
Office of Inspector General

Audit Report

**THE DEPARTMENT DOES NOT FULLY
ENSURE COMPLIANCE WITH
CONTRACT CLOSEOUT REQUIREMENTS**

Department of Transportation

Report Number: ZA-2015-071

Date Issued: July 23, 2015





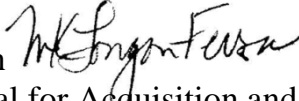
Memorandum

U.S. Department of
Transportation

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** The Department Does Not Fully
Ensure Compliance With Contract Closeout
Requirements
Department of Transportation
Report No. ZA-2015-071

Date: July 23, 2015

From: Mary Kay Langan-Feirson 
Assistant Inspector General for Acquisition and
Procurement Audits

Reply to
Attn. of: JA-60

To: DOT Senior Procurement Executive
Federal Aviation Administrator

Between 2009 and 2013, the Department of Transportation (DOT) spent an average of approximately \$6.2 billion each year on contracts. Over 20,000 of the contracts awarded during this time ended by December 31, 2013,¹ and therefore should have been closed or in the process of being closed in accordance with Federal and DOT requirements. Contract closeout is an important contract administration procedure that involves verifying that goods and services were provided as intended, validating final costs and payments, and freeing excess funds for possible use elsewhere. Timely and effective closeout ultimately protects the Government's interests and helps agencies efficiently manage residual contract funds.

Our prior work has identified significant weaknesses with DOT's contract closeout oversight and processes. In 2001, we reported that DOT did not properly conduct contract closeout or identify funds remaining on completed cost-reimbursable contracts.² Similarly, in 2002, we identified a backlog of about 1,400 cost-reimbursement contracts at the Federal Aviation Administration (FAA), totaling \$6 billion, which were overdue for closeout by up to 10 years.³

¹ According to the Federal Procurement Data System-Next Generation.

² *Closeout and Payment Processes for Cost-Reimbursement Contracts* (OIG Report FI-2001-018), Jan. 23, 2001. OIG reports are available on our Web site at: www.oig.dot.gov.

³ *FAA Oversight of Cost-Reimbursement Contracts* (OIG Report FI-2002-092), May 8, 2002.

Accordingly, the objective of this self-initiated audit was to determine whether selected DOT Operating Administrations are closing out contracts in accordance with Federal and departmental regulations.

We conducted this review in accordance with generally accepted Government auditing standards. To conduct our audit, we reviewed Federal and departmental contract closeout policies and best practices, assessed each Operating Administrations' internal closeout policies, and spoke with representatives from the Department's Office of the Senior Procurement Executive (OSPE) and the four selected Operating Administrations—FAA, Federal Highway Administration (FHWA), National Highway Traffic Safety Administration (NHTSA), and Office of the Secretary of Transportation (OST).⁴ To assess compliance with Federal Acquisition Regulation (FAR) and Acquisition Management System (AMS)⁵ closeout requirements, we selected 2 statistical samples of contracts from 4 DOT Operating Administrations: (1) a sample of 58 contracts⁶ that were closed in fiscal year 2012 or 2013, and (2) a sample of 62 contracts⁷ that were still open but whose period of performance had ended. These 120 contracts had periods of performance that ended between September 1999 and September 2013. We reviewed closeout timeliness data for all sampled contracts and conducted in-depth contract file reviews of the NHTSA and OST contracts in our samples to determine whether these Operating Administrations completed all closeout steps required by the FAR. Exhibit A provides additional details on our scope and methodology.

RESULTS IN BRIEF

The Department does not fully ensure its Operating Administrations comply with Federal and departmental closeout requirements. The Operating Administrations we reviewed—FAA, FHWA, NHTSA, and OST—did not fully comply with closeout requirements. Specifically:

⁴ We refer to OST as an Operating Administration for this audit.

⁵ Per DOT's Fiscal Year 1996 Appropriations Act, Congress provided FAA with broad authority to develop its own acquisition process without having to comply with Federal acquisition laws or regulations, including the FAR. FAA established its AMS, a set of policies and guidance designed to address the unique needs of the Agency.

⁶ Throughout this report, we use the term "contract" to refer to both contracts and individual task and delivery orders.

