
**Office of the Inspector General
Corporation for National Service**

**Audit of the
Corporation's Procurement and
Contracting Processes and Procedures**

**Report Number 98-24
August 7, 1998**

This report is issued to Corporation management. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than March 29, 1999 and complete its corrective actions by September 30, 1999. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented or the amount of disallowed costs.

Office of the Inspector General
Audit of the Corporation's Procurement and
Contracting Processes and Procedures

CNS OIG engaged Cotton & Company to audit the contract and procurement processes and procedures used by the Corporation during the period October 1996 through February 1998. The audit's primary objectives were to determine if (1) the Corporation had an effective procurement system in place during the period and (2) the procurement system complied with statutory and regulatory requirements applicable to the Corporation. The audit was conducted in accordance with *Government Auditing Standards*. We have reviewed the report and work papers supporting its conclusions and agree with the findings and recommendations presented.

The report concludes that the Corporation lacks an effective procurement system and that it has not complied with all applicable statutory and regulatory requirements. Further, the Corporation has inadequate procedures for contractor selection and award of contracts, contract administration, and contract monitoring and oversight. Moreover, the number, nature, and significance of the audit's findings indicate that the Corporation's procurement process is vulnerable to fraud, waste, and abuse.

Regarding procedures for contractor selection and award of contracts, the report includes 12 findings that range from violations of the FAR (use of cost plus percentage of cost contracts, sole source contracting, and personal services contracts), to violations of the Federal Acquisition Streamlining Act, to the use of internally inconsistent contract terms making contract documents confusing and difficult to enforce. In one instance, the Corporation even used a contract statement of work written and used by another government agency for requirements different from those intended by the Corporation. In this area, we identified more than \$1.6 million that the Corporation could save by hiring the same staff at the same salaries paid under the contracts — the differences are due to the contractors' mark-ups for indirect costs and profits versus the government's fringe benefit rates.

Regarding procedures for contract administration, monitoring and oversight, the report identifies five areas where ineffective controls increase the Corporation's vulnerability, including —

- lack of controls over contractor payment and performance,
- inadequate review of contractor billings, and
- inadequate contract files.

Questioned costs and other cost savings in this area exceed \$500 thousand.

We provided a copy of a draft of this report to the Corporation for comment. The Corporation provided a summary response and individual responses for each finding. In its response, the Corporation generally agreed with the report's recommendations and identified steps it planned to take to address some of the deficiencies. The Corporation's summary response is included as Appendix III.

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Abbreviations

BAFO	Best and Final Offer
CNS	Corporation for National Service
CO	Contracting Officer
COTR	Contracting Officer's Technical Representative
CPFF	Cost Plus Fixed Fee
CPPC	Cost Plus Percentage of Cost
CY	Calendar Year
FAR	<i>Federal Acquisition Regulation</i>
FASA	Federal Acquisition Streamlining Act
FY	Fiscal Year
GAO	General Accounting Office
G&A	General and Administrative
GSA	General Services Administration
NCCC	National Civilian Community Corps
ODC	Other Direct Cost
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPS	Office of Procurement Services
PPA	Prompt Payment Act
PL	Public Law
RFP	Request for Proposals
SF	Standard Form
T&M	Time and Materials

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DOS Contract S-OPRAQ-94-C-0468-18

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August 7, 1998

Inspector General
Corporation for National Service

At your request, we conducted an audit of the contract and procurement process used by the Corporation for National Service (the Corporation) from October 1996 through February 1998.

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

We understand that this audit was requested for the purpose of determining if (1) the Corporation had an effective procurement system in place during the period and (2) the procurement system complied with statutory and regulatory requirements applicable to the Corporation. This report is intended to meet these objectives and should not be used for other purposes.

COTTON & COMPANY, LLP

By: 

David L. Cotton, CPA, CFE, CGFM

Results In Brief

We conducted an audit of the contract and procurement process and procedures used by the Corporation from October 1996 through February 1998. Our audit was conducted in accordance with *Government Auditing Standards, 1994 Revision*, applicable to performance audits.

The audit's primary objectives were to determine if (1) the Corporation had an effective procurement system in place during the period and (2) the procurement system complied with statutory and regulatory requirements applicable to the Corporation.

We concluded that the Corporation did not have an effective procurement system and did not comply with all applicable statutory and regulatory requirements. The number, nature, and significance of the audit's findings indicate that the Corporation's procurement process is vulnerable to fraud, waste, and abuse.

Our audit found that the Corporation had inadequate procedures for contractor selection and award of contracts. We also concluded that the Corporation had inadequate procedures for contract administration, monitoring, and oversight.

Regarding procedures for contractor selection and award of contracts, we found the following deficiencies:

- The Corporation used an illegal, cost plus percentage of cost (CPPC) form of contracting for one contract; \$8,209 of fees were paid to the contractor as a percentage of its costs. See page 7 for details about this finding.
- Some Corporation contracts contained contradictory and inconsistent contract terms. The Corporation indicated that it erroneously failed to include all intended terms into the contracts that were executed. The failure to incorporate into contracts the full intent of the parties regarding significant issues can result in confusion during contract administration and may lead to disputes during contract audit and closeout. See page 8 for details about this finding.
- Many purchase orders contained contradictory and inconsistent terms, placing the Corporation at risk that contractors can claim fixed prices for work that the Corporation intended would be performed on a time and materials (T&M) or unit price basis. See page 9 for details about this finding.

- The Corporation violated the Federal Acquisition Streamlining Act (FASA) and its implementing regulations by awarding a contract for less than \$100,000 to other than a small business. See page 10 for details about this finding.
- The Corporation inappropriately awarded numerous purchase orders on a sole source basis. As a result, the Corporation violated the *Federal Acquisition Regulation (FAR)* and may have paid excessive amounts for these goods and services. See page 11 for details about this finding.
- On several large procurements, the Corporation unnecessarily and inappropriately awarded contracts on a sole source basis to minority-owned firms. As a result, the Corporation violated the regulations governing the Small Business Administration's set-aside program and had to make costly reprocurements earlier than necessary. See page 14 for details about this finding.
- On one major contract, the Corporation used a statement of work that had actually been written by another government agency for an entirely different requirement. The contractor is being paid on terms that are different than the terms of the contract. As a result, the Corporation may have paid an excessive amount for the services and has questionable control over contract compliance. See page 16 for details about this finding.
- We noted numerous instances in which the evaluation of bids and proposals was inadequate and inadequately documented. In adjudicating a recent bid protest, the General Accounting Office (GAO) sustained all five bases for the protest. The Corporation paid more than \$50,000 for the protester's protest costs and had to reopen the procurement. The Corporation also had to reopen another procurement as the result of another protest. These protests and reopened procurements are expensive and disruptive to the Corporation, and the Corporation continues to be at risk in this regard. See page 17 for details about this finding.
- The Corporation has used and is using three unauthorized personal services contracts. We estimated that over a 4-year period, the Corporation has paid approximately \$1.6 million more for the services obtained under these contracts than the services would have cost if done using Corporation employees. See page 19 for details about this finding.

- The FASA prohibits contracting officers from requiring the submission of cost and pricing data in instances in which competition is adequate, because it leads to increased proposal preparation costs, generally extends acquisition lead-time, and wastes both contractor and Government resources. The Corporation routinely and inappropriately requires bidders to submit cost and pricing data. See page 24 for details about this finding.
- Prior audits of Corporation activities have disclosed instances of personnel without procurement training and authority making commitments on behalf of the Corporation. We found that these problems have not been fully resolved. In addition to circumventing established procurement procedures and controls, the need to ratify unauthorized commitments is costly and can easily result in even more costly disputes. See page 25 for details about this finding.
- We noted numerous instances of inappropriate Government Purchase (credit) Card purchases, missing supporting documentation, missing approval signatures, and untimely credit card payments. The failure to strictly enforce controls over the use of these cards can lead to fraud, waste, and abuse of this procurement mechanism. See page 26 for details about this finding.

Regarding procedures for contract administration, monitoring and oversight, we found the following deficiencies:

- The Corporation has numerous contracts that are either cost-type contracts or have cost-reimbursable components. The Corporation has consistently failed to require contractors to adjust from indirect cost rates used for interim billing purposes to actual indirect cost rates as required by the contracts and the FAR. For one contract, we obtained the contractor's proposed actual indirect cost rates for the contract periods and calculated that the contractor has been paid approximately \$452,000 in excess indirect costs. Interest on these overclaimed costs is approximately \$87,000. See page 28 for details about this finding.
- We concluded that the Corporation lacks procedures for assuring that (1) payments to contractors are made in accordance with contract terms and (2) contractors perform in accordance with contract requirements. Failure to carefully review contractor invoices for accuracy and consistency with contract terms and provisions can allow under- or over-payments to occur. Failure to closely monitor contractor performance results in wasted resources and can lead to fraud or abuse. See page 30 for details about this finding.

- We found numerous instances of Prompt Payment Act (PPA) noncompliance. Approximately 24 percent of purchase order payments we tested were late. Approximately 20 percent of credit card payments we tested were late. We recalculated 10 PPA interest penalty amounts and found 8 of the 10 to be incorrect. We tested 10 cellular phone purchase order payments and found half to have been paid incorrectly. On a purchase order for utility services, the Corporation made numerous late payments, paid the vendor's late payment charge and also paid an additional PPA interest penalty. From October 1996 through February 1998, the Corporation paid \$31,202 in PPA interest penalties. See page 33 for details about this finding.
- We found that the Corporation has no controls designed to assure that funds drawn down by grantees under cooperative agreements are for allowable purposes and in accordance with the terms of the agreements. The Corporation has incorrectly assumed that these grantees are being monitored under the OMB Circular A-133, single audit process. As a result, the Corporation has no means of assuring that moneys being paid to these grantees are allowable, reasonable, or for the purposes intended. See page 35 for details about this finding.
- We found inadequate and incomplete contract documentation for many of the contracts we reviewed. See page 38 for details about this finding.

We also noted two matters that were indirectly related to the procurement system that require corrective action:

- The Corporation uses three different and nonintegrated tracking systems for purchase orders. We noted numerous errors and inconsistencies in and among these systems. See page 39 for details about this finding.
- We noted that some valuable computer assets are not always placed under inventory control at the time they are acquired. See page 40 for details about this finding.

