

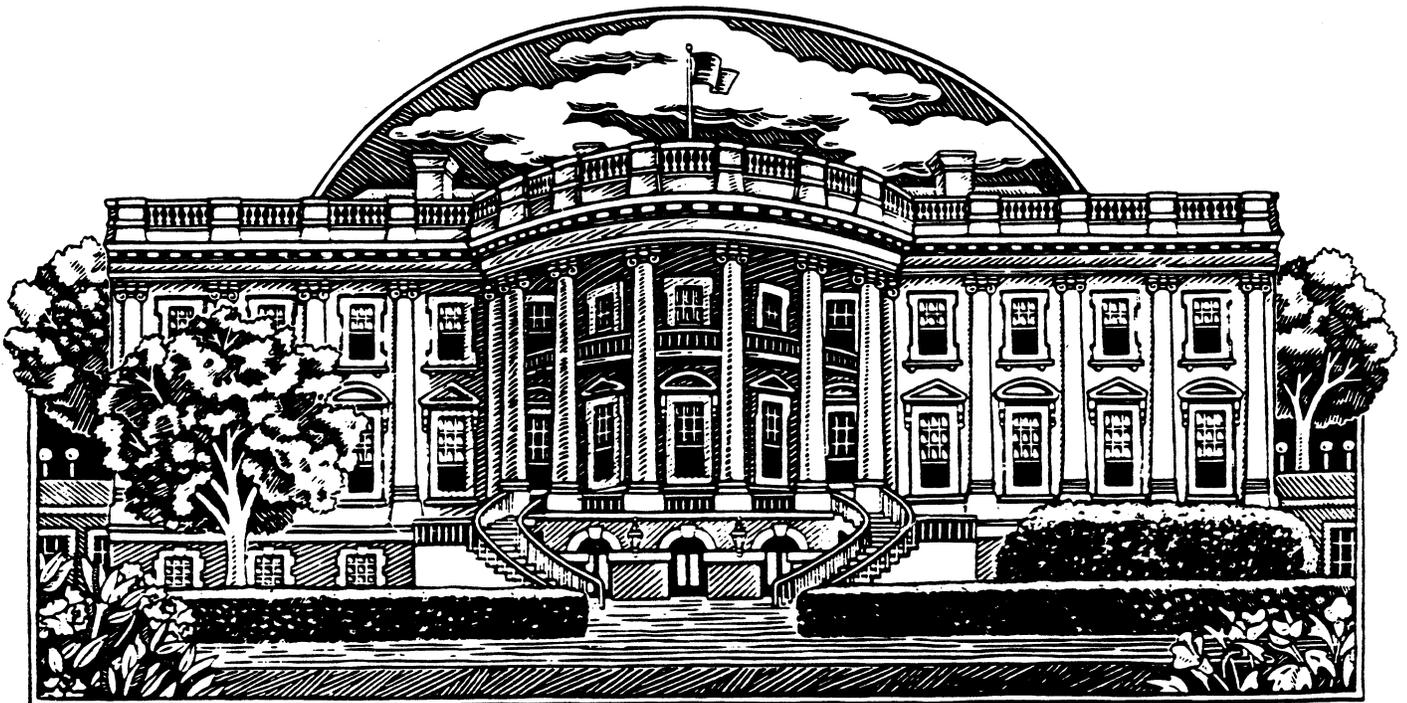


# PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

## AUDIT COMMITTEE

### SUMMARY REPORT ON AUDITS OF CONTRACTED ADVISORY AND ASSISTANCE SERVICES

REPORT NUMBER 96-055  
JANUARY 5, 1996



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### **Acronyms**

CAAS  
FPDS  
OMB

Contracted Advisory and Assistance Services  
Federal Procurement Data System  
Office of Management and Budget



## PRESIDENT'S COUNCIL on INTEGRITY & EFFICIENCY

JAN - 5 1996

### MEMORANDUM FOR THE CHAIRMAN AND MEMBERS OF THE PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

**SUBJECT:** Summary Report on Audits of Contracted Advisory and Assistance  
Services (Report No. 96-055)

We are providing this summary report for your information and use. The report summarizes the results of audits that 25 Inspectors General made in compliance with United States Code, title 31, section 1114(b) on contracted advisory and assistance services.

