

UNCLASSIFIED



Office of Inspector General
United States Department of State

AUD-FM-19-22

Office of Audits

April 2019

Audit of the Office of Nonproliferation and Disarmament Fund Financial and Contract Activities During FY 2016 and FY 2017

FINANCIAL MANAGEMENT DIVISION

UNCLASSIFIED



HIGHLIGHTS

Office of Inspector General
United States Department of State

AUD-FM-19-22

What Was Audited

The Office of Nonproliferation and Disarmament Fund (NDF), within the Bureau of International Security and Nonproliferation, is responsible for responding rapidly to high priority nonproliferation and disarmament opportunities. NDF received \$30 million in appropriations from Congress in both FY 2016 and FY 2017. NDF funds are considered no-year funds because they are available until they are expended. NDF funding is provided “notwithstanding any other provision of law,” which is authority granted to NDF by Congress that allows NDF to act despite otherwise applicable laws and regulations in certain circumstances.

In response to a request from NDF management, Kearney & Company, P.C. (Kearney), an independent public accounting firm acting on behalf of the Office of Inspector General (OIG), conducted this audit to determine whether NDF implemented effective funds control and contract administration during FY 2016 and FY 2017.

What OIG Recommends

OIG made three recommendations for NDF to improve its operations related to fund management and contract administration.

On the basis of NDF’s response to a draft of this report, OIG considers the three recommendations resolved pending further action. A synopsis of NDF’s comments to the recommendations offered and OIG’s reply follow each recommendation in the Audit Results section of this report. NDF’s response to the draft report is reprinted in Appendix B.

April 2019

OFFICE OF AUDITS

FINANCIAL MANAGEMENT DIVISION

Audit of the Office of Nonproliferation and Disarmament Fund Financial and Contract Activities During FY 2016 and FY 2017

What Was Found

NDF generally implemented effective fund controls in both FY 2016 and FY 2017. Kearney found that NDF projects were appropriately approved, controls governing so-called “notwithstanding authority” were operating effectively, and obligations were approved and supported. In addition, Kearney found that expenditures were properly authorized and did not exceed authorized funding levels and that NDF performed reconciliations of data in different systems. However, Kearney identified two instances in which NDF expended more for a project than was obligated. This occurred, in part, because NDF policies did not address and account for expenditures processed by other bureaus or posts. To remedy this shortcoming, NDF finance officers and project managers should regularly monitor overseas post obligations and any other external obligations to keep abreast of the status of obligations and expenditures.

Kearney also found that NDF’s administration of its contracts was generally effective. Kearney found that contract administration controls were generally operating adequately; NDF properly completed the procurement request package for contracts and had the correct authorization of the procurement requests; and NDF complied with requirements for approving and documenting requests to modify contracts and for preparing requests for contract closeouts. Although contract administration controls were generally effective, contract closeout controls could be improved. Kearney identified four contracts that had not been closed out in a timely manner. The delays can be attributed primarily to communication shortcomings between personnel in NDF and the Office of Acquisitions Management. Addressing these shortcomings will help ensure that contracts are closed out in a timely manner and that unused contract funds can be deobligated and used for other authorized purposes in support of NDF’s mission.



1701 Duke Street, Suite 500, Alexandria, VA 22314
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

Audit of the Office of Nonproliferation and Disarmament Fund Financial and Contract Activities
During FY 2016 and FY 2017

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

Kearney & Company, P.C. (Kearney), has performed an audit of the Nonproliferation and Disarmament Fund financial and contract activities during FYs 2016-2017. This performance audit, performed under Contract No. 19AQMM18S0316, was designed to meet the objective identified in the report section titled "Objectives" and further defined in Appendix A, "Purpose, Scope and Methodology," of the report.

Kearney conducted this performance audit from March 2018 through March 2019 in accordance with the *Government Auditing Standards*, 2011 Revision, issued by the Comptroller General of the United States. Those standards require that Kearney plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Kearney believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives. The purpose of this report is to communicate the results of Kearney's performance audit and its related findings and recommendations.

Kearney appreciates the cooperation provided by personnel in the Department of State and Nonproliferation and Disarmament Fund offices during the audit.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Kearney & Company, P.C.
Alexandria, Virginia
April 1, 2019

CONTENTS

OBJECTIVE	1
BACKGROUND.....	1
Funding and Related Restrictions and Controls.....	1
Contract Administration	2
AUDIT RESULTS	3
Finding A: Fund Controls Are in Place, but Procedures To Monitor Certain Obligations Are Needed	3
Finding B: Contract Administration Is Effective, but Contract Closeout Procedures Need Improvement	11
RECOMMENDATIONS	18
APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY.....	19
Prior Reports	20
Work Related to Internal Controls.....	21
Use of Computer-Processed Data.....	21
Detailed Sampling Methodology	22
APPENDIX B: OFFICE OF NONPROLIFERATION AND DISARMAMENT FUND RESPONSE.....	28
ABBREVIATIONS	34

OBJECTIVE

In response to a request from the Bureau of International Security and Nonproliferation (ISN), Office of Nonproliferation and Disarmament Fund (NDF) management, Kearney & Company, P.C. (Kearney), performed this audit to determine whether NDF implemented effective fund controls and contract administration during FY 2016 and FY 2017.

BACKGROUND

The proliferation of weapons of mass destruction and related materials, technologies, and expertise is a preeminent challenge to U.S. national security. ISN leads Department of State (Department) efforts to prevent the spread of weapons of mass destruction, such as nuclear, chemical, and biological weapons and their delivery systems, through bilateral and multilateral diplomacy. ISN addresses proliferation threats by improving physical security and export controls, using interdiction and sanctions, and redirecting relevant technology and expertise.