This report provides further details about these audit results and presents objectives, scope, methodology, conclusions, recommendations, and views of responsible officials.

Background

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

The Corporation's procurement process encompasses the request, budgeting, acquisition, receipt, and payment for goods and services needed to achieve the Corporation's mission. The Corporation does not consider the award and administration of grants to be part of its procurement process.

The Corporation's five service centers execute field requests for goods and services below the small purchase limitation (\$25,000). Effective January 17, 1995, the Corporation transferred the small purchase responsibility for each AmeriCorps*NCCC campus from the Corporation's Headquarters to its closest service center. Any purchases exceeding a service center's limitations are processed by the Corporation's Headquarters. All Corporation procurements are required to adhere to policies, procedures, rules, and guidelines set forth in the FAR.

Objectives, Scope, And Methodology

Objectives

Our primary audit objectives were to determine if:

- The Corporation had an effective procurement system in place during the period from October 1996 through February 1998.
- The procurement system complied with statutory and regulatory requirements applicable to the Corporation.

These overall objectives were further broken down into specific objectives covering the following procurement process phases:

- Planning
- Staffing
- Policies and Procedures
- Specifications
- Procurement Requests
- Solicitation Process
- Evaluation and Source Selection

- Pricing
- Negotiations
- Award, Review, and Approval
- Performance Monitoring/Measurement
- Contract Modifications

These specific objectives are in Appendix I.

Scope and Scope Limitations

The scope of our audit was limited to procurements placed by the Corporation's Headquarters during the period from October 1996 through February 1998. We also examined records related to one contract awarded in 1994 that was still active during the audit period. We conducted a limited review of two cooperative agreements active during the current audit period. Procurements included in our audit scope encompassed 15 contracts, 653 purchase orders, 335 credit card purchases, and 2 cooperative agreements. We did not audit the allowability of costs claimed under any procurements and we did not test compliance with terms of specific contracts, purchase orders, or cooperative agreements to the extent necessary to provide financial and compliance opinions on any procurements. We did not review procurements made by the five Corporation service centers.

Methodology

Our methodology included reviews of procurement files and related Corporation accounting records, and discussions with procurement personnel. We also interviewed appropriate Corporation and contractor personnel and conducted limited reviews of contractor records. Our audit scope did not include interviews with all Corporation contractors or personnel or technical evaluations of the work performed.

Findings and Recommendations

Major findings identified during the audit are grouped into two broad categories:

- Inadequate procedures for contractor selection and contract award; and
- Inadequate procedures for contract administration, monitoring, and oversight.

**Inadequate
Procedures for
Contractor
Selection and
Contract Award**

**Use of Illegal
Contracting Form**

Contract number 96-743-1002 is, according to the contract, a T&M contract. The contractor has been billing for other direct costs (ODCs) plus percentages of these ODCs. Initially the contractor was billing ODCs plus 12.6% for "G&A" plus an additional 4.0%. (G&A rates have not been adjusted from provisional to actual.) Later, the contract was modified to allow the contractor to "add 4% fee to the cost of travel, as well as other direct costs." The contractor has claimed \$8,209 in fees on ODCs.

FAR 16.102(c) states that:

The cost-plus-a-percentage-of-cost system of contracting shall not be used.

Further, contract article B.3 states that:

The offeror shall specify unit and total prices for each labor category listed below. Prices shall be inclusive of all indirect costs, i.e. overhead, G&A, profit, etc., as well as all direct labor costs. [emphasis added]

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

Recommendation:

All of the fees claimed on ODCs by the contractor are contrary to the FAR, and should be recovered by the Corporation.

CORPORATION MANAGEMENT'S COMMENTS

The Corporation agrees that the 4% fee allowed on Travel and Other Direct Costs (ODC's) is inappropriate and the contract has been modified to delete the 4% fee.

Auditors' Additional Comments:

We agree that the Corporation's action to modify the contract is appropriate. However, we continue to recommend that the Corporation take the steps necessary to recover the illegal fees paid to the contractor, plus applicable interest.

**Inconsistent and
Contradictory
Contract Terms**

Contract number 97-743-1005 contains inconsistent and contradictory terms. The contract cover page (Standard Form 26) states that the contract will be a T&M task order contract. Contract article B.3 states that

The contractor shall bill at the unit price [sic] specified below which are inclusive of all indirect costs, i.e. overhead, G&A, profit, etc., as well as all direct labor costs. [Emphasis added]

Contract article H.7., however, is titled "Limitation on Indirect Cost" and stipulates ceiling rates for fringe benefits, overhead, and G&A for the base and two option years of the contract. This article is inapplicable for this T&M contract, because, as written, all of the contractor's indirect costs should be included in the established unit prices.

Invoices under the first year of the contract contain additional G&A of 12.08% added to travel and consultant costs.

Similarly, the predecessor contract, number 96-743-1002 contains the same Article B.3 and contains no provision for additional G&A to be added to ODCs. Nevertheless, the contractor claimed and was reimbursed for additional G&A on its ODCs.

Recommendation:

We recommend that the Corporation establish a control procedure to assure that every contract accurately and completely includes all intended contract terms and conditions.

CORPORATION MANAGEMENT'S COMMENTS

The Corporation agrees that on its face each contract contains inconsistent terms. However, the parties' intent was to allow the Contractor to recover G&A on Travel and Other Direct Costs (e.g. subcontractors, consultants) in lieu of a materials handling rate which the Contractor does not have. In its Best and Final Offer (BAFO) the Contractor proposed a 12.08% G&A rate, which should have been specifically identified in the contract schedule. The contract has been adjusted to reflect this intent.

Auditors' Additional Comments:

We verified that the BAFOs for both contracts indicated the contractor's intent to recover G&A on ODCs. The Corporation's failure to incorporate the full intent of the parties regarding significant issues into its contracts can result in confusion during contract administration and may lead to disputes during contract audit and closeout. We continue to recommend that the Corporation establish a specific control procedure to assure that every contract accurately and completely includes all intended contract terms and conditions.

**Inconsistent and
Contradictory
Purchase Order Terms**

The Corporation includes the following sentence in all of its purchase orders:

This purchase order is firm fixed price and therefore is not subject to an upward adjustment.

Some purchase orders are considered to be firm fixed price, while others are considered to be on a T&M basis with a not-to-exceed ceiling, and others are considered to be on a unit price basis with a not-to-exceed ceiling.

We noted one purchase order (number 98-752-3006) that specified “1 Job” at a unit price of \$25,000, but also contained a provision that “the maximum hourly rate under this order is \$250.00 an hour.” The contractor invoiced for services under this purchase order on a T&M basis using rates that ranged from \$90 to \$250 per hour.

FAR 13.501(a) states that “purchase orders are generally issued on a fixed price basis.” FAR 13.502(b) states that:

An unpriced purchase order may be used only when --

(1) It is impractical to obtain pricing in advance of issuance of the purchase order; and

(2) The purchase is for --(i) Repairs to equipment requiring disassembly to determine the nature and extent of repairs;

(ii) Material available from only one source and for which cost cannot be readily established; or (iii) Supplies or services for which prices are known to be competitive but exact prices are not known (e.g., miscellaneous repair parts, maintenance agreements).

These conflicting contract terms and interpretations expose the Corporation to the risk that a vendor will claim the full “fixed price” of a purchase order in cases in which the Corporation views the purchase order as being on a T&M or unit price basis with a not-to-exceed ceiling. In the case of purchase order number 98-752-3006, the Corporation has no control over the prices being charged under the agreement and may be paying excessive prices for the services being performed.

Recommendation:

We recommend that the Corporation take immediate steps to require the specific prices and payment terms to be clearly stated in every purchase order.

CORPORATION MANAGEMENT’S COMMENTS

The Corporation agrees with this recommendation. Only Purchase Orders that are fixed-price will contain the statement: “This purchase order is firm-fixed-price and therefore is not subject to an upward adjustment.”

**Violation of the
Federal Acquisition
Streamlining Act
(FASA) as
Implemented by FAR
13.105 and FAR 19.5**

The Corporation awarded a \$25,000 purchase order (number 98-752-3006) to a large business on a sole source basis without determining that no acceptable small business sources were available. The purchase order procured legal services to support the Corporation's analysis of and defense against a bid protest filed in December 1997. The contract file indicates that no small business sources were sought. Justification for not using a small business source was stated initially as "proprietary item offered only by large business." The contracting officer later changed this to "N/A."

FAR 13.105(a) states that:

Each acquisition (non-FACNET and FACNET) of supplies or services that has an anticipated dollar value exceeding \$2,500 and not exceeding \$100,000, is reserved exclusively for small business concerns and shall be set aside in accordance with Subpart 19.5.

FAR 19.502-2(a) states that:

Each acquisition of supplies or services that has an anticipated dollar value exceeding \$2,500, but not over \$100,000, is automatically reserved exclusively for small business concerns and shall be set aside unless the contracting officer determines there is not a reasonable expectation of obtaining offers from two or more responsible small business concerns that are competitive in terms of market prices, quality, and delivery. If the contracting officer does not proceed with the small business set-aside and purchases on an unrestricted basis, the contracting officer shall include in the contract file the reason for this unrestricted purchase.

Besides being in direct violation of the law and the implementing FAR provisions, the Corporation may have paid an excessive price for the services obtained.

Recommendation:

We recommend that the Corporation take steps to ensure that FAR 13.105(a) and FAR 19.502-2(a) are complied with in the future.

CORPORATION MANAGEMENT'S COMMENTS

The Corporation agrees with this recommendation. The Corporation will take the necessary steps to assure that all future acquisitions with an anticipated value exceeding \$2,500 but not over \$100,000 meet the requirements of FAR 13.105(a) and FAR 19.502-2.

**Inadequate Sole
Source Justifications**

We noted several purchase orders awarded on a sole source basis without adequate justification.

A \$25,000 purchase order (number 98-752-3006) was awarded without competition to obtain legal services. The contracting officer stated that this was awarded on a sole source basis because the requirement for services (for assistance in analyzing and responding to a bid protest) was “urgent and compelling.” The protest that initiated the need for these services was filed on December 23, 1997, and the procurement request was not prepared until January 9, 1998. The Corporation’s General Counsel provided us with a memorandum describing additional efforts to identify other sources. This memorandum indicates that it was the Corporation’s intent to use the law firm for ongoing services beyond the immediate need for services related to the “urgent and compelling” bid protest. These additional, longer-term services are not provided for in the purchase order, certainly were not “urgent and compelling,” and should have been procured competitively.