Implementation of the recommendations made by the Inspectors General to each of the agencies should improve the management controls over contracted advisory and assistance services, and should improve the accuracy and completeness of data provided to the Federal Procurement Data System on contracted advisory and assistance services. The report will be distributed to the organization points of contact listed in Appendix C.

We appreciate the cooperation and courtesies extended to the respective audit staffs. If you have any questions on this report, please contact Ms. Kimberley A. Caprio, Office of the Inspector General, Department of Defense, at (703) 604-9248.

Eleanor Hill  
Inspector General  
Department of Defense

Office of the Inspector General, DoD

Report No. 96-055  
(Project No. 2CA-3003.03)

January 5, 1996

**Summary Report on Audits of Contracted Advisory and Assistance Services**

**Executive Summary**

**Introduction.** United States Code, title 31, section 1114(b) required Inspectors General to evaluate their departments' progress in establishing effective management controls for contracted advisory and assistance services, and in improving the accuracy and completeness of data provided to the Federal Procurement Data System. (The Federal Acquisition Streamlining Act of November 1994 rescinded the requirement.) This report summarizes the results of audits that 25 Inspectors General conducted from FY 1992 through FY 1995 on contracted advisory and assistance services.

**Review Objective.** The objective of this review was to evaluate and summarize the Inspectors General audits conducted on contracted advisory and assistance services. The audits evaluated:

- o progress that the departments and agencies made in establishing effective management controls over contracted advisory and assistance services, and
- o the accuracy and completeness of data provided to the Federal Procurement Data System on contracted advisory and assistance services.

**Review Results.** The Nuclear Regulatory Commission, the Department of Energy, the United States Information Agency, and the Railroad Retirement Board reported no deficiencies for contracted advisory and assistance services. Their reports stated that management controls over contracted advisory and assistance services were effective.

The audits determined that the government agencies needed to strengthen the reporting and management controls over contracted advisory and assistance services. Of 25 Inspectors General, 21 reported problems with contracted advisory and assistance services. Problems identified by the Inspectors General in the reports included the following:

- o failure to accurately report contracted advisory and assistance services contract actions to the Federal Procurement Data System or in the Schedule of Consulting Services FY 1994 Budget Exhibit,
- o failure to properly justify and authorize procurements,

- o failure to obtain required conflict of interest certifications, and
- o failure to complete evaluations of contractor performance at the end of the contract.

**Summary of Recommendations.** The 21 Inspectors General made 62 recommendations to management. The reports recommended that the organizations:

- o provide training on contracted advisory and assistance services,
- o make appropriate changes to data incorrectly reported to Federal Procurement Data System,
- o ensure that approvals and certifications are obtained, and
- o issue internal guidance on contracted advisory and assistance services.

**Management Comments.** Management comments to the recommendations made in the individual reports indicated agreement that advisory and assistance services contracts needed to be more closely monitored.

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## **Part I - Review Results**

### Background

This President's Council on Integrity and Efficiency project was led by the Office of the Inspector General, Department of Defense, and discusses contracted advisory and assistance services (CAAS). United States Code, title 31, section 1114(b) required Inspectors General to evaluate annually their departments' progress in establishing effective management controls for CAAS and improving the accuracy and completeness of data provided to the Federal Procurement Data System (FPDS). The Federal Acquisition Streamlining Act of November 1994 rescinded the requirement. This report summarizes the results of audits that 25 Inspectors General conducted from FY 1992 through FY 1995, to comply with United States Code, title 31, section 1114(b).

Office of Management and Budget (OMB) Circular A-120, "Guidelines for the Use of Consulting Service," April 14, 1980, established management controls to be used by agencies in the procurement of CAAS. OMB revised Circular A-120 on January 4, 1988, to broaden the definition of CAAS. The revised circular establishes policy, assigns responsibility, and sets guidelines to be followed by agencies in determining and controlling the use of CAAS.

On November 19, 1993, OMB, Office of Federal Procurement, issued Policy Letter 93-1, "Management Oversight of Service Contracting," that establishes guidance for managing the acquisition and use of contracted support services. Policy Letter 93-1 also rescinded OMB Circular A-120. However, for purposes of this report, OMB Circular A-120 is applicable because of the time period in which the audits were conducted.

### Review Objective

The objective of this review was to evaluate and summarize the Inspectors General audits of CAAS expenditures. Specifically, the review:

- o evaluated progress that the departments and agencies made in establishing effective management controls over contracted advisory and assistance services, and

- o determined the accuracy and completeness of data provided to the FPDS on CAAS.