ISN has three major programs: Nuclear Affairs, Non-Nuclear and Counter-Proliferation, and Nonproliferation Programs. NDF is part of ISN's Nonproliferation Programs. NDF was established to provide a means for the U.S. Government to respond rapidly to nonproliferation and disarmament opportunities, circumstances, or conditions that are unanticipated or unusually difficult but of high priority. NDF accomplishes its mission through the development and execution of specific, defined projects. When an office within the Department or other U.S. Government agency identifies a nonproliferation opportunity, the office or agency submits a project proposal to NDF. If the project is approved, NDF funds and executes the project in coordination with the other office or agency. NDF's projects could include reducing the smuggling of combat arms into a country through strengthened border security or facilitating the safe removal of nuclear infrastructure from a country.

NDF employs Department personnel and contractors, including personal services contractors (PSC). NDF staff includes a Director, a Deputy Director/Chief of Operations, a Comptroller, finance officers, Contracting Officer's Representatives (COR), Project Managers (PM), policy officers, and project support specialists. Excluding the Director and Deputy Director, six PMs negotiate, manage, and implement NDF's projects.

Funding and Related Restrictions and Controls

NDF is funded each year by the Nonproliferation, Anti-terrorism, Demining, and Related Programs appropriation. Since its creation in 1994, NDF has received \$741 million in appropriated funds. Congress appropriated \$30 million in both FY 2016 and FY 2017 for NDF. NDF funds are known as no-year funding because they are available until they are expended. NDF requires funds to be aligned to a project before they can be spent. The Under Secretary for Arms Control and International Security Affairs must approve all projects. Furthermore, NDF must formally notify Congress of the projects it plans to implement through a Congressional Notification (CN). NDF cannot exceed the amount of funding included in the CN for any project. If additional funds are necessary to achieve an objective, a new project is created.

NDF funding is provided “notwithstanding any other provision of law.”¹ So called “notwithstanding authority” is an authority granted to NDF by Congress that allows NDF to act despite otherwise applicable laws and regulations in certain circumstances.² For example, NDF may award contracts without complying with the Federal Acquisition Regulation (FAR) requirements relating to competition.³

According to NDF management, the Department’s financial management system, the Global Financial Management System (GFMS), does not provide the information necessary to track funds at the project level. Therefore, NDF developed and implemented the Project Information Management System (PIMS), which is a customized, cloud-based system⁴ that contains financial and project management modules as well as document storage capabilities. PIMS is used only by NDF and does not interface with GFMS.

Contract Administration

NDF relies on contractors to implement the projects it undertakes. In some instances, the contracts are with a host-country government, such as a country’s ministry of defense, and at other times the contracts are with third-party vendors. CORs initiate the contracting process by working with PMs to identify the specific work to be performed and to prepare a procurement request package, including the statement of work. During FY 2016 and FY 2017, NDF initiated or modified 27 contracts, which ranged in value from \$17,000 to \$59 million.

The contracting process requires coordination between the offices that need contracted goods or services and the Bureau of Administration, Office of the Procurement Executive, Office of Acquisitions Management (AQM), whose Contracting Officers (CO)⁵ execute contracts. NDF, as the requiring office, is responsible for initiating the request to AQM to contract for goods or services. The CO performs contract actions at the request of NDF and relies on NDF for technical advice concerning the supplies or services being acquired.⁶ The CO may designate, in writing, a COR who will have limited authority to act on behalf of the CO.⁷ The COR has no

¹ Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992 (FREEDOM Support Act), Pub. L. No. 102-511, § 507 (October 24, 1992).

² Although there are no specific restrictions on NDF’s use of “notwithstanding authority” set forth in the law, the authority is not absolute. For example, a Government Accountability Office opinion (Architect of the Capitol—Payment of Fringe Benefits to Temporary Employees, B-303961, December 6, 2004) concluded that the Architect of the Capitol could not use “notwithstanding authority” to justify non-compliance with the Antideficiency Act.

³ FAR, Subpart 6.1, “Full and Open Competition,” 6.101 (a).

⁴ A cloud-based system means that PIMS is hosted by a third party and accessed over the internet rather than locally on an NDF computer or server.

⁵ The Foreign Affairs Handbook (FAH), 14 FAH-2 H-141(a), “Responsibilities of the Contracting Officer,” states that the CO is the “U.S. Government’s authorized agent for dealing with contractors and has sole authority to solicit proposals, negotiate, award, administer, modify, or terminate contracts and make related determinations and findings on behalf of the U.S. Government.”

⁶ Ibid.

⁷ FAR 46.103, “Contracting office responsibilities.”

authority to make any commitments or changes that affect price, quality, quantity, delivery, or other terms and conditions of the contract.⁸ For most NDF contracts, the assigned COR is a member of the NDF staff (either a direct-hire employee or a PSC).

As work is performed under the contract, CORs must verify the receipt of goods or services for contractor-submitted invoices. CORs and PMs often travel to project sites, affording them the ability to personally verify the receipt of goods or services. For work performed or goods received while CORs or PMs are not on site, NDF may obtain third-party verification from another U.S. Government representative, such as a U.S. Department of Energy technical monitor. In some cases, such as when goods or services are delivered directly to the end user (for example, a foreign government) by a vendor, CORs will obtain written certification from both parties that the goods or services were delivered and were acceptable; these documents serve as certification of delivery until CORs or PMs are able to validate the delivery themselves.

When work on a contract is completed, NDF CORs create a closeout package stating that all work is complete and coordinate with NDF's finance officers to ensure that final invoices are received, paid, and reconciled.

AUDIT RESULTS

Finding A: Fund Controls Are in Place, but Procedures To Monitor Certain Obligations Are Needed

The Foreign Affairs Manual⁹ (FAM) defines "fund control" as management controls over the use of funds to ensure that

- Obligations and expenditures do not exceed the amounts authorized.
- The obligation or expenditure of amounts authorized is not reserved or otherwise deferred without Congressional knowledge and approval.
- Funds are used only for authorized purposes.
- Funds are economically and efficiently used.

