



United States Department of Agriculture



OFFICE OF INSPECTOR GENERAL

FS Controls over its Contract Closeout Process

Audit Report 08601-0009-41

We reviewed Forest Service's controls over its contract closeout process.

OBJECTIVE

Our objective was to determine whether FS had adequate controls in place to ensure service contracts were timely and correctly closed out and funds were properly deobligated.

REVIEWED

We reviewed 77 service contracts; interviewed key personnel; and ascertained the adequacy and effectiveness of FS' reviews, oversight, and monitoring related to contract closeout. We also reviewed pertinent laws, regulations, policies, and procedures related to contract closeout.

RECOMMENDS

We recommend that FS incorporate supervisory reviews of contracting officers' compliance with required contract closeout and deobligation time standards in the supervisory review process as well as provide mandatory periodic training sessions on the contract closeout documentation required in contract files.

WHAT OIG FOUND

The Forest Service (FS) awards contracts for services, such as hazardous fuels reduction, forest restoration, engineering, and administrative support services, to help the agency accomplish its mission. FS awarded over \$3.7 billion in service contracts in fiscal years 2014–2016.

We found that FS did not close 48 percent of the contracts we reviewed within the required time standards, with delays up to 7 years. This occurred because FS did not prioritize closing contracts and did not have a mechanism in place to track the agency's status and performance related to contract closeouts, including the cancellation of any remaining amounts of awarded funds from a contract or order. As a result, FS was at risk for undelivered services and possible future claims. Consequently, \$988,743 in funds remained unavailable for other agency priorities, such as forest restoration activities.

We also found that 87 percent of FS' contract files we reviewed were missing at least one piece of required closeout documentation, such as the release of claims or contract completion statement. In addition, we found contracting officers inconsistently used the contract closeout checklist. This occurred because FS' internal process reviews and ongoing supervisory reviews related to contract closeout were insufficient. Further, some staff were not aware of the closeout documentation requirements. Without adequate documentation in the contract file, there is risk that FS cannot protect the Government from potential future claims from contractors or ensure that the Government avoids selecting contractors with a history of poor performance.

FS concurred with our findings and recommendations, and we were able to accept management decision for all seven recommendations.



United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: December 18, 2018

AUDIT
NUMBER: 08601-0009-41

TO: Victoria Christiansen
Chief
Forest Service

ATTN: Antoine Dixon
Chief Financial Officer

FROM: Steve Rickrode
Acting Assistant Inspector General for Audit

SUBJECT: FS Controls over its Contract Closeout Process

This report presents the results of the subject review. Your written response to the official draft is included in its entirety at the end of the report. We have incorporated excerpts from your response, and the Office of Inspector General's (OIG) position, into the relevant sections of the report. Based on your written response, we are accepting management decision for all seven audit recommendations in the report, and no further response to this office is necessary.

In accordance with Departmental Regulation 1720-1, final action needs to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. For agencies other than the Office of the Chief Financial Officer (OCFO), please follow your internal agency procedures in forwarding final action correspondence to OCFO.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publicly available information and will be posted in its entirety to our website (<http://www.usda.gov/oig>) in the near future.

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Background and Objectives

Background

The Forest Service's (FS) mission is to sustain the health, diversity, and productivity of the Nation's 193 million acres of forests and grasslands to meet the needs of present and future generations. FS manages a system of 154 national forests and 20 national grasslands for the public good in 43 States and Puerto Rico. The agency awards contracts for services, such as hazardous fuels reduction, forest restoration, engineering, and administrative support services, to help the agency accomplish its mission. In fiscal years (FY) 2014–2016, FS awarded over \$3.7 billion in service contracts.

Like other Federal agencies, FS must ensure that all awarded contracts comply with the contracting regulations outlined in the Federal Acquisition Regulation (FAR). Depending on the contract type, dollar value, and contract method used, the closeout process can be simple or complex. For example, FS uses simplified acquisition procedures for some service contracts. The purpose of the simplified acquisition procedures is to: (a) reduce administrative costs, and (b) improve opportunities for small, disadvantaged businesses. In addition, FS executes firm-fixed-price contracts that are not subject to any adjustment based on the contractor's cost experience in performing the contract. This contract type places the maximum risk and full responsibility on the contractor for all costs and resulting profit or loss.

The Department of Agriculture (USDA) developed Procurement Advisory 93A as additional guidance for contract closeout, including the handling of unliquidated obligations and documenting closeout in the contract files.^{1, 2} Further, the FAR requires contracting officers ensure all contract actions are completed and verify that the file is ready for final closeout. The FAR identifies the four phases of the contracting process as: (1) pre-award, (2) award, (3) contract administration, and (4) contract closeout. For service contracts, contract closeout occurs when the contractor has completed the required contracting actions and the Government has accepted all services. It is the responsibility of contracting officers to ensure all contract administrative functions support their program officials from the beginning of the acquisition process to the end of the contract process.

