UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

OCT - 6 2003

CONTROL NUMBER
ED-OIG/A17-D0001

Jack Martin, Chief Financial Officer
Office of the Chief Financial Officer
United States Department of Education
Federal Building No. 6, Room 4E313
400 Maryland Avenue, SW
Washington, DC 20202

Dear Mr. Martin:

This **Final Audit Report** (Control Number ED-OIG/A17-D0001) presents the results of our audit to determine if the United States Department of Education (Department) contract[1] payments were being made from the proper appropriated funds for the period January 22, 2002, through December 31, 2002.

## AUDIT RESULTS

Our audit of payments on selected contracts revealed no instances of contract payments being made from improper appropriations for the period January 22, 2002, through December 31, 2002. However, other issues did come to our attention. These issues relate to improper contract payments, reliability/quality of data maintained by the Department, and backdating a contracting officer's representative (COR) appointment memorandum. The results of this audit are limited to the procurements audited and cannot be projected to the entire procurement database.

On September 24, 2003, the Department responded to our draft report addressing the findings and recommendations. Department comments are summarized in the section that follows the Recommendations. The full text of the Department's response is included as Attachment 1 to this report.

[1] The process for obligating funds, receiving goods and services, and payment is the same for contracts and purchase orders.

## Finding No. 1 Improper Contract Payments

We noted that the Office of Chief Financial Officer/Contracts and Purchasing Operations (OCFO/CPO) was billed and ultimately paid an invoice that exceeded an award's obligated amount. In an effort to not exceed the obligated amount, OCFO/CPO charged the excess amount to another award. The original invoice received by OCFO/CPO for moving services under a fixed price purchase order ED-02-PO-1229, was $42,467.13, and exceeded the obligation by $6,699.95. The contractor was instructed by the Contracting Officer (CO) to submit two invoices. One invoice would be applied against the original obligation for purchase order ED-02-PO-1229, and the other invoice would be applied against a subsequent contract. As a result, the subsequent contract paid for moving services that were not within its period of performance. In addition, OCFO/CPO increased one invoice under purchase order ED-02-PO-1229 in order to clear out the remaining funds available on the award. The increase resulted in the Department paying the contractor for more than the amount billed. The invoices, including the overpayment, were entered into OCFO/CPO's Contracts and Purchasing Support Systems (CPSS) by the COR and certified by the CO.

Title 31, United States Code, Section 3528 "Responsibilities and relief from liability of certifying officials," provides that the certifying officer is responsible for: (1) the existence and correctness of the facts stated in the certificate, voucher, and supporting documents; (2) the correctness of computation on the voucher; and (3) the legality of the proposed payment under the appropriation of fund involved. The statute further provides that a certifying officer will be accountable for the amount of any illegal, improper, or incorrect payment resulting from his or her false misleading certification, as well as for any payment prohibited by law or which does not represent a legal obligation under the appropriation or fund involved.

The Department *Instructions on the Administrative Control of Funds*, dated September 2000, and revised March 2003, provides that,

> "Administrative violations of funds control are the making of or authorizing any actions or financial transactions that result in the overobligation or overexpenditure of distributions of funds at a level below sub-allotments that do not cause the overobligation or overexpenditure of an appropriation, apportionment, allotment or sub-allotment. For purpose of these instructions, these are called administrative violations as distinct from statutory violations of the Antideficiency Act. Preparing external reports or making financial transaction adjustments that incorrectly report excess obligations or payments without appropriate documentary evidence of such transactions may also be administrative violations."

Based on discussions with Department officials, proper procedures would have been for the CO to modify the purchase order. However, the CO was uncertain on how to proceed and lacked knowledge and understanding of his or her contracting responsibilities. As a result, proper procedures were not followed for certifying invoices before payment, payments were not matched with obligated amounts, and one payment was made to a contractor without proper

documentation. These practices may lead to an administrative violation of funds control and fraudulent acts.

