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**United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General**

Office of Audits

**Audit of Contracting Officers'
Exceeding Delegated Procurement Authority**

Report Number AUD/CG-12-26, March 2012

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Spotlight: Audit of Contracting Officers' Exceeding Delegated Procurement Authority

Office of Inspector General

AUD/CG-12-26

Why OIG Conducted This Audit

Kearney & Company, P.C. (Kearney) was separately engaged to audit the financial statements of the Department as of September 30, 2010. In planning and performing the financial statement audit work, Kearney conducted testing of the internal controls over the Department's procurement and payment processes.

Kearney's test work over internal controls related to these processes identified a deficiency related to the controls over contract authority delegated to Contracting Officers (CO). A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in

the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

Objectives

Kearney conducted a performance audit to quantify and determine the extent to which COs were exceeding their delegated procurement authority. We also identified the amount of obligations related to Department contract actions (excluding grants and cooperative agreements) that exceeded the delegated procurement authorities of the COs and therefore represented unauthorized non-binding agreements.

What OIG Determined

Based on Kearney's review of 63,551 domestic contract actions, totaling \$19.2 billion, entered into by the Department from FYs 2008–2010, we found that the impact of unauthorized commitments generated by domestic COs exceeding their warrant authority was minor. Kearney's testing did confirm, however, that 21 domestic contract actions were not properly ratified and that certain controls related to prevention and monitoring of unauthorized commitments and warranted authority needed to be strengthened.

OIG Recommended

OIG made recommendations to contracting authorities in the Bureau of Administration that focused on improving internal controls within current systems and improving processes related to domestic contract actions.



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

PREFACE

This report is being transmitted pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared as part of the Office of Inspector General's (OIG) responsibility to promote effective management, accountability, and positive change in the Department of State (Department) and the Broadcasting Board of Governors.

This report addresses compliance with Federal and Department regulations for contracting officers and specific requirements for contracting officers not to exceed their delegated procurement authorities. The report is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

OIG contracted with the independent public accountant Kearney & Company, P.C., to perform this audit. The contract required that Kearney & Company perform its audit in accordance with guidance contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Kearney & Company's report is included.

Kearney & Company determined that for domestic contract actions totaling \$19.2 billion over a 3-year period, the Department was in compliance with applicable regulations and that few contracting officers exceeded their warrant authority. The report did recognize areas to strengthen related internal controls.

OIG evaluated the nature, extent, and timing of Kearney & Company's work; monitored progress throughout the audit; reviewed Kearney & Company's supporting documentation; evaluated key judgments; and performed other procedures as appropriate. OIG concurs with Kearney & Company's findings, and the recommendations contained in the report were developed on the basis of the best knowledge available and were discussed in draft form with those individuals responsible for implementation. OIG's analysis of management's response to the recommendations has been incorporated into the report. OIG trusts that this report will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of the individuals who contributed to the preparation of this report.

A handwritten signature in black ink, appearing to read "H. Geisel", written in a cursive style.

Harold W. Geisel
Deputy Inspector General

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Audit of Contracting Officers' Exceeding Delegated Procurement Authority

Office of Inspector General
U.S. Department of State
Washington, D.C.

Kearney & Company, P.C. (referred to as “we” in this letter), is pleased to submit this performance audit report related to the evaluation of the Department of State’s (Department) extent of contracting officers (CO) exceeding their delegated procurement authority. This audit was requested by the Department’s Office of Inspector General (OIG) as a result of a control deficiency identified during the FY 2010 financial statement audit of the Department.

This audit was designed to meet the objectives identified in the section “Audit Objectives” of the report and in Appendix A, “Scope and Methodology,” except where specific limitations were noted. As of the date of this report, we were unable to complete audit procedures over all contract actions in our scope. Sufficient audit evidence for overseas contract actions was not provided by the Department by the conclusion of audit fieldwork. Findings and recommendations for overseas contract actions have not been provided in this audit report but will be provided in a separate report.

Additionally, we were unable to determine the reliability of the contract actions population for either domestic or overseas contract actions as of October 15, 2011, because of certain limitations. (Details are in Appendix A of the report.)

To provide quantitative information about the nature of unauthorized commitments, specifically COs exceeding their delegated authority on domestic contract actions, and to highlight root causes of the deficiency, we present the data as reported by the Department.

We conducted this performance audit from February 2–October 15, 2011, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The purpose of this report is to communicate the results of our audit and its related findings and recommendations.

We would like to thank the Department offices involved for their cooperation during the course of this audit.