Kearney found that NDF generally implemented effective fund controls in both FY 2016 and FY 2017. Kearney found that NDF projects were appropriately approved, controls governing "notwithstanding authority" were operating effectively, and obligations were approved and supported. In addition, Kearney found that expenditures were properly authorized and did not exceed authorized funding levels, and NDF performed reconciliations of data in different systems. However, Kearney identified two instances in which NDF expended more for a project than was obligated. This occurred, in part, because NDF policies did not address and account for expenditures processed on NDF's behalf by other bureaus or posts. To remedy this shortcoming, NDF finance officers and project managers should regularly monitor overseas post

⁸ FAR 1.602-2, "Responsibilities."

⁹ 4 FAM 032.1, "Definition of Fund Control."

obligations and any other external obligations to keep abreast of the status of obligations and expenditures.

Projects Were Authorized as Required

NDF must submit notification of any proposed obligation of its funds to Congress no less than 15 days before funds are obligated.¹⁰ This notification is considered to be a potential “project.” Before the notification is submitted to Congress, the Under Secretary for Arms Control and International Security Affairs¹¹ and the Assistant Secretary of the Bureau of Legislative Affairs¹² must approve all potential projects. Once NDF notifies Congress of the proposed project, Congress has 15 days to reject the proposal.¹³ If the 15-day period elapses without rejection, the Bureau of Legislative Affairs will inform NDF that Congressional approval has been given and funds are available. At that time, NDF may obligate funds and begin to execute the project.¹⁴

Kearney tested the 27 mission-related projects¹⁵ and 4 administrative projects¹⁶ that were active at any point during FY 2016 and FY 2017 to determine whether the projects were properly authorized by NDF, the Under Secretary for Arms Control and International Security Affairs, and the Assistant Secretary of the Bureau of Legislative Affairs; Kearney also considered whether a CN had been submitted. Kearney also assessed whether the purpose of the project aligned with its designation as a mission-related or administrative project in the CN. Kearney found that all projects were appropriately authorized and had an associated CN. In addition, all of the projects tested were properly classified as either a mission-related or an administrative project.

Kearney also found that NDF had adequate internal controls over the creation and submission of CNs. For example, NDF’s Business Process Manual requires that a copy of the CN be obtained before a project is created in PIMS. NDF’s document management and retention policy requires staff to create and retain formal project files for each authorized project, which include the CN and other internal memoranda with the required authorizations. This documentation is maintained in hard copy, on shared drives, or in PIMS.

¹⁰ Pub. L. No. 102-511 § 508a.

¹¹ NDF Business Process Manual, 48.

¹² Bureau of Legislative Affairs. “Guidance on the Preparation and Processing of Congressional Notifications,” February 1, 2018, 1.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Mission-related projects are those that are established for the purpose of specific nonproliferation and disarmament activities.

¹⁶ Administrative projects are those that are established for expenses such as business cell phones, internet service, business cards, and salaries of administrative PSCs such as contract management specialists and operations and security personnel.

Controls Governing Notwithstanding Authority Were Operating Effectively

NDF funding is provided “notwithstanding any other provision of law.”¹⁷ NDF’s annual appropriation specifies that the use of this authority is “subject to prior consultation with, and the regular notification procedures of, the Committees on Appropriations.”¹⁸ Kearney reviewed the CNs for 31 projects and found that the Department had included appropriate language regarding its planned use of notwithstanding authority.

Kearney also reviewed the weekly status reports for 12 contract actions, totaling \$55,728,503, to determine whether NDF tracked, on a continuous basis, the use of notwithstanding authority for contract actions. Kearney found that NDF effectively tracked the use of notwithstanding authority on a weekly basis in its weekly status reports. The documentation and monitoring of notwithstanding authority was effective and continued to provide accurate and timely information regarding the use of notwithstanding authority for contract actions.

Expenditures

To test expenditures, Kearney selected a sample¹⁹ of 45 mission-related transactions, totaling \$25,882,057, out of 791 transactions, totaling \$34,470,393, and a statistical sample of 55 administrative transactions, totaling \$1,261,950, out of 929 transactions, totaling \$2,807,334. Kearney tested each expenditure to ensure that the expenditure was authorized before funds were disbursed and that there was adequate supporting documentation.

The FAM states, “The officer responsible for the allotment and the certifying officer in all locations where a Department of State officer performs certification must ensure that all proposed payments are supported by valid obligations.”²⁰ NDF’s Business Process Manual and NDF’s Contract Management for Contracting Officers’ Representatives (COR) Handbook also require certification by the PM²¹ and the Comptroller. PMs certify receipt of goods or services on the basis of their personal verification of receipt or third-party verification of receipt. Kearney tested the 55 sampled administrative expenditures and the 45 sampled mission-related expenditures to verify that proper authorizations were obtained prior to expending the funds. Kearney did not identify any exceptions during its testing.

NDF also requires the inclusion of specific documentation in the files before an expenditure is approved. Specifically, NDF’s Business Process Manual requires that the invoice, Certification of Deliverables form, Certification of Funds Availability form, and GFMS approval form be included in the approval package. Kearney tested the 45 sampled mission-related expenditures and the

¹⁷ Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, at 129 Stat. 2726 (December 18, 2015), and Consolidated Appropriations Act, 2017, Pub. L. No. 115-31, at 131 Stat. 609 (May 5, 2017).

¹⁸ Ibid.

¹⁹ For additional details regarding the sample selection, see Appendix A: Purpose, Scope, and Methodology.

²⁰ 4 FAM 223.1-5, “Payment of Obligations.”