**Recommendations:**

We recommend that the Chief Financial Officer:

1.1 Provide a reminder to OCFO/CPO staff that emphasizes proper payment procedures and contract modifications.

1.2 Obtain a refund of $28.10 for overpayment on the final invoice under purchase order ED-02-PO-1229.

**OCFO Comments**

OCFO responded to our recommendations as follows:

1.1 OCFO/CPO is taking action to address the issue. On the OCFO Procedures that Work website, a procedure titled "Modifying the Award" is posted and is currently being updated for currency and accuracy. Additionally, as a corrective action under Alert Memorandum 03-D0003, OCFO/CPO will be refreshing staff on the policy of payment reviews and redistributing the invoice payment guidelines. Another corrective action for the alert memo is to prepare a procedure on incentive payments to be posted on the OCFO Procedures that Work website. OCFO/CPO will publicize these documents to all staff as a reminder of proper procedures. OCFO/CPO believes that actions mentioned above are sufficient to satisfy this recommendation. The contracting officer involved has been made aware of the specifics of Finding 1 and understands that her handling of the payments to the contractor should have been managed more appropriately.

1.2 OCFO/CPO has taken action to address the issue. The Department received a credit for $28.10. OCFO/CPO has reminded the employee of the proper payment procedures and contract modifications, and considers this matter resolved.

**Office of Inspector General (OIG) Response**

1.1 If fully implemented, OCFO's planned action should adequately address the finding and recommendation.

1.2 If fully implemented, OCFO's action should adequately address the finding and recommendation.

**Finding No. 2 Reliability/Quality of Data Maintained by the Department is Questionable**

Our review of the data extracts, from CPSS and/or the Financial Management System Software (FMSS) components of the Education Central Automated Processing System (EDCAPS), raised questions concerning the accuracy and completeness of the data. Our testing of February 13, 2003, and February 20, 2003, Departmental data extracts to external source data disclosed that a

number of active contract awards were not included in the Department extracts. Specifically, testing of the February 13, 2003, data extract disclosed that four out of seven awards chosen for review during our survey were not included in the data extract. Testing of the February 20, 2003, data extract to contracts reported by OCFO/CPO as active disclosed that 100 awards were not included in the data extract. Testing of a third data extract provided by the Department on March 17, 2003, to contracts reported by OCFO/CPO as active disclosed that 39 awards were not included in the data extract. While more complete than the prior two, the third data extract contained the following problems:

- 89 awards included in the population of 36,972 awards did not identify an accounting classification code structure (ACCS). The Department was unable to determine why the 89 awards included in the population did not have an ACCS. As a result, we were unable to identify the appropriate program office associated with the award.

  Allotments, obligations and payments for all Department programs and activities are made using an ACCS designed to ensure proper funds control and tracking and reporting of funds. The basic elements of the ACCS – the appropriations, apportionments, and allottee organization – enable the Department to meet the requirements of the Anti-deficiency Act. The ACCS contains 13 segments, including: fund codes that reflect the appropriation identification number, period of availability for federal obligation, and fiscal year; project codes that reflect the funding category (e.g., program, administrative, reimbursable), limitations established by statute and the apportionment process, Catalog of Federal Domestic Assistance number and object class; and the office or organization to which the authority to obligate and expend funds is granted by the allotment.

- 213 awards had a negative amount in the current award field. Based on a discussion with an OCFO/Financial Systems Operations (FSO) official, negative amounts were due to data entry errors by the users. CPSS system users are able to turn off the default "award and modification totals" setting on the obligation record. This requires the user to manually calculate all modifications, which may result in negative balances.

Office of Management and Budget (OMB) Circular No. A-11 requires that the Department's funds control system, established and described by the *Instructions on the Administrative Control of Funds*, be supported by its financial management system and that the Department's feeder financial systems provide the same fund control support.

The General Accounting Office (GAO) *Internal Control Standards: Internal Control Management and Evaluation Tool* (GAO-01-1008G, August 2001), Section - Control Activities Specific for Information Systems - Application Control, states that there are four major factors or categories of control activities that need to be considered by the user when evaluating application control: authorization control, completeness control, accuracy control, and control over integrity of processing and data files.

According to GAO, when evaluating completeness control, items to consider are whether: (1) all authorized transactions are entered into and processed by the computer; and (2) reconciliations are performed to verify data completeness. In addition, GAO states that when evaluating accuracy control, items to consider are whether: (1) the agency's data entry design features contribute to data accuracy; (2) data validation and editing are performed to identify erroneous

data; (3) erroneous data are captured, reported, investigated, and promptly corrected; and (4) output reports are reviewed to help maintain data accuracy and validity.

GAO's fourth control standard – Information and Communications, states that for an agency to run and control its operations, it must have relevant and reliable financial and nonfinancial information relating to external as well as internal events. The information should be recorded and communicated to management and others within the agency who need it, and in a form and within a time frame that enable them to carry out their internal control and operational responsibilities.