⁷ Our original sample included 63 contracts; however, during our review, FAA extended the period of performance for 1 contract to March 2018, which is outside the scope of our audit. We removed this contract from our sample, which reduced our sample size to 62 total contracts.

- These Operating Administrations frequently did not close out contracts timely. In total, 42 of the 58 closed contracts in our sample were not closed out within FAR and AMS timeframes—with delays ranging from 19 to 3,019 days and averaging 1,037 days.⁸
- Based on our in-depth review of selected NHTSA and OST contracts, many contract files lacked evidence that four key contract closeout steps were completed. For example, none of the 23 closed contract files reviewed⁹ included contract completion statements to verify that all closeout procedures were completed in accordance with FAR requirements.
- Because contract files were not always properly maintained, FAA, FHWA, NHTSA, and OST were unable to locate the files for 25 (or 21 percent) of the 120 total contracts in our audit samples. In addition, the files for two contracts were destroyed before being closed out.

These weaknesses are attributable in part to the Department's lack of sufficient closeout guidance. In addition, the Department has not implemented oversight procedures or performance metrics to assess whether the Operating Administrations comply with Federal and departmental closeout requirements. The Department's roll out of the Departmental Procurement Platform (DP2)—a modernization effort to integrate the Department's procurement and financial management systems—could help improve DOT's closeout efforts. However, even with DP2 fully implemented, DOT's compliance with Federal and departmental closeout requirements will still rely on contracting staff to effectively initiate the closeout process. DOT's compliance with closeout requirements is critical to verify that goods and services were provided as intended, validate final costs and payments, and free excess funds for possible use elsewhere.

We are making a series of recommendations to help improve DOT's compliance with contract closeout requirements.

⁸ The FAR time standards begin when the contracting office receives evidence of physical completion. However because of unavailable documentation or unreliable dates, we used the end date of the contract's period performance as the starting point for our analysis of contract closeout timeliness.

⁹ We only reviewed 23 of the 58 closed sample contracts. Based on the outcome of the detailed contract file reviews we did perform, we decided not to review FAA and FHWA files in detail. In addition, NHTSA and OST could not locate some contract files.

BACKGROUND

The FAR requires agencies to complete a number of steps to close out the files for completed contracts. The FAR also requires that agencies document the results of these steps in the contract file to provide a record of all final contract decisions, contract actions, and payments. According to DOT policy,¹⁰ contracting officers (CO) must follow FAR time standards for contract closeout, which vary depending on the type of contract. FAA's AMS closeout time standards are identical to those in the FAR.

An important step in contract closeout is to identify any unused funds remaining on a contract that can be put to better use or returned to the Treasury. Since 2000, we have reported on DOT's untimely contract closeout, resulting in at least \$35.4 million remaining obligated on completed contracts for as long as 12 years. Our financial statement audits have repeatedly identified the Department's untimely deobligation of unused funds. Over the past several years, the Department has prioritized identifying and deobligating these unused funds. Our recent financial statement audit work determined that DOT has made improvements: we upgraded DOT's status in this area from a "material weakness" in fiscal year 2012 to "significant deficiency" in fiscal years 2013 and 2014. Under tight budgetary constraints, timely identification of excess funds during contract closeout is important so that the funds can be redirected to other needed projects.

THE DEPARTMENT DOES NOT ENSURE OPERATING ADMINISTRATIONS FULLY COMPLY WITH FEDERAL AND DEPARTMENTAL CONTRACT CLOSEOUT REQUIREMENTS

All four of the Operating Administrations we reviewed did not fully comply with Federal and departmental requirements for contract closeout. Our review of FAA, FHWA, NHTSA, and OST contracts determined that these Operating Administrations did not close out most of the contracts we sampled within required time standards. Based on our in-depth review of files for the NHTSA and OST contracts in our samples, we determined that the files lacked evidence that four key contract closeout steps were completed as required by the FAR. Finally, all four Operating Administrations were unable to locate 21 percent of the contract files in our samples due to a lack of proper contract file maintenance. These weaknesses are attributable in part to OSPE's lack of sufficient closeout guidance and oversight. The Department is implementing a new system that could help improve DOT's closeout efforts. However, DOT's compliance with Federal and

¹⁰ Transportation Acquisition Manual 1204.804-170 (a), Monitoring contract closeouts.

departmental closeout requirements will still rely on contracting staff to effectively initiate the closeout process.