A \$20,000 purchase order (number 97-752-1007) was awarded without competition to obtain the services of a consultant to work on the Corporation’s observance of Martin Luther King, Jr.’s Birthday. The sole source justification stated in the file was that the contractor was “uniquely qualified” and “it is not possible to duplicate this source.” The file contains no evidence to support the contention that no other sources were capable of providing these services or were sought.

A \$20,000 purchase order (number 97-752-1029) was awarded without competition to obtain consultant services for the reprourement of the Americorps Health Benefits Program. The sole source justification was that the contractor was “uniquely qualified” and “well known.” The file contains no evidence to support the contention that no other sources were capable of providing these services or were sought.

Purchase order number 98-753-3021 for \$2,000 was awarded on a sole source basis on October 22, 1997, with a performance period of October 1, 1997 through October 23, 1997. The sole source justification was that it was under \$2,500. Less than two months later the purchase order was modified to increase the amount of the order to \$10,000.

A \$3,250 purchase order (number 97-753-1092) was awarded on January 14, 1997, for construction of a wheelchair access ramp at an AmeriCorps campus. The sole source justification cited was that "Only the proposed Contractor has the requisite knowledge and experience to successfully perform the task within the time allowed." The procurement file contains no evidence of attempts to locate any other vendors to perform these services.

A \$2,948 purchase order (number 97-753-1284) was awarded on July 28, 1997, for Kodak toner. The sole source justification cited was that "Danka is the sole distributor of these Kodak manufactured products which are sold only to the end users of the copiers." We queried the internet for "Kodak toner" and found several other vendors that offer these products.

A \$5,520 purchase order (number 97-753-1494) was awarded on September 30, 1997, for a new software product and maintenance support for that product. The sole source justification cited was that the vendor is the only authorized supplier of technical support for this software product. We contacted the vendor, and the vendor identified two other vendors who sell the software product and provide product support.

A \$14,400 purchase order (number 97-753-1501) was awarded on September 30, 1997, for antivirus software license renewals. The sole source justifications cited were: (1) the software was purchased on a sole source basis in 1993; (2) the belief that changing to a different anti-virus software would be too costly; (3) changing software would require costly on-site visits; and (4) additional staff and user training would be required.

We contacted other anti-virus software vendors and learned that: (1) anti-virus software technology and prices have changed significantly since 1993; (2) competitors offer "competitive upgrade discounts;" (3) some vendors can install the software remotely without a need for site visits; and (4) anti-virus software works in the background with no or minimal user interaction or training required.

An \$8,722 purchase order (number 97-753-1041) was awarded on September 20, 1996, for the purchase of furniture, which was to be delivered on or about November 16th. The sole source justification stated that "GSA does not offer all the items requested, and Unicor has given a delivery time of ninety days for similar items." However, the file contains no evidence that Unicor was *asked* for quick delivery terms although information in the file indicates that Unicor offers quick delivery terms.

A \$2,500 purchase order (number 97-753-1102) was awarded on January 29, 1997, without competition, because it was at the micro-purchase threshold. However, a modification, dated July 22, 1997, increased the contract to \$5,000. The file contains no justification or explanation for this apparent circumvention of the FAR requirement for maximum practicable competition.

A \$5,250 purchase order (number 98-753-3090) was for the purchase of books. There is no indication in the contract file that competition was obtained. A note in the file indicates that the Corporation's Director of Procurement specifically asked if the publications were available anywhere else. The file contains no evidence that this question was answered before the sole source contract was awarded.

A \$24,999 purchase order (number 97-753-1252) was awarded on a sole source basis for technical assistance and training. The sole source justification in the contract file indicates that Corporation personnel decided to issue this purchase order without competition simply because they wanted to continue using the incumbent subcontractor.

FAR 13.106-2(a)(1) states that:

Contracting officers shall promote competition to the maximum extent practicable to obtain supplies and services from the source whose offer is the most advantageous to the Government, based, as appropriate, on either price alone or price and other factors (e.g., past performance and quality) including the administrative cost of the purchase.

FAR 13.106-2(a)(4) states that

If a synopsis is not required (e.g., the acquisition does not exceed \$25,000 or an exemption to the synopsis requirement applies) and FACNET is not being used, solicitation of at least three sources generally may be considered to promote competition to the maximum extent practicable.

The probable effects of making unjustified sole source awards are that the Corporation pays unreasonably high prices for the goods and services and does not necessarily obtain the highest quality goods or services. Also, the failure to strictly enforce the FAR requirements to obtain the maximum competition practicable can allow conflict of interest situations or fraud to occur.

Recommendation: We recommend that the Corporation assure that at least three sources are solicited for all procurements between \$2,500 and \$25,000 and that complete and detailed justifications and supporting documentation is prepared and filed in instances in which the contracting officer determines that competition is not possible.

CORPORATION MANAGEMENT'S COMMENTS

The Corporation generally agrees with the conclusion that adequate competition should be secured. The Corporation will take necessary actions to assure that any sole source justification for requirements over \$2,500 is fully supported.

**Competition
Unnecessarily and
Inappropriately
Restricted**

Contract number 96-743-1002 was awarded on a sole source basis, based on the Corporation's erroneous estimate that the contract would be \$600,000 per year for 5 years. The contract value passed the \$3,000,000 threshold in the second year of the contract. As a result, the contract had to be re-procured after only two years.

Contract number CNCS-94-002 was awarded on a sole source basis, based on a government estimate which was actually simply the contractor's proposed price. Again, the contractor exceeded the \$3,000,000 threshold in the second year of what had been intended to be a 3-year contract.

Contract number 97-743-1002 was planned as a \$1,000,000 per year, 3-year contract. Both option years were exercised in the first contract year.

According to FAR Subpart 19.8, a contract can be awarded to an 8(a) firm on a sole source basis if the anticipated award price plus options does not exceed \$3,000,000. FAR 19.805-1(c) states that:

A proposed 8(a) requirement with an estimated value exceeding the applicable competitive threshold amount shall not be divided into several requirements for lesser amounts in order to use 8(a) sole source procedures for award to a single firm.

As a result of not carefully and properly projecting the cost of these contracts, the costly procurement process had to be repeated prematurely. Furthermore, because competition normally results in lower prices for goods and services, it is likely that the Corporation paid higher-than-necessary prices for the services procured.

The underlying causes of these improper procurements appear to be (1) poor procurement planning, (2) poor communication between the requiring and procuring offices, and (3) a desire to use sole source contracting, because it is easier than competitive contracting.

The Director of Procurement said that program offices did not make their needs known at the time the decisions were made to use the 8(a) sole source procurement method. We noted, however, that for both fiscal years 1997 and 1998, the Office of Procurement Services did not issue its call for procurement requirements until after the fiscal years began, thus effectively eliminating prospects for carrying out full and open competitive procurements to meet requirements for those years.

Recommendations:

The call for procurement requirements should be issued each year in conjunction with and as part of each year's budget call. The logic for this should be clear, since a significant portion of each year's budget figures is composed of planned procurements for that year, and the budget call is well in advance of the related operating year.

The inefficient and inappropriate practice of using sole source 8(a) procurements when the requirement will exceed the sole source threshold should be discontinued and replaced by either full and open competition or 8(a) competition. Where requirements are continuous, as in each of the subject contracts, the Corporation should adopt the more efficient practice of planning and awarding 5-year contracts (base year and four option years). Only those 5-year procurement requirements that clearly meet the 8(a) set-aside criteria should be procured through 8(a) set-asides.

CORPORATION MANAGEMENT'S COMMENTS

The Corporation agrees there is a need for improved acquisition planning and more accurate estimation of requirements. The Corporation has taken steps to achieve such improvements by requesting acquisition plans in advance of the fiscal year in which services will be solicited, (for example, the FY 1999 procurement call was already issued on August 13, 1998) and will take additional steps to improve communication between the requiring office and the procurement office.

Auditors' Additional Comments:

We continue to recommend that the Corporation establish specific procedures to assure that only those 5-year procurement requirements that clearly meet the 8(a) set-aside criteria are procured through 8(a) set-asides.

**Inadequate and
Inappropriate
Statement of Work**

The statement of work in contract number 97-743-1001 was one that had been prepared by the Navy for a facilities support services contract (operation, maintenance, repair, alteration, and other miscellaneous services) for the entire Naval Station at Charleston. Contract number 97-743-1001, however, was for work at the AmeriCorps*NCCC SE Campus that occupies only a portion of the former Naval Station, and required only grounds maintenance, building maintenance, and custodial service.

Further, the contract stipulates that services are to be performed on a firm-fixed-price, service-call basis. The contractor is being paid on a T&M basis.

FAR 7.102 requires that:

Agencies shall perform acquisition planning.... This planning shall integrate the efforts of all personnel responsible for significant aspects of the acquisition. The purpose of this planning is to ensure that the Government meets its needs in the most effective, economical, and timely manner.

FAR 7.103 requires the agency head or a designee to:

Prescribe procedures for...ensuring that acquisition planners address the requirement to specify needs, develop specifications, and to solicit offers in such a manner to promote and provide for full and open competition with due regard to the nature of the supplies and services to be acquired.

The Contracting Officer stated that the Corporation had used the Navy's statement of work "because there was a mad rush to get the contract awarded." He said the next statement of work would be significantly different and more simplified. He said that references to firm-fixed priced service calls should have been deleted from the contract. He believed that the T&M, labor hour type contract was the most appropriate.

Because the statement of work contained provisions that the Corporation did not need, it is probable that the Corporation paid an unnecessary premium for the services. Further, because the contractor is not being paid in accordance with the terms of the contract, it is doubtful that the contract is a meaningful instrument. In event of contract disputes, the government is at risk.

Recommendation:

We recommend that the Corporation implement control procedures to ensure that contract statements of work accurately reflect the work to be done under the contracts.

CORPORATION MANAGEMENT'S COMMENTS

The Corporation agrees that Statements of Work should accurately reflect requirements.