There is a lack of reconciliation to ensure data completeness and accuracy. CPSS is designed as the system of record for Department contracts and should reflect accurate information to assist management in their oversight responsibilities. System users are able to turn-off CPSS default settings thus allowing them to enter incorrect data, diminishing the Department's ability to capture and maintain accurate information for managing contracts.

**Recommendations:**

To improve the Department's data and the systems established to assist the Department in fulfilling its responsibility to practice sound financial management we recommend that the Chief Financial Officer take action to:

2.1 Ensure periodic reconciliations and testing are performed to verify completeness and accuracy of data.

2.2 Ensure system controls are in place so that users cannot access and turn-off a default setting.

2.3 Ensure system controls are in place to detect data that is not valid, accurate, and complete.

2.4 Determine why modifications entered by system users result in a negative balance.

2.5 Ensure that the system can generate complete and accurate reports in a form and with sufficient detail that can be used as a tool for users to enable them to carry out their internal control and operational responsibilities.

**OCFO Comments**

OCFO responded to our recommendations as follows:

2.1 Research by OCFO revealed that these awards were never obligated or were awards against Basic Ordering Agreements (BOA). Per OCFO, in these cases, it is appropriate for a CPSS record not to be obligated and, in turn, not associated with any ACCS. For BOA's, the record is required in CPSS for procurement purposes. These have no financial transactions directly associated with them so they require no accounting information. Accounting transactions occur when

delivery orders are subsequently placed against the BOA's and the ACCS are associated with the individual Delivery Orders.

Tools are available to verify completeness and accuracy of data. CPSS records have a "recstatus" associated with them to indicate whether they have been posted to the Financial System. This must be considered when running reports against the data. If there is no "recstatus" or negative "recstatus", there will be no corresponding transaction posted in FMSS. CPSS users can easily view the financial status of each record by selecting the Financial/View Status menu option on the Award Summary Screen. Reconciliation of the posted amounts can be performed using the Award Financial History Report in FMSS.

2.2 OCFO will take action to address the issue. CPSS has an automated calculation feature that normally would prevent negative balances. OCFO will investigate CPSS system defaults where they appear to contradict established business processes to determine the best course of action.

2.3 Functionality is currently available.

2.4 OCFO provided an explanation for the negative balances referenced in Recommendation 2.4. It further stated that OCFO will take action to address the issue where the user has altered the data, the Administration amounts on some contracts are not accurate, and need to be researched and corrected as appropriate. OCFO questioned our characterization that these issues could affect funds control and lead to payment errors because they maintain the issues are limited to CPSS and would not affect FMSS from which payments are made.

2.5 OCFO will take action to address the issue. While some limited capability is available, OCFO concurs with the recommendation. OCFO will take action to ensure that CPSS reports are a tool for users enabling them to carry out their internal control and operational responsibilities.

**OIG Response**

2.1 OIG recommendation stands. Irrespective of the issue that there were no "corresponding" entries on the financial system, the presence of these records in CPSS does provide misleading information to users of the data. The fact that no awards were ever made under these 89 contracts indicates that they should not have been provided to the OIG as "Active awards" in the population by the EDCAPS staff. The presence of dollar amounts in CPSS (despite the record status flag) when no funds were ultimately awarded does imply the presence of inaccurate information in CPSS.

For internal EDCAPS users, these nuances of the system may be acceptable and well known. However, the system was designed for use by staff that may, by definition, be less knowledgeable of these issues. Having to use inquiry tools within a separate system (FMSS) to verify the accuracy of the CPSS data (or show there were award records on CPSS that were never completed) is

cumbersome and again implies the data on CPSS is not properly posted. Had these 89 awards on CPSS properly shown no dollar amounts associated with the contracts, the ACCS issue would not have been considered an issue. However, the Award Financial History Reports ran for a sample of the 89 awards included in the population, that did not identify an ACCS, reflected that payments were made.

2.2 If fully implemented, OCFO's planned action should adequately address the finding and recommendation.

2.3 OIG recommendation stands. Current functionality needs to be enhanced. OCFO needs to ensure system controls are in place to detect data that is not valid, accurate, and complete. By doing so, established business practices will not be contradicted, contract data will be accurate, and CPSS reports will be a tool for users enabling them to carry out their internal control and operational responsibilities.