Contracting officers are responsible for overseeing the contract closeout with assistance from the contracting officer representative (COR), or technical representative.³ The contracting officer must also ensure applicable reports are completed and request that the contractor submit required

¹ USDA Office of Procurement and Property Management, Contract Closeout Procedures, Procurement Advisory No. 93A, rev. A (Aug. 8, 2013) (expired) outlines the timeframes, procedures, and documents required to be prepared for contract closeout. Although USDA's Procurement Advisory 93C (revised May 18, 2017) is USDA's current guidance, our review focused on FS compliance with USDA Procurement Advisory 93A because it was in effect for our scope period of FYs 2014–2016.

² For purposes of this report, we are identifying "unliquidated obligations" as funds not spent at the close of a contract.

³ The COR is an individual designated and authorized in writing by the contracting officer to perform specific technical or administrative functions.

closeout documents for the contract.^{4,5} Contracting officers must also ensure the contractor is paid for all work performed and that any outstanding balances the contractor owes the Government are collected in a timely manner. If Government property was furnished under the contract, contracting officers must coordinate with the COR to verify the contractor's inventory of Government property is accurate and ensure that the contractor complies with the disposition instructions. Lastly, contracting officers must ensure the contract file is closed out properly, retained in storage for the required period, and the contractor's performance evaluation is finalized in the Contractor Performance Assessment Reporting System, if applicable.

As part of the contract closeout process, the contracting officer must also determine if any remaining funds on the contract should be deobligated. Deobligation is the agency's cancellation of any remaining amounts of awarded funds from a contract or order. Deobligated funds regain availability following cancellation and may be reobligated within the period of the appropriation's availability. The contracting officer should review the contract to see if any unliquidated funds remain under the contract or order and confirm that the contractor is paid for all accepted work. If a determination is made to deobligate the funds, the contracting officer must promptly issue a deobligation modification.

Objectives

The audit objective was to determine whether FS had adequate controls in place to ensure service contracts were timely and correctly closed out and funds were properly deobligated.

⁴ These reports could include a patent report, a final royalty report, a plant clearance report, and/or a contract audit.

⁵ These documents may include a *Contractor Notification and Release of Claims* and/or the contractor's response to FS' assessment of the contractor's performance in the Contractor Performance Assessment Reporting System.

Section 1: Contract Closeout Process

Finding 1: FS Needs to Establish a Method to Monitor Contract Closeout

We found that FS did not close 48 percent of the contracts we reviewed within the required time standards, with delays ranging from 4 days to almost 7 years. This occurred because FS did not prioritize closing contracts and did not have a mechanism in place to track the agency's status and performance related to contract closeouts, including deobligations.⁶ Additionally, FS did not conduct supervisory reviews of contract files to ensure contracts were closed within required time standards. As a result, FS was at risk for undelivered services and possible future claims. Additionally, because FS did not deobligate funds within prescribed time standards, \$988,743 in funds remained unavailable for other agency priorities, such as forest restoration activities.⁷

The FAR and USDA Procurement Advisory 93A, *Contract Closeout Procedures*, establish time standards for closing out contract files.^{8,9} According to FS' Internal Process Review Plan, each unit is expected to perform ongoing reviews of individual files created to accomplish the acquisition function and maintain records of those reviews.¹⁰ Finally, Office of Management and Budget Circular A-123 states that monitoring the effectiveness of internal controls should occur in the normal course of business and reconciliations or comparisons of data should be included as part of the regularly assigned duties of personnel.

A contract is considered complete when the Government has received all required deliverables and has inspected and accepted all supplies, services, or materials. If funds are not deobligated, those funds remain obligated to contracts in which work was completed, and they are not available to use to address other agency priorities. Depending on the type of contract, USDA Procurement Advisory 93A states that after the final payment is processed, the contracting officer shall prepare a letter of release of claims notifying the contractor that the contractor has no further obligation under the contract except for guarantees, warranties, or latent defects.¹¹ The contractor signs the release of claims releasing the Government and its employees from all liabilities, demands, obligations, and claims arising from the contract. The time standards for closing contracts vary by contract type and range from 30 days to 36 months after evidence of completion. Table 1 illustrates FAR time standards for closing out contracts.

⁶ Deobligated funds are available once again to the agency and may be reobligated within the period of availability.

⁷ Our review found that FS eventually deobligated \$984,423 of these funds, but not within required time standards. For one contract we reviewed, \$4,320 remained and was not deobligated as of the last date of our fieldwork.

⁸ FAR 4.804-1 (a).

⁹ USDA Office of Procurement and Property Management, Contract Closeout Procedures, Procurement Advisory No. 93A, rev. A (Aug. 8, 2013) (expired) outlines the timeframes, procedures, and documents required to be prepared for contract closeout. Although USDA's Procurement Advisory 93C is currently in effect, our review focused on FS compliance with USDA Procurement Advisory 93A because it was in effect for our scope period of FYs 2014–2016.

¹⁰ Forest Service, Region 6 Internal Process Review Plan (IPRP) for Fiscal Years 2015–2018 (Mar. 31, 2017); Forest Service, Region 3 Acquisition Management Internal Process Plan for Fiscal Years 2015–2018 (Feb. 27, 2015).