²¹ For administrative expenditures, PM certifications are not required because PMs are not assigned responsibility over administrative projects.

55 sampled administrative expenditures to verify that all required supporting documentation was available for each expenditure. Kearney did not identify any exceptions during its testing.

Of the 45 mission-related transactions tested, Kearney identified 34 contract-related expenditures, totaling \$13.3 million. Additionally, of the 55 administrative transactions tested, Kearney identified 27 contract-related transactions, totaling \$1.2 million. For invoices related to contracts, the Foreign Affairs Handbook (FAH) states that the COR performs the following function: "Reviewing and approving the contractor's vouchers or invoices after adequately verifying the costs against supporting documentation."²² The FAH further states, "Generally, the contracting officer authorizes the COR to perform the following function independently . . . [a]pprove invoices for payment" and is expected to "[a]dvice and assist the contracting officer in administering the business aspects of the contract by reviewing vouchers, invoices, reports and deliverables."²³ For each of the 61 contract-related transactions tested, Kearney determined that the COR assigned to the contract had approved the expenditure.

The FAH also states,^{24,25} "All [CORs] . . . must have their acquisition knowledge certified in order to be eligible for appointment . . . CORs must register for [Federal Acquisition Certification for Contracting Officer's Representatives] certification to be eligible for appointment as a COR." Kearney confirmed that each COR related to the transactions tested had an active Federal Acquisition Certification for Contracting Officer's Representatives at the time of the expenditure.

NDF Did Not Exceed Amounts Included in Congressional Notifications

NDF is not to exceed the amount of funding included in the CN for any project.²⁶ If additional funds are necessary to achieve an objective, a new project is created. Kearney tested all 27 mission-related projects and 4 administrative projects that were active at any point during FY 2016 and FY 2017 to determine whether NDF obligated or expended amounts in excess of what was authorized by the CN. As shown in Table 1, Kearney found that the amount recorded in PIMS as authorized was equal to or less than the amount authorized in the CNs. Kearney also found that the total amounts obligated and expended for each project did not exceed the authorized limit.

²² 14 FAH-2 H-142(b)(15), "Responsibilities of the Contracting Officer's Representative (COR)."

²³ 14 FAH-2 H-513(b), "The Contracting Officer's Representative's (COR) Role in Contract Administration."

²⁴ 14 FAH-2 H-143.1(a), "COR Training Requirements."

²⁵ CORs are required to obtain the Federal Acquisition Certification for Contracting Officer's Representatives, which is issued by the Department's Bureau of Administration, Office of the Procurement Executive.

²⁶ Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, at 129 Stat. 2742 (December 18, 2015), and Consolidated Appropriations Act, 2017, Pub. L. No. 115-31, at 131 Stat. 626 (May 5, 2017).

Table 1: Projects Active During FY 2016 and FY 2017

Project Number	Authorized Amount in CN	Authorized Amount in PIMS	Obligation Amount in PIMS	Expenditure Amount in PIMS
NDF-220	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
Multiple Projects in one CN ^a	12,500,000			
NDF-235		1,140,000	849,986	850,986
NDF-251		5,000,000	0	0
NDF-256		1,000,000	910,323	829,309
NDF-243		2,250,000	2,235,847	2,235,847
NDF-253		554,000	514,000	220,818
NDF-254		994,000	49,473	49,473
NDF-255		1,562,000	1,562,000	1,562,000
Subtotal		12,500,000	6,121,629	5,748,433
NDF-250	750,000	750,000	400,000	400,000
NDF-264	7,500,000	7,500,000	7,493,240	7,500,000
NDF-271	23,000,000	23,000,000	22,997,540	23,000,000
NDF-272	20,000,000	20,000,000	17,894,284	17,907,779
NDF-274	25,000,000	25,000,000	909,706	923,965
NDF-276	20,000,000	20,000,000	19,891,102	19,846,209
NDF-277	50,000,000	50,000,000	49,904,780	47,975,810
NDF-282	9,500,000	9,500,000	3,795,358	3,795,358
NDF-284	1,500,000	1,500,000	1,204,898	1,205,180
NDF-285	12,625,000	12,625,000	12,623,226	12,623,226
NDF-286	12,150,000	12,150,000	12,150,000	12,150,000
NDF-288	26,000,000	26,000,000	25,506,056	25,506,129
NDF-293	2,000,000	2,000,000	2,000,000	2,000,000
NDF-295	34,300,000	34,300,000	32,094,039	32,099,006
NDF-296	50,540,000	4,349,543	4,349,367	4,349,543
NDF-297 ^b	30,000,000	0	0	0
NDF-302 ^b	850,000	0	0	0
NDF-303	8,000,000	8,000,000	4,372,732	4,369,703
NDF-305	1,900,000	1,900,000	1,794,345	1,794,348
NDF-306	3,000,000	3,000,000	83,337	77,623
NDF-308	45,500,000	45,500,000	44,749,537	13,385,395
NDF-310	7,605,470	7,605,470	2,815,232	2,815,232
NDF-313	6,000,000	6,000,000	6,000,000	6,000,000
NDF-318	630,000	630,000	2,536	2,536
NDF-320	2,483,250	2,483,250	2,449,863	2,449,939
Total	\$418,333,720	\$341,293,263	\$286,602,807	\$252,925,414

^a The authorized amount in the CN related to multiple projects. Kearney displayed all related projects to demonstrate that the total authorized amount in PIMS equals or is less than the amount authorized in the CN. Some of the specific projects were not active during the audit scope period and therefore were not tested.

^b NDF determined that the project was no longer needed and recommended the project for closure. The project funds were returned to NDF's account, and no authorized amount was available in PIMS. Additionally, no obligations or expenditures were made related to the project.

Source: Prepared by Kearney on the basis of PIMS project data.