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## Management and Reporting of Contracted Advisory and Assistance Services

The Nuclear Regulatory Commission, the Department of Energy, the United States Information Agency, and the Railroad Retirement Board reported that an effective system of management controls was established and reported no deficiencies for CAAS.

The audits performed by 21 Inspectors General determined that their organizations needed to strengthen the reporting and management controls over CAAS. The Inspectors General reported that their organizations had not:

- o accurately reported CAAS contract actions in the FPDS or in the Schedule of Consulting Services FY 1994 Budget Exhibit,
- o properly justified or authorized CAAS procurements,
- o obtained required conflict of interest certifications, or
- o followed procedures for evaluations of contractor performance at the end of contracts for CAAS.

In addition, the Inspectors General reported that problems identified during the audits had also been identified during previous audits. The 21 Inspectors General made recommendations to improve the reporting of CAAS and management controls over CAAS.

### Reporting of Contract Actions to the FPDS

The FPDS is a Government-wide system maintained by the General Services Administration to collect, develop, and distribute procurement data. United States Code, title 31, section 1114(b) required that Inspectors General of Federal agencies attest to the accuracy of amounts for CAAS reported to the FPDS. Of 25 Inspectors General, 15 identified a need for more accurate reporting of CAAS to the FPDS. Reporting problems included CAAS contract actions not reported as CAAS, incorrect product service codes reported to the FPDS, variations in reporting CAAS in budget exhibits, and CAAS contract actions reported to the FPDS that were not reconciling with the agency database systems.

**Contract Actions Not Reported as CAAS.** Four Inspectors General showed that their organizations had not accurately reported CAAS contract actions as CAAS to the FPDS. Table 1 shows the Inspectors General that identified inaccuracies in reporting CAAS in the FPDS.

**Table 1. CAAS Contract Actions Not Reported as CAAS to the FPDS**

<u>Inspector General</u>	<u>CAAS Actions Not Properly Reported</u>	<u>Dollar Value (millions)</u>
Department of Defense	233	\$137.8
Department of Commerce	22	0.6
Department of Veterans Affairs	12	3.2
Arms Control and Disarmament Agency	2	0.1

The reasons cited by the Inspectors General reports for not properly reporting CAAS included the following:

- o Personnel responsible for identifying and reporting CAAS were not adequately trained.

- o Personnel responsible for reporting CAAS were confused about what should or should not be reported as CAAS because of unclear CAAS guidance.

- o Recommendations made in prior audit reports to eliminate similar problems were not implemented.

- o Personnel responsible for reporting CAAS were in error.

**Coding Errors in FPDS.** Contract actions are classified as CAAS in the FPDS based upon the appropriate product service code assigned to the contract action. The product service code is a data element that identifies the purpose of a contract. Of 25 Inspectors General, 13 reported problems with CAAS contract actions being assigned incorrect product service codes. As a result, non-CAAS contracts were identified using a CAAS code, or CAAS contracts were identified using a non-CAAS code. Table 2 shows the Inspectors General that demonstrated product service coding problems.

**Table 2. Inspectors General That Reported FPDS Coding Errors**

<u>Inspector General</u>	<u>Number of Contract Actions With Coding Errors</u>
Department of Defense	55
Department of Veterans Affairs	34
Department of Interior	27
Department of Agriculture	19
Department of Treasury	6
Federal Emergency Management Agency	5
Department of Labor	5
Department of Commerce	4
State Department	3
Arms Control and Disarmament Agency	3
Department of Health and Human Services	3
Department of Transportation	2
Department of Housing and Urban Development	<u>1</u>
<b>Total</b>	<b>167</b>

**Variances in Budget Exhibits.** Public Law 100-370, section 2212, "Codification of Military Laws," and United States Code, title 31, section 1114(a), "Budget Information on Consulting Services," require organizations to identify CAAS obligations by appropriation in an annual budget exhibit to Congress.

In addition to the variations that resulted from coding errors in the FPDS, the Department of Defense stated that its organizations overreported CAAS in the FY 1994 budget exhibit to Congress. Specifically, the Department of Defense overreported CAAS by \$38.5 million, underreported CAAS by \$0.8 million, and did not adequately support \$64.7 million of the sampled \$241 million of CAAS reported in the Schedule of Consulting Services FY 1994 Budget Exhibit.