Kearney & Company, P.C.
Alexandria, Virginia
October 15, 2011

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Acronyms

| | |
|------------|---|
| A/OPE | Bureau of Administration, Office of the Procurement Executive |
| A/LM/AQM | Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management |
| A/LM/PMP | Bureau of Administration, Office of Logistics Management, Office of Program Management and Policy |
| CAP | Corrective Action Plan |
| CO | contracting officer |
| CS | contract specialist |
| Department | Department of State |
| EUR | Bureau of European and Eurasian Affairs |
| FAR | <i>Federal Acquisition Regulation</i> |
| GFMS | Global Financial Management System |
| Kearney | Kearney & Company, P.C. |
| OIG | Office of Inspector General |

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Executive Summary

Kearney & Company, P.C. (referred to as “we” in this report), conducted a performance audit to quantify and determine the extent to which contracting officers (CO) were exceeding their delegated procurement authority. We also identified the amount of obligations related to Department contract actions (excluding grants and cooperative agreements) that exceeded the delegated procurement authorities of the COs and therefore represented unauthorized non-binding agreements. To conduct this audit, we attempted to complete a sampling-based approach to identify the dollar value of contract actions initiated or modified during FYs 2008–2010 for which the assigned COs exceeded their delegated procurement authority. This audit was requested by the Department of State (Department), Office of Inspector General (OIG), as a result of a control deficiency identified during the FY 2010 financial statement audit of the Department.

As of January 2012, we were unable to complete audit procedures for the overseas contract actions included in our scope. Sufficient audit evidence was not provided by the Department by the conclusion of audit fieldwork. Findings and recommendations will not be provided in this audit report related to overseas contract actions. The period of performance has been extended through March 31, 2012, to complete audit objectives for overseas contract actions; findings and recommendations related to overseas contract actions will be provided in a separate report. Additionally, we were unable to determine the reliability of the contract actions population for either domestic or overseas contract actions as of October 15, 2011, because of certain reporting limitations in the Global Financial Management System (GFMS).

Based on our review of 63,551 domestic contract actions, totaling \$19.2 billion, entered into by the Department from FYs 2008–2010, we found that the impact of unauthorized commitments generated by domestic COs exceeding their warrant authority was minor. Our testing did confirm, however, that 21 domestic contract actions were not properly ratified and that certain controls related to prevention and monitoring of unauthorized commitments and warranted authority needed to be strengthened. For example, one exception identified a CO with commercial warrant authority up to \$5.5 million who entered into a contract action for \$20.7 million. We also identified a need to strengthen controls to clearly identify GFMS user roles and privileges for contract specialists (CS). Without a formal ratification of unauthorized commitments where appropriate, the Government is not bound by the agreement, placing additional risk on the vendor of not being paid for goods and services delivered. The Department is also not compliant with the *Federal Acquisition Regulation* (FAR) when ratification procedures are not performed.

We made recommendations to the respective bureaus and offices that focused on improving internal controls within the current control system and improving processes related to domestic contract actions. The February 7, 2012, response to the recommendations from the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), is in Appendix B, and the January 26, 2012, response from the A Bureau’s Office of the Procurement Executive (A/OPE) is in Appendix C.

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Background

We were separately engaged to audit the financial statements of the Department as of September 30, 2010. In planning and performing our financial statement audit work, we conducted testing of the internal controls over the Department's procurement and payment processes.

Our test work over internal controls related to these processes identified a deficiency related to the controls over contract authority delegated to COs. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

As part of the FY 2010 financial statement audit, we tested 139 obligations and disbursement transactions to ensure that the CO who signed the obligating documents had the proper authority to enter into the respective contracts, and we identified 22 contract actions in which we could not confirm that the CO had proper warrant authority. We found that the Department did not have an effective process to ensure that COs adhered to the level of procurement authority delegated to them by the Department. In several instances, additional evidence was provided to clear the FY 2010 exceptions subsequent to the FY 2010 financial statement audit.

The FAR¹ states that contracts may be entered into and signed on behalf of the Government only by contracting officers. The FAR² states the following:

Contracting officers have authority to enter into, administer, or terminate contracts and make related determinations and findings. Contracting officers may bind the Government only to the extent of the authority delegated to them. Contracting officers shall receive from the appointing authority clear instructions in writing regarding the limits of their authority.

Failure to follow these regulations is a violation that creates an unauthorized commitment.

An "unauthorized commitment" is defined in the FAR³ as "an agreement that is not binding solely because the Government representative who made it lacked the authority to enter into that agreement on behalf of the Government." Unauthorized commitments violate Federal law, Federal regulations, the Government-wide Standards of Conduct for Federal Employees, and Department acquisition regulations. The process for converting an unauthorized commitment to a legal contract is called "ratification," which the FAR⁴ defines as "the act of approving an unauthorized commitment by an official who has the authority to do so." A CO who exceeds delegated authority may make improper purchases, which increases the risk of

¹ FAR 1.601(a), "Career Development, Contracting Authority, and Responsibilities-General."