2.4 OIG recommendation stands. Although the Department provided an explanation for why some of the negative balances identified in this report may have occurred, it is critical for the Department to ensure that it has accurate data from which to manage its operations. OCFO needs to research the negative balances to determine if the modifications entered by system users are appropriate and, if not, are corrected. We modified some of the finding language to focus on the effect on CPSS and the Department's ability to manage contracts.

2.5 If fully implemented, OCFO's planned action should adequately address the finding and recommendation.

**Finding No. 3 Backdating a COR Appointment Memorandum**

We noted, in one instance, where the CO within the OCFO/CPO did not issue an appointment memorandum to the COR in a timely manner. The COR functioned without official authority for approximately a year. The CO backdated the appointment memorandum to get the paperwork in order.

On March 22, 2002, the Department issued a purchase order for services to support the application review process and other pre- and post- review activities associated with the Fund for the Improvement of Postsecondary Education (FIPSE) activities. An Office of Postsecondary Education (OPE) individual had functioned as a COR for a year without an appointment memorandum. Just prior to an OIG on-site review of the COR files located in OPE, OCFO/CPO provided the COR with an appointment memorandum and requested it be signed and dated. In response to the request, the COR signed the appointment memorandum but did not feel comfortable in backdating it and therefore did not date the appointment memorandum. The appointment memorandum signed by the CO was dated April 22, 2002. The CO stated that an appointment memorandum had been previously issued. However, our review of the COR and OCFO/CPO files did not find this memorandum. The only memorandum in the files was the one issued on or around April 2003 but dated April 2002.

Department Directive, OCFO:2-108, "Contract Monitoring for Program Officials," dated January 12, 1987, Section VI – Roles, Responsibilities, and Standards of Conduct, specifically Part A.5.d., states that the CO issues to the COR for each contract a memorandum outlining the COR's basic contract monitoring responsibilities and limitations, and explains this information to the extent judged appropriate.

Section VI.B – Memorandum From CO to COR Outlining the COR's Monitoring Responsibilities and Limitations, specifically Part VI.B.1., states after a contract is awarded, the CO is to send a memorandum to the COR reminding them of his or her responsibilities and limitations in monitoring process.

The internal Departmental standards and guidelines for monitoring contracts, *Roles and Responsibilities, and Standards of Conduct* of a CO (OCFO:2-108, Section VI) does not explicitly provide a time frame for when a CO is to issue a memorandum to the COR that outlines the COR's basic contract monitoring responsibilities and limitations (Part A.5.d.).

In addition, the internal Departmental standards and guidelines for monitoring contracts, *Memorandum From CO to COR Outlining the COR's Monitoring Responsibilities and Limitations* (OCFO:2-108, Section VI.B), does not explicitly provide a time frame from when a contract is awarded to when the CO is to send an appointment memorandum to the COR. By not issuing an appointment memorandum in a timely manner, an individual functioning as a COR is unaware of his or her responsibilities and limitations, and leads to ineffective contract and contractor monitoring. Also, the actions taken may exceed the authority of a COR and result in additional charges to the Government (i.e., modifying or changing the terms of a contract – such as obligated cost or price, delivery, or scope of work; issuing instructions to start or stop work; or approving any action which would result in additional charges to the Government).

**Recommendations:**

We recommend that the Chief Financial Officer take action to:

3.1 Revise Department Directive OCFO:2-108 to provide a specific time frame from when a contract is awarded to when the CO is to send an appointment memorandum to the COR reminding the COR of his or her responsibilities and limitations in monitoring.

3.2 Ensure OCFO/CPO staff are aware of and adhere to Departmental standards and guidelines that apply to their responsibilities as contracting officers, including issuing timely appointment memorandums when appropriate.

**OCFO Comments**

OCFO responded to our recommendations as follows:

3.1 OCFO/CPO will take action to address the issue. OCFO/CPO will update Departmental Directive OCFO:2-108, and the OCFO Procedures that Work addressing COR appointment to include this policy.

3.2 OCFO/CPO will take action to address the issue. OCFO/CPO believes that the staff is aware of these standards and guidelines, and adheres to them to the best of their abilities. OCFO/CPO's Procedures that Work are being reviewed to ensure that they are up to date and current with Departmental standards and guidelines. OCFO/CPO will send an email to all staff with a link to the OCFO/CPO Procedures that Work website as a reminder that the procedures are available for their use.