FAA, FHWA, NHTSA, and OST Frequently Do Not Close Out Contracts Timely

Our review of selected contracts from FAA, FHWA, NHTSA, and OST determined that the Operating Administrations frequently did not close out contracts within required time standards. DOT policy states that COs must follow the FAR time standards for contract closeout, which range from immediately after contract deliverables are received to as long as 36 months after evidence of physical completion (when all contractual goods and services have been received and accepted by the Government), depending on the type of contract (see table 1). FAA's AMS closeout time standards are identical to those in the FAR.

Table 1. FAR and AMS Contract Closeout Time Standards

Type of Contract	FAR and AMS Time Standards for Contract Closeout
Contracts using simplified acquisition procedures	After the contracting officer receives evidence of receipt of all contract deliverables and final payment
Firm-fixed-price contracts	Within 6 months after the contracting officer receives evidence of physical completion
Contracts requiring settlement of indirect cost rates (cost-reimbursement contracts)	Within 36 months after the contracting officer receives evidence of physical completion
All other contracts	Within 20 months after the contracting officer receives evidence of physical completion

Source: FAR and AMS

Except for simplified acquisitions, the FAR and AMS milestone for starting the closeout process is the date the CO receives evidence of physical completion, which should usually be recorded in the contract file. However, missing contract files and lack of reliable completion documentation for our sample contracts prevented us from using the date of physical completion as a milestone to assess closeout timeliness. Instead, we assessed closeout timeliness by determining the length of time between the end date of a contract's period of performance and the contract closeout date.¹¹ We then compared that length of time to the required FAR and AMS closeout time standard.

¹¹ For the closeout date, we used either the contracting office's signature date on the closeout modification or the contract closure date listed in PRISM. Each Operating Administration we reviewed uses a PRISM system to create, manage, and report on procurement actions.

To assess closeout timeliness, we reviewed 2 samples of contracts from 4 selected DOT Operating Administrations: a sample of 58 closed contracts and a sample of 62 contracts that were still open but whose period of performance had ended. In total, we determined that 91 of the 120 closed and open contracts in our samples (76 percent) exceeded FAR or AMS closeout time standards. In our sample of 58 closed contracts, 42 were not closed out timely—with delays ranging from 19 to 3,019 days and averaging 1,037 days (see table 2). For example, OST did not close out an \$11.5 million firm-fixed-price contract for transit fare vouchers until over 4 years after the contract ended; however, FAR time standards state that a firm-fixed-price contract should be closed out within 6 months.

Table 2. Closed Contracts That Exceeded FAR and AMS Closeout Time Standards

Operating Administration	FAA	FHWA	NHTSA	OST	TOTAL
Closed contracts exceeding FAR and AMS closeout time standards	16 of 17 (94%)	10 of 15 (67%)	7 of 14 (50%)	9 of 12 (75%)	42 of 58 (72%)
Average delay	1,244 days	1,233 days	804 days	633 days	1,037 days

Source: OIG analysis of 58 sample closed contract files from FAA, FHWA, NHTSA and OST

In our sample of 62 open contracts whose period of performance had already ended, we identified 49 contracts that exceeded FAR and AMS closeout time standards—with delays ranging from 130 to 5,139 days and averaging 2,141 days (see table 3).

Table 3. Open Contracts Exceeding FAR and AMS Closeout Time Standards

Operating Administration	FAA	FHWA	NHTSA	OST	TOTAL
Open contracts exceeding FAR and AMS closeout time standards	12 of 14 (86%)	17 of 19 (89%)	5 of 13 (38%)	15 of 16 (94%)	49 of 62 (79%)
Average delay	2,651 days	1,936 days	864 days	2,392 days	2,141 days

Source: OIG analysis of a sample of 62 open contract files from FAA, FHWA, NHTSA and OST

While reviewing our open contract sample, we identified some contracts that had already been closed—some timely, some not—despite being listed in PRISM as open contracts. According to Operating Administration officials, the incorrect contract status in PRISM data is attributable in part to contracting staff forgetting to change the status to “closed” after completing the closeout process. Operating Administration officials also stated that PRISM’s contract closeout function was not fully implemented until after some older contracts in our samples were already completed.