² FAR 1.602-1(a), "Authority."

³ FAR 1.602-3(a).

⁴ Ibid.

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waste, fraud, or abuse. In addition, agreements for large dollar amounts are frequently complex. If a CO executes agreements above his or her delegated authority, the CO may not have the appropriate training, experience, or knowledge to properly execute the agreement. Without a formal ratification of unauthorized commitments, the Government is not bound by the agreement, which places additional risk on the vendor of not being paid for goods and services delivered.

Department of State Acquisition Regulations (DOSAR)⁵ require all unauthorized commitments in excess of \$1,000 to be submitted to the Department Procurement Executive for ratification. The DOSAR requires substantial written documentation for the ratification to be considered by the Procurement Executive, including a signed statement of the facts discussing why normal acquisition procedures were not followed, a statement as to why the CO should not be personally liable for the cost, a statement as to whether the CO has ever been responsible for any other unauthorized commitments in the Department, and a statement as to the number of unauthorized commitments processed by the responsible office within the last 3 calendar years and the circumstances surrounding each of these actions. The responsible department or bureau is required to clear the ratification request prior to final review and adjudication by the Procurement Executive.

Objective

The objective of this audit was to determine the extent to which COs exceeded their delegated procurement authority. We also identified the amount of obligations related to Department contract actions (excluding grants and cooperative agreements⁶) that exceeded the COs' delegated procurement authorities and therefore represent unauthorized, non-binding agreements. We took the following actions:

- Determined the impact of unauthorized commitments on the Department.
- Identified the root cause(s) of the control deficiencies that could enable unauthorized commitments.
- Determined whether the Department has developed any corrective action plans (CAP) for the control deficiencies noted.
- Made recommendations on how the Department could better address the root cause(s) of the control deficiencies if necessary.

⁵ DOSAR 601.602-3, "Department of State Acquisition Regulation System—Ratification of unauthorized commitments."

⁶ An agency may provide financial assistance through various types of transactions, including grants and cooperative agreements. These types of contractual instruments are outside the scope of this audit and require separately issued authority.

Results of Audit

Based on our review of 63,551 domestic contract actions, totaling \$19.2 billion, entered into by the Department from FYs 2008–2010, we found that the impact of unauthorized commitments generated by domestic COs exceeding their warrant authority was minor. Our testing did confirm, however, that 21 domestic contract actions were not properly ratified and that certain controls related to prevention and monitoring of unauthorized commitments and warranted authority needed to be strengthened. Without formal ratification of known unauthorized commitments where appropriate, the Department is not in compliance with provisions of the FAR.

We were unable to review a CAP to remediate the control deficiency for delegated contract authority noted in the FY 2010 financial statement audit of the Department. This occurred because A/LM/AQM, did not agree that a control deficiency existed. Therefore, a formal CAP was not developed between the end of the FY 2010 financial statement audit and the initiation of this performance audit.

Additionally, as detailed in Appendix A, we were unable to complete audit procedures for overseas contract actions. The Department did not provide sufficient audit evidence by the end of audit fieldwork. We were also unable to determine the reliability of the contract actions population for either domestic or overseas contract actions as of October 15, 2011, because of certain limitations. Our findings and recommendations are as summarized.

Finding A. Contracting Officers Exceeded Their Warranted Authority Without Ratification

Out of 63,551 contract actions, we identified 21 instances⁷ (0.03 percent) in which the CO exceeded his or her warranted authority without proper ratification. Our work was focused on a population of domestic contract actions from FYs 2008–2010. The 21 instances were determined using the warrant authority database maintained by A/OPE and comparing domestic contract actions with warranted authority. The 21 instances were assigned to eight different COs and totaled \$44 million in contract actions. The exceptions were similarly distributed across fiscal years, with six instances in FY 2008, seven in FY 2009, and eight in FY 2010.

We found that a formal automated control in the procurement system did not exist to prevent COs from exceeding their warrant authority. Instead, A/LM/AQM relied on a manual contracts review process as part of its Quality Assurance Program, which relies upon self-review by assigned COs and independent reviews by qualified contracting professionals who did not participate in the contract action. A/LM/AQM's Quality Assurance Plan outlines the review, approval, and signature authority for A/LM/AQM contracts. However, this process was not

⁷ In our draft report, we identified 19 unauthorized commitments awarded by A/LM/AQM COs and two unauthorized commitments by the Bureau of European and Eurasian Affairs (EUR). Both AQM and EUR identified the two EUR contracts as awarded by the Frankfurt Regional Procurement Support Office, which is under the Director of A/LM/AQM. Therefore, Table 1 was amended in the final report to identify 21 unauthorized commitments awarded by A/LM/AQM.

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standardized to ensure that the warranted individual signing the contract action at the time of execution had the necessary authority to do so.