¹¹ A "latent defect" is a defect that exists at the time of acceptance, but cannot be discovered by a reasonable inspection.

Table 1. FAR Time Standards for Closing Contracts	
Contracts and orders involving:	Timeframe for closing after completion or receipt of goods or services:
Simplified acquisition procedures (generally not exceeding \$150,000, in accordance with the FAR, Part 13)	Following final payment. (The contracting officer shall complete any necessary documentation generally within 30 days.)
Firm-fixed price, without simplified acquisition procedures	6 months
Cost reimbursement contracts, settlement of indirect costs	36 months
All other types of contracts	20 months

We reviewed 77 contract files at two FS regional offices and three FS contracting zones.¹² We found 37 of these contracts—over 48 percent—were not closed within the required time standards. The delay in closeout ranged from 4 days to 2,537 days, with an average of over 531 days.

Furthermore, as part of the closeout process, the contracting officer is required to review the contract file and determine if funds need to be deobligated. We found that a deobligation was required for 45 of the 77 contract files we reviewed for FYs 2014–2016. Of the 45 contracts requiring a deobligation, we found that FS did not deobligate 28 of those contracts within the required time standards. As such, we identified a total of \$988,743 that were not deobligated within required time standards.

For example, FS should have closed and deobligated about \$4,320 in excess funds on one of our sampled contracts where the period of performance ended in May 2015. However, as of the end of our fieldwork, FS had not taken action to close the contract and deobligate these excess funds. For another sampled contract, FS should have deobligated the remaining funds within 6 months of completion. However, our review found that FS did not deobligate the remaining funds of \$43,566 on the contract until more than 3 years after the required time standards.

¹² A contracting zone is a centralized location that handles Acquisition Management (AQM) functions for a group of national forests within a region.

In FY 2017, FS' Office of Audit and Assurance Internal Quality Assurance Branch (IQA) reviewed FS' contract closeout performance. Similar to our finding, IQA determined that contract closeout and deobligation of excess funds did not occur within required time standards for 46.7 percent of contracts they reviewed. Because of this IQA audit, FS issued a letter to AQM Directors emphasizing the importance of timely contract closeout and the deobligation of excess funds.

We determined that several factors contributed to FS' inability to timely closeout contracts, including the deobligation of excess funds. Although FS issued a letter emphasizing the importance of closing contracts on time following the IQA audit, FS did not have a mechanism to identify and track the agency's status of closing contracts within required time standards. In addition, FS was not performing ongoing supervisory reviews of individual contract files in accordance with FS quality control standards.¹³

FS can close contracts in the Integrated Acquisition System (IAS), which the agency uses to award and manage contracts.¹⁴ FS can generate various reports in IAS related to the status of contracts, including closeouts. However, the agency has not required contracting officers to close contracts in IAS. FS officials stated that the process to change the contract status to "closed" in IAS was time-consuming. While we understand the need to be efficient and that contracting officers' time is limited, the agency should develop a mechanism using existing systems or implement a new method that fits FS' needs to track the agency's performance in closing out contracts, including deobligating the remaining funds within required time standards. Development and implementation of such a mechanism would provide the agency valuable information and enable AQM management to monitor the status of FS' performance with respect to closing contracts and deobligating funds to ensure these processes occur within the required time standards.

As part of the agency's AQM quality controls standards, FS requires ongoing reviews of individual contract files to ensure compliance with Federal regulations. However, the sites we visited did not conduct ongoing reviews related to contract closeout during FYs 2014–2016. We previously identified and reported a similar issue.¹⁵ In response to our prior report's recommendations, FS agreed to establish guidelines for conducting supervisory reviews, make supervisory reviews a priority, and monitor FS regions and contracting zones to ensure supervisory reviews were completed. Our review of FS' controls over the contract closeout process further demonstrates the need for the agency to implement and follow through with the previously agreed upon recommendations.

We found that FS officials were generally aware of the time standards required to close out contracts and deobligate remaining funds. However, officials at all levels within the agency, from the Washington office to field level contracting officers, told us that contract closeout was

¹³ Forest Service, Region 6 Internal Process Review Plan (IPRP) for Fiscal Years 2015-2018 (Mar. 31, 2017); Forest Service, Region 3 Acquisition Management Internal Process Plan for Fiscal Years 2015-2018 (Feb. 27, 2015).

¹⁴ IAS is the procurement system used by USDA. It facilitates procurement activities, including requisition, contract management, and invoice payments.

¹⁵ Audit Report 08601-0007-41, *Forest Service Controls Over Service Contracts*, Dec. 2017.

not considered a top priority at the agency. Officials said that awarding contracts and administering active contracts were a priority over contract closeouts, including deobligations, and contracting officers primarily spent the majority of their time focusing on those functions.

Contract closeout and deobligation is important to ensuring the Department and agency meet their acquisition and fiscal responsibilities. Deobligated funds are available again and may be reobligated within the period of availability of the appropriation. It is critical that FS close out contracts within required timeframes because it allows the agency to deobligate excess funds that FS could use to address agency priorities, such as forest restoration activities.