Inadequate Evaluation of Bids and Proposals

We noted numerous instances in which the evaluation of bids and proposals was either inadequate, erroneous, or not adequately documented.

On a procurement for services to provide, maintain, and evaluate three automated, toll-free telephone systems, an unsuccessful offeror protested the contract award on the bases that (1) the technical evaluation was not reasonable, (2) the technical evaluation was not consistent with solicitation evaluation criteria, (3) the ceiling price set out in the solicitation was waived for the awardee, (4) the Corporation failed to conduct meaningful discussions with the offeror, and (5) the Corporation, in deciding to select a higher-priced, higher-rated proposal, failed to perform a reasonable cost/technical tradeoff analysis. The General Accounting Office sustained all five bases for the protest.

On a procurement for clerical and administrative support services, an unsuccessful offeror protested the contract award on the bases that the Corporation (1) held inadequate and misleading discussions with the offeror, (2) applied undisclosed evaluation factors, and (3) failed to accomplish a proper cost realism analysis. The Corporation granted the protester the relief requested (reopening negotiations and correcting the cited procurement deficiencies), and the General Accounting Office dismissed the protest.

We noted similar problems on other procurements. For example:

- For contract number 96-743-1002, the procurement file contains evidence of unresolved concerns about awarding the contract on a sole-source basis and to the particular contractor selected.
- For contract number 97-743-1005, the procurement file contains evidence that the technical evaluation panel members viewed the winning offeror's proposal as "thin" and based their evaluations on their knowledge of the contractor's past performance rather than on the proposal submitted. The file also indicates that the offeror did not provide enough information to enable the business evaluation panel to assess its financial condition. The business evaluation panel also noted a "very drastic" reduction in the offeror's proposed overhead rate and concluded that "recommendation for award cannot be substantiated without a preaward audit." The resolution of these concerns is not documented in the procurement file.

- For contract number 97-743-1001, the procurement file contains evidence that the selected offeror had questionable financial responsibility. The “determination of responsibility” in the procurement file was not signed by the contracting officer. The solicitation required the offeror to submit a “Quality Control Plan” as part of its technical proposal. No evidence exists in the procurement file that the offeror complied with this requirement or that the Corporation considered alternative means of assuring the quality of the services to be provided.
- For a contract for courier and delivery services, the procurement file contains a calculation of the five offerors’ “weighted average prices.” The document in the file shows that the lowest “weighted average price” was for the offeror that was awarded the contract. The “weighted average price” calculations, however, were incorrect, and another offeror actually had the lowest weighted average price. When we brought this to the attention of the contracting officer, he amended the procurement file to indicate that the actual lowest price offeror was “rejected based on past performance.”

The FAR requires that all bids be subjected to a thorough, consistent, and fair evaluation in order to maintain the integrity of the procurement process and to assure that the government obtains the best overall value. FAR Part 15 sets forth in detail the requirements that must be followed in evaluating proposals and negotiating with potential contractors. FAR 15.608(a) states that:

an agency shall evaluate competitive proposals solely on the factors specified in the solicitation.

FAR Part 9 sets forth procedures for determining that prospective contractors have adequate financial responsibility. FAR 9.103(b) states that:

no purchase or award shall be made unless the contracting officer makes an affirmative determination of responsibility. In the absence of information clearly indicating that the prospective contracting is responsible, the contracting officer shall make a determination of nonresponsibility.

The full effect of these breakdowns in the procurement process is indeterminable. The Corporation will never know the cost associated with improper contractor selection. At a minimum, the breakdown in the integrity of the procurement process destroys the confidence that contractors have

with the fairness of the process, and some contractors may cease to pursue the agency's procurements. The direct effect includes the cost of reopening, re-evaluating, and renegotiating procurements; terminating already-awarded contracts when bid protests are filed; adjudicating disputes over faulty procurements; and payment of bid protest costs. (In the successful bid protest example cited above, the Corporation paid more than \$50,000 to the successful protester as reimbursement for its bid protests costs. The full direct costs of this and the other protest are not known yet. The selected contractors whose contracts were terminated for convenience may still seek termination settlement costs.)

Recommendation: We recommend that the Corporation implement strengthened control procedures designed to provide positive assurance that evaluations of bids and proposals are made in full accordance with FAR requirements and that all selection decisions are accurately and completely documented.

CORPORATION MANAGEMENT'S COMMENTS

The Corporation agrees with this recommendation. This process has been strengthened by the involvement of the Office of General Counsel in the evaluation process. The 1-800 solicitation, for which a protest was sustained by the General Accounting Office, has been successfully awarded without further protest. This is the direct result of providing training to procurement and program staff in the need for complete and accurate documentation of evaluation and selection proceedings and award decisions.

Use of Unauthorized Personal Services Contracts

FAR 37.101 defines a "personal services contract" as:
a contract that, by its express terms or as administered, makes the contractor personnel appear, in effect, Government employees.

FAR 37.104(a) and (b) state that
Obtaining personal services by contract, rather than by direct hire, circumvents [the law] unless Congress has specifically authorized acquisition of the services by contract. Agencies shall not award personal services contracts unless specifically authorized by statute to do so.

FAR 37.104(c)(1) states that
An employer-employee relationship under a service contract occurs when, as a result of
(i) the contract's terms or

(ii) the manner of its administration during performance, contractor personnel are subject to the relatively continuous supervision and control of a Government officer or employee.

FAR 37.104(d) advises that

The following descriptive elements should be used as a guide in assessing whether or not a proposed contract is personal in nature:

- (1) Performance on site.*
- (2) Principal tools and equipment furnished by the Government.*
- (3) Services are applied directly to the integral effort of agencies or an organizational subpart in furtherance of assigned function or mission.*
- (4) Comparable services, meeting comparable needs, are performed in the same or similar agencies using civil service personnel.*
- (5) The need for the type of service provided can reasonably be expected to last beyond 1 year.*
- (6) The inherent nature of the service, or the manner in which it is provided, reasonably requires directly or indirectly, Government direction or supervision of contractor employees in order to --*
 - (i) Adequately protect the Government's interest;*
 - (ii) Retain control of the function involved; or*
 - (iii) Retain full personal responsibility for the function supported in a duly authorized Federal officer or employee.*

The Corporation has entered into at least 3 contracts that are being administered as prohibited personal service contracts. [Contract numbers 96-743-1002, 97-743-1005, and CNCS-94-002]

Our review of the procurement and administration files for these contracts and floor checks of contractor personnel indicate that these are being administered as personal services contracts. These contracts meet each of the criteria defined by the FAR (at 37.104(d)) as the guides for determining if a contract is a personal services contract.

Under contract numbers 96-743-1002 and 97-743-1005, the same contractor provided and is providing professional and technical assistance services in support of Corporation programs and under the direct supervision of Corporation personnel. Evidence that these contracts were and are being administered, at least in part, as personal services contracts includes the following:

- The contractor’s technical proposal for the first contract, under a heading called “Daily Direction of Work,” stated that:
While [contractor project manager] will be responsible for the daily and timely delivery of contract services, he will not give daily direction to each contract employee. That will be done by their assigned Government supervisors.
- A preaward memorandum in the first contract’s procurement file offers insight into how Corporation personnel anticipated that these contracts would be managed:
...the main thing we are looking for is a contractor to facilitate procurement of services/people that we have already identified. Our program and management staff identifies what they need and usually who they want to provide it, but we need an inexpensive, effective mechanism for quickly getting this service on board.
- In a January 2, 1997, memorandum to the procurement office, a Corporation official directed that a pay increase be implemented for one of the people working for her under the contract.
- In another January 2, 1997, memorandum to the procurement office, a Corporation official advised that a Corporation employee:
will provide direct supervision of [contractor personnel] under this task order and assume all signing authority.
- Some of the contractor’s personnel signed “Sub-Contracting Agreements” that stated
The Sub-Contractor shall act at all times in an independent capacity during the term of this Agreement ... and shall not act as, and shall not be or in any manner be construed to be, an agent or employee of [contractor]. The Sub-Contractor shall not be entitled to or eligible to participate in benefits or privileges extended by [contractor] to its employees.
- Other contractor personnel signed an “Employment Agreement” that stipulates that employment is
in support of the Employer’s contract with [the Corporation] and continued employment depends on the pleasure of CNS, a continuing contract between [contractor] and CNS, and CNS obtaining funding.
- In the second contract’s procurement file, a past performance reference-check write-up by a Corporation employee stated in response to the question “did the contractor meet delivery schedule requirements?” that *CNS dictates when consultants should perform.* Following the question “Quality and reliability of product/service delivered” the Corporation official stated *CNS selected people* rather than providing a response.

- A July 15, 1997, contractor “Memo to File” documents a raise in a subcontractor’s daily rate. It contains the following explanation for the raise in the rate:

I spoke with [the Corporation contracting official] today and asked her for documentation on [subcontractor’s] raise in her daily rate that she claimed on her last two invoices.

[Corporation contracting official] said that the raise in rate, from \$240/day to \$280/day was due to [subcontractor] raising her rates and that the rate should be approved by [contractor].

[Subcontractor] had previously told us on July 8, 1997 that [Corporation official], her COTR, had given her the raise in rate.

- We randomly selected nine contractor employees to interview in June 1998:
 - 9 of 9 stated that they were interviewed and selected for their positions by a Corporation employee.
 - 9 of 9 stated that their immediate supervisor is a Corporation employee.
 - 9 of 9 stated that a Corporation employee reviews and approves their work.
 - 8 of 9 stated that a Corporation employee evaluates their performance. (One stated that no one evaluates his performance.)

One person initially selected to be interviewed turned out to no longer be a contractor employee. She had been a contractor employee assigned to work at the Corporation from April 1996 until March 1998 when she became a Corporation employee. As a Corporation employee, she is performing essentially the same function and reporting to and being supervised and evaluated by the same Corporation employee that she had reported to and been supervised and evaluated by when she was a contractor employee.