In addition to the untimely closeouts we identified in our contract samples, DOT has a considerable backlog of contracts—with some dating back as far as 1972—that have yet to be closed out. According to data from the Operating Administrations, the Department has closed out over 22,000 contracts since October 2011—with the assistance of contractors hired specifically for this effort. However, as of October 2014, over 20,000 contracts have yet to be closed out. Closing a contract years after the contract is completed can be more time consuming because key documentation and contracting personnel with first-hand knowledge of the contract may no longer be available. As a result, it can take longer for contracting staff to identify excess funds for possible use elsewhere.

NHTSA and OST Did Not Complete Some Key Closeout Steps

The FAR requires agencies to complete a number of contract closeout steps. The FAR also requires that agencies document the results of these steps in the contract file to support final contract actions and payments. However, NHTSA’s and OST’s closed contract files did not always include evidence that contracting officials completed four key closeout steps that the FAR requires. These steps involve: (a) conducting an initial funds review, (b) verifying contract completion documentation, (c) obtaining a signed contractor closing statement, and (d) executing a contract completion statement.

NHTSA and OST Did Not Conduct Initial Funds Reviews To Timely Identify Excess Funds

The FAR requires an initial funds review at the outset of the closeout process (i.e., immediately after the CO receives evidence of physical completion). The purpose of the initial funds review is to identify excess funds for deobligation. However, because NHTSA’s and OST’s internal closeout policies do not include this requirement, NHTSA and OST did not conduct an initial funds review for any of the 23 closed contract files we reviewed (see table 4).

Table 4. Compliance With Initial Funds Review Requirement

FAR Requirement	NHTSA	OST	TOTAL
Initial funds review conducted at outset of closeout process	0 / 12	0 / 11	0 / 23

Source: OIG analysis of a sample of 23 closed contract files from NHTSA and OST

Instead of performing funds reviews at the outset of the closeout process, OST and NHTSA reviewed funds for all 23 contracts later in the process,¹² which sometimes led to delays in deobligating excess funds that could have been used elsewhere. Specifically, 11 of the 23 contracts had a total of \$2,968,000 remaining on the completed contracts, but NHTSA and OST took an average of 699 days—ranging from 16 days to 1,607 days—after the end of a contract’s period of performance to deobligate these funds. Although all excess funds were ultimately deobligated, initial funds reviews may have identified excess funds much earlier, allowing for more timely use of excess funds for other projects.

NHTSA and OST Did Not Appropriately Document Contract Completion

The FAR requires the contracting office to begin contract closeout as soon as the CO receives evidence that the contract has been physically completed (i.e., all contractually required goods and services have been received and accepted by the Government). The FAR refers to this evidence as contract completion documentation. As table 5 shows, only 3 of 12 NHTSA contracts had evidence of completion (such as documentation of the Government’s acceptance of all contract deliverables). In contrast, all 11 of OST’s contracts included this documentation.

Table 5. Compliance With Requirement for Contract Completion Documentation

FAR requirement	NHTSA	OST	TOTAL
Contract completion documentation in file	3 / 12	11 / 11	14 / 23

Source: OIG analysis of a sample of 23 closed contract files from NHTSA and OST

While the FAR and DOT policies do not specify a timeframe for submitting contract completion documentation, the FAR states that the CO’s receipt of contract completion documentation initiates the contract closeout process. Therefore, contract completion documentation is intended to trigger the start of the contract closeout process. Because this documentation was missing or unreliable for some contracts in our sample, we could not use the date of contract completion to assess the contracts’ compliance with the FAR’s closeout timeframes.

Other Federal agencies do specify a timeframe for submitting contract completion documentation. For example, the Department of Health and Human Services (HHS) requires that the contracting officer’s representative submit contract completion documentation within 30 days after the contract period of performance has ended. In contrast, we identified contracts in our sample with completion

¹² NHTSA’s procurement chief explained that NHTSA’s current practice is to conduct a funds review after the program office submits a request to close the contract. However, NHTSA has not documented this practice in its closeout policy, and we found no evidence of this practice in operation.

documentation dated well over 30 days after the end of the period of performance. For example, contract completion documentation for an OST information technology (IT) support contract, worth approximately \$1.2 million, was submitted almost 3 years after the period of performance ended. OST deobligated the remaining funds on the contract—almost \$1 million—over 22 months after the period of performance ended. When COs are not notified that contractual goods or services are delivered and accepted, DOT may miss opportunities to deobligate excess funds and use them on other programs.