Financial Data Between PIMS and GFMS Reconciled

NDF's internal policy requires its employees to reconcile the information between PIMS and GFMS weekly. Because PIMS and GFMS are not interfaced, the data are obtained from the Bureau of the Comptroller and Global Financial Services weekly and are uploaded into PIMS. To test the effectiveness of the reconciliation, Kearney manually reconciled all obligation and expenditure transactions that occurred during FY 2016 and FY 2017 between PIMS and GFMS. Kearney found that the financial information between the two systems reconciled.

The successful reconciliation is attributable, at least in part, to NDF's development of an effective process. Specifically, when the reconciliation is complete, PIMS automatically identifies differences between the systems. NDF officials investigate each unmatched transaction to identify the cause and add an explanation in PIMS. Kearney found that NDF officials had included thorough explanations related to differences.

Obligations

According to the FAM,²⁷ obligations incurred are amounts of orders placed, contracts awarded, services rendered, and similar transactions during a given period that will require payments during the same or future periods. An organization's obligations remain open until fully reduced by disbursements (that is, liquidated) or are deobligated. Unliquidated obligations (ULO) represent the cumulative amount of orders, contracts, and other binding agreements for which the goods and services ordered have not been received or for which the goods and services have been received but payment has not yet been made.

According to NDF's Business Process Manual, the three general categories of obligation instruments are informal agreements, interagency agreements, and contracts. Each category has more specific instruments that require different levels of authorization to obligate funds.²⁸ NDF also requires completion of an NDF Programmatic Request form for each obligating action. The form requires authorizations from the NDF Legal Liaison Office, the Contract Management Section, the NDF Director or Deputy Director/Chief of Operations, and the NDF Comptroller. Kearney tested 27 obligations, totaling \$68,326,541, out of 238 obligations, totaling \$79,142,421, which were active in FY 2016 or FY 2017,²⁹ to determine whether the obligations were authorized in accordance with NDF guidance, including the NDF Programmatic Request Form. Kearney found that all 27 obligations were appropriately authorized.

²⁷ 4 FAM 087.1, "Definition of Obligations Incurred."

²⁸ NDF's Business Process Manual requires that the ISN Deputy Assistant Secretary or higher authorize Interagency Agreements, Memoranda of Understanding, Memoranda of Agreement, or Letters of Agreement. For Statements of Work or Work Plans, the authorization of the Comptroller or Chief Operating Office/Deputy Director is required. NDF's Contract Management for Contracting Officers' Representatives (COR) Handbook states that contract initiations require the authorization of either the NDF Director or Deputy Director. The awarded contract is authorized by the CO.

²⁹ For additional details regarding the selection, see Appendix A: Purpose, Scope, and Methodology.

In addition to properly authorizing obligations, the FAM³⁰ requires all offices responsible for managing, tracking, and obligating funds to implement procedures for reviewing obligations and available fund balances on a monthly basis. All ULOs with no activity in more than 1 year must be targeted and adjusted to \$0 if they cannot be documented as valid obligations.³¹ Kearney analyzed all 28 ULOs within the scope period,^{32 33} which were all of NDF's ULOs from September 30, 2015, to September 30, 2017,³⁴ and found that 27 ULOs were valid (that is, NDF still had a valid need for the ULO) or were appropriately deobligated in a timely manner. Kearney identified 1 of 28 ULOs, which had a balance of \$3,505, and for which no activity had occurred since June 2016. Kearney determined that the ULO should have been deobligated but that action was not taken because of miscommunication between NDF officials and the CO. After the issue was identified, NDF took action to deobligate the item. Because of the insignificant dollar value of the ULO and the low number of deficiencies identified, Kearney did not identify this issue as a systemic control failure.

Overall, Kearney found that NDF had sufficient controls over ULOs for the period audited. For example, within NDF, the Finance Office and the Contract Management Section are both responsible for monitoring the status of obligations, and they meet with the CO weekly to discuss the status of contracts. As part of the weekly meeting, a list of all active contracts and obligations is distributed to attendees for discussion. Additionally, Finance Officers are responsible for monitoring their assigned obligations. As an additional control, one Finance Officer reviews obligation reports that display the total available funding for each obligation on a monthly basis. Furthermore, NDF had automated controls built into PIMS. For example, PIMS displays alert messages when an obligation exceeds total funding. PIMS also displays how much funding is available for obligation on each project, and this number is updated as obligations are posted. Furthermore, NDF's Programmatic Request form requires the NDF Comptroller to certify that funds are available prior to obligation.

In addition to testing authorizations, Kearney also assessed whether the 27 obligations sampled had sufficient supporting documentation. Kearney obtained sufficient supporting documentation for all items. Furthermore, Kearney assessed whether NDF expended more funds than were obligated for any of the 27 sampled items. Kearney found one instance in which NDF overspent an appropriately established obligation by \$195. NDF exceeded the

³⁰ 4 FAM 225(a), "Accounting Controls and Obligation Management."

³¹ 4 FAM 225(d).

³² The dollar value of the ULOs will fluctuate from quarter to quarter as obligations are established, liquidated, and closed out; therefore, there is no ULO balance that appropriately captures the scope of what was reviewed. Of the 28 ULOs analyzed, 13, with a value of approximately \$27 million, were still open as of September 30, 2017.

³³ Kearney notes that the ULO listing obtained from GFMS Data Warehouse summarizes the NDF obligations by contract number as opposed to an individual obligation number (there may be numerous obligations related to an NDF contract). Therefore, the number of ULOs identified for this procedure does not match the total number of obligations identified in the preceding section.