Under contract CNCS-94-002, the contractor provides personnel in the following categories:

- Secretary
- Switchboard Operator/Receptionist
- Administrative Assistant
- Word Processor
- Reproduction Worker/File Clerk
- Computer Graphics Operator
- Travel Assistant
- Accounting Clerk
- Legal Assistant
- Program Associate

Evidence that this contract is being administered, at least in part, as a personal services contract includes the following:

- We randomly selected five contractor employees to interview in June 1998:
 - 3 of 5 stated that they were interviewed and selected for their positions by a Corporation employee.
 - 4 of 5 stated that their immediate supervisor is a Corporation employee.
 - 5 of 5 stated that a Corporation employee reviews and approves their work.
 - 4 of 5 stated that a Corporation employee evaluates their performance.
- We examined contractor employee time sheets for the pay period ended February 26, 1998. Of 49 time sheets, 2 had no approval signature, 1 approval signature was illegible, and 46 were signed as “approved by” persons who were or are Corporation employees.

Our review of these contracts indicates that the Corporation is paying a significant premium for obtaining these services through contracts rather than by hiring additional employees. We compared what these contracts are costing the Corporation with what the same services would cost if the same individuals are hired by the Corporation at the same salaries. The differences in cost are due to the contractors’ mark-ups for indirect costs and profit versus the government’s fringe benefit rates according to the guidelines for cost comparisons in accordance with OMB Circular A-76.

For contract number CNCS 94-002, for the period from July 1994 through June 4, 1998, the Corporation has paid approximately \$920,000 more to the contractor than the services would have cost using Corporation employees. (This is in addition to the approximately \$450,000 of over-claimed indirect costs as described in the finding on page 28.)

For contract numbers 96-743-1002 and 97-743-1005, for the period from April 1996 through June 1998, the Corporation has paid approximately \$689,000 more to the contractor than the services would have cost using Corporation employees and consultants hired directly by the Corporation.

Recommendations:

We recommend that the Corporation either cease using personal services contracts or seek OMB and Congressional approval to use personal services contracts. If uncertainty remains regarding whether or not these are personal services contracts, we recommend that the Corporation ask the General Accounting Office for a formal evaluation of the contracts and a Comptroller General decision. We also recommend that the Corporation consider carefully the cost effectiveness of continuing to obtain these services via contract.

CORPORATION MANAGEMENT'S COMMENTS

The Corporation will study the issues identified in this finding and consider its options.

Auditors' Additional Comments:

In view of the facts that (1) the Corporation is in violation of the FAR, and (2) additional and unnecessary costs continue to be incurred each month that the violations continue, we recommend that the Corporation implement corrective actions immediately.

Cost and Pricing Data Are Being Unnecessarily and Inappropriately Obtained

We noted numerous instances in which offerors were asked to submit cost and pricing data in cases in which such data were not needed. In the procurements for the following contracts, adequate price competition existed, but the Corporation demanded certified cost and pricing data:

- 97-743-1004
- 97-743-1005
- 97-743-1006
- 97-743-1007
- 97-743-1008
- 97-743-1009
- 98-743-3002

FAR 15.804-1(a) stipulates that:

The contracting officer shall not, pursuant to 10 U.S.C 2306a and 41 U.S.C 254b, require submission of cost or pricing data ... [i]f the contracting officer determines that prices agreed upon are based on-
(i) *Adequate price competition ...*

FAR 15.804(b)(1) states that:

A price is based on adequate price competition if -- ...[t]wo or more responsible offerors, competing independently, submit priced offers responsive to the Government's expressed requirement ...

FAR 15.802(a)(3) states that:

The contracting officer should use every means available to ascertain a fair and reasonable price prior to requesting cost or pricing data. Contracting officers shall not unnecessarily require the submission of cost or pricing data, because it leads to increased proposal preparation costs, generally extends acquisition lead-time, and wastes both contractor and Government resources.

Recommendation: We recommend that the Corporation immediately cease demanding cost and pricing data in instances in which adequate price competition exists and in the other instances stipulated in FAR 15.804-1(a).

CORPORATION MANAGEMENT'S COMMENTS

The Corporation agrees with this recommendation. No cost or pricing data will be requested unless the contracting officer concludes that none of the exceptions in FAR 15.403-1(b) apply. The requirement for submission of cost and pricing data will be deleted by amendment from a solicitation which is currently outstanding.

The Corporation Continues to Make Unauthorized Commitments

A prior audit of Corporation activities (Office of Inspector General (OIG) Report Number 96-32, dated March 20, 1996) noted instances involving unauthorized commitments. Our audit indicated that this problem has not been fully resolved. We noted the following instances of unauthorized commitments:

- Purchase order number 98-753-3078 (for interim technical assistance to Learn and Serve America grantees) was awarded on a sole source basis after the contractor began providing the services. The \$24,902 purchase order was issued on December 22, 1997, but the contractor began providing services on December 1, 1997.
- Purchase order number 97-753-1117 (for AmeriCorps advertisements) was awarded on a sole source basis after the services had been provided. An unauthorized Corporation official ordered the services in December 1996. The \$11,630 purchase order was awarded on March 26, 1997.
- Purchase order number 97-753-1491 (for "meeting management" and "facilitative leadership" manuals) was awarded on a sole source basis after most of the manuals had already been delivered. The \$5,220 purchase order was dated September 30, 1997. It was modified on March 16, 1998 to increase the amount by \$396 for additional shipping charges.

- Contract number 96-743-1007 (for apartment rentals for 12 months) was awarded on September 24, 1996. The apartments were needed for training that commenced on September 3, 1996. The procurement request was not signed by the Corporation's procurement division until September 9, 1996.

FAR 1.602-3(b)(1) states that:

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

Ratification of unauthorized commitments results in additional cost to the government because of the need to explain and justify the unauthorized action. Further, unauthorized commitments expose the government to liabilities arising from disputes, and unauthorized commitments may violate the Anti-Deficiency Act.

Recommendation:

We recommend that the Corporation assure that all current and new employees are made aware of the need for advance procurement planning and that all current and new employees are aware that only warranted contracting officers have the authority to commit the expenditure of Corporation funds.

CORPORATION MANAGEMENT'S COMMENTS

The Corporation agrees with this recommendation. We will continue to emphasize to current and new employees the need for advance planning and reinforce that only a contracting officer is authorized to commit the expenditure of Corporation funds. In addition, the draft of the revised "Procurement Policies and Procedures Manual" is being amended to provide a section addressing informal commitments and ratifications.

Unallowable and Unsupported Credit Card Purchases

We randomly selected 60 monthly credit card statements from a universe of 335 statements that exceeded \$200. The dollar amount tested was \$74,102. Our tests revealed the following:

- Supporting documentation was missing on some transactions on 12 of the 60 statements tested. Transactions lacking documentation totaled \$11,146, or about 15% of the amount tested.

- Three transactions totaling \$660.69 were for prohibited telecommunications (\$265.20 for a conference call and \$199.99 for a mobile phone) and meals (\$195.50 for lunches for a DC Initiative pre-service orientation). The Corporation's *Small Purchase Card Guide* stipulates that telecommunications (telephone) services, telephone calls, and meals cannot be purchased using the credit cards.
- Cardholder or approval signatures were missing for transactions to purchase Zip drives (\$690.48), unidentified goods or services totaling \$850.00, and an overhead projector (\$1,300.66).
- 10 of 49 credit card payments processed between October 1996 and March 1998 were not processed in time to avoid Prompt Payment Act interest penalties.

The Corporation's *Small Purchase Card Guide* sets forth the policies and procedures for use and control of the Governmentwide Commercial Credit Card. Among the guide's requirements are the following:

- Cardholders are responsible for retaining documentation to be used in certifying the monthly Statement of Account.
- When the Statement of Account is reconciled, the cardholder will forward the original certified Statement of Account to the approving official along with applicable copies of the small purchase card log, charge and sales receipts, and/or copies of the "Cardholder's Statement of Questioned Items" forms.
- "Prohibited Purchases" include telecommunications (telephone) services, meals, drinks, lodging or other travel subsistence costs, and telephone calls.
- Strong and consistently followed controls over the use of the purchase cards are essential to ensuring that the cards are only used for authorized and essential purchases. Failure to adhere to these procedures allows unauthorized and illegitimate purchases to be made.

Recommendations:

We recommend that the Corporation take steps to assure that existing control policies and procedures are strictly enforced. We recommend that the Corporation revise the delegation of authority that all cardholders are required to sign to stipulate that the cardholder will be held personally responsible and accountable for transactions that violate the *Small Purchase Card Guide's* policies and procedures.

CORPORATION MANAGEMENT'S COMMENTS

The Corporation generally agrees with this recommendation. The Corporation will reemphasize through training the guidelines covering credit card purchases. In addition, the credit card manual is being revised. When the revision is completed, it will provide further guidance for cardholders concerning unallowable and unsupported purchases.

The Corporation disagrees with the suggestion to change the delegation of authority. The delegation currently used is one provided by the General Services Administration in its IMPAC Purchase Card program. The Corporation will revoke the credit cards of employees who violate the applicable procedures and policies.

Auditors' Additional Comments:

The fact that the delegation currently being used was provided by the General Services Administration (GSA) does not preclude adding provisions that will strengthen its value as a control mechanism, particularly in view of the extent and seriousness of the weaknesses noted above.

Inadequate Procedures for Contract Administration, Monitoring, and Oversight

Failure to Adjust Indirect Cost Rates on Cost-Reimbursable Contracts

The Corporation has several T&M contracts and cost plus fixed fee (CPFF) contracts. Many of the T&M contracts provide for "materials handling charges" to be added to ODCs, thereby creating a cost-reimbursable contract component. Of the 15 contracts included within this audit's scope, 3 are CPFF and 5 are T&M with cost reimbursable components. (Two other T&M contracts may have a cost reimbursable component, but the contracts do not indicate this clearly.)

Although the FAR requires that reimbursed indirect costs must be annually adjusted from a billing or provisional amount to the contractor's actual, allocable indirect costs, the Corporation has not taken steps to effect these required adjustments on any of these contracts.

Contract number CNCS-94-002 is a CPFF contract. The contract was awarded in July 1994. In 1994, the contractor billed using overhead and G&A rates of 40.18% and 13.03%, respectively. For subsequent years, the contractor has billed using overhead and G&A rates of 36.86% and 7.14%, respectively. According to unaudited indirect cost rate calculations provided by the contractor, the contractor's actual overhead rates have ranged from 26.91% to 34.194%; and the contractor's actual G&A rates have ranged from 4.716% to 8.231% during these years. The contractor did not submit these proposed actual indirect cost rates to the Corporation or otherwise adjust its provisional indirect rates to actual rates as required by the contract and as required by the FAR.