We recommend FS develop and implement a mechanism to nationally track FS' contract closeout and deobligation status. We also recommend FS incorporate supervisory reviews of contracting officers' compliance with required contract closeout and deobligation time standards in the supervisory review process the agency agreed to implement in response to OIG's Audit 08601-0007-41, *Forest Service Controls Over Service Contracts*, dated December 22, 2017. Finally, we recommend FS determine whether the sampled contract where the period of performance ended in May 2015, should be closed and deobligate all excess funds, if warranted.

Recommendation 1

Develop and implement a mechanism to nationally track FS' contract closeout and deobligation status.

Agency Response

In its November 21, 2018, response, FS stated:

FS concurs with this recommendation. The Agency will utilize Integrated Acquisition System (IAS) generated reports to nationally track FS' contract closeout and deobligation status.

FS provided an estimated completion date of October 30, 2019, for this action.

OIG Position

We accept FS' management decision for this recommendation.

Recommendation 2

Incorporate supervisory reviews of contracting officers' compliance with required contract closeout and deobligation time standards in the supervisory review process the agency agreed to implement in response to OIG's Audit 08601-0007-41, dated December 22, 2017.

Agency Response

In its November 21, 2018, response, FS stated:

FS concurs with this recommendation. Supervisory reviews are the responsibility of the Chief of the Contracting Office (identified by the Regions and Stations); national oversight has been included as an annual Internal Review component. The Agency requires checklists, inclusive of contract closeout information, to be retained in the official contract file. These checklists are also utilized for supervisory reviews and internal reviews. This will be incorporated into FS Procedures, Guidance, and Instructions (PGI). Additionally, the Deputy Chief of Business Operations will send a letter communicating the importance of supervisory reviews.

FS provided an estimated completion date of October 30, 2019, for this action.

OIG Position

We accept FS' management decision for this recommendation.

Recommendation 3

Determine whether the sampled contract where the period of performance ended in May 2015, should be closed and deobligate excess funds, if warranted.

Agency Response

In its November 21, 2018, response, FS stated:

FS concurs with this recommendation. The Agency closed this contract and deobligated excess funds on October 18, 2018.

FS stated that it deobligated and closed the contract on October 18, 2018.

OIG Position

We accept FS' management decision for this recommendation.

Finding 2: FS Needs to Ensure Contract Files Include Required Closeout Documentation

We found that 87 percent of the FS contract files we reviewed were missing at least one piece of required closeout documentation, such as the release of claims or contract completion statement. In addition, we found contracting officers inconsistently used the contract closeout checklist. This occurred because FS' internal process reviews and ongoing supervisory reviews related to contract closeout oversight at the FS regions and contracting zones we visited were insufficient. Further, some staff were not aware of the closeout documentation requirements. Without adequate documentation in the contract file, FS risks receiving future claims from contractors and selecting contractors with a history of poor performance.

The FAR states that contract files shall be sufficient to constitute a complete history of the contract action for the purpose of: “(1) providing a complete background as a basis for informed decisions at each step in the acquisition process, (2) providing information for reviews and investigations, and (3) furnishing essential facts in the event of litigation or congressional inquiries.”¹⁶ The standards for internal control in the Federal Government (also known as the Government Accountability Office (GAO) *Green Book*) require that management communicate information to enable personnel to perform key roles in achieving objectives, addressing risks, and supporting the internal control system.¹⁷ Finally, USDA Procurement Advisory 93A provides specific guidance on required closeout documentation.¹⁸ Table 2 below briefly describes the type of documentation required for each contract method we reviewed.

Table 2. Type of Documentation Required per Contract Method	
Contracting Methodology	Contract File Documentation
Simplified Acquisition Procedures (SAP)	The contract file should contain a closeout checklist; evidence that supplies and services were acceptable before final payment; and deobligation documentation of excess funds, if any.
Firm-Fixed Price	The contract file should contain a closeout checklist; a COR memorandum and certification; a notification and release of claims from the contractor; ¹⁹ final payment documentation; a contract completion statement; deobligation documentation of excess funds and past performance evaluation report(s), if any.

¹⁶ 48 C.F.R. § 4.801 General (Mar. 2005).

¹⁷ GAO, Standards for Internal Control in the Federal Government, GAO-14 704G, ¶ 14.03 (Sept. 2014).

¹⁸ Because of the requirement for specific documentation for different contract types, not all contract files were required to have the same closeout documentation.

¹⁹ The FAR states that the release of claims is required for the following kinds of contracts: (a) noncommercial cost reimbursable, (b) fixed price construction and architect-engineer, and (c) time and material and labor hours.