NHTSA and OST Contract Files Lacked Contractor Closing Statements To Release the Government From Liability

The FAR requires that a contractor closing statement be completed as part of the closeout process. This statement, signed by the contractor, releases and discharges the Government from all liabilities, obligations, claims, or demands for the contract after the final payment is made. Only 9 of the 23 closed contract files we reviewed included contractor closing statements. An additional five contracts included evidence that the Operating Administration’s contracting staff sent closing statements to the contractor to complete and repeatedly followed up on the request (see table 6). Although the Operating Administrations demonstrated good faith efforts to comply with the requirement for these five contracts, DOT is not fully protected from potential future claims and legal issues without contractor closing statements in the contract files.

Table 6. Compliance With Requirement for Contractor Closing Statement

FAR Requirement	NHTSA	OST	TOTAL
Contractor closing statement in file	4 / 12	5 / 11	9 / 23
Documented efforts to obtain contractor closing statement	1 / 12	4 / 11	5 / 23

Source: OIG analysis of a sample of 23 closed contract files from OST and NHTSA

NHTSA’s and OST’s Closed Contract Files Lacked Contract Completion Statements To Verify That All Closeout Steps Were Completed

The FAR requires a CO to complete and sign a contract completion statement to verify that required closeout steps have been completed. According to the FAR, a CO cannot close a contract file until all required steps are completed. However, none of the 23 closed contracts we reviewed from NHTSA or OST had contract completion statements (see table 7). Without this statement, there is an increased risk that contracts will not be properly closed out, especially for the contract files missing other required documents to indicate that steps were completed.

Table 7. Compliance With Requirement for Contract Completion Statement

FAR Requirement	NHTSA	OST	TOTAL
Contract completion statement in file	0 / 12	0 / 11	0 / 23

Source: OIG analysis of a sample of 23 closed contract files from NHTSA and OST

FAA, FHWA, NHTSA, and OST Were Unable To Locate Contracts and Destroyed Files Before Complying With Closeout Requirements

During our review, FAA, FHWA, NHTSA, and OST were unable to locate the files for 25 (or 21 percent) of the 120 contracts in our samples.¹³ The FAR and AMS require that contracting offices maintain files with a complete and readily accessible history of a contract's transactions. The Operating Administrations' inability to locate these 25 files prevented us from fully evaluating the contracts in our samples. Due to the age of the contracts¹⁴ and subsequent staff turnover, the Operating Administrations could not explain why these files were missing. We have reported on the Department's contract file weaknesses in previous audit reports.¹⁵

In addition, files for two contracts (one FAA and one FHWA contract) were destroyed before being closed out. FAA and FHWA contracting officials provided information showing that Federal and departmental policies on retaining and destroying records were followed.¹⁶ However, PRISM records indicate that these two contracts were still open when the files were destroyed. There does not appear to be any permissible situation in which an Operating Administration may destroy a file before completing all required closeout steps. In addition, destruction of open contract files effectively prevents an Operating Administration from complying with contract closeout requirements and leaves the Government vulnerable to potential contractor lawsuits, claims, or liabilities. Moreover, lacking contract file documentation, the Operating Administrations cannot properly support contract payments and may not be able to identify and recover improper payments. After we informed the Operating Administrations of this finding, FAA

¹³ These included 17 from our sample of open contracts and 8 from our sample of closed contracts.

¹⁴ All but 3 of the 25 contracts had periods of performance that ended before 2010—going back as far as 1999.

¹⁵ *Weaknesses in the Office of the Secretary's Acquisition Function Limit Its Capacity to Support DOT's Mission* (OIG Report ZA-2011-119), May 25, 2011; *Weaknesses in Program and Contract Management Contribute to ERAM Delays and Put Other NextGen Initiatives at Risk* (OIG Report AV-2012-179), Sept. 13, 2012; and *Oversight of Cost-Reimbursable Contracts* (OIG Report FI-2002-092), May 8, 2002.