The contract incorporates FAR 52.216-7, *Allowable Cost and Payment*, which states, in pertinent part:

The Contractor shall, within 90 days after the expiration of each of its fiscal years, or by a later date approved by the Contracting Officer, submit to the cognizant Contracting Officer responsible for negotiating its final indirect cost rates and, if required by agency procedures, to the cognizant audit activity proposed final indirect cost rates for that period and supporting cost data specifying the contract and/or subcontract to which the rates apply. The proposed rates shall be based on the Contractor's actual cost experience for that period.

Until final annual indirect cost rates are established for any period, the Government shall reimburse the Contractor at billing rates established by the Contracting Officer or by an authorized representative (the cognizant auditor), subject to adjustment when the final rates are established. These billing rates --

- (1) Shall be the anticipated final rates; and*
- (2) May be prospectively or retroactively revised by mutual agreement, at either party's request, to prevent substantial overpayment or underpayment.*

Because the contractor did not submit indirect cost rate adjustment proposals as required, and because the Corporation did not enforce the requirements of FAR 52.216-7, the contractor billed for and was paid approximately \$452,000 in excess of its unaudited proposed actual indirect costs incurred and allocable to the contract from 1994 to the present.

Using U.S. Treasury Renegotiation Act interest rates, these overclaimed indirect costs have accrued approximately \$87,000 in interest through May 1998.

Recommendations:

We recommend that the contractor under contract number CNCS-94-002 be required to immediately remit the overclaimed indirect costs based on its unaudited proposed actual indirect cost rates plus any interest accrued on these excess funds. We also recommend that the Corporation initiate a financial and compliance audit of the contract as soon as possible.

We also recommend that the Corporation (1) take immediate steps to require all other contractors with a contract having a cost-reimbursable component to immediately submit indirect cost rate proposals for all completed years and (2) take steps to recover all over-claimed indirect costs and interest.

CORPORATION MANAGEMENT'S COMMENTS

The Corporation agrees with this recommendation. All contractors who have a cost reimbursement component as part of their contracts and who have not provided indirect cost rate proposals for all completed years have been requested to do so. In addition, the procurement office is developing a matrix containing a list of active contracts, the contractor's fiscal year, and the due dates for submission of proposed final indirect cost rates. This list will be monitored to assure submission of the required documentation to establish final indirect cost rates.

Inadequate Reviews of Contractor Payments

Paid invoices reviewed do not indicate that either contracting officer technical representatives (COTRs) or contracting officers (COs) are verifying the arithmetic accuracy of the invoices or verifying that invoices are in agreement with contract terms. For example:

- On contract number 96-743-1005, a T&M contract with fixed hourly rates for various labor categories, the contractor has consistently billed and was paid for (a) labor categories not included in the contract and (b) labor rates in disagreement with labor rates in the contract.
- On contract number 96-743-1002, the contractor has been claiming G&A expenses on other direct costs since the contract started in April 1996. As noted previously, the contract does not provide for such indirect cost reimbursement, and even if it did, the contractor has not submitted indirect cost rate adjustment proposals as would be required by the FAR.

- On contract number 96-743-1002, invoices indicate that costs for a project manager and an administrative assistant are being “allocated” to individual delivery order invoices on a pro rata basis. The contractor’s timesheets for these individuals indicate that these persons do not record their time against individual tasks, delivery orders, or work orders. Although the contract contains “project manager” and “administrative assistant” labor categories and rates, the contract stipulates that work will only be ordered by the issuance of “delivery orders.” None of the delivery orders under the contract provide for project manager or administrative assistant time. To date, almost \$340,000 has been claimed and paid for these apparently unauthorized services.
- The Corporation has an agreement with a courier service (contract number 98-044-3002). The blanket purchase agreement and the purchase order written against the agreement stipulate 7 individuals as “authorized callers.” Our review of a recent invoice (3/15/98) indicated that for 59 of 96 (61.5 percent) of the deliveries on the invoice, the specified “caller” was not one of the 7 authorized callers. We interviewed the COTR to determine the procedures he follows to ensure that only authorized services are paid for. He indicated that for calls placed by the Corporation’s mailroom (38.5 percent of the calls on the tested invoice) he has a “calling document” that verifies the calls. For all other callers (61.5 percent of the calls on the tested invoice), he has to contact each individual to verify that they placed a call for the services. He indicated that he does not check the arithmetic accuracy of the invoices and does not verify that prices charged agree with the purchase order prices.
- For purchase order number 97-753-1252, a sole source procurement for consulting services, the file indicates that the vendor was supposed to have delivered a Guide and a Manual by September 30, 1997. The file indicates that the purchase order had to be modified 3 times to extend the performance period until July 30, 1998. The file indicates that the vendor was actually paid the full amount of the purchase order in November 1997—before *any* deliverables were delivered or accepted. Memos in the file indicate that these undelivered products are “an important need” for the Corporation.

Contracts require invoices to be submitted consistent with contract terms. Sound business practices dictate that invoices should be carefully reviewed and verified prior to payment.

FAR Part 32 requires that an initial step in the contractor payment process is a government determination that a “proper invoice” has been received. FAR 32.902 defines a proper invoice as “a bill or written request for payment that meets the minimum requirements of [the payment clause] and other terms and conditions contained in the contract for invoice submission.”

The blanket purchase agreement for the courier services stipulates that calls are only to be taken by “authorized callers.” The agreement also stipulates that the Corporation will maintain “order logs” of calls placed “to ensure adequate record-keeping on calls placed and supplies and services delivered” and “to establish the audit trail required for good business practice.”

Failure to carefully review contractor invoices for accuracy and consistency with contract terms and provisions can allow under- or over-payments to occur.

The failure to adhere to the courier service contract’s requirement that only authorized callers can order services can result in unauthorized use of the contract. The failure to maintain order logs as required by the contract can result in payment for services not used. The failure to verify the arithmetic accuracy of the invoices and agreement of the invoices with contract terms can also result in incorrect and unauthorized payments.

Recommendations: The Corporation should establish a systematic ***and documented*** procedure under which every contractor invoice will be verified for accuracy and consistency with contract terms and conditions before it can be paid. Responsibility for this rigorous review should be defined clearly. The required review should be documented and the documentation should be retained and filed with invoices approved for payment. No invoices should be approved for payment until the required review has been completed and documented.

For the courier service contract, we recommend that the Corporation begin requiring strict adherence with contract terms. If additional authorized users are needed, the contract should be amended accordingly. The vendor should be directed to only accept calls from authorized callers. Call logs should be strictly maintained as stipulated by the contract. The COTR should verify the arithmetic accuracy and agreement with contract terms of all invoices prior to approving them for payment, and these verifications should be documented.

CORPORATION MANAGEMENT'S COMMENTS

The Corporation agrees with this recommendation. All necessary actions have been taken or are being taken to correct the specific contracts cited. A procedure outlining the steps to be taken prior to certifying an invoice for payment will be developed and disseminated to all persons involved in the invoice review and approval process.

Prompt Payment Act Noncompliance

We noted the following Prompt Payment Act (PPA) noncompliance instances:

- We tested a sample of 155 purchase order payments; 38 of these payments (24.5 percent) were not paid in time to avoid a PPA interest penalty.
- We tested a sample of 49 credit card payments; 10 of these payments (20.4 percent) were not paid in time to avoid a PPA interest penalty.
- In 27 of 155 purchase order payments tested (17.4 percent), the date the invoice was stamped “received” was more than 15 days after the invoice date.
- We tested 10 PPA interest payments and compared the interest amount that was paid and the interest amount that should have been paid. Of the 10 sample transactions, 8 were incorrect. On 4 transactions, too much interest was paid and on 4 transactions, too little interest was paid. Although none of the differences was significant, this indicates that a systematic and consistent method of determining PPA interest does not exist.
- We tested 10 purchase orders for cellular telephone services. On 50 percent of these purchase orders, the Corporation made erroneous payments. On purchase order number 97-753-1082, the Corporation made current monthly payments for 8 months even though the invoices showed credit balances ranging from \$397 to \$1,350. On purchase order number 97-753-1035, the Corporation made current monthly payments for 11 months even though the invoices showed credit balances of more than \$150. On purchase order number 97-753-1044, the Corporation paid a current month charge and a prior month charge, because the prior month's invoice was lost. No PPA interest was paid on the prior month charge. On purchase order numbers 98-753-3012 and 98-753-3073, the Corporation made payments for prior-month charges appearing on monthly statements when these prior-month charges had already been paid.

- On purchase orders for utility services (numbers 97-753-1076 and 98-753-3026), numerous payments were made late, and the vendor charged the Corporation a late payment charge of 1.5%. The Corporation paid these charges even though the late payment penalty exceeded the rate stipulated by the PPA. On the latter purchase order, the Corporation paid a PPA interest penalty on top of the 1.5% late payment charge assessed by the vendor.

The Prompt Payment Act was intended to encourage government agencies to pay vendors promptly. It requires that invoices be paid within 30 days from the date they are received by the agency. Otherwise, the agencies are required to pay an interest penalty for each day beyond the 30-day payment period. Under OMB guidelines, agencies are to adopt processing procedures that will ensure prompt payment. FAR 32.903 requires that all solicitations and contracts *shall specify payment procedures, payment due dates, and interest penalties for late invoice payment.*

Individually, the late payment penalties noted in our audit were relatively small. The collective effect of the number and nature of the instances of noncompliance, however, is significant. According to the Corporation's Chief of Financial Operations, during the 17-month period from October 1996 through February 1998, the Corporation paid \$31,202 in PPA interest penalties.

The Office of Procurement Services (OPS) requires that all invoices be sent initially to that office. The PPA "clock" begins when proper invoices are received by OPS. OPS forwards the invoices for verification to the respective program offices where the goods or services were received. The program offices then return the invoices, with approvals, back to OPS, which then approves the invoices for payment. The invoices are then forwarded to Accounting for further review, verification, and preparation of payment schedules. The schedules are finally forwarded to the Department of the Treasury for payment. The PPA clock stops on the date that Treasury pays the vendor.

The current process is so cumbersome and slow that payment within the PPA criteria is difficult to achieve. As a result, little attention is paid to PPA compliance.

