November 30, 2016

MEMORANDUM FOR: Dr. Kathryn D. Sullivan
Under Secretary of Commerce for Oceans and Atmosphere
and NOAA Administrator

Dr. Louis W. Uccellini
Assistant Administrator for Weather Services, NOAA
and Director, National Weather Service

Mitchell J. Ross
Director of the Acquisition and Grants Office

FROM: Richard L. Bachman
Assistant Inspector General for Financial
and Intellectual Property Audits

SUBJECT: National Weather Service’s Oversight of Service Contracts, Document Retention, and Reporting Needs Improvement
Final Report No. OIG-17-007-A

Attached is our final report on OIG’s audit of NOAA’s National Weather Service’s (NWS) oversight of service contracts, document retention, and reporting. Our objective was to evaluate whether NWS has adequate controls in place to ensure compliance with applicable laws and regulations for personnel support acquired through service contracts.

Our audit disclosed deficiencies concerning NWS’ control over the administration and oversight of service contracts. Specifically, we determined that in 3 of the 20 service contracts reviewed the administration and oversight had characteristics that may be perceived as an improper employer-employee relationship. The audit also disclosed that NOAA needs to strengthen control over retention of key documents and reporting of information to Congress. As a result, we are making recommendations to strengthen internal control over NOAA’s and NWS’ administration and oversight of service contractors, document retention, and reporting.

We have summarized NOAA’s response to our draft report and included it as appendix B. The final report will be posted on OIG’s website pursuant to section 8M of the Inspector General Act of 1978 (5 U.S.C. App., § 8M), as amended.

In accordance with Department Administrative Order 213-5, please provide use your action plan within 60 days of this memorandum. The plan should outline the actions you propose to take to address each recommendation.
We appreciate the cooperation and courtesies extended to us by your staff during this audit. If you have any questions or concerns about this report, please contact me at (202) 482-2877 or Patricia McBarnette at (202) 482-3391.

Attachment

cc: Benjamin Friedman, Deputy Under Secretary for Operations, NOAA
    Mack Cato, Audit Liaison, NOAA
Background

The mission of the National Weather Service (NWS), a line office within the National Oceanic and Atmospheric Administration (NOAA), is to provide weather, water, and climate data, as well as forecasts and warnings for the protection of life and property and enhancement of the national economy. NWS is the official and authoritative voice for issuing warnings during life-threatening weather situations in the United States. NWS uses employees and contractors to complete its mission. Between FY 2012 and June 2015, NWS executed 2,217 service contract actions.

The government’s use of contractors creates risks that NOAA needs to consider and manage. One such risk is the potential for development of inappropriate employer-employee relationships between contractors and government personnel, such as contract officers (COs), contracting officer representatives (CORs), and task managers. Improper employer-employee relationships with contractors can change the nature of the contract, which can result in contract performance that is personal in nature. Unless otherwise authorized by statute, agencies are prohibited from obtaining personal services by contract.

Why We Did This Review

The objective of this audit was to evaluate whether NWS has adequate controls in place to ensure compliance with applicable laws and regulations for personnel support acquired through service contracts. To accomplish this objective, we reviewed 20 judgmentally selected service contracts that were awarded between October 1, 2011, and June 30, 2015.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

National Weather Service’s Oversight of Service Contracts, Documentation Retention, and Reporting Needs Improvement

OIG-17-007-A

WHAT WE FOUND

Our audit disclosed deficiencies concerning NWS’ control over the administration and oversight of service contracts. Specifically, we determined that in 3 of the 20 service contracts reviewed the administration and oversight had characteristics that may be perceived as an improper employer-employee relationship.

The audit also disclosed that NOAA needs to strengthen control over retention of key documents and reporting of information to Congress. As a result, we are making recommendations to strengthen internal control over NOAA’s and NWS’ administration and oversight of service contractors, document retention, and reporting.