Contract closeout is critical to the Department meeting its acquisition and fiscal responsibilities and requires coordination with program and finance offices, as well as with the contractor. It is the responsibility of the contracting officers to perform all contract administrative functions in support of their program offices from the beginning to the end of the acquisition process. The closeout process can be simple or complex, depending on the contract type and dollar value.²⁰

We selected 77 contract files from two FS regional offices and three FS contracting zones and found the following:²¹

- 47 of the 77 files we reviewed did not contain the required closeout checklist. The checklist aids the contracting officer with ensuring all applicable contract award and administration actions are included in the contract file. FS conducted an internal review in FY 2016 and noted that the checklist would resolve many of its missing documentation issues.²² FS also noted that files with complete checklists were generally rated higher than those where the checklist was missing or incomplete.

Although the FS Washington office established standardized checklists for contracting staff to use to ensure the contract files contained all required information, we found that FS used 10 different checklists in the files we reviewed. We found similar issues in OIG Audit 08601-0007-41, *Forest Service Controls Over Service Contracts*, and recommended FS use the standardized checklists developed by the FS Washington office to ensure files contained the required documents. FS agreed with our recommendation.

- 52 of the 77 files reviewed required a COR memorandum and certification, but 37 of the 52 files did not contain such documentation. These documents are important because they demonstrate that the COR certified, in writing, to the contracting officer that all deliverables or services were received.
- 23 of the 77 files reviewed required a contractor's release of claims statement, but 13 of the 23 files did not contain this documentation. Once the contractor signs a release of claims, the Government is released from all liabilities, obligations, and claims that could arise under the contract. By not obtaining these documents, FS is potentially leaving the agency vulnerable to potential future claims by contractors.
- 54 of the 77 files reviewed required a contract completion statement, but 35 of the 54 files did not contain this documentation. The completion statement indicates that the contracting officer conducted a final review of the contract file, certified to the best of his or her knowledge that all terms and conditions of the contract were met, and that the COR completed the checklist that indicates all requested deliverables and services were received or performed and acceptable. The contracting officer statement also attests that

²⁰ USDA Office of Procurement and Property Management, Contract Closeout Procedures, Procurement Advisory No. 93A, rev. A (Aug 8, 2013) (expired).

²¹ A contracting zone is a centralized location that handles AQM functions for a group of national forests within a region.

²² Forest Service, Acquisition Management Internal Process Review: Region 3 Regional Office Review Report (July 2016).

a final invoice was received and processed. Finally, the contracting officer statement certifies that all necessary actions required to close the contract were complete as evidenced by the closeout checklist contained in the file.

- 35 of the 77 files reviewed required a contractor's performance evaluation report. For 16 of the 35 files, the contractor's performance evaluation was either not conducted or not completed within required time standards.²³ Completing these evaluations is important because FS should choose only contractors who have a record of successful past performance or demonstrate current superior ability to perform. By not evaluating and documenting past performance, FS is at risk of making awards to contractors with a poor performance history and not getting the best value for goods and services.

FS officials explained that contract closeout is not considered a high priority, as contracting staff dedicate most of their time to awarding new contracts and administering existing awards. According to these officials, contracting officers generally closed contracts as time allowed. While most staff we interviewed were generally aware of the FAR and USDA Procurement Advisory 93 requirements, some staff said they were unaware of the requirements and that expectations regarding closeout documentation were unclear. Additionally, supervisors did not review contracting staff's contract files on an ongoing basis to ensure that required documentation, including closeout documentation, was included.

FS implemented a periodic assessment of internal control reviews, called Internal Process Reviews, of all acquisition functions, including contracting.²⁴ These reviews are important because they identify noncompliance with regulations, require action plans to resolve deficiencies, and identify best practices throughout the acquisition function. AQM performs Internal Process Reviews of either a FS region, contracting zone, area or national forest, station, research station, or Washington office branch. During our scope period, FS completed 36 of these reviews, and 9 of these identified issues related to inadequate closeout documentation. However, FS officials explained that these reviews do not always include a sample of closed contracts. FS officials stated that Internal Process Reviews primarily focused on contracts that were open and active at the time of the review. Because FS does not ensure that Internal Process Reviews include a sample of contracts that were closed or should have been closed, FS cannot assess whether the reviewed location is complying with required closeout time standards and documentation requirements.

In FY 2017, FS conducted an internal quality assurance review that found problems with missing documentation and that contracting officers were not closing contracts in a timely manner.²⁵

²³ In accordance with FAR 42.1502, past performance evaluations must be established at least annually and at the time work is completed for contract actions exceeding the SAP (over \$150,000), except for construction actions, for which the dollar threshold is \$700,000 or more. Evaluations in Contractor Performance Assessment Reporting System should be finalized no later than 120 days after the contract completion (or annual interim anniversary) date.

²⁴ Forest Service, Region 6 Internal Process Review Plan (IPRP) for Fiscal Years 2015-2018 (Mar. 31, 2017); Forest Service, Region 3 Acquisition Management Internal Process Plan for Fiscal Years 2015-2018 (Feb. 27, 2015).