**OIG Response**

3.1 If fully implemented, OCFO's planned action should adequately address the finding and recommendation.

3.2 If fully implemented, OCFO's planned action should adequately address the finding and recommendation.

## BACKGROUND

OCFO/CPO is responsible for the solicitation, award, administration, and closeout of all contracts and other acquisition instruments, except some simplified acquisitions and General Service Administration schedule orders.

OCFO/CPO is composed of five groups – the Director's Support Group and Contracts Groups A-D. Each Contract Group, lead by a Supervisory Contract Specialist and reinforced by Contract Specialists, serve assigned principal offices through acquisition planning, administration and support.

The COR located within a principal office is responsible for monitoring the programmatic or technical aspects of a contract. As part of his or her responsibilities, the COR reviews and makes recommendations to either approve, disapprove, or take other actions, concerning contractors' payment requests, or any other requirements of the contract. The COR enters these recommendations directly into CPSS and the appropriate accounting line item, if known. The CO uses the information to effect payment and has sole authority to approve an invoice for payment.

This process was different prior to January 22, 2002, when the Department replaced its Financial Management Support System (i.e. FARS) with Oracle Federal Financials (Oracle), as its new financial management system. Invoice payment procedures under the old FMSS prior to January 22, 2002, limited the COR's responsibility primarily to receiving and inspecting goods or services. Under this old process there were indications that appropriations may have been inappropriately matched with contract actions.

The main difference from the old to the new payment process is that a COR must now complete the receiving process in CPSS. OCFO/CPO then verifies and posts the receipt in CPSS and effects payment.

## OBJECTIVE, SCOPE AND METHODOLOGY

The objective of the audit was to determine if contract payments were being made from the proper appropriated funds. To accomplish our objective, we gained an understanding of the Department's controls over the payment process - invoice processing and disbursements. We reviewed Federal Acquisition Regulations and applicable Departmental policies and procedures. We conducted interviews with CORs, and reviewed award files maintained by the COR in three principal offices. In addition, we reviewed official contract and purchase order files located in OCFO/CPO. Follow-up with the CORs and the COs was conducted when necessary. A contractor was contacted regarding the receipt of memorandum from OCFO/CPO – invoice/payment.

In selecting awards to review, we requested that the Department, OCFO/FSO provide us with a data extract file on all contracts and purchase orders awarded during the period January 1, 1998 through December 31, 2002. In response to our request, the Department provided data extract files containing award information, on three separate occasions.

The data extract files provided by OCFO/FSO were tested to assess the reliability of the information. Testing included a comparison of the data extracts to contracts reported by OCFO/CPO as active. Results of testing on the February 13, 2003, and February 20, 2003, data extract files disclosed that the population of awards were incomplete - awards reported as active by OCFO/CPO were not included. The third data extract provided by the Department on March 17, 2003, was more complete than the prior two, however, we noted problems that are detailed in Finding No. 2. This third data extract was the best available for purposes of our audit.

Using the third data extract, we identified three program offices; Office of Postsecondary Education (OPE), Office of Intergovernmental and Interagency Affairs (OIIA), and the Office of Management (OM) with the greatest number of awards (contracts and purchase orders). We judgmentally selected the largest dollar contract and purchase order for review from each office. One award, initially selected for review, was incorrectly reflected in the data extract as an OPE award rather than an Office of Educational Research and Improvement/Institute of Education Sciences (OERI/IES) award. As a result, the OERI/IES award initially selected for review was replaced by the next largest OPE award. We excluded OERI/IES awards due to previous OIG audit coverage that evaluated the Department's process for identifying and monitoring high-risk contacts supporting OERI programs.

Our audit focused on the period January 22, 2002, through December 31, 2002. We conducted our survey from December 16, 2002 through March 24, 2003. We conducted fieldwork in OCFO, OPE, OIIA, and OM, located in Washington, DC, from April 21, 2003 to May 23, 2003. We held an exit conference with Department officials on August 4, 2003. We performed our audit in accordance with generally accepted government auditing standards appropriate to the scope of review described above.

## STATEMENT ON MANAGEMENT CONTROLS

As part of our review we gained an understanding of the management controls, policies and practices applicable to the Department's administration of procurements. Our review was

performed to determine the level of control risk for determining the nature, extent, and timing of our substantive test to accomplish the audit objective.