WHAT WE RECOMMEND

We recommend that the Director of the NOAA Acquisition and Grants Office

1. Provide training to NWS CORs and task managers on Federal Acquisition Regulation requirements related to personal services contracts, including activities that can lead to perception of prohibited employer-employee relationships.

2. Issue guidance that requires analysis and other relevant documentation supporting the Service Contract Inventory Analysis Report to be maintained in accordance with applicable agency records schedules.

We recommend that the Director of NWS along with the Under Secretary of Commerce for Oceans and Atmosphere and NOAA Administrator

3. Develop procedures to ensure its responses to congressional requests specify any applicable data limitations related to the provided information.
## Contents

Introduction ....................................................................................................................................................... 1

Objective, Findings, and Recommendations ............................................................................................... 3

I. Oversight of Service Contractors Raise Concern................................................................................. 3

II. NOAA Lacks Support for Annual Inventory Analyses ......................................................................... 4

III. Limitations Not Fully Disclosed in Congressional Requested Data..................................................... 5

Summary of Agency Response and OIG Comments ....................................................................................... 7

Appendix A: Objective, Scope, and Methodology ....................................................................................... 8

Appendix B: Agency Response ..................................................................................................................... 10
Introduction

The mission of the National Weather Service (NWS), a line office within the National Oceanic and Atmospheric Administration (NOAA), is to provide weather, water, and climate data, as well as forecasts and warnings for the protection of life and property and enhancement of the national economy. NWS is the official and authoritative voice for issuing warnings during life-threatening weather situations in the United States. NWS uses employees and contractors to complete its mission. Between FY 2012 and June 2015, NWS executed 2,217 service contract actions (see table 1).

Table 1. Number and Value of Service Contracts Awarded by NWS

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Number</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>668</td>
<td>$551,911,888</td>
</tr>
<tr>
<td>2013</td>
<td>573</td>
<td>$118,205,576</td>
</tr>
<tr>
<td>2014</td>
<td>643</td>
<td>$124,992,081</td>
</tr>
<tr>
<td>First 3 quarters of 2015</td>
<td>333</td>
<td>$84,923,170</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,217</strong></td>
<td><strong>$880,032,715</strong></td>
</tr>
</tbody>
</table>

Source: OIG analysis of NOAA data.

The Federal Acquisition Regulation (FAR) is the primary regulation in acquiring supplies and services for the NOAA Acquisition and Grants Office (AGO). AGO provides acquisition services throughout NOAA and in fiscal year (FY) 2015, conducted nearly 13,000 acquisition transactions obligating $1.409 billion for its clients. The Department and AGO issue manuals, policy alerts, and procurement memoranda for AGO personnel to follow when procuring construction, supplies, and services. AGO performs the function of contract officer (CO) while the office procuring the services provides the contracting officer representative (COR) and/or task managers to oversee the technical aspect of the contract.

The government’s use of contractors creates risks that NOAA needs to consider and manage. One such risk is the potential for development of inappropriate employer-employee relationships between contractors and government personnel, such as COs, CORs, and task managers. Improper employer-employee relationships with contractors can change the nature of the contract, which can result in contract performance that is personal in nature. Unless otherwise authorized by statute, agencies are prohibited from obtaining personal services by contract.

The FAR characterizes a personal services contract by the employer-employee relationship it creates between the government and the contractor. The employer-employee relationship may be created by the contract terms or the manner in which the contract is administered. FAR 37.104(d) identifies six descriptive elements for consideration when assessing whether a contract is personal in nature, including:
1. Performance on site.
2. Principal tools and equipment furnished by the Government.
3. Services are applied directly to the integral effort of agencies or an organizational subpart in furtherance of assigned function or mission.
4. Comparable services, meeting comparable needs, are performed in the same or similar agencies using civil service personnel.
5. The need for the type of service provided can reasonably be expected to last beyond one year.
6. The inherent nature of the service, or the manner in which it is provided, reasonably requires directly or indirectly, Government direction or supervision of contractors.