A/LM/AQM more specifically noted that contract volume at critical periods, team-based contracting, and lack of training were additional causes for the 21 unauthorized commitments without ratification. Specifically, seven contracts were executed during peak contract activity periods, including fiscal year end or after annual appropriations were approved by Congress and made available to the Department. Increased workload during these time periods placed additional strain on existing controls. Four unauthorized commitments were developed and executed by a team of COs and CSs. Upon final execution of the contract action, a CO with inadequate warranted authority signed the document rather than the CO with overall responsibility for the total contract and a higher level of warrant authority.

Finally, according to A/LM/AQM, a misunderstanding of specific contract authority requirements was also cited as a cause for one CO who had 10 unauthorized commitments out of the 21 instances. Although there were 10 unauthorized commitments, the contract value of each instance did not exceed \$400,000. The Department indicated that additional training will be provided to the CO.

The 21 identified instances in which a CO exceeded his or her warranted authority without ratification are listed in Table 1.

Table 1. Instances of Contracting Officers Exceeding Warrant Authority* Without Ratification

| Bureau | Contract # | Document # | Amendment # | Dollar Amount | System Contract Date | Warrant Authority* |
|--------------|--------------------|--------------------|-------------|-------------------------|----------------------|--------------------|
| AQM | SALMEC02C0039 | SALMEC02C0039 | M0016 | \$ 313,548.00 | 9/9/2009 | 100,000 |
| AQM | SALMEC05D0063-0014 | SALMEC05D0063-0014 | M001 | \$ 116,396.00 | 2/4/2009 | 100,000 |
| AQM | SLMAQM04C0030 | SAQMMA08F3063 | M014 | \$ 20,785,250.00 | 1/14/2010 | 5,000,000 |
| AQM | SALMEC05D0052 | SAQMMA08F3782 | M002 | \$ 400,000.00 | 8/12/2009 | 100,000 |
| AQM | SAQMPD07D0090 | SAQMMA08F5525 | M001 | \$ 1,314,394.64 | 8/20/2008 | 1,000,000 |
| AQM | SAQMMA08F5564 | SAQMMA08F5564 | 0 | \$ 108,500.00 | 8/8/2008 | 100,000 |
| AQM | SAQMMA08F6409 | SAQMMA08F6409 | 0 | \$ 169,409.68 | 9/19/2008 | 100,000 |
| AQM | SALMEC05D0052 | SAQMMA09F0485 | M004 | \$ 140,834.00 | 2/16/2010 | 100,000 |
| AQM | SALMEC04-D0012 | SAQMMA09F0575 | 0 | \$ 117,625.00 | 2/10/2009 | 100,000 |
| AQM | SALMEC04D0012 | SAQMMA09F0997 | M001 | \$ 168,200.00 | 8/12/2009 | 100,000 |
| AQM | SAQMMA09F3206 | SAQMMA09F3206 | M003 | \$ 209,229.00 | 6/22/2010 | 100,000 |
| AQM | SALMEC05D0053 | SAQMMA09F3670 | 0 | \$ 115,602.00 | 9/18/2009 | 100,000 |
| AQM | SAQMMA09L0536 | SAQMMA09L0536 | M005 | \$ 7,733,253.00 | 9/27/2009 | 5,500,000 |
| AQM | SALMEC04D0012 | SAQMMA10F0419 | 0 | \$ 136,780.00 | 3/5/2010 | 100,000 |
| AQM | SALMEC04D0012 | SAQMMA10F0963 | 0 | \$ 120,598.00 | 3/14/2010 | 100,000 |
| AQM | SALMEC04D0012 | SAQMMA10F0964 | 0 | \$ 135,120.00 | 4/1/2010 | 100,000 |
| AQM | SALMEC05D0050 | SAQMMA10F1951 | 0 | \$ 225,249.00 | 6/9/2010 | 100,000 |
| AQM | SAQMPD05D1115 | SAQMPD05D1115 | M032 | \$ 4,800,000.00 | 11/14/2007 | 1,000,000 |
| AQM | SLMAQM04C0033 | SAQMPD06FA294 | M013 | \$ 6,000,000.00 | 3/26/2010 | 5,000,000 |
| AQM | GS27FU00001 | SGE50008F0078 | 0 | \$ 375,178.50 | 4/3/2008 | 250,000 |
| AQM | GS27FU00001 | SGE50008F0081 | 0 | \$ 910,934.50 | 4/4/2008 | 250,000 |
| Total | | | | \$ 44,396,101.32 | | |

*Represents commercial warrant authority for commercial supplies and services.

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Recommendation 1. We recommend that the Director, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, assess the 21 identified unauthorized commitments to determine whether ratification was appropriate. If the ratification was appropriate, the process should be completed as described in the Department of State Acquisition Regulation (subpart 601.602-3-70).