For the purpose of this report, we gained an understanding of the Department's controls over the payment process and classified the significant controls into the following categories:

- Invoice processing, and
- Disbursements.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed management control weaknesses that adversely affected the Department's ability to administer the procurement process. These weaknesses resulted in improper contract payments, unreliable data maintained by the Department, and the backdating of a COR appointment memorandum. The weaknesses and their effects are fully discussed in the AUDIT RESULTS sections of this report.

## ADMINISTRATIVE MATTERS

The Chief Financial Officer has been designated as the primary action official for this report. An electronic copy has been provided to your Audit Liaison Officers. We received your comments addressing the findings and recommendations in our draft report.

Corrective actions proposed (resolution phase) and implemented (closure phase) by your offices will be monitored and tracked through the Department's automated audit tracking system. Department policy requires that you develop a proposed Corrective Action Plan (CAP) in the automated system within 60 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the findings and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the OIG is required to report to Congress twice a year on the number of audits unresolved. In addition, any reports unresolved after 180 days from the date of issuance will be shown as overdue in our reports to Congress. Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Department's OIG. Determinations of corrective action to be taken will be made by the appropriate Department officials.

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Department's Office of the Inspector General (OIG). Determinations of corrective action to be taken will be made by the appropriate Department officials.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Department's OIG are available to members of the press and general public to the extent information contained therein is not subject to exceptions in the Act.

We appreciate the cooperation given to us during this review. If you have any questions, please contact Chelton T. Givens at (202) 205-7945.

Sincerely,

Helen Lew

Helen Lew
Assistant Inspector General for Audit Services

cc: Mark Carney (electronic copy)
Deputy Chief Financial Officer

Glenn Perry (electronic copy)
Director, Contracts and Purchasing Operations

Danny Harris (electronic copy)
Director, Financial Systems Operations

Cynthia Bond-Butler (electronic copy)
Executive Assistant/Audit Liaison Officer
Contracts and Purchasing Operations

Charles Miller (electronic copy)
Supervisor, Post Audit Group
Financial Improvement and Post Audit Operations

Attachment 1

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

THE CHIEF FINANCIAL OFFICER

SEP 24 2003

TO : Helen Lew
Assistant Inspector General for Audit Services

FROM : Jack Martin

SUBJECT : OCFO Response to the Office of the Inspector General (OIG) Draft Audit Report of September 4, 2003 Control Number ED-OIG/A17-D0001

This memorandum responds to the Office of the Inspector General (OIG) Draft Audit Report dated September 4, 2003 (Control Number ED-OIG/A17-D0001) assessing if the United States Department of Education (Department) contract payments were being made from the proper appropriated funds for the period January 22, 2002 through December 31, 2002. In your draft audit report, you state that you found no instances of contract payments being made from improper appropriations during that period of time. However, other issues were found. These issues relate to improper contract payments, reliability/quality of data maintained by the Department, and backdating a contracting officer's representative (COR) appointment memorandum. The OIG noted that the results of this audit are limited to the selected procurements audited and cannot be projected to the entire procurement database.

**Finding 1:** Improper Contract Payments. The OIG noted that Contracts and Purchasing Operations (CPO) was billed and ultimately paid an invoice that exceeded an award's obligated amount. To pay the bill, the contracting officer applied the overpayment in the amount of $6,699.95 to another contract. (The original contract and subsequent contract were for moving services awarded to the same contractor.) Additionally, the OIG noted that the contracting officer increased one invoice under the original contract by $28.10 to clear out the remaining funds available under the contract. The OIG believed the increase resulted in the Department paying the contractor for more than the amount billed.

Based on the foregoing, the OIG issued the following recommendations:

*Recommendation 1.1: We recommend that the Chief Financial Officer provide a reminder to OCFO/CPO staff that emphasizes proper payment procedures and contract modifications.*

OCFO Response: Information on contract payments is already available to CPO staff, and we feel that the staff has been observing the procedures well for the most part. On the OCFO Procedures that Work website, a procedure titled "Modifying the Award" is posted and is currently being updated for currency and accuracy. Additionally, as a corrective action under Alert Memorandum 03-D0003, CPO will be refreshing staff on the policy of payment reviews and redistributing the invoice payment guidelines. Another corrective action for the alert memo is to prepare a procedure on incentive payments to be posted on the OCFO Procedures that Work website. CPO will publicize these documents to all staff as a reminder of proper procedures. Since the OIG noted that the results of this audit are limited to the selected procurements audited and cannot be projected to the entire procurement database, CPO believes the actions mentioned above are sufficient to satisfy this recommendation. The contracting officer involved has been made aware of the specifics of Finding 1 and understands that her handling of the payments to the contractor should have been managed more appropriately.