The presence of one or more these elements alone does not necessarily establish the existence of a personal services contract. According to FAR 37.104(c), each contract arrangement must be judged in the light of its own facts and circumstances, the key question always being whether the government is exercising relatively continuous supervision and control over contractors.
Objective, Findings, and Recommendations

The objective of this audit was to evaluate whether NWS has adequate controls in place to ensure compliance with applicable laws and regulations for personnel support acquired through service contracts. To accomplish this objective, we reviewed 20 judgmentally selected service contracts that were awarded between October 1, 2011, and June 30, 2015. For additional information regarding our scope and methodology, see appendix A.

Our audit disclosed deficiencies concerning NWS' control over the administration and oversight of service contracts. Specifically, we determined that in 3 of the 20 service contracts reviewed the administration and oversight had characteristics that may be perceived as an improper employer-employee relationship. The audit also disclosed that NOAA needs to strengthen control over retention of key documents and reporting of information to Congress. As a result, we are making recommendations to strengthen internal control over NOAA's and NWS' administration and oversight of service contractors, document retention, and reporting.

I. Oversight of Service Contractors Raise Concern

Under the FAR, agencies are not permitted to award personal services contracts unless authorized by statute. The FAR states that a personal services contract is established when an employer-employee relationship exists, resulting from (1) the contract's terms or (2) manner of its administration during performance where contractors are subject to the relatively continuous supervision and control by the government.¹ In May 2015, the Department issued a procurement memorandum on maintaining proper relationships with support service contractors.² The memorandum states that acquisition officials must avoid prohibited personal services contract practices during both contract formation and performance. It further describes that the distinction between a personal services contract and a non-personal services contract can be murky and requires a case-by-case analysis, especially where contractors are working side-by-side with government counterparts. The Departmental memorandum continues that the government should not be involved in purely supervisory or management activities of the contractor.

During our review, we identified three contracts where certain aspects of the NWS' oversight of these contractors raised concerns that may lead to the perception of an improper employer-employee relationship. These contracts were for administrative and/or information technology support services and employed one or two contractors with no on-site supervisors. Two of the contracts contained explicit language stating that the contracts were for “non-personal services.”

¹ FAR § 37.104. The FAR is codified in title 48 of the Code of Federal Regulations.
For each of the three contracts, NWS officials stated that the contractors worked side-by-side with NWS employees, and had significant involvement in the direction and oversight of the contractor’s taskings. For example, we found that:

- For one contract the COR provided supervision, including assigning specific tasks, determining work assignments, and prioritizing the contractor’s work.

- On another contract, the task manager stated that the contractor is “treated like federal employees” and the contractor “treats me like a supervisor,” and routinely provides direction and feedback on work assignments and products. The contractor also attended office team meetings.

- For two of the contracts, NWS personnel participated in the selection process for prospective contractors by meeting and questioning candidates. Further, on one contract a task manager provided hiring recommendations to contractor officials.

These types of interactions between the government and the contractor do not on their own necessarily create a personal services contract; however, they can lead to the perception that the contractors are under NWS’ direct and continuous supervision and control, and that a potential prohibited employer-employee relationship existed during the course of the contracts. During our audit, we did not determine whether a prohibited employer-employee relationship existed, as our audit was not designed to determine whether these contracts were personal services contracts as defined by the FAR.

Although the Department has guidance which addresses the FAR requirements for personal services contracts, discussions with CORs and task managers for the three contracts noted above, as well as CORs and task managers for other contracts in our sample, disclosed that they have not taken training that specifically addresses FAR requirements related to personal services contracts, preventing employee-employer relationships, and/or best practices for managing service contracts. As a result, we believe that additional training will help NWS strengthen its contract oversight practices to prevent the appearance of prohibited or inappropriate employer-employee relationships.