**Reconciliation of Reported CAAS Actions to Agency Database Systems.** Six Inspectors General determined that amounts reported to the FPDS did not reconcile with their agencies' data bases. For example:

- o The State Department stated that responsible officials failed to reconcile contract actions reported to the FPDS with various departmental FPDS data bases.

- o The Arms Control and Disarmament Agency stated that reconciliation of the FPDS system was not completed when two contracts did not appear on the FPDS.

- o The Federal Emergency Management Agency reported significant differences between CAAS data recorded in the acquisition system used to report to the FPDS and the financial system used to report to OMB and

## Management and Reporting of Contracted Advisory and Assistance Services

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to Congress. The acquisition system reported that CAAS contracts were valued at \$17.5 million, and the financial management system reported that CAAS contract values exceeded \$51 million for the same time period.

- o The Department of Transportation reported problems with the accuracy of the Contract Information System used for reporting CAAS expenditures to the FPDS, because the system makes no provisions for separately coding and reporting modifications to CAAS contracts.

- o The Department of Defense reported a variance of \$38.2 million between actual CAAS obligations reported in the budget exhibit and actual CAAS obligations reported to the FPDS for FY 1992. In addition, the Department of Defense reported that the annual budget exhibit and the FPDS cannot be reconciled because channels used to accumulate and report data to each system are different, and data required to be reported at each system are different.

## Justification and Authorization

OMB Circular A-120 required that CAAS contracts have an appropriate justification and authorization before the contracting officer signed the contracts. Of 25 Inspectors General, 10 reported that CAAS procurements were not properly justified or authorized. Table 3 identifies the Inspectors General that reflected problems with CAAS procurements that were not properly justified or authorized.

<b>Table 3. Contracts Without Appropriate Justification or Authorization</b>		
<u>Inspector General</u>	<u>Number of Contracts Not Appropriately Justified/Authorized</u>	
National Aeronautics and Space Administration	2	2
Department of Housing and Urban Development	0	1*
Department of Labor	0	16*
General Services Administration	0	1*
Department of Commerce	0	2*
Environmental Protection Agency	0	2
Health and Human Services	3	3
Small Business Administration	0	2
Department of Defense	0	2
United States Agency for International Development	<u>58</u>	<u>17</u>
<b>Total</b>	<b>63</b>	<b>48</b>
*Contract modifications		

## Conflict of Interest Certifications

Six Inspectors General reported that their organizations had not obtained the required conflict of interest certifications. Federal Acquisition Regulation Subpart 9.5, "Organizational Conflicts of Interest," states that all successful offerers for CAAS should file a conflict of interest certification. The Department of Veterans Affairs reported that the subpart provision about rules on consultant and conflict of interest certification had not been implemented. The Department of Education notified all bidders that the successful offerer would have to submit a conflict of interest statement before award of the contract; however, organizations did not obtain the required certifications. In addition, the Department of Justice, the National Aeronautics and Space Administration, the State Department, and the Arms Control and Disarmament Agency reported that conflict of interest statements were not obtained before the award of CAAS contracts.

## Contractor Performance Evaluations

Four Inspectors General reported that procedures were not followed for written evaluations of contractor performance at the conclusion of the contract. Specifically,

- o the Department of Labor had not performed evaluations of personnel appointments at the conclusion of the contracts,

- o the General Services Administration did not submit evaluations of appointees to all responsible offices,

- o the Department of Commerce did not prepare written evaluations at contract completion, and

- o the United States Agency for International Development contract officers did not obtain evaluations of contractors from project officers.

## Followup on Previous Audits

Of 25 Inspectors General, 15 reported on the results of followups to previous audits of CAAS. Five Inspectors General reported that recommendations from prior reports were implemented. Two Inspectors General reported that recommendations had been implemented; however, no tests were performed to determine the effectiveness of the corrective actions. Eight Inspectors General reported that conditions still exist that were identified in prior reports.

**Recommendations Implemented.** The Nuclear Regulatory Commission, the Small Business Administration, the Office of Personnel Management, the United States Information Agency, and the Arms Control and Disarmament Agency reported that recommendations from prior audit reports had been implemented.