*Recommendation 1.2: We recommend that the Chief Financial Officer obtain a refund for overpayment on the final invoice under purchase order ED-02-PO-1229.*

OCFO Response: While CPO concurs that the total payment of $42,467.13 should have been made under the original contract with the proper modification, and not split between the 2 contracts because the obligation would be exceeded, CPO does not consider the $6,699.95 as an overpayment. This amount was in fact, a representation of overtime worked that was authorized under the contract by the contracting officer. At this point, if CPO obtained a refund from the contractor (only to pay out again to the same contractor but under the original contract) in order to correct the payment records between the 2 contracts, the principal office would lose these funds as these funds would reimburse to a general fund, and not to the specific appropriation that funded the original contract. The contracting officer made a decision that avoided stopping work that needed to be performed, thus saving time and money. Additionally, the Department received a credit for $28.10 on a subsequent invoice. However, as mentioned previously, CPO has reminded the employee of the proper payment procedures and contract modifications, and considers this matter resolved.

**Finding 2:** Reliability/Quality of Data Maintained by the Department is Questionable. The OIG review of data extracts from CPSS and FMSS raised questions concerning the accuracy and completeness of the data.

Based on the foregoing, the OIG issued the following recommendations:

*Recommendation 2.1: We recommend that the Chief Financial Officer take action to ensure periodic reconciliations and testing are performed to verify completeness and accuracy of data.*

OCFO Response: With respect to Recommendation 2.1 regarding data quality, OCFO would like to correct a statement in your audit citing a specific data problem. You state that "89 awards included in the population did not identify an accounting classification code structure (ACCs)...". Research revealed that these awards were never obligated or were awards against Basic Ordering Agreements (BOAs). In these cases, it is appropriate for a CPSS record not to be obligated and, in turn, not associated with any ACCs. For BOAs, the record is required in CPSS for procurement purposes. These have no financial transactions directly associated with them so they require no accounting information. Accounting transactions occur when delivery orders are subsequently placed against the BOAs and the ACCs are associated with the individual Delivery Orders.

Tools are available to verify completeness and accuracy of data. CPSS records have a "recstatus" associated with them to indicate whether they have been posted to the Financial System. This must be considered when running reports against the data. If there is no "recstatus" or a negative "recstatus", there will be no corresponding transaction posted in FMSS. CPSS users can easily view the financial status of each record by selecting the Financial/View Status menu option on the Award Summary Screen. Reconciliation of the posted amounts can be performed using the Award Financial History Report available in FMSS/ Employee Inquiry.

*Recommendation 2.2: We recommend that the Chief Financial Officer take action to ensure system controls are in place so that users cannot access and turn-off a default setting.*

OCFO Response: As described below in the explanation for Recommendation 2.4, CPSS has an automated calculation feature that normally would prevent negative amounts. However, the business process can require the obligated amount of an award to differ from the total award amount. As an example, the project may not have all of the funds for the entire award available for obligation at one time. The total award amount field reflects the entire dollar value of the award for the life of the contract, while the obligated amount reflects the amount of funding that is available for obligation at that time. Therefore, the user must be able to deactivate the automated calculation feature. OCFO will investigate CPSS system defaults where they appear to contradict established business processes to determine the best course of action.

*Recommendation 2.3: We recommend that the Chief Financial Officer take action to ensure system controls are in place to detect data that is not valid, accurate, and complete.*

OCFO Response: This functionality is currently available. CPSS System edits are in place to detect invalid ACC segments before transactions are posted to the Financial Interface. System edits require that Delivery Orders as well as other financial transactions contain complete and valid accounting data or they will be prevented from posting. If there are errors in data entry, users receive error messages that help them to understand why their transactions will not post.

The interface determines whether postings are being made to prior year funds and marks the transaction in Oracle. Funds control is active in FMSS and prevents users from encumbering funds in excess of available balances. Error messages are sent to the CPSS user when attempting to post a transaction in excess of a fund balance. Three-way matching is enforced within FMSS to ensure that posted CPSS order lines, CPSS receipts, and FMSS invoiced amounts are consistent.