²⁵ The FS Office of Audit and Assurance Internal Quality Assurance Branch conducted an annual internal control testing, as required by Office of Management and Budget Circular A-123, Appendix A, which defines management's responsibilities for internal control in Federal agencies. This circular emphasizes management's

This report prompted FS to provide a webinar training on USDA Procurement Advisory, but this training was not mandatory. Furthermore, the training did not provide specific information in terms of the closeout documentation required to be included in contract files.

As stated in USDA Procurement Advisory 93A, with the passage of time, acquisition, program, property, and financial staff, as well as key contractor staff, may have left their respective positions. The contractor may even have gone out of business. This can make it difficult to reconstruct key activities in a contract's life.²⁶ Therefore, we recommend FS provide training to all contracting officers on the USDA Procurement Advisory 93 and the closeout documents required to be included in all contract files. We also recommend FS provide mandatory periodic training sessions on contract closeout documentation required in contract files. Because all contracts and orders must be closed out, no matter how small, we recommend that FS incorporate a review of contract closeout, including the required closeout documentation in the agency's Internal Process Reviews. Lastly, we recommend FS incorporate supervisory reviews of contracting officers' compliance with required contract closeout documentation in the supervisory review process the agency agreed to implement in response to OIG's Audit 08601-0007-41, dated December 2017.²⁷

Recommendation 4

Provide nationwide training to contracting officers on USDA Procurement Advisory 93, the use of the standardized national checklists developed by the WO, and the contract closeout documents required in the contract files.

Agency Response

In its November 21, 2018, response, FS stated:

FS concurs with this recommendation. The Agency developed this training and provided it via Acquisition Community Training (ACT) on July 10, 2018. This is a recorded virtual webinar available for viewing by contracting officers at any time and a PDF of the Powerpoint is attached.

FS stated that the action was completed as of July 10, 2018.

OIG Position

We accept FS' management decision for this recommendation.

responsibility to ensure effective internal controls over financial reporting are established and maintained throughout the federal government.

²⁶ USDA Office of Procurement and Property Management, Contract Closeout Procedures, Procurement Advisory No. 93A, rev. A (Aug 8, 2013) (expired).

²⁷ Audit Report 08601-0007-41, *Forest Service Controls Over Service Contracts*, Dec. 2017.

Recommendation 5

Provide mandatory periodic training sessions on contract closeout documentation required in the contract files.

Agency Response

In its November 21, 2018, response, FS stated:

FS concurs with this recommendation. The Agency will review the Contract Closeout ACT session and update as necessary. Beginning October 1, 2019, the session will be assigned in AgLearn as a recurring, biennial requirement for job series 1102 (contracting) and 1105 (purchasing).

FS provided an estimated completion date of October 30, 2019, for this action.

OIG Position

We accept FS' management decision for this recommendation.

Recommendation 6

Incorporate a review of contract closeout, including required closeout documentation, in FS' Internal Process Reviews.

Agency Response

In its November 21, 2018, response, FS stated:

FS concurs with this recommendation. The Agency requires checklists, inclusive of contract closeout information, to be retained in the official contract file. These checklists are also utilized for supervisory reviews and internal process reviews. This will be incorporated into FS Procedures, Guidance, and Instructions (PGI).

FS provided an estimated completion date of October 30, 2019, for this action.

OIG Position

We accept FS' management decision for this recommendation.

Recommendation 7

Incorporate supervisory reviews of contracting officers' compliance with required contract closeout documentation in the supervisory review process the agency agreed to implement in response to OIG's Audit 08601-0007-41, dated December 22, 2017.

Agency Response

In its November 21, 2018, response, FS stated:

FS concurs with this recommendation. The Agency requires checklists, inclusive of contract closeout information, to be retained in the official contract file. These checklists are also utilized for supervisory reviews and internal reviews. This will be incorporated into FS Procedures, Guidance, and Instructions (PGI). Additionally, the Deputy Chief of Business Operations will send a letter communicating the importance of supervisory reviews.

FS provided an estimated completion date of October 30, 2019, for this action.

OIG Position

We accept FS' management decision for this recommendation.

Scope and Methodology

We conducted a nationwide audit of FS' controls over its closeout process related to service contracts. The scope of our audit work covered service contracts awarded and service contracts with unliquidated obligations during FYs 2014–2016. To accomplish our objectives, we performed fieldwork at the FS Washington office located in Washington, D.C., the Albuquerque Service Center, two regional offices, and three FS service areas or zones. For specific locations visited, see Exhibit B. We performed our audit fieldwork from October 2017 through July 2018.

We non-statistically selected two regional offices and three service areas/zones for review based primarily on the total amount spent on service contracts and the AQM management structure. At the regional offices and FS service areas or zones, we non-statistically selected and reviewed 77 service contracts based primarily on the: (1) dollar amount of the contract or unliquidated obligation, (2) type of contract (firm-fixed price, labor hours, etc.), (3) completion date, and (4) size of the deobligation, if any, within our scope.²⁸

FS' Pacific Northwest Region (Region 6) has three service areas (Contracting East, Contracting North, and Contracting West) responsible for administering contracts for the region's 17 national forests and 6 forestry science labs. We selected the Contracting East and Contracting West service areas for review. Contracting East is responsible for administering contracts for five national forests and one forestry science lab. Contracting West is responsible for administering contracts for five national forests and one forestry science lab. FS' Southwestern Region (Region 3) has three service zones (Northern AQM service zone, Western AQM service zone, and Southern AQM service zone) responsible for administering contracts for the region's 11 national forests. We selected the Western AQM service zone, which administers contracts for four of the region's national forests.