**Recommendations Not Tested for Effectiveness.** The Department of Treasury reported that action was taken in response to the prior year's audit report, but because of lead time, no contracts were available for testing. Therefore, the Department of Treasury could not determine the effectiveness of the corrective actions. The National Aeronautics and Space Administration reported that action was taken in response to prior audit reports; however, the action took place after the time frame of the CAAS audit included in this review.

**Conditions Still Exist.** Eight Inspectors General stated that conditions identified in previous reports still exist. Table 4 lists the Inspectors General that identified conditions that still exist from previous audits.

<u>Inspector General</u>	<u>Conditions That Still Exist</u>
Department of Defense	Reporting of CAAS
Department of Veterans Affairs	Data submitted to FPDS
Department of Interior	Data submitted to FPDS
Department of Labor	Codes and classifications
State Department	Recording of cost for CAAS
General Services Administration	Contract approvals
United States Agency for International Development	Justification and monitoring CAAS
Department of Justice	Classification and approval

## Recommendations and Management Actions

Of 25 Inspectors General, 21 made a total of 62 recommendations. Overall, the recommendations that the Inspectors General made included the need to do the following:

- o Provide training to responsible personnel for identifying and reporting CAAS.
- o Make appropriate changes to data incorrectly reported to the FPDS, and make appropriate changes to ensure that valid data are reported to the FPDS in the future.
- o Improve management of CAAS to ensure that approvals and certifications are obtained.
- o Include CAAS as a management control assessable unit.
- o Issue internal guidance on CAAS.
- o Establish a system to track the impact of workforce reductions on the use of CAAS.

**Management Comments.** Management comments to the recommendations made in the individual reports indicated agreement that CAAS need to be more closely monitored. We believe that implementation of the recommendations will improve the reporting of CAAS to Congress.

## **Part II - Additional Information**

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## **Appendix A. Scope and Methodology**

We reviewed 25 reports on audits of CAAS by Inspectors General. The reports discussed the results of controls over CAAS procurements and expenditures. The Inspectors General conducted the audits at various periods during FYs 1992 through 1995.

The review of controls over CAAS generally involved determining whether department or agency policy and procedures implemented the guidance in OMB Circular A-120, and the review tested the reporting of contract data into the FPDS. Inspectors General used judgmental and statistical sampling to select contracts for review. Inspectors General conducted interviews with contract personnel and reviewed contract files and database systems to determine whether CAAS were accurately reported. In addition, reviews of actions that were not CAAS actions were completed to determine whether they should be reported as CAAS. Audits conducted by the Inspectors General were in accordance with generally accepted Government auditing standards.

## Appendix B. Reports on Contracted Advisory and Assistance Services

<u>Report Number</u>	<u>Report Date</u>	<u>Agency</u>	<u>Report Title</u>
93-I-316	December 1992	Department of the Interior	Department of the Interior Compliance With Reporting Requirements for Contracts for Advisory and Assistance Services
A-12-92-00032	December 12, 1992	Department of Health and Human Services	Review of Administration for Children and Families Controls Over Contract Reporting and Contracts
	December 16, 1992	Railroad Retirement	Statement to the Congress Concerning Progress in Establishing Effective Management Controls and Improving Accuracy and Completeness of Information Provided to the Federal Procurement Data System on Contracts for Consulting Services
CR-L-93-19	December 17, 1992	Department of Energy	Report on the Department of Energy's Compilation of Data on Consultant Services
OIG/93A-03	December 29, 1992	Nuclear Regulatory Commission	Review of Consulting Services

**Appendix B. Reports on Contracted Advisory and Assistance Services**

<u>Report Number</u>	<u>Report Date</u>	<u>Agency</u>	<u>Report Title</u>
HQ-93-002	January 22, 1993	National Aeronautics and Space Administration	Audit of Advisory and Assistance Service Contracts
EIBMF2-11-0050 3100089	January 29, 1993	Environmental Protection Agency	Review of Environmental Protection Agency's Controls Over Advisory and Assistance Service Contracts for Fiscal Year 1992
93-AO-163-0803	February 18, 1993	Department of Housing and Urban Development	Review of Housing and Urban Development Management Controls for Advisory and Assistance Services- Fiscal Year 1992
L-93-08	February 26, 1993	United States Information Agency	Office of Inspector General Evaluation of United States Information Agency Progress During Fiscal Year 1992 in Controlling and Reporting on Contracted Advisory and Assistance Services
1-92-36	March 1993	Department of Justice	Inspection of the Management Controls and Reporting of Advisory and Assistance Services Contracts in the Department of Justice
3-3-E-002 025	March 1, 1993	Small Business Administration	Evaluation of Management Controls Over Advisory and Assistance Services