*Recommendation 2.4: We recommend that the Chief Financial Officer take action to determine why modifications entered by system users result in a negative balance.*

OCFO Response: We would like to provide the explanation for the negative balances you reference in Recommendation 2.4. CPSS has an automated calculation feature that normally would prevent negative amounts. However, the business process can require the obligated amount of an award to differ from the total award amount. As we mentioned, it can be legitimate for these values to differ. To reiterate our example, the project may not have all of the funds available for obligation for the entire award available at one time. The total award amount field reflects the entire dollar value of the award for the life of the contract, while the obligated amount reflects the amount of funding available for obligation at that time. Therefore, the user must be able to deactivate the automated calculation feature.

CPSS users are trained in how to input the data, and user error can result in a negative balance. In the event of an error in the manual calculation performed by the user, there is no financial risk to the Department. This is an Administration screen confined to CPSS. There is no mapping to the financial interface of data from these fields. Your comment that the Department's ability to ensure proper fund control is diminished and can lead to obligations and payment exceeding amounts available is not accurate as stated because the negative amounts are solely reside in CPSS on the Administration of the contract summary page with no interface to FMSS. The line item accounting detail is interfaced and is the only amount against which payments may be made. With respect to your statement that these issues could lead to "manipulation of the system by users causing negative dollar amounts, accounting errors, and possibly lead to fraud, waste and abuse", as noted above, this will not lead to accounting errors, fraud, waste and abuse because the line item accounting detail is interfaced and used to verify funds, obligate dollars and

paid against. However, where the user has altered data, the Administration amounts on some contracts are not accurate, and need to be researched and corrected as appropriate.

*Recommendation 2.5: We recommend that the Chief Financial Officer take action to ensure that the system can generate complete and accurate reports in a form and with sufficient detail that can be used as a tool for users to enable them to carry out their internal control and operational responsibilities.*

OCFO Response: While some limited capability is available, OCFO concurs with this recommendation. For example, the Award Financial History report allows users to view the entire history of an award, including award obligations, modification obligations, receipts, and payments. It contains both CPSS and FMSS data for reconciliation. The Status of Funds Report in FMSS allows offices to monitor charges made to ACCS for which they are responsible. CPSS users are encouraged to send their reporting requirements to the CPSS Functional Team for review. The Team gathers the output requirements and works with the Reporting Team to ensure that the correct data fields are selected. Selecting the correct data fields is critical, and these reports are tested extensively prior to being released to users. Once released, users access the reports via the CPSS Reports/Ad Hocs menu option or the FMSS Oracle/ Employee Inquiry option. Creating accurate standard reports precludes errors being made in selecting the appropriate data fields for meeting reporting objectives. OCFO will take action to ensure that CPSS reports are a tool for users enabling them to carry out their internal control and operational responsibilities

**Finding 3:** Backdating a COR Appointment Memorandum. The OIG noted in one instance where the contracting officer did not issue an appointment memorandum to the COR in a timely manner. The COR functioned without official authority for approximately one year. The contracting officer backdated the memorandum to get the paperwork in order.

Based on the foregoing, the OIG issued the following recommendations:

*Recommendation 3.1: We recommend that the Chief Financial Officer take action to revise Department Directive OCFO:2-108 to provide a specific time frame from when a contract is awarded to when the CO is to send an appointment memorandum to the COR reminding the COR of his or her responsibilities and limitations in monitoring.*

OCFO Response: CPO concurs with this recommendation. CPO will update Departmental Directive OCFO 2-108, and the OCFO Procedure that Works addressing COR appointments to include this policy.

*Recommendation 3.2: We recommend that the Chief Financial Officer ensure OCFO/CPO staff are aware of and adhere to Departmental standards and guidelines that apply to their responsibilities as contracting officers, including issuing timely appointment memorandums when appropriate.*

OCFO Response: CPO believes that the staff is aware of these standards and guidelines, and adheres to them to the best of their abilities. CPO's OCFO Procedures that Work are being reviewed to ensure that they are up to date and current with Departmental standards and guidelines. CPO will send an email to all staff with a link to the OCFO Procedures that Work website as a reminder that the procedures are available for their use.

Thank you for the opportunity to respond to this draft audit.