¹⁶ Record retention policies require that contract files be maintained for specified periods before they can be disposed of. Contract file retention periods vary from 3 years to 6 years and 3 months from the date of final payment, depending on the contract value. Closeout timeframes differ from contract file retention periods and start upon receipt of evidence of physical completion.

and FHWA closed these contracts in PRISM. However, because the contract files were destroyed, we had no means to verify whether FHWA or FAA had completed the required closeout steps for these two contracts.

DOT Lacks Sufficient Departmentwide Guidance and Oversight for Contract Closeout

OSPE is responsible for issuing departmentwide guidance and ensuring compliance with Federal and departmental acquisition regulations for contract closeout.¹⁷ However, OSPE has not issued sufficient contract closeout guidance; in addition, it has not implemented oversight procedures or performance metrics to assess whether the Operating Administrations comply with Federal and departmental closeout requirements. For example, OSPE lacks guidance on how to close out task and delivery orders, even though these contract actions obligate Government funds and are considered contract awards under the FAR. Task and delivery orders comprise more than half of the over \$6 billion in DOT's annual contract spending.

In addition, the FAR states that contract closeout should begin when the CO receives evidence that the contract is physically completed.¹⁸ However, OSPE has not issued guidance on what documentation provides appropriate evidence of physical completion, leaving the Operating Administrations to determine what this evidence should consist of. Only 3 of 11 DOT Operating Administrations defined what constitutes evidence of physical completion in their internal closeout guidance or policies.

In comparison, other Federal agencies provide closeout guidance to supplement Federal requirements and promote consistent and compliant closeout practices across their organizations. For example, HHS's extensive closeout guide details how to carry out the FAR's required steps, including how to close out individual orders. In the absence of OSPE guidance, one Operating Administration linked to an HHS closeout policy in its internal procurement Web site.

Ten of DOT's 11 Operating Administrations have their own internal policies and guidance related to contract closeout.¹⁹ However, OSPE does not review the Operating Administrations' internal closeout policies and guidance to verify

¹⁷ The Service Acquisition Reform Act of 2003 (Pub. Law 108-136, Section 1421) identifies the duties of the chief acquisition officer (CAO), which includes monitoring the performance of acquisition activities and acquisition programs of the executive agency. The senior procurement executive reports to the CAO and is responsible for management and direction of the agency's procurement system, including implementing procurement policies, regulations, and standards of the agency.

¹⁸ This requirement applies to all contracts above the simplified acquisition threshold.

¹⁹ The one Operating Administration without guidance hires contractors to perform its contract closeout function and uses a standard internal closeout checklist.

compliance with Federal and departmental requirements. Our review of the Operating Administrations' closeout policies and guidance identified the following gaps or internal control weaknesses:

- The policies and guidance for two Operating Administrations are still in draft and have not been finalized.
- One Operating Administration's closeout policy is a single paragraph and additional sentence outlining only basic requirements that the CO is responsible for during contract closeout. The policy does not discuss or reference any of the FAR closeout requirements.
- Only 7 of the 11 Operating Administrations' policies and guidance refer to closing out task and delivery orders.²⁰
- Although nine Operating Administrations have internal closeout checklists, our in-depth review of NHTSA and OST's contract files determined that contracting offices did not consistently use the checklists or fill them out completely.

Finally, OSPE relies on the Operating Administrations to monitor compliance with Federal and departmental closeout requirements and does not perform any oversight of Operating Administrations' closeout practices. OSPE also does not track performance metrics to assess timeliness or effectiveness of the Department's contract closeout efforts. Without metrics, OSPE has no baseline to evaluate DOT's compliance with closeout requirements or identify where corrective measures are needed.

The Department Is Implementing a New System That Could Help Improve DOT's Closeout Efforts

The Department is currently rolling out the DP2 program—a modernization effort to integrate the Department's procurement and financial management systems—which could help improve DOT's closeout efforts. Specifically, DP2 will merge the Operating Administrations' individual PRISM procurement systems (except FAA's²¹) into one departmentwide contracting system, giving OSPE access to all DOT contract data to monitor the Department's contract closeout efforts. DP2 will also provide OSPE with the ability to establish standardized reporting and metrics that could help with tracking the Department's closeout performance.