We selected our sample of service contracts from data FS provided from the General Services Administration's Federal Procurement Data System—Next Generation (FPDS-NG). FS enters information on its contracts into FPDS-NG, which automatically uploads the information into the USA Spending database. To ascertain the reliability of the data in FPDS-NG, we compared the total amount FS obligated for service contracts as of October 26, 2017 (\$3,754,305,444) in FPDS-NG for those contracts awarded during FYs 2014–2016 to the total amount FS obligated as of September 4, 2017 (\$3,746,663,177) in the USA Spending database. We also compared the information in the contract files we reviewed for our sample of selected contracts to the USA Spending database information. Our reliance on FPDS-NG was limited to selecting service contracts for review.

²⁸ FS issued 107,133 contract actions (awards, options exercised, deobligations, etc.) valued at over \$3.7 billion during FYs 2014–2016. Our 77 sampled contracts were valued at approximately \$44 million.

To assess the selected 77 contracts, we used the FAR and USDA Procurement Advisories as criteria.²⁹ Specifically, we used the version of the FAR and USDA Procurement Advisories in effect at the time the contracts were awarded.

In developing the findings for this report, we performed the following steps and procedures.

At the FS' Washington office, we:

- Reviewed the pertinent laws, regulations, policies, and procedures related to contract closeout;
- Interviewed key personnel, including the AQM director, to gain an understanding of their roles and responsibilities relating to contract closeout and unliquidated obligations; and
- Ascertained the adequacy and effectiveness of FS' reviews, oversight, and monitoring related to contract closeout.

At selected FS regional offices, we:

- Reviewed supplemental guidance the regional office issued related to contract closeout;
- Interviewed key personnel at the regional office, including the regional AQM director, to determine their roles and responsibilities related to contract closeout and unliquidated obligations;
- Ascertained the adequacy and effectiveness of FS' reviews, oversight, and monitoring related to contract closeout; and
- Selected and reviewed a non-statistical sample of service contracts, including contracts with unliquidated obligations, and assessed the corresponding contract files for completeness and compliance with the FAR and USDA Procurement Advisories.

At selected FS service areas or zones, we:

- Reviewed any supplemental guidance the AQM service area/zone issued related to contract closeout;
- Interviewed key personnel, including the lead contracting officers, to determine their roles and responsibilities related to contract closeout;
- Ascertained the adequacy and effectiveness of FS reviews, oversight, and monitoring related to contract closeout; and
- Selected and reviewed a non-statistical sample of service contracts and unliquidated obligations, and assessed the corresponding contract files for completeness and compliance with the FAR and USDA Procurement Advisories.

²⁹We used two USDA Procurement Advisories as criteria: (1) USDA Office of Procurement and Property Management, Contract Closeout Procedures, Procurement Advisory No. 93A, rev. A (Aug 8, 2013) (expired) and (2) USDA Office of Procurement and Property Management, Contractor Performance Information and Contractor Performance Assessment Reporting System Evaluations, Procurement Advisory No. 96, (September 17, 2010) (expired).

During the course of our audit, aside from using FDPS-NG to select our sample of projects to review, we did not solely rely on or verify information in any agency information systems. We also make no representation regarding the adequacy of any agency computer systems, or the information generated from them because evaluating the effectiveness of information system or information technology controls was not one of the audit's objectives.

We conducted this performance audit 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.

Abbreviations

AQM	Acquisition Management
CFR.....	Code of Federal Regulations
COR	Contracting Officer Representative
FAR.....	Federal Acquisition Regulation
FS	Forest Service
FY	fiscal year
GAO.....	Government Accountability Office
IAS	Integrated Acquisition System
IPRP	Internal Process Review Plan
IQA	Internal Quality Assurance
OIG	Office of Inspector General
SAP.....	Simplified Acquisition Procedures
USDA.....	U.S. Department of Agriculture

Exhibit A: Summary of Monetary Results

Exhibit A summarizes the monetary results for our audit report by finding and recommendation number.

Finding	Recommendation	Description	Amount	Category
1	1	FS did not deobligate excess funds within required time standard.	\$984,423	Funds to be put to better use
1	3	FS did not close and deobligate excess funds of one sampled contract.	\$4,320	Funds to be put to better use
Total Monetary Results			\$988,743	

Exhibit B: Audit Sites Visited

This exhibit shows the name and location of all FS sites visited.