A/LM/AQM Response: A/LM/AQM agreed to assess the unauthorized commitments identified “to determine whether ratification is appropriate” and further stated that it “anticipates completing this assessment by mid-March 2012 and will forward the results to the OIG.”

OIG Analysis: Based on the response, OIG considers the recommendation resolved, pending further action. The recommendation can be closed pending OIG’s review and acceptance of documentation showing that A/LM/AQM has completed its assessment of the identified unauthorized commitments to determine whether ratification is appropriate.

Recommendation 2. We recommend that the Executive Director, Bureau of European and Eurasian Affairs, assess the two identified unauthorized commitments to determine whether ratification was appropriate. If the ratification was appropriate, the process should be completed as described in the Department of State Acquisition Regulation (subpart 601.602-3-70).

A/LM/AQM Response: A/LM/AQM stated that the two identified commitments mentioned occurred under contracting authority in the Frankfurt Regional Procurement Support Office, “which falls under the supervisory purview of the director of AQM.” A/LM/AQM agreed to assess the two commitments “to determine whether ratification is appropriate” and stated that it “anticipates completing this assessment by mid-March 2012 and will forward the results to the OIG.”

OIG Analysis: OIG amended the final report to identify A/LM/AQM as the action office responsible for the two RPSO contracts: Nos. GS27FU0001 SGE50008F0078 and SGE50008F0081. OIG also coordinated this action with the Executive Director, Bureau of European and Eurasian Affairs. Therefore, this recommendation is closed.

Recommendation 3. We recommend that the Director, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, standardize the form and scope of contract reviews per the Quality Assurance Plan to confirm the warranted authority of the signing official before a contract action is executed.

A/LM/AQM Response: A/LM/AQM agreed to “continue using the quality assurance plan for contract reviews” and stated that it “will research the feasibility of a systems solution.”

OIG Analysis: Based on the response, OIG considers the recommendation resolved, pending further action. The recommendation can be closed pending OIG’s review and

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approval of documentation showing A/LM/AQM's research regarding the feasibility of an automated systems solution.

Finding B. Monitoring of Controls To Identify Unauthorized Commitments Needs Strengthening

A/OPE does not have a formal monitoring control to proactively identify unauthorized commitments and ensure that ratification occurs on all unauthorized commitments exceeding \$1,000. Since an automated procurement system control preventing COs from entering into agreements beyond their warranted authority does not exist, A/OPE relies on an extensive communication, certification, and training plan to issue warrants and educate warranted officials of their responsibilities and limits. A/OPE aligns the domestic CO training program with the Federal Acquisition Certification in Contracting. This program offers junior, intermediate, and senior levels of contracting certification based on education, general competencies, training requirements, and experience. Applicants must meet the demands of this program to qualify for and receive a domestic warrant.

Current A/OPE processes and procedures are reactive in nature and rely on individuals to create unauthorized commitments or cognizant management officials to notify A/OPE of the need for ratification. A/OPE leverages a ratification database to track known requests for ratification, but it cannot ensure this database is complete or that it captures all instances in which a CO exceeded his or her warranted authority. The ratification database logged approximately 188 unauthorized commitments from FYs 2008–2010, including 13 actions greater than \$100,000. The majority of unauthorized commitments in the ratification database relate to low-dollar (less than \$20,000) overseas agreements.

We found that communications issued through the A/OPE Web site and intra-Departmental procurement circular reinforced A/OPE's policy both domestically and overseas. However, further controls are needed to detect unauthorized commitments. The 21 unauthorized commitments discussed in this report were not identified by the Department. While A/OPE leverages a continuous learning model to offer refresher training and briefings to warranted officials, including information on the severity of unauthorized commitments, these training and communication strategies do not prevent or detect the creation of unauthorized commitments.

Recommendation 4. We recommend that the Procurement Executive, Bureau of Administration, Office of the Procurement Executive, with support from the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop internal controls to compare contract actions against warranted authority at defined, recurring intervals and initiate ratification processes if necessary for any identified unauthorized commitments, in accordance with Federal and Department of State standards.

A/OPE Response: A/OPE stated that this recommendation “requires a process” for A/LM/AQM “to validate the contracting authority of the contracting officer during the review process.” A/OPE further stated that because the impact of the finding was “minor,” it recommended that A/LM/AQM's corrective action “be implemented and

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tested before adding additional internal controls that may prove unnecessary” and that “[f]urther internal controls, if required, should be a part of the A/LM/AQM acquisition data validation process.”

OIG Analysis: OIG believes that a compensating control at the A/OPE level would serve as a further check for instances of noncompliance. However, based on A/OPE’s response and the concentration of exceptions at A/LM/AQM, OIG has amended the recommendation to include A/LM/AQM support.