²⁰ The following Operating Administrations provided policies or guidance on how to close out orders: FAA, FHWA, Federal Motor Carrier Safety Administration, Federal Railroad Administration, Federal Transit Administration, Saint Lawrence Seaway Development Corporation, and Volpe.

²¹ FAA follows its own unique procurement authority, and its PRISM system is already integrated with Delphi. FAA does, however, participate in the governance of DP2 as a member of the DP2 executive steering committee.

Additionally, DP2 will integrate PRISM procurement functionality with the Department's Delphi accounting system, allowing for automated real-time processing of contract modifications, which is currently a manual procedure. Contract modifications include those to close out contracts and to deobligate excess funds. However, an OSPE representative stated that DP2 will not have a direct effect on contract closeout, which will still depend on contracting staff to timely initiate the closeout process—including conducting initial funds reviews for prompt deobligation of funds and documenting and signing a contract completion statement. Going forward, the Department's continued efforts to enforce close out requirements are necessary to fully realize the benefits of DP2.

CONCLUSION

Timely and effective closeout ultimately protects the Government's interests and helps agencies efficiently manage and use remaining funds. As we reported in our recent financial statement audit, DOT has made improvements in deobligating unused funds on completed contracts. However, the Department lacks sufficient guidance and oversight to ensure that the Operating Administrations are timely closing out contracts in compliance with Federal and departmental regulations. Stronger contract closeout oversight practices and more specific closeout guidance can help DOT ensure that it receives the goods and services it pays for, promptly free up excess funds for use on other projects, and safeguard against future claims and liabilities.

RECOMMENDATIONS

We recommend that the Senior Procurement Executive take the following actions:

1. Implement an oversight process for monitoring compliance with Federal and departmental closeout requirements.
2. Issue additional departmental guidance on the contract closeout process. At a minimum, this guidance should include requirements for: file retention and storage, contract closeout file documentation, initial funds reviews, closeout of individual task and delivery orders, timely submission of adequate evidence of physical completion, and safeguards to prevent the destruction of contract files before closeout is completed.
3. Require Operating Administrations' acquisition offices to update or finalize all internal contract closeout policies, including references to key Federal and departmental requirements.

We recommend that FAA's Deputy Assistant Administrator for Acquisitions and Business Services and Chief Acquisitions Officer take the following actions:

4. Implement an oversight process for monitoring compliance with AMS closeout requirements.
5. Issue additional AMS guidance on the contract closeout process. At a minimum, this guidance should include requirements for: file retention and storage, contract closeout file documentation, initial funds reviews, timely submission of adequate evidence of physical completion, and safeguards to prevent the destruction of contract files before closeout is completed.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided the Department with a copy of our report on June 11, 2015, and received its response on July 13, 2015. The Department concurred with our 5 recommendations and agreed to implement them as written, by December 31, 2015. Accordingly, we consider all recommendations resolved but open pending completion of the planned actions.

We appreciate the courtesies and cooperation of Department of Transportation representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-5225, or Ken Prather, Program Director, at (202) 366-1820.

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cc: DOT Audit Liaison (M-1)
FAA Audit Liaison (AAE-100)

EXHIBIT A. SCOPE AND METHODOLOGY

We conducted our work from July 2014 to through June 2015 in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides reasonable basis for our findings and conclusions based on our audit objectives.

We assessed whether selected Operating Administrations are closing contracts in accordance with Federal and departmental closeout requirements. To conduct our work, we reviewed applicable Federal and departmental contract closeout policies and guidance, other Agencies' closeout policies, and closeout best practices. For each of DOT's 11 Operating Administrations, we requested and reviewed the internal policies, procedures, guidance, and flowcharts related to contract closeout to determine what internal controls were in place to support compliance with Federal and departmental closeout requirements. We also interviewed officials from OSPE, as well as the procurement office chief and procurement staff from both NHTSA and OST.

We created two standardized checklists based on Federal and departmental closeout requirements, and selected samples of contracts to test compliance with each checklist. We asked OSPE to request that each Operating Administration provide two sets of its PRISM data from which we defined our universes: (1) all contracts that were closed in fiscal year 2012 or 2013 and (2) all contracts that are open but whose period of performance expired.²² Based on these audit universes and other considerations, such as which Operating Administrations were already transitioning to DP2, we selected 4 of DOT's 11 Operating Administrations to include in our review (FAA, FHWA, NHTSA, and OST).