II. NOAA Lacks Support for Annual Inventory Analyses

In accordance with law, the Department annually submits an inventory of its service contracts to the Office of Management and Budget (OMB). The annual service contract inventories are required to include all service contract actions over $25,000. Along with the inventory, OMB requires the Department to prepare an annual analysis, which outlines whether contract labor is used appropriately and effectively and if the mix of federal employees and contractors in the agency is balanced. The analysis also identifies contracted functions where the agency may be at risk of overreliance on contractors or other challenges. The Department’s five bureau procurement offices contribute to this analysis by

---

4 NOAA, National Institute of Standards and Technology, U.S. Census Bureau, U.S. Patent and Trademark Office, and Office of the Secretary.
reviewing questionnaires completed by contracting professionals for a randomly selected sample of contracts in place during the fiscal year.

As part of our audit, we requested that NOAA provide supporting documentation for the FY 2012 and FY 2013 Service Contract Inventory Analysis Reports. NOAA only provided documentation for 25 of the 119 contract actions included in the analyses for those 2 fiscal years. As a result, NOAA could not provide evidence to validate the accuracy of these inventory analyses. NOAA officials do not believe that they are required by policy to retain support of their analysis. However, the maintenance of supporting documentation allows results and conclusions of the overall analysis to be verified.

According to the Government Accountability Office (GAO), significant events need to be clearly documented and the documentation should be readily available for examination. Moreover, federal regulations and agency policy require NOAA to preserve records that adequately and properly document functions, decisions, and essential transactions. As a result, we believe that the questionnaires and other applicable supporting documentation should be maintained and accessible, especially when reporting to external parties such as OMB, for the period specified in applicable agency records schedules.

III. Limitations Not Fully Disclosed in Congressional Requested Data

An OIG investigative report concluded that NOAA violated the FAR by hiring a former NWS senior-level employee as a contractor. As a result, the Senate Committee on Commerce, Science, and Transportation requested information from NOAA in order to evaluate the degree of compliance with federal hiring rules and to assess incidents of conflicts of interest. The Committee requested that NOAA provide—among other things—the total number of full-time employees and contractors at NWS for the last 3 fiscal years, and the number of contractors who held prior positions at NWS or NOAA.

We reviewed NOAA’s response to the Committee and analyzed supporting documentation including NOAA’s staff directory, as well as additional employee datasets and badging data. Because our analysis included more data sets than used by NOAA, our results differed from NOAA’s reported information. The differences noted did not significantly alter the percentage of former employees who returned as contractors reported by NOAA. However, the differences did highlight the need for NOAA to take

---

5 The FY 2014 and FY 2015 Service Contract Inventory Analysis Reports were not subject to our review, as the Department had not yet published them when we initiated the audit.


9 June 11, 2015 letter from Chairman Thune of the Senate Committee on Commerce, Science, and Transportation to NOAA Administrator Sullivan.

10 Our review was limited to NWS contractors; we did not examine the completeness and accuracy of data related to other NOAA offices.
additional steps to disclose data limitations to ensure reported data is not misinterpreted. Although NOAA’s response included an explanatory footnote,\textsuperscript{11} the footnote did not fully explain the limitations in the data sources used to arrive at the number of NOAA contractors and retirees during the period requested.

Specifically, we found that NOAA reported the total number of contractors NOAA-wide,\textsuperscript{12} rather than reporting the number of NWS contractors, as requested. NWS and NOAA are not required to track or maintain comprehensive listings of the number of employed contractors or the number of former employees that return to the agency as contractors, and have no mechanism in place to do so. NOAA officials stated that they believe, given the short response deadline and limited sources of information, the most accurate information available at the time was provided to the Committee. Such limitations should be disclosed since the reported information may not be entirely accurate and complete for purposes of responding to the congressional request.

Congress plays an important role in the oversight of NOAA. Therefore, it is imperative that NOAA is fully transparent in its response to congressional requests and identify matters affecting the responsiveness and reliability of information provided. NOAA should enhance its congressional response process by ensuring that it specifies any data limitations related to requested information.

\textbf{Recommendations}

We recommend that the Director of the NOAA Acquisition and Grants Office

1. Provide training to NWS CORs and task managers on FAR requirements related to personal services contracts, including activities that can lead to perception of prohibited employer-employee relationships.