Recommendations:

Invoice payment processing procedures should be changed. Invoices should be sent simultaneously to both OPS and the program offices (COTRs) where the goods or services were received. The receipt dates should be stamped on the invoices at that time. The COTR should be given a specified number of days in which to acknowledge receipt of the goods or services, verify the accuracy of invoices and approve the invoices for payment. Normally, this should be completed within 4 to 7 days. The invoices, together with any relevant documentation, should be forwarded to OPS. OPS should be given a specified number of days for review and approval. This should also be completed within 4 to 7 days. The approval package should then be forwarded to Accounting for review, verification, and schedule preparation. This should be completed within 7 to 10 days. Using these time frames, Treasury will have a minimum of 6 days to make payments and avoid interest penalties.

We also recommend that the Corporation take steps to assure that all purchase orders specify payment procedures, payment due dates, and interest penalties for late invoice payment.

CORPORATION MANAGEMENT'S COMMENTS

The Corporation agrees with this finding. The accounting and procurement offices will work together to develop a monitoring system to meet the requirements of the Prompt Payment Act to the maximum extent practicable.

Monitoring and Cost Control over Cooperative Agreements is Inadequate

We conducted a limited survey of two cooperative agreements with the following results.

Cooperative Agreement Number 97CA000001

The cooperative agreement stipulates that the grantee is required to submit quarterly progress and financial reports to the contracting office. The grantee has not submitted any required progress or financial reports since the agreement began in January 1997.

The cooperative agreement requires that quarterly financial reports must show deviations from budgeted expenditure levels. The Standard Form (SF) 269 being used shows only outlays. Hence, the Corporation cannot monitor and is not monitoring actual versus budgeted expenditures.

Corporation personnel are not reviewing total expenditures reported on the SF 269 and the amounts drawn down via the grantee payment management system (operated by the Department of Health and Human Services) to assure that drawdowns are consistent with expenditures.

Per a review of the grantee's records, for the first year of the agreement (1997) the grantee had drawn down \$34,029 in excess of its costs. This was explained by a grantee representative as the "mark-up" the grantee applies to printing costs to cover management expenses. Grantee personnel were unable to explain the basis for the markup. Mark-ups ranged from 10-30% and for the most part are round numbers that appear arbitrary. The agreement budget included indirect costs of \$2,170 that were 0.88% of direct costs. The grantee's general ledger indicates that the grantee has claimed and recovered indirect costs of \$34,029 that were 34.55% of direct costs incurred.

The grantee submitted an expenditure report at the end of 1997 that is not in agreement with its general ledger. The expenditure report shows expenditures of \$134,954 while the general ledger shows expenses of only \$98,484.

None of the expense category amounts on the expenditure report agree with the expense amounts in the grantee's general ledger. For example, the expenditure report shows salaries and benefits of \$19,182 while the general ledger shows only \$14,139.

The grantee charges salaries and benefits against the agreement based on budgeted pay rates rather than actual pay rates.

The grantee's budgets for the first and second years include, as direct costs, salaries (for an executive vice president) that exceeded the \$443 per day maximum in Public Law (PL) 102-389. The Corporation's procurement office told us that the \$443 ceiling does not apply to cooperative agreements. We note however, that the limit defined by PL 102-389 is, in fact, included in the agreement at paragraph 4.d. of the agreement's general provisions. Based on this provision, the budget for this agreement should have been \$3,250 lower.

Cooperative Agreement Number 96CA000001

The cooperative agreement stipulates that labor will be compensated at negotiated hourly rates. The grantee has been drawing down funds at higher than the negotiated rates, as follows:

Partner rate negotiated	\$120/hour
Partner rate being claimed	\$125/hour
Manager rate negotiated	\$78/hour
Manager rate being claimed	\$90/hour
Senior rate negotiated	\$60/hour
Senior rate being claimed	\$65/hour

As a result, during the last quarter of Calendar Year (CY) 1997, amounts claimed were \$1,620 more than what should have been claimed based on the negotiated rates.

A review of two travel vouchers charged to the agreement indicated that the grantee claimed travel costs in excess of amounts allowed by the Federal Travel Regulations, in violation of FAR 31.205-46(a).

Sound business practices and prudent fiscal and fiduciary management dictate that cooperative agreements should be carefully monitored to assure that grantees do not draw down funds in excess of what the agreements' terms allow.

The failure to carefully monitor grantee expenditures and adherence with agreement terms has resulted in unallowable costs being recovered by these grantees.

The Corporation does not have any established, consistent, or documented procedures defining who should monitor cooperative agreements and how they should be monitored.

Recommendation: We recommend that the Corporation establish and document detailed procedures defining who should monitor cooperative agreements and how they should be monitored.

CORPORATION MANAGEMENT'S COMMENTS

The Corporation agrees with this recommendation. The financial reporting requirement for the Training and Technical Assistance Cooperative Agreements is being reviewed to determine how best to obtain documentation under these agreements to better monitor grant expenditures.

**Contract File
Completeness Should
Be Improved**

Contract files reviewed during the audit were not always adequately documented. File documentation for some contracts was inadequate, both from the standpoint of missing documentation and from the standpoint that documentation included was sometimes erroneous or inappropriate. For example, numerous required documents were missing from one contract file (contract number 97-743-1001) (such as a government cost estimate, quality assurance plan, contractor invoices, and the contractor's certificate of insurance). In addition, numerous documents that were included in the file contained significant errors and the file contained several documents that were neither needed nor appropriate. The file contained conflicting information regarding the contract type, two erroneous determinations and findings, incorrect information in the summary of negotiations, and inadequate documentation of the technical and price reviews.

The procurement file for another contract (number 96-743-1008) awarded in September 1996 was initially in disarray and numerous essential documents (such as the procurement request, list of proposals received, winning proposal, evaluation results, negotiation memorandum, award letter, and notices to unsuccessful offerors) were missing from the file. (The contract specialist was able to find and add most of these documents to the file.)

FAR Subpart 4.803 specifies the documents that must be retained in the contract procurement files and the contract administration files.

The importance of complete and accurate contract files cannot be overstated. In cases of misunderstandings, disputes, protests, or litigation, the government's position cannot be defended or sustained if required contract file documents are missing, incorrect, or contradictory. As discussed in an earlier finding, in a recent bid protest decision (B-278071), the General Accounting Office cited numerous deficiencies and inconsistencies in the documentation of the Corporation's procurement decision. The General Accounting Office sustained all bases of the protest, recommended the reopening of the procurement, recommended that the Corporation reimburse the protester's costs of the protest (approximately \$52,000), and advised the Corporation to "adequately document all aspects of its future evaluation and source selection process." Beyond the internal and external costs of this and another protest, the protests and decisions caused the Corporation to terminate two contracts for convenience and spend additional time to complete the procurement processes.

Although the Corporation has a form titled "Checklist for Contract Award File Content," the form is not always used or filled out accurately. There does not appear to be close supervisory oversight to assure the accuracy and completeness of files.

Recommendation:

We recommend that the Corporation implement stringent supervisory review procedures to assure that contract files are complete, accurate, and consistent.

CORPORATION MANAGEMENT'S COMMENTS

The Corporation agrees with this recommendation. The Corporation will implement review procedures to assure that all contract files are complete and accurate.

Other Matters

**Redundant,
Inconsistent, and
Erroneous Purchase
Order Tracking
Systems**

The Corporation uses three different and nonintegrated tracking systems for purchase orders. These systems are as follows:

The Access System (commonly called the Purchase Order Register) is maintained by a contracting specialist in the procurement office. It is used to issue contract numbers, list the responsible procurement officials, and review vendors used at year-end.

The Invoice Tracking System is maintained by a contractor employee working within the procurement office. It is used to record purchase orders, invoices received, and remaining balances.

The Federal Success System is maintained by the Office of Information Technology and is used by the Corporation's accounting department to process invoice payments and generate financial information.

The three systems all contain contract numbers, contractor names, contract amounts, and invoices received. None of the systems is reconciled with the other two systems.

We noted numerous errors in the Access System such as incorrect purchase order numbers, incorrect purchase order amounts, purchase order modifications not recorded, and duplicated purchase orders.

Sound business practices dictate that procurement and accounting information should not be unnecessarily duplicated and that systems used for multiple purposes should be reconciled and accurate.

The maintaining of three non-integrated and duplicative systems represents wasted time and effort. Further, the inaccuracies in the systems may result in incorrect or inappropriate transactions and decisions.

Recommendations: We recommend that the Corporation re-evaluate the need for all three systems; determine if a single system can fulfill these needs; and take steps to (1) prevent the duplication of information, and (2) assure that information maintained is current, accurate, and complete.

CORPORATION MANAGEMENT'S COMMENTS

The Corporation agrees with this recommendation. A contract tracking system will be part of the new financial system. This new system will eliminate the three current systems presently employed, each essentially fulfilling a separate need.

No Centralized Control over Certain Assets Purchased

We noted instances in which computer and other valuable assets were purchased via purchase orders, but the assets were not centrally tracked, controlled, and inventoried. Following are examples of these procurements:

- Purchase order number 97-753-1031 was for the purchase of 5 notebook computers at a cost of \$3,088 each.
- Purchase order number 97-753-1441 was for the purchase of 3 notebook computers at a cost of \$3,039 each.
- Purchase order number 97-753-1492 was for the purchase of 5 notebook computers at a cost of \$3,138 each.
- Purchase order number 97-753-1497 was for the purchase of 8 fax modems at a cost of \$2,235 each.
- Purchase order number 97-753-1250 was for the purchase of a laserjet printer at a cost of \$3,485.
- Purchase order number 97-753-1240 was for the purchase of 6 laserjet printers at a cost of \$722 each.

Sound business practices dictate that valuable assets should be safeguarded against misappropriation. Maintaining centralized control over these assets and assigning custodial responsibility are essential to ensuring that the assets are not lost or stolen.

Without maintaining centralized control over these assets, assuring that custodial responsibility is clearly defined, and periodically verifying that the assets remain in the Corporation's custody, the assets can be lost, stolen, used for unauthorized purposes, or misappropriated.

The Corporation has a written policy titled "Accounting for Equipment." The policy, however, only applies to assets with a useful life of two years or more and a cost of \$10,000 or more per item. No policy exists for controlling and accounting for valuable items of equipment that fall below this capitalization threshold.