**Appendix B. Reports on Contracted Advisory and Assistance Services**

<u>Report Number</u>	<u>Report Date</u>	<u>Agency</u>	<u>Report Title</u>
OIG-93-039	March 15, 1993	Department of Treasury	Treasury's Management Controls Over Advisory and Assistance Services
ACDA-3-SP-002	March 15, 1993	Arms Control and Disarmament Agency	Review of Fiscal Year 1992 Advisory and Assistance Services
11-38376	March 17, 1993	Department of Education	Evaluation of Department of Education's Advisory and Assistance Service Contracts
A22734/A/F F93036	March 18, 1993	General Service Administration	Audits of Controls Over Advisory and Assistance Service Contracts for Fiscal Year 1992
3-SP-009	March 22, 1993	Department of State	Review of FY 1992 Advisory and Assistance Services
2A-00-93-111	March 19, 1993	Office of Personnel Management	Audit of Advisory and Assistance Services
ADD-5496-3-0001	March 29, 1993	Department of Commerce	Review of Western Administrative Supports Center's Advisory and Assistance Service Contract Data in the Federal Procurement Data System
9-000-93-002	March 29, 1993	United States Agency for International Development	Audit of Agency for International Development's Controls Over Advisory and Assistance Services Contracts

## Appendix B. Reports on Contracted Advisory and Assistance Services

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<u>Report Number</u>	<u>Report Date</u>	<u>Agency</u>	<u>Report Title</u>
5055-17-HY	June 1993	Department of Agriculture	Use of Contracted Advisory and Assistance Services Washington, D.C.
3RI-E03-108	June 21, 1993	Department of Veteran Affairs	Audit of Management Controls for Advisory and Assistance Services Awards
17-93-011-07-001	September 17, 1993	Department of Labor	Management Letter Report- Controls Over Advisory and Assistance Services
AV-0T-4-007	January 14, 1994	Department of Transportation	Reports on Audit of Contracted Advisory and Assistance Services
H-02-94	February 1994	Federal Emergency Management Agency	Review of Fiscal Year 1992 Advisory and Assistance Services Contract Data in the Federal Procurement Data System
95-295	August 21, 1995	Department of Defense	DoD Reporting and Controls for Contracted Support Services

## Appendix C. Points of Contact for Organization Reports

<u>Organization</u>	<u>Point of Contact</u>	<u>Phone Number</u>
Office of Personnel Management	Glen Oates	(202) 606-1676
Small Business Administration	Peter McClintock	(202) 205-7203
Department of Defense	Kimberley Caprio	(703) 604-9248
Railroad Retirement Board	Michael Zumach	(312) 751-4356
United States Information Agency	Richard Astor	(202) 401-7247
Nuclear Regulatory Commission	Bill Glenn	(301) 415-5931
Resolution Trust Corporation	Steve Beard	(703) 908-7811
National Aeronautics and Space Administration	Richard Dix	(202) 358-1921
General Services Administration	Debbie Cureton	(202) 501-0006
Federal Emergency Management Agency	Len Koczer	(202) 646-3145
Environmental Protection Agency	Tina Lovingood	(703) 308-8222
Department of Veterans Affairs	Steve Gaskell	(202) 565-8620
Department of Treasury	John Lemen	(202) 906-5220
Department of Transportation	Gary Mueller	(202) 366-1514
Department of State	Basil Temchatin	(703) 284-2600
Department of Labor	Velma Speight	(202) 219-4822
Department of Housing and Urban Development	Mark Rosenfeld	(202) 708-0351
Department of Justice	Robert Schmidt	(202) 616-4620
Department of the Interior	Nela Littlefield	(703) 235-9338
Health and Human Services	Peter Koenig	(202) 619-3191
Department of Energy	Linda Synder	(202) 208-1758
United States Agency for International Development	Bruce Crandlemire	(703) 875-4303
Department of Education	LaWanda Rosemond	(202) 205-8945
Department of Commerce	Karen Deperini	(202) 482-2220
Department of Agriculture	Jay Swartzbauth	(202) 720-9393