OIG considers the recommendation resolved, pending further action by A/OPE and A/LM/AQM. The recommendation can be closed when OIG receives A/LM/AQM’s response, with A/OPE’s concurrence indicated, and reviews and accepts documentation showing updated guidance or procedures to implement a preventative internal control that will compare contract actions with warranted authority at defined or recurring intervals.

Finding C. Contract Specialists Were Inaccurately Identified as Contracting Officers

We found instances in which the CS was inaccurately identified as the CO in the financial management system and on hard-copy contract documents. The GFMS – Momentum Acquisitions system allows CSs to have the CO user role within the system. These inaccuracies may be misleading to users of financial records and contract documents, including Department management and third-party vendors. In addition, the inaccurate information prevents effective monitoring of contract actions to identify unauthorized commitments using system data, since only the hard copy of the contract can be used to identify the CO.

CSs possess knowledge of pre-award and post-contract award procedures to plan and conduct the contracting process. However, CSs do not have delegated signatory authority to execute contracts. In these instances, we identified that a CS is able to prepare contract files, which causes the CS’s name to inaccurately post to the contract action as the designated CO because of incorrect permissions in the CS’s user profile that were added during the initial user setup. However, the CS does not have the ability to obligate funds as a result of this user role error.

During the audit, A/LM/AQM agreed that CSs should not be assigned the CO user profile in GFMS. A/LM/AQM officials stated that they had completed a review of conflicting CS user roles during August 2011 and had corrected 13 identified users. As a result, according to A/LM/AQM officials, no AQM GFMS user without warrant authority can have his or her user identification inserted into the CO field on GFMS procurement obligating documents.

Recommendation 5. We recommend that the Bureau of Administration, Office of the Procurement Executive (A/OPE), review contract specialist user roles and privileges to ensure that proper segregation of duties exists and confirm that user roles are consistent with position descriptions and compatible responsibilities. A/OPE, with assistance from the Bureau of Administration, Office of Logistics Management, should implement procedures that ensure that new user profiles are set up correctly.

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A/OPE Response: A/OPE stated that the Bureau of Administration, Office of Logistics Management, Office of Program Management and Policy (A/LM/PMP) and A/LM/AQM manage Momentum Acquisitions and user roles. A/OPE further stated: “AQM is implementing a review process for verifying roles and has already adjusted deviant user profiles. Procedures to ensure that new user profiles are set up correctly would be developed and validated by A/LM/PMP and/or A/LM/AQM.”

OIG Analysis: During the audit, OIG observed that A/LM/AQM did review and correct existing user profiles. OIG has amended the recommendation to include assistance by A/LM/PMP and/or A/LM/AQM to better align user profiles to acquisition systems responsibilities. A/LM/PMP is responsible for establishing policy for the management and control of Department property acquisitions, and the *Foreign Affairs Manual* (14 FAM 122) requires A/LM/PMP to manage the Integrated Logistics Management System. OIG considers this recommendation resolved, pending further action by A/OPE and by A/LM/PMP and/or A/LM/AQM. The recommendation can be closed when OIG reviews and accepts documentation showing that A/LM/PMP and/or A/LM/AQM, with A/OPE’s concurrence, has reviewed and corrected existing user profiles to account for acquisition systems responsibilities.

List of Recommendations

Recommendation 1. We recommend that the Director, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, assess the 21 identified unauthorized commitments to determine whether ratification was appropriate. If the ratification was appropriate, the process should be completed as described in the Department of State Acquisition Regulation (subpart 601.602-3-70).

Recommendation 2. We recommend that the Executive Director, Bureau of European and Eurasian Affairs, assess the two identified unauthorized commitments to determine whether ratification was appropriate. If the ratification was appropriate, the process should be completed as described in the Department of State Acquisition Regulation (subpart 601.602-3-70).

Recommendation 3. We recommend that the Director, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, standardize the form and scope of contract reviews per the Quality Assurance Plan to confirm the warranted authority of the signing official before a contract action is executed.

Recommendation 4. We recommend that the Procurement Executive, Bureau of Administration, Office of the Procurement Executive, with support from the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop internal controls to compare contract actions against warranted authority at defined, recurring intervals and initiate ratification processes if necessary for any identified unauthorized commitments, in accordance with Federal and Department of State standards

Recommendation 5. We recommend that the Bureau of Administration, Office of the Procurement Executive (A/OPE), review contract specialist user roles and privileges to ensure that proper segregation of duties exists and confirm that user roles are consistent with position descriptions and compatible responsibilities. A/OPE, with assistance from the Bureau of Administration, Office of Logistics Management, should implement procedures that ensure that new user profiles are set up correctly.