³⁴ See Appendix A: Purpose, Scope, and Methodology for sample selection details.

obligation because of AQM surcharges³⁵ related to a PSC contract. According to NDF officials, NDF hired a PSC that it had not initially expected to hire, which increased the AQM surcharge. In addition to the exception identified during its testing of a sample of obligations, during the testing of expenditures, Kearney identified another instance in which NDF overspent an appropriately established obligation. The obligation, which was established for overseas travel, was fully deobligated in September 2016, as NDF did not believe further expenditures against the obligation would be needed. However, the embassy where the travel had taken place posted an expenditure against the obligation in October 2016 for \$7,416. NDF's Finance Officers and PMs did not have formal processes for tracking the status of overseas post obligations. As a result, NDF fully deobligated funds on an obligation that had not been completely fulfilled, causing it to be overspent.

Although these two instances are relatively small dollar amounts, OIG notes that these obligations exceeded the obligated amount in part because NDF policies did not address and account for expenditures processed on its behalf by other bureaus or posts. Specifically, although NDF's procedures require officials to review the status and availability of obligated funds prior to processing expenditures, these procedures apply only to expenditures that are processed directly by NDF. The exceptions identified were related to circumstances in which other Department bureaus or posts processed expenditures in GFMS on NDF's behalf. In the case of the AQM surcharge, NDF did not receive a notice from AQM before processing the transaction.³⁶ With regard to the overseas travel expenditure, NDF did not have a formal process to communicate with overseas posts on a periodic basis regarding the status of obligations with the posts.³⁷ To remedy this shortcoming, NDF finance officers and project managers should regularly monitor overseas post obligations and any other external obligations to keep abreast of the status of obligations and expenditures.

Recommendation 1: OIG recommends that the Office of Nonproliferation and Disarmament Fund (NDF) develop, document, and implement procedures for NDF finance officers and project managers to regularly monitor overseas post obligations and any other external obligations on behalf of NDF. At a minimum, the procedures should include a requirement for NDF to periodically communicate with overseas posts and external offices to obtain the status of the obligation and anticipated expenditures as well as verification that funds are no longer needed prior to action to deobligate the funds.

³⁵ AQM charges a fee for contract administration services. The fee charged is calculated as a percentage of the associated contract.

³⁶ According to NDF officials, AQM normally provides a notice in advance but did not in this case, even though NDF requested documentation.

³⁷ According to an NDF official, NDF's Finance Officers informally communicate with PMs regarding the status of obligations related to their projects, including obligations with posts. The Finance Officers encourage such communication to obtain relevant information, such as whether any further expenditures will be processed, but this informal process is not documented. Kearney notes, also according to NDF officials, the Finance Officers attempted to contact post personnel in September 2016 to determine whether any additional expenditures would be charged against the obligation but were unable to reach post personnel.

Management Response: NDF concurred with the recommendation, stating that it had “already begun to review its procedures for monitoring overseas transactions.”

OIG Reply: On the basis of NDF’s concurrence with the recommendation and stated actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that NDF developed, documented, and implemented procedures for NDF finance officers and project managers to regularly monitor overseas post obligations and any other external obligations on behalf of NDF.

Finding B: Contract Administration Is Effective, but Contract Closeout Procedures Need Improvement

Kearney found that NDF’s administration of its contracts was generally effective. Specifically, Kearney found that contract administration controls were generally operating adequately, and NDF properly completed the procurement request package for contracts and had the correct authorization of the procurement requests. Kearney also found that NDF complied with requirements for approving and documenting requests to modify contracts and for preparing requests for contract closeouts. One factor contributing to the general success of contract administration was NDF’s establishment of the Contract Management Section in 2015. This section equipped NDF with contracting and COR expertise to assist in carrying out NDF’s objectives and operations.

Although contract administration controls were generally operating adequately, contract closeout controls needed improvement. Specifically, Kearney identified four contracts of nine tested that had not been closed out in a timely manner. The underlying reason for the delays in contract closeout noted in this audit can be attributed to two primary causes. First, the memorandum of agreement established between NDF and AQM regarding contract closeout contained requirements that are above and beyond the requirements of the FAR, the FAM, and the FAH. For example, the requirement that the Contract Closeout Team (CCT) should approve the contract closeout package before the package is finalized is an additional requirement that can delay contract closeout. Although including additional controls is commendable, NDF should ensure that processes are in place to avoid unnecessary delays. Second, although NDF and AQM hold weekly status meetings, not all open contracts are discussed at each meeting. Without discussing all open obligations and contracts, there is increased likelihood that NDF and AQM will overlook the execution of important contract administration actions, such as contract closeout. Addressing these shortcomings will help ensure that contracts are closed out in a timely manner and that unused contract funds can be deobligated and used for other authorized purposes in support of NDF’s mission.

Contract Pre-Solicitation Controls

According to the FAH,³⁸ one phase of the contract process is pre-solicitation, during which offices prepare the solicitation. The pre-solicitation phase results in the development of a written acquisition plan and a procurement request package. According to the FAH,³⁹ a procurement request package “is prepared by the requirements office (normally the . . . (COR)) when the estimated cost/price of the requirement will exceed the simplified acquisition threshold. With the [procurement request package], the COR notifies the [CO] to begin the process to award a contract.”

As part of the procurement request package process, the FAH⁴⁰ and NDF’s Contract Management for Contracting Officers’ Representatives (COR) Handbook require NDF to complete a Domestic Procurement Request, which serves as a cover page for the procurement request package. The Domestic Procurement Request document lists the documents required to be included in the procurement request package, including the following:^{41 42}

- Statement of Work/specification/changes to Statement of Work for modification.
- Inherently governmental function determination.
- Independent government cost estimate.
- Funding/requisition document.
- COR nomination memorandum.
- Necessary approvals.
- Technical evaluation criteria and plan.
- Justification for other than full and open competition.
- Recommended source list.
- Shipping instructions.
- Special provisions and instructions.

NDF also requires that all procurement request packages be approved by the NDF Director or Deputy Director.