Recommendations: We recommend that the Corporation establish control procedures for routinely placing valuable assets under centralized recordkeeping controls. Valuable computer assets (particularly notebook computers) and other small, easily transportable assets should be assigned to individuals with custodial responsibility, and these assets' existence and continued use for official purposes should be periodically verified.

CORPORATION MANAGEMENT'S COMMENTS

The Corporation generally agrees that it should have control procedures for certain items costing less than \$10,000. After establishing an appropriate threshold, the Corporation will establish control procedures for centralized control over valuable assets.

Management Controls As described in the *Objectives, Scope, and Methodology* section of this report, one of this audit's primary objectives was to determine if the Corporation had an effective procurement system in place during the audit period. To meet this objective, we obtained an understanding of the management controls placed in operation, and we assessed control risk.

Because of the number and nature of findings discussed in this report that relate to breakdowns in established or required procedures, we concluded that controls were not adequate to protect assets and prevent errors and irregularities.

Compliance with Laws and Regulations As described elsewhere in this report, the Corporation failed to comply with numerous laws, rules, and regulations pertaining to procurement.

Conclusions

The audit's primary objectives were to determine if (1) the Corporation had an effective procurement system in place during the period and (2) the procurement system complied with statutory and regulatory requirements applicable to the Corporation.

We concluded that the Corporation did not have an effective procurement system in place and did not comply with all applicable statutory and regulatory requirements.

The number, nature, and significance of the audit's findings indicate that the Corporation's procurement process is vulnerable to fraud, waste, and abuse.

**Current Status of
Prior Audit Findings**

Appendix II contains a summary of the current status of prior audit findings related to contracting and procurement.

**Views of Responsible
Officials**

The Corporation provided written comments based on a review of a draft of this report. The Corporation's general comments are included in Appendix III. Comments on specific findings and recommendations are included with the findings.

APPENDIX I

DETAILED AUDIT OBJECTIVES

Our audit of the Corporation's contract and procurement process included an assessment of the following procurement process elements.

Procurement Planning: Assess whether workload and requirements were accurately projected and that sufficient emphasis was given to enhancing competition.

Procurement Staffing: Assess whether contracting staff responsible for awarding contracts possessed a suitable skill mix (experience, education level, training, etc.) to handle requirements.

Policies and procedures: Assess whether effective policies and procedural guidance is available to those involved in contracts. Assess whether the Corporation required its contracting officers to document contract actions and provide specific guidance and direction to project officers to help them carry out their responsibilities.

Specifications: Assess whether the Corporation had a formal and effective method for defining its minimum needs with realistic delivery dates and budgeting for the systems, supplies, and services needed. Assess whether specifications and statements of work were complete and accurate and contained only what was needed to meet mission requirements. Assess whether or not the statement of work and specifications unnecessarily restricted competition. Assess whether, prior to solicitation, adverse market conditions, time constraints, and personnel resource constraints were properly considered. Assess whether appropriate contract types were determined and employed.

Procurement Requests: Assess whether procurement requests contained the specifications, approvals, and other information essential for effective procurement of required goods and services. Assess whether certification of funding availability was obtained prior to solicitation and/or contract award.

Solicitation Process: Assess whether proposed requirements were advertised as required. Assess whether a standardized solicitation format was consistently used. Assess whether realistic delivery schedules were used and sufficient bid preparation times were allowed. Assess whether evaluation criteria were limited to those essential to evaluate proposals.

Evaluation and Source Selection: Assess whether the Corporation used an effective evaluation and source selection process that ensured that the bids/offers of awardees selected were most advantageous, and that the Corporation gave fair and equitable treatment to all potential bidders/offerors.

Pricing: Assess whether the Corporation provided for adequate cost and price analysis to determine the reasonableness and fairness of the price to be paid. Assess whether independent cost estimates were used and whether the assumptions used in the cost evaluation process were reasonable. Assess whether the Corporation paid consistently comparable prices for similar type work.

Negotiations: Assess whether negotiations were carried out in accordance with applicable regulations and policies so as to provide fair and reasonable treatment to offerors and to arrive at equitable terms and conditions.

Award, Review, and Approval: Assess whether the procurement policies and procedures ensured that awards were made in the best interest of the government and whether they complied with applicable laws, regulations, and policies. Assess whether letter contracts or notices to proceed were properly used and definitized within required timeframes. Assess whether the Corporation provided an appropriate and timely response to protests. Assess whether noncompetitive contracts were reviewed as required and the reason(s) for the lack of competition were determined and documented.

Performance Monitoring/Measurement: Assess whether the Corporation had a process which effectively monitored and measured contractor performance against the terms of the contract and ensured that the contractor performed in accordance with all terms and conditions of the contract. Assess whether claims and disputes were processed in a timely manner. Assess whether guaranties/warranties for the quality of work required were employed, offered, and were the standard for the industry.

Contract Modifications: Assess whether the procurement system provided for the proper use, control, documentation, pricing, negotiation, and award of contract modifications and change orders and that change orders/contract modifications were not employed as a methodology to avoid competitive procurement. Assess whether change orders and modifications contained cost limitations as appropriate and were definitized as promptly as possible. Assess whether or not change orders and modifications violated the basic integrity of the contract type, risk allocation, or performance requirements. Assess whether each contract modification was properly and completely documented.

APPENDIX II

SUMMARY OF FOLLOW-UP ON PRIOR AUDIT FINDINGS

Prior Finding	Source	Prior Recommendation	Status
Receiving reports did not indicate the date that goods and services were received.	OIG Report 96-38 [3/29/96]	Management should establish procedures to require that personnel record on receiving reports the date that goods or services were received.	Adequately designed but not operating effectively.
Possible circumvention of procurement process due to inadequate planning and time-consuming requirements.	OIG Report 96-32 [3/20/96]	Management should prepare an annual forecast of the Corporation's goods and services needs.	Unresolved; similar findings in current report; see pages 14 and 16.
High frequency of late payments to vendors.	OIG Report 96-32 [3/20/96]	<p>Management should:</p> <ul style="list-style-type: none"> ▪ Require staff to submit signed receiving reports to Accounts Payable. ▪ Review its prompt payment report on a monthly basis. ▪ Identify methods to simplify and expedite the payment process. 	Unresolved; similar finding in current report; see page 33.
Corporation staff are not following internal procedures related to inventory control, ADP purchases, authorization signature cards, and Certificate of Appointment issues.	OIG Report 96-32 [3/20/96]	<p>Inventory: Management should re-evaluate procedures for physical inventory listings, and make the inventory basis contingent on susceptibility to theft or misplacement rather than dollar value.</p> <p>ADP Purchase: Management should develop an annual plan forecasting ADP needs.</p> <p>Authorized Signers: Management should either simplify the process by limiting signing authority to a certain management level or inform all levels of the requirement.</p> <p>Certificate of Appointment: Management should update and terminate certificates as necessary.</p>	<p>Unresolved; see current finding at page 40.</p> <p>Improved but not yet resolved.</p> <p>Improved but not yet resolved.</p> <p>Improved but not yet resolved.</p>

APPENDIX II**SUMMARY OF FOLLOW-UP ON PRIOR AUDIT FINDINGS**

Prior Finding	Source	Prior Recommendation	Status
Cooperative agreements were too broad in scope; some cooperative agreements were awarded on a sole source basis but would have been competed if contracts had been used as the award vehicle.	OIG Report 98-01 [11/3/97]	The Corporation should use indefinite delivery, indefinite quantity, task order contracts instead of cooperative agreements.	Unresolved; see related finding at page 35.
Four of 14 cooperative agreements were awarded without competition.	OIG Report 98-01 [11/3/97]	Awards should be competitive to the greatest extent possible.	Unresolved; see related findings at pages 11, 14, and 35.
Only 3 of 14 cooperative agreement files contained evidence of Corporation monitoring and oversight of grantee activities.	OIG Report 98-01 [11/3/97]	The Corporation should develop and implement procedures for oversight of grantee activities under cooperative agreements.	Unresolved; see related findings at page 35.
High occurrence of ratifications of unauthorized commitments.	OIG Report 96-32 [3/20/96]	Corporation personnel should follow the guidelines in the handbook titled <i>Corporation for National Service Procurement Policies and Procedures</i> .	Unresolved; see related findings at page 25.

APPENDIX III

CORPORATION MANAGEMENT'S COMMENTS

CORPORATION
FOR NATIONAL
★ SERVICE

Office of the Chief Operating Officer

MEMORANDUM

DATE: September 18, 1998

TO: Luise S. Jordan
Inspector General

FROM: Wendy Zenker *Wendy Zenker*
Chief Operating Officer

SUBJECT: Management's Response to OIG Draft Report # 98-24:
Audit of the Corporation's Procurement and
Contracting Process

Please find attached management's response to the draft report of the performance audit of the Corporation's procurement and contracting process performed by Cotton & Company, LLP, under contract to the OIG.

The audit report documents shortcomings in the Corporation's procurement and contracting functions. The findings demonstrate the need for management intervention, and the Corporation has already begun to take steps necessary to remedy the deficiencies noted.

Specifically, the Corporation will emphasize the importance of timely and accurate acquisition planning. For example, the Director of Procurement has implemented the audit recommendation to issue the annual call for procurements earlier. The FY 1999 procurement call was issued in August 1998.

In addition, the Corporation will develop and implement a systematic program of training for contracting staff, program staff who serve as Contracting Officer Technical Representatives, and approving officials for the credit card program. Training will emphasize the importance of thorough review of contract and purchase order requests and vendor invoices. Additional emphasis will be given to identifying activities responsible for unauthorized commitments and providing training and follow-up with a view toward eliminating the need for ratification actions.

The Corporation will identify and acquire technology that will aid in accurate and timely tracking of procurements. We will ensure that the technology will work effectively with the Corporation's new core accounting system.

APPENDIX III

CORPORATION MANAGEMENT'S COMMENTS

The Corporation is committed to planning and taking corrective actions that will strengthen our internal controls and minimize vulnerability to fraud, waste, and abuse. These improvements to the Corporation's procurement functions, when implemented, should help remedy the weaknesses identified in the draft report.

Thank you for the opportunity to comment on the draft report.

Attachment