The universes for these four selected Operating Administrations represented a total of 38,448 contracts valued at \$10.9 billion in our closed contract universe and 32,438 contracts valued at \$32.5 billion in our open contract universe. We stratified each universe by the four Operating Administrations, four FAR time standards determined by the PRISM reported contract type (simplified acquisition, 6 month, 36 months, or 20 months), and three net value (NV) amount types (positive, zero, negative). We then selected a stratified sample from each universe with probability proportional to the NV amount with replacement. We also selected a simple random sample from the zero NV amount stratum.

²² This universe represents open contracts with periods of performance that had already expired as of the day the Operating Administrations extracted this data from PRISM (between April 7 and May 9, 2014). Saint Lawrence Seaway Development Corporation's data were extracted from the Federal Procurement Data System-Next Generation, as it does not have a PRISM system.

Our closed sample consisted of 58 contracts with a total NV of \$1.4 billion, or 13 percent of the universe. Our original open sample consisted of 63 contracts with a total NV of \$4.2 billion, or 13 percent of the universe. However, during our review, FAA extended the period of performance for one of the sample contracts from March 2014 to March 2018. This extension was not reflected in the universe data FAA provided. Therefore, we removed this contract from our sample because it was not in the scope of our audit. This reduced our open sample size to 62 contracts with a total NV of \$4.0 billion, or 12 percent of the universe.

Based on our initial audit results, we focused our in-depth contract file reviews on the NHTSA and OST contracts in our sample. These NHTSA and OST contracts included 26 contracts with a total NV of \$126 million in our closed sample and 29 contracts with a total NV of \$323 million in our open sample. We did not project the findings from our in-depth reviews to all 11 Operating Administrations but used the information to illustrate contract closeout issues we identified. We assessed compliance with contract closeout timeframes for all sample contracts using PRISM data and selected contract file information.

To validate the universe data for accuracy and completeness, we requested that each Operating Administration provide our IT specialist with read-only access to its PRISM system. Although we found weaknesses in the Operating Administrations' PRISM data, we deemed the data sufficiently reliable for the purpose of our audit because (1) the Operating Administrations' individual PRISM systems were the only available sources for the data we needed, and (2) we verified the relevant PRISM data for our sample contracts through our audit work (including contract file reviews and data validation with the Operating Administration's procurement staff and Delphi accounting staff).

EXHIBIT B. MAJOR CONTRIBUTORS TO THIS REPORT

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APPENDIX. AGENCY COMMENTS



**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

**Assistant Secretary
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JUL 13 2015

MEMORANDUM TO: Mary Kay Langan-Feirson
Assistant Inspector General for Acquisition and
Procurement Audits

FROM: Jeff Marootian *Mary Kay Langan-Feirson*
Assistant Secretary for Administration

SUBJECT: **INFORMATION:** Management Comments - Office of
Inspector General (OIG) Draft Report on Contract Closeout

The Department of Transportation continues to make progress in closing-out contracts and strengthening internal policies and procedures. Existing Departmental policy correctly places the responsibility for management and oversight of the contract closeout function with the individual Operating Administrations (OA). This delegation is appropriate for the level of detail and variation in business processes of the individual OA. To support the OAs in the management of the activity, the Department's on-going deployment of the Department Procurement Platform (DP2) - a modernization effort to integrate the Department's procurement and financial management systems - will provide additional capabilities to support more standardized business practices and tracking of contract closeout activity. Additionally, the Department's recent deployment of its Procurement Management Review (PMR) program provides an additional tool to support compliance oversight of the contract closeout process. These new tools and oversight mechanisms will support the OAs as they continue to develop and manage their operational contracting and closeout functions.

The Office of the Senior Procurement Executive was already in the process of implementing these actions, prior to the issuance of the report. Based upon our review of the Draft Report, we agree to implement each of the OIG recommendations, as written. We plan to complete action on each recommendation by December 31, 2015.

We appreciate this opportunity to review the OIG Draft Report. Please contact Jeffrey Thomas, Associate Director for Policy Oversight and Business Strategies, at (202) 366-4226 with any questions regarding this response.