Kearney tested eight contracts initiated during FY 2016 and FY 2017, totaling \$33 million,⁴³ to determine whether NDF complied with Department and NDF requirements during the pre-

³⁸ 14 FAH-2 H-311, “General.”

³⁹ 14 FAH-2 H-331, “Purpose and Use.”

⁴⁰ 14 FAH-2 H-332.1, “Forms.”

⁴¹ 14 FAH-2 H-332.2, “Attachments.”

⁴² Not all attachments are required for each acquisition; for example, justification for other than full and open competition would not be required for a contract with full and open competition, and shipping instructions would not be required for a contract solely requiring services.

⁴³ Kearney leveraged the obligation sample to select contracts to test contract initiations, contract modifications, and notwithstanding authority language. Of the 27 obligations selected, Kearney identified 14 obligations related to 12 unique contracts. Of these 12 contracts, 8 were initiated during the scope period and were tested during the audit. See Appendix A: Purpose, Scope, and Methodology for details.

solicitation phase. Kearney found that NDF properly completed the procurement request package for all eight contracts. For each contract, Kearney found that NDF completed a formal, written acquisition plan for all contracts greater than \$5 million; NDF completed a Domestic Procurement Request, which was appropriately approved by the NDF Director or Deputy Director; and the procurement request package included the necessary documentation.

Controls Over Contract Modifications

According to the FAH,⁴⁴ “During the life of a contract, it may become necessary to alter the terms to incorporate new requirements or resolve problems that develop after contract award. The [CO] must prepare and issue a contract modification to modify the agreement.” Moreover, “[w]hen a modification is necessary, the [COR] must prepare a procurement request.”⁴⁵ The following must be included with requests for contract modifications as needed:⁴⁶

- The contractor's name and address.
- An explanation of the circumstances (who, what, when, where, why) that resulted in the need for the modification.
- A full description of the work to be changed or modified.
- An independent U.S. Government cost estimate, if the modification involves a cost change, plus a certification of funds availability from the cognizant finance office if costs increase.
- The estimated total time necessary to accomplish the required services, if the time must be extended.

NDF’s COR Handbook requires that the NDF Director or Deputy Director, the Comptroller, and the COR approve contract modifications prior to submission to AQM.

Kearney tested 24 modifications, related to 9 contracts, made during FY 2016 and FY 2017,⁴⁷ totaling \$5.6 million, and found that requests for modifications were approved by the COR, the NDF Director or Deputy Director, and the Comptroller, as required. Kearney also found that the requests for modification included the necessary documentation, such as a revised statement of work.

Contract Closeouts

Firm-fixed-price contracts⁴⁸ “should be closed within 6 months after the date on which the [CO] receives evidence of physical completion.”⁴⁹ Contracts requiring settlement of indirect cost

⁴⁴ 14 FAH-2 H-531(a), “General.”

⁴⁵ 14 FAH-2 H-534, “Processing Contract Modifications.”

⁴⁶ Ibid.

⁴⁷ See Appendix A, Purpose, Scope, and Methodology, for details on the items selected for testing.

⁴⁸ According to FAR 16.202-1, “Description,” a firm-fixed-price contract “provides for a price that is not subject to any adjustment on the basis of the contractor’s cost experience in performing the contract.”

⁴⁹ FAR 4.804-1(a)(2), “Closeout by the office administering the contract.”

rates⁵⁰ “should be closed within 36 months of the month in which the [CO] receives evidence of physical completion”⁵¹ and all other contracts⁵² “should be closed within 20 months of the month in which the [CO] receives evidence of physical completion.”⁵³ The FAR defines physical completion as when “[t]he contractor has completed the required deliveries and the Government has inspected and accepted the supplies” or “[t]he contractor has performed all services and the Government has accepted these services.”⁵⁴ The FAR further states, “the contract administration office is responsible for initiating (automated or manual) administrative closeout of the contract after receiving evidence of its physical completion.”⁵⁵

Furthermore, according to a March 2014 memorandum of agreement between AQM and NDF, NDF CORs are to notify the AQM CCT⁵⁶ when a contract is physically complete and ready to begin the closeout process. In addition to other assistance, the CCT prepares the Contract Closeout Checklist and Memorandum Regarding Closeout of Contract for the CO to sign. Once signed, the CCT provides a copy of the signed documentation to NDF.

Kearney selected all six contracts,⁵⁷ totaling \$13.9 million, that Kearney identified as being fully liquidated during the scope period but did not have a status of “closed” in PIMS, to determine whether these contracts should have been closed out as required by the FAR. Of the six contracts, three, with a total initial obligation amount of \$6.7 million, were not closed out in a timely manner. Specifically, one firm-fixed-price contract, totaling \$154,381, was closed out almost 7 months after physical completion of the contract, which is approximately 1 month more than allowed by the FAR. Although the closeout of the contract was completed in a timely manner by NDF’s designated CO, CCT did not complete the closeout procedures and provide the final approval on the contract closeout checklist in a timely manner. The memorandum of agreement established between NDF and AQM requires CCT to approve the contract closeout package before the package is finalized. Kearney commends NDF for developing controls

⁵⁰ According to FAR 16.301-1, “Description,” cost reimbursement types of contracts “provide for payment of allowable incurred costs, to the extent prescribed in the contract.” These costs often include indirect costs of a contractor, which are billed to the Government on the basis of an interim indirect cost rate and then a final indirect cost rate, which is established after the end of the contract.

⁵¹ FAR 4.804-1(a)(3).

