post-award reviews will be reinstated. CEFile and the completeness of individual contract files are a review element.	December 31, 2006	\$0	Yes	Open

APPENDIX IV

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Monetary Benefits	Resolved: <sup>a</sup> Yes or No	Open or Closed <sup>b</sup>
7	DOA noted that the standard performance plan in use for all Contract Specialists includes the performance evaluation criterion, Analytical and Technical Skills. DOA will issue a specific reminder to ASB managers to use this criterion to address performance regarding the adequacy of contract file documentation. Additionally, should the Corporation approve the implementation of Recommendation 2, completeness and quality of contract file documentation will be considered during the performance evaluation of OMs.	November 30, 2006	\$0	Yes	Open
8	DOA responded that the CAP and OMMP, as currently written, are not adequate tools. DOA will address this issue during the updating of the APM as discussed in Recommendation 3. This effort will include benchmarking with other federal agencies to identify and develop appropriate tools and processes. While this effort is underway, a reminder will be issued to all Contract Specialists and OMs addressing the requirement to complete and follow current guidance for the CAP and OMMP.	January 31, 2007	\$0	Yes	Open
9	DOA, DIT and the Legal Division will coordinate to develop a corporate EVM program. Additionally, DIT and ASB are working with CU to develop appropriate EVM training that will allow for effective implementation of the EVM program throughout the FDIC.	March 31, 2007	\$0	Yes	Open
10	DOA will coordinate with the Legal Division and establish a risk-based plan, including time frames and priorities, for formally closing out open contracts.	November 30, 2006	\$0	Yes	Open
11	As part of DOA's plan for addressing contract closeouts, DOA will consider current staffing levels and workload in order to determine what type of resources will be needed to close out contracts in a timely manner, including the use of outside assistance, if necessary.	November 30, 2006	\$0	Yes	Open

APPENDIX IV

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Monetary Benefits	Resolved: <sup>a</sup> Yes or No	Open or Closed <sup>b</sup>
12	DOA has recently initiated several processes that will enhance the availability and accuracy of contract information obtained from NFE. Specifically, DOA worked with DIT to determine reporting query changes required to ensure accurate expiration dates are stated on the Alert Report and Purchase Order Summary Report. DOA will resume distribution of these reports to contracting officers and specialists upon completion of these changes. DOA also conducted training for acquisition personnel on a new process for linking individual task orders to the basic contract, thereby eliminating the risk of duplicate contract values being reported on summary management reports.	November 30, 2006	\$0	Yes	Open
13	DOA recently awarded a task order for the acquisition of an Automated Procurement System (APS). The objectives of the APS are consistent with the recommendations of the OIG. Following the Rational Unified Process (RUP) prescribed by DIT, the core functionality of APS is scheduled for completion in December 2007.	December 31, 2007	\$0	Yes	Open

<sup>a</sup> Resolved: (1) Management concurs with the recommendation, and the planned corrective action is consistent with the recommendation.  
 (2) Management does not concur with the recommendation, but planned alternative action is acceptable to the OIG.  
 (3) Management agrees to the OIG monetary benefits, or a different amount, or no (\$0) amount. Monetary benefits are considered resolved as long as management provides an amount.

<sup>b</sup> Once the OIG determines that the agreed-upon corrective actions have been completed and are effective, the recommendation can be closed.