Scope and Methodology

Kearney & Company, P.C. (referred to as "we" in this appendix), assessed performance criteria for this audit based on *Federal Acquisition Regulation* (FAR)¹ and Department of State (Department) guidance. We focused on the impact and analyses of the root cause(s) of the control deficiencies and the need for development of corrective action plans (CAP). The scope of the audit included contract actions initiated or modified during FYs 2008–2010.

This audit, conducted from February 2–October 15, 2011, was conducted 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 a reasonable basis for our findings and conclusions based on our audit objectives.

In the Planning Phase of the audit, we developed an understanding of the process for delegating warranted authority, determined training and certification requirements, and identified controls in place to monitor the assignment of warrant authority. Additionally, we gained an understanding of the Department's ratification procedures and controls. The main goal of the Planning Phase was to identify the Department's established internal controls for preventing and ratifying unauthorized commitments.

In the Testing Phase, we developed performance audit criteria, which were accepted by the Office of Inspector General (OIG). To test the Department's compliance with procurement regulations, we attempted to obtain two separate populations of contract actions from FYs 2008–2010. The actions were identified as contract actions completed domestically, which were evaluated at 100 percent, or contract actions completed overseas, which were sampled based on identification of high-risk posts, countries, bureaus, and regions. As previously noted, we were unable to verify the reliability of the contract actions population for either domestic or overseas contract actions as of October 15, 2011, because of certain reporting limitations in the Global Financial Management System (GFMS). As such, the procedures performed as discussed in this report were performed over the available domestic contract action population.

As of the date of this report, we were unable to complete audit procedures over the overseas contract actions population. Sufficient audit evidence was not provided by the Department by the conclusion of audit fieldwork. Findings and recommendations for overseas contract actions are not provided in this audit report. The period of performance has been extended through March 31, 2012, to complete audit objectives for overseas contract actions; findings and recommendations related to overseas contract actions will be provided in a separate report.

¹ FAR 1.602-1, "Career Development, Contracting Authority, and Responsibilities–Authority."

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Additionally, we were unable to determine the reliability of the contract actions population for both domestic and overseas contract actions as of October 15, 2011, because of the following limitations:

- GFMS, the Department's accounting system, lacked a standardized report for viewing domestic contract actions completed by all bureaus with contracting authority.
- GFMS does not interface the necessary procurement information from overseas procurement systems to confirm a complete and accurate overseas contract actions population.

We leveraged multiple procurement data sources, including GFMS and the Federal Procurement Data System – Next Generation² (FPDS-NG), to develop a complete population of contract actions from FYs 2008–2010 but were unable to confirm the completeness and accuracy of the population. Nevertheless, to provide quantitative information about the nature of unauthorized commitments, specifically contracting officers (CO) exceeding warranted authority, and to highlight root causes of the deficiency, we presented the data as reported by the Department and acquired through FPDS-NG.

Review of Internal Controls

During our review of internal controls, we determined whether contracts were entered into within a CO's warranted authority and whether Federal and Department standard processes and procedures were followed by taking the following actions:

- Performed walkthroughs and interviews to gain an understanding of the Department's internal control processes related to the issuance of warrant authority and the processes for identifying and ratifying unauthorized commitments. We confirmed that corrective action plans were not prepared to address the deficiency.
- Reviewed 63,551 domestic contract actions provided by the Department by comparing date in the GFMS with date in the warrant authority database. For all items that indicated that the CO was not operating in accordance with his or her warranted authority, we followed up with the Department to obtain additional information.
- Reviewed hard-copy warrants to confirm the information contained in the warrant authority database was accurate. In some instances, we noted that timing delays between issuance of a warrant and the update of the database caused false exceptions.
- Reviewed hard-copy files provided by the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), for each instance indicating that a CO was not operating in accordance with his or her warranted authority. We confirmed in all 21 instances that a CO had exceeded his or her warranted authority without ratification.

² FPDS-NG is the contract actions reporting Web site developed and managed by the General Services Administration. FPDS-NG provides real-time contract information to support policy development, trend analysis, and special reporting for the President, Congress, agency executives, and the public. The FAR requires that agencies report in FPDS-NG all contracts for which the estimated value is \$3,000 or more and any modifications to those contracts regardless of dollar amount.

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We determined that policies, procedures, and controls for preventing unauthorized commitments needed to be strengthened. In addition, the Department's monitoring of unauthorized commitments needs to be improved to ensure timely ratification of contracts.

We noted that the GFMS – Momentum Acquisition system does not have automated controls in place to prevent COs from exceeding their warranted authority. The system is not interfaced with the warrant authority database in order to restrict contract actions that may be above a CO's authority. Additionally, system controls are not in place to alert system users and monitor the existence of an unauthorized commitment that must be ratified.