2. Issue guidance that requires analysis and other relevant documentation supporting the \textit{Service Contract Inventory Analysis Report} to be maintained in accordance with applicable agency records schedules.

We recommend that the Director of NWS along with the Under Secretary of Commerce for Oceans and Atmosphere and NOAA Administrator

3. Develop procedures to ensure its responses to congressional requests specify any applicable data limitations related to the provided information.

\footnotesize{\textsuperscript{11} The footnote stated, “The more than 8,000 figure represents the number of contractors as of June 18, 2015, the date the data was extracted. These numbers do not include NOAA retirees working as consultants who may not require a badge for the work they perform.”}

\footnotesize{\textsuperscript{12} NOAA reported that it has over 8,000 contractors, of which 52 are retired NOAA employees.}
Summary of Agency Response and OIG Comments

On November 17, 2016, OIG received NOAA’s comments on the draft report, which we included as appendix B of this final report. In the response, NOAA concurred with the report recommendations.
Appendix A: Objective, Scope, and Methodology

The objective of our audit was to evaluate whether NWS has adequate controls in place to ensure compliance with applicable laws and regulations for personnel support acquired through service contracts. Our audit focused on the controls over contractor services used to support NWS between October 1, 2011, and June 30, 2015. To accomplish our objective, we performed the following:

• reviewed the Code of Federal Regulations; Office of Management and Budget Policy Letter 92-1; FAR; Commerce Acquisition Regulation; Commerce Procurement Memo 2015-05; Commerce Department Administrative Order (DAO) 208-10; NOAA Acquisition Manual, and NOAA Acquisition Procurement Guide.

• interviewed officials from the Department’s Office of Security, Office of Acquisition Management, and Office of General Counsel. We also interviewed NOAA’s Office of the Chief Information Officer, Office of the Chief Administrative Officer, Workforce Management Office, and AGO. We also interviewed officials from NWS’ Office of Facilities, and Department of Defense’s Enterprise Business Operations. Finally, we interviewed COs, CORs, and task managers responsible for oversight and administration of sampled service contracts.

• reviewed NOAA’s response to the Chairman of the Senate Committee on Commerce, Science, and Transportation request.

• reviewed contract files for a sample of 20 contracts and task orders awarded between October 1, 2011, and June 30, 2015.

To select our sample, we judgmentally selected 20 contract actions issued between October 1, 2011, and June 30, 2015, from two separate populations. We selected 10 out of 23 NWS contracts that we identified as employing former NWS employees, as well as 10 out of 128 NWS contracts valued up to $6 million from select product service codes.

We relied on computer-processed data from the National Finance Center’s Insight System, the Department of Defense Manpower Data Center (DMDC), and AGO’s Comprizon Suite (C-Suite) procurement system to perform this audit. To evaluate the reliability of the data provided, we interviewed officials from the Department, the Department of Defense Enterprise Business Operations, and NOAA, and asked whether there were any reports of previous audits, reviews, or independent evaluations that identified concerns with the accuracy of the data. We deemed the data provided by National Finance Center’s Insight System, the DMDC, and C-Suite sufficiently reliable for use in our audit. However, we were unable to validate the completeness of the data provided from C-Suite, as the data is unaudited and we identified potential discrepancies in the number of contract actions, vendors, and product service codes during the course of the audit.
To review internal control and compliance with regulations significant within the context of our audit objectives, we interviewed officials from the Department, NOAA, and NWS, and reviewed policies and procedures to determine:

- NWS' process for onboarding of contractors and monitoring the use of contractors.
- Established controls over service contracts procured by NWS and whether established departmental policies and procedures are in line with federal regulations.
- NOAA's process for responding to the Chairman of the Senate Committee on Commerce, Science, and Transportation's June 11, 2015, request and submitting its annual Service Contract Inventory Analysis Report.