	LOCATION
FS Washington Office	Washington, D.C.
Albuquerque Service Center	Albuquerque, NM
<u>Region 6</u>	
Pacific Northwest Regional Office	Portland, OR
Mount Hood National Forest ³⁰ (Contracting North)	Sandy, OR
Gifford Pinchot National Forest (Contracting North)	Vancouver, WA
Willamette National Forest (Contracting West)	Springfield, OR
Siuslaw National Forest (Contracting West)	Corvallis, OR
Wallowa-Whitman National Forest (Contracting East)	Baker City, OR
<u>Region 3</u>	
Southwestern Regional Office	Albuquerque, NM
Tonto National Forest (Western Zone)	Phoenix, AZ

³⁰ Contracting North administers contracts for the regional office in Region 6.

**FOREST SERVICE'S
RESPONSE TO AUDIT REPORT**



File Code: 1430
Route To: 1430

Date: November 21, 2018

Subject: Forest Service Response to Reach Management Decision on Office of Inspector General Report No. 08601-0009-41, "Forest Service's Control over its Contract Closeout Process"

To: Gil H. Harden, Assistant Inspector General for Audit, Office of Inspector General

Thank you for the opportunity to review and comment on Office of Inspector General Draft Report Number 08601-0009-41. The Forest Service concurs with the findings, recommendations, and summary of monetary results and appreciates the time and effort that went into the report. The agency's response to the audit recommendations is enclosed. Please contact Antoine Dixon, Chief Financial Officer, at (202) 205-0429 or aldixon@fs.fed.us with any questions.

/s/ Victoria Christiansen
VICTORIA CHRISTIANSEN
Chief

Enclosures



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USDA Forest Service (FS)

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Office of Inspector General (OIG) Audit Report No. 08601-0009-41
Forest Service's Controls over its Contract Closeout Process
Official Draft Issued October 25, 2018

Response to the Official Draft Report / Management Decision Request

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Recommendation 1: Develop and implement a mechanism to nationally track FS' contract closeout and deobligation status.

FS Response: FS concurs with this recommendation. The Agency will utilize Integrated Acquisition System (IAS) generated reports to nationally track FS' contract closeout and deobligation status.

Estimated Completion Date: October 30, 2019

Recommendation 2: Incorporate supervisory reviews of contracting officers' compliance with required contract closeout and deobligation time standards in the supervisory review process the agency agreed to implement in response to OIG's Audit 08601-0007-41, dated December 22, 2017.

FS Response: FS concurs with this recommendation. Supervisory reviews are the responsibility of the Chief of the Contracting Office (identified by the Regions and Stations); national oversight has been included as an annual Internal Review component. The Agency requires checklists, inclusive of contract closeout information, to be retained in the official contract file. These checklists are also utilized for supervisory reviews and internal reviews. This will be incorporated into FS Procedures, Guidance, and Instructions (PGI). Additionally, the Deputy Chief of Business Operations will send a letter communicating the importance of supervisory reviews.

Estimated Completion Date: October 30, 2019

Recommendation 3: Determine whether the sampled contract where the period of performance ended in May 2015, should be closed and deobligate excess funds, if warranted.

FS Response: FS concurs with this recommendation. The Agency closed this contract and deobligated excess funds on 10/18/2018 (TAB A).

Estimated Completion Date: Completed

Recommendation 4: Provide nationwide training to contracting officers on USDA Procurement Advisory 93, the use of the standardized national checklists developed by the WO, and the contract closeout documents required in the contract files.

FS Response: FS concurs with this recommendation. The Agency developed this training and provided it via Acquisition Community Training (ACT) on July 10, 2018 (**TAB B**). This is a recorded virtual webinar available for viewing by contracting officers at any time and a PDF of the Powerpoint is attached (**TAB C**).

Estimated Completion Date: Completed

Recommendation 5: Provide mandatory periodic training sessions on contract closeout documentation required in the contract files.

FS Response: FS concurs with this recommendation. The Agency will review the Contract Closeout ACT session and update as necessary. Beginning October 1, 2019, the session will be assigned in AgLearn as a recurring, biennial requirement for job series 1102 (contracting) and 1105 (purchasing).

Estimated Completion Date: October 30, 2019

Recommendation 6: Incorporate a review of contract closeout, including required closeout documentation, in FS' Internal Process Reviews.

FS Response: FS concurs with this recommendation. The Agency requires checklists, inclusive of contract closeout information, to be retained in the official contract file. These checklists are also utilized for supervisory reviews and internal process reviews. This will be incorporated into FS Procedures, Guidance, and Instructions (PGI).

Estimated Completion Date: October 30, 2019

Recommendation 7: Incorporate supervisory reviews of contracting officers' compliance with required contract closeout documentation in the supervisory review process the agency agreed to implement in response to OIG's Audit 08601-0007-41, dated December 22, 2017.

FS Response: FS concurs with this recommendation. The Agency requires checklists, inclusive of contract closeout information, to be retained in the official contract file. These checklists are also utilized for supervisory reviews and internal reviews. This will be incorporated into FS Procedures, Guidance, and Instructions (PGI). Additionally, the Deputy Chief of Business Operations will send a letter communicating the importance of supervisory reviews.

Estimated Completion Date: October 30, 2019

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