The GFMS – Momentum Acquisitions system allows contract specialists (CS) to have the CO user role within the system. A/LM/AQM officials completed a review of conflicting CS user roles during August 2011 and stated that 13 identified users had been corrected. Audit procedures were not performed over A/LM/AQM's review, since this issue was outside the scope of this performance audit.

The Department has not developed an effective process to review historical information contained in the warrant authority database. Throughout our review of contract actions, we noted instances in which the effective date on a CO's warrant was inaccurate because of timing delays. Additionally, attempts by the warrant database administrator to validate active warrants frequently remained unresolved.

Records management and retention policies for contract actions were not standardized to ensure that documentation files were readily available, sufficient to constitute a complete history of the transaction, and able to provide a complete audit trail.

Use of Computer-Processed Data

We used computer-processed data found in GFMS, FPDS-NG, and the internally developed warrant authority database. We found that GFMS did not have a standardized reporting process in place to ensure the completeness, timeliness, and accuracy of contract actions information. Reconciling FPDS-NG contracts data was outside the scope of this performance audit.



United States Department of State

Washington, D.C. 20520

February 7, 2012

MEMORANDUM

TO: OIG/AUD – Evelyn Klemstine

FROM: A/LM/AQM  Cathy Read

SUBJECT: Draft Report - Draft Report on Audit of Contracting Officers
Exceeding Delegated Procurement Authority

Below is the Bureau of Administration's response to the subject draft audit report. Benita Williams in A/LM/AQM is the point of contact and can be reached at 703-875-5230.

Recommendation 1. We recommend that the Director, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, assess the 19 identified unauthorized commitments to determine whether ratification was appropriate. If the ratification was appropriate, the process should be completed as described in the Department of State Acquisition Regulation (subpart 601.602-3-70).

A/LM/AQM's response (02/07/2012): AQM agrees to assess the 19 identified commitments to determine whether ratification is appropriate. AQM anticipates completing this assessment by mid-March 2012 and will forward the results to the OIG.

Recommendation 2. We recommend that the Executive Director, Bureau of European and Eurasian Affairs (EUR), assess the two identified unauthorized commitments to determine whether ratification was appropriate. If the ratification was appropriate, the process should be completed as described in the Department of State Acquisition Regulation (subpart 601.602-3-70).

A/LM/AQM's response (02/07/2012): AQM notes that the two identified commitments mentioned in Recommendation 2 occurred under the contracting

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authority in the Frankfurt Regional Procurement Support Office (RPSO), which falls under the supervisory purview of the director of AQM. Therefore, AQM agrees to assess the two identified commitments to determine whether ratification is appropriate. AQM anticipates completing this assessment by mid-March 2012 and will forward the results to the OIG.

Recommendation 3. We recommend that the Director, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, standardize the form and scope of contracts reviews per the Quality Assurance Plan to confirm the warranted authority of the signing official before a contract action is executed.

A/LM/AQM's response (02/07/2012): AQM agrees to continue using the quality assurance plan for contract reviews. Additionally, AQM will research the feasibility of a systems solution.



United States Department of State

Washington, D.C. 20520

January 26, 2012

MEMORANDUM

TO: OIG- Harold W. Geisel

FROM: A/OPE- Corey M. Rindner *Corey M. Rindner*

SUBJECT: Draft Report on Audit of Contracting Officers Exceeding Delegated Procurement Authority January 2012

A/OPE appreciates the opportunity to respond to the subject audit report. We concur that the impact of unauthorized commitments generated by domestic contracting officers exceeding their warrant authority is minor based on OIG identification of 21 instances out of 63,551 contract actions (0.03 percent).

The following two recommendations are addressed to A/OPE. Our comments follow the recommendations:

Recommendation 4: We recommend that the Procurement Executive, Bureau of Administration, Office of the Procurement Executive, develop internal controls to compare contract actions against warranted authority at defined, recurring intervals and initiate ratification processes if necessary for any identified unauthorized commitments in accordance with Federal and Department standards.

Response: Recommendation 3 requires a process for AQM to validate the contracting authority of the contracting officer during the contract review process. Because the impact of the finding is minor, OPE recommends that the AQM corrective action be implemented and tested before adding additional internal controls that may prove unnecessary. Further internal controls, if required, should be part of the A/LM/AQM acquisition data validation process.

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Recommendation 5: We recommend that the Bureau of Administration, Office of the Procurement Executive (A/OPE), review contract specialist user roles and privileges to ensure proper segregation of duties exists and confirm that user roles are consistent with position descriptions and compatible responsibilities. A/OPE should also implement procedures that ensure that new user profiles are set up correctly.

Response: A/LM/PMP and A/LM/AQM manage Momentum Acquisitions and user roles. AQM is implementing a review process for verifying roles and has already adjusted deviant user profiles. Procedures to ensure that new user profiles are set up correctly would be developed and validated by A/LM/PMP and/or A/LM/AQM.

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