We also reviewed a sample of service contracts and interviewed COs, CORs, and task managers to determine whether the contracts included elements of personal services contracts and whether NOAA's or NWS' oversight and administration of service contracts were performed in compliance with applicable laws and regulations. We found that corrective actions are needed to improve internal control and ensure compliance with the required service contracts policies and procedures, as discussed in this report.

We conducted this audit from June 2015 through April 2016 at Department headquarters in Washington, D.C., under the authorities of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated April 26, 2013. We conducted this audit in accordance with generally accepted government auditing standards. We complied with those standards that 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.
Appendix B: Agency Response

MEMORANDUM FOR: Richard L. Bachman
Assistant Inspector General for Financial
and Intellectual Property Audits

FROM: Benjamin Friedman
Deputy Under Secretary for Operations

SUBJECT: National Oceanic and Atmospheric Administration: National
Weather Service’s Oversight of Service Contracts, Document Retention,
and Reporting Needs Improvement
Draft Report

Thank you for the opportunity to comment on the Office of the Inspector General’s draft
report evaluating the National Weather Service. We previously submitted a response to your
office on November 2, 2016. In our response, we agreed with all recommendations and included
an overview of actions to address each recommendation.

Based on subsequent discussions and agreements with your office, we made changes to our
response and have attached a revised response.

If you have questions, please contact Mack Cato, Director, Audit, Internal Control, and
Information Management on (301) 628-0949.

Attachment
Department of Commerce
National Oceanic and Atmospheric Administration
Comments to the OIG Draft Report Entitled
“National Weather Service’s Oversight of Service Contracts, Document Retention, and Reporting Needs Improvement”
(October 2016)

General Comments
The Department of Commerce’s National Oceanic and Atmospheric Administration (NOAA) appreciates the opportunity to review and comment on the Office of Inspector General (OIG) draft report regarding National Weather Service (NWS) oversight of service contracts, document retention, and reporting. NOAA reviewed the report and the agency’s response to each recommendation is provided below.

NOAA Response to OIG Recommendations

Recommendation 1: That the Director of the NOAA Acquisition and Grants Office provide training to NWS CORs and task managers on FAR requirements related to personal services contracts, including activities that can lead to perception of prohibited employer-employee relationships.

NOAA Response: NOAA agrees with this recommendation and the NOAA Acquisition and Grants Office (AGO) will create a continuous learning module within the Commerce Learning Center and will require that module to be completed by NWS CORs and Task Managers.

Recommendation 2: That the Director of the NOAA Acquisition and Grants Office issue guidance that requires analysis and other relevant documentation supporting the Service Contract Inventory Analysis Report to be maintained in accordance with applicable agency records schedules.

NOAA Response: NOAA agrees with this recommendation and NOAA AGO will maintain all relevant supporting documentation relating to the annual Service Contract Inventory Analysis Report beginning with its Fiscal Year 2015 submission.

Recommendation 3: That the Director of NWS along with the Under Secretary of Commerce for Oceans and Atmosphere and NOAA Administrator develop procedures to ensure its responses to congressional requests specify any applicable data limitations related to the provided information.

NOAA Response: NOAA agrees with this recommendation, and notes that in all of its communications to Congress it follows a process to ensure, to the best of its ability, that the appropriate subject matter experts review the information and provide input so that the information included in any communication is accurate. Those responses are subsequently subject to multiple layers of additional review.

NOAA and NWS also agree that responses to congressional requests should specify any
applicable data limitations. Here, for example, NOAA and NWS explained some of the limitations related to the data provided in footnote 8. NOAA and NWS note, though, that determining the size of the contracted workforce is difficult for every federal agency, in large part because the vendors with which federal agencies contract, and not the federal agencies, determine how many employees will perform a specific contract task, and that number may fluctuate, even on a daily basis. See also, Federal Contracts and the Contracted Workforce, March 11, 2015, available online at https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/49931-FederalContracts.pdf. NOAA and NWS will ensure that with any figure that is inherently difficult to determine, as was the case here, all of the specific limitations will be more explicitly set forth.