⁵² FAR 4.804-1, “Closeout by the office administering the contract,” defines the closeout timeframe for contracts using simplified acquisition procedures, firm-fixed-price contracts, and contracts requiring settlement of indirect rates; therefore, “all other” contract types include time-and-materials and labor-hours contracts. FAR 16.601(b), “Time-and-materials contracts,” states that time-and-materials contracts “provide for acquiring supplies or services on the basis of (1) Direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit; and (2) Actual cost for materials.” FAR 16.602, “Labor-hour contracts,” states that a labor-hour contract “is a variation of the time-and-materials contract, differing only in that materials are not supplied by the contractor.”

⁵³ FAR 4.804-1(a)(4).

⁵⁴ FAR 4.804-4(a), “Physically completed contracts.”

⁵⁵ FAR 4.804-5(a), “Procedures for closing out contract files.”

⁵⁶ The CCT is a group within AQM that assists program offices and COs with the contract closeout process.

⁵⁷ See Appendix A: Purpose, Scope, and Methodology for details on the items selected for testing.

beyond the basic requirements included in the FAR, the FAM, and the FAH.⁵⁸ However, these controls need to be improved to ensure they do not delay contract closeout.

A second firm-fixed-price contract, totaling \$5.8 million, was closed out 11 months after physical completion of the contract, which is 5 months more than allowed by the FAR. Although the final payment of this contract had been certified in August 2017, the NDF COR did not inform AQM that the contract was ready for closeout until February 2018. Furthermore, because of required travel for his job, the COR did not complete the Final Payment Memorandum and COR Completion Certification until February 2018. Although NDF and AQM hold weekly status meetings, communication failures between NDF and AQM resulted in the contract closeout delay.

The third firm-fixed-price contract, totaling \$750,000, remained open as of July 2018, 12 months after NDF informed AQM that the contract was ready for closeout. According to NDF and AQM officials, AQM had provided a new memorandum of understanding related to roles and responsibilities to NDF in April 2018, but NDF had not signed the new memorandum as of July 2018 because of an internal policy review. According to an AQM official, the lack of NDF's approval of the new memorandum initially caused AQM to delay completing the contract closeout package. Similar to the instance noted in the preceding paragraphs, communication failures between NDF and AQM attributed to the delay, even though NDF satisfied its requirements for contract closeout by notifying the CO and CCT of the receipt of all goods and physical completion of the contract in a timely manner.

Kearney also tested three contracts, totaling \$2.3 million, that had been closed out to determine whether the contract closeout had been done within the timeframes required by the FAR. Kearney found that one of the contracts, totaling \$2.2 million, was not closed out by AQM within the timeframes required by the FAR. Specifically, the contract that required the settlement of indirect cost rates was closed 40 months after physical completion, which is 4 months more than the 36 months allowed by the FAR. This contract had a non-NDF COR, employed by the Bureau of Political and Military Affairs. The NDF PM certified to the COR and AQM the receipt of final goods and services in a timely manner in June 2014. NDF followed up with the COR and AQM in January 2017 to determine the status of the closeout, and this contract was finally closed out in December 2017. Closeout of this contract was delayed because of communication failures between NDR and AQM, even though NDF satisfied its requirements for contract closeout by notifying the CO and the COR of the receipt of all goods and services and by following up with the parties months ahead of the closeout deadline.

Pursuant to NDF's Contractor Handbook, when contracts are ready for closeout, NDF should submit the COR Completion Certificate and COR Close-out Checklist to the CO and the CCT. These documents signal that AQM may begin the closeout process. Kearney selected three

⁵⁸ This additional control was developed by NDF and AQM in response to an OIG report (AUD-FM-13-17, December 2012). The process served, in part, to provide support needed to close a backlog of contracts. The process also provided additional requirements for the CCT to assist NDF with future contract closeouts as an additional quality control step.

contracts, totaling \$2.3 million, that had been closed out to ensure that the contract closeout package was completed in accordance with requirements. Kearney found that all necessary information was included in the contract closeout package.

The underlying reason for the delays in contract closeout noted in this audit can be attributed to two primary causes. First, the memorandum of agreement established between NDF and AQM regarding contract closeout contains requirements that are above and beyond the requirements of the FAR, the FAM, and the FAH. For example, the requirement that the CCT approve the contract closeout package before the package is finalized and sent to NDF for documentation is above and beyond the requirements set forth in the FAR, the FAM, and the FAH. As such, this additional requirement contributed to the delay in contract closeout. To remedy this condition, procedures performed by CCT should be performed separately from the closeout procedures performed by the CO administering the contract. This will help ensure that contract closeouts are performed in a timely manner while continuing the additional quality assurance for contract files. Second, although NDF and AQM hold weekly status meetings, not all open contracts are discussed at each meeting. Discussing the status of all open obligations and contracts will decrease the likelihood that NDF and AQM will overlook the execution of important contract administration actions, such as contract closeout. Addressing these shortcomings will help ensure that contracts are closed out in a timely manner and that unused contract funds can be deobligated and used for other authorized purposes in support of NDF's mission.

Recommendation 2: OIG recommends that the Office of Nonproliferation and Disarmament Fund (NDF) develop and implement a policy related to contract closeout in accordance with the Federal Acquisition Regulation, in which NDF documents the closeout of a contract upon the signature of the contract closeout package by the Contract Officer (CO) administering the contract. Additional closeout procedures performed by the Contract Closeout Team subsequent to the approval of the contract closeout package by the CO, such as quality assurance reviews, should be performed separate and independent of the CO's contract closeout procedures.

Management Response: NDF concurred with the recommendation, stating that it had already begun to review "current contract close out practices." NDF included a copy of a draft Memorandum of Agreement between NDF and AQM. NDF requested feedback as to whether the agreement would address the recommendation (see Appendix B for details).

OIG Reply: On the basis of NDF's concurrence with the recommendation and stated actions, OIG considers the recommendation resolved pending further action. As NDF requested, OIG analyzed the Memorandum of Agreement to determine if it would address the recommendation when finalized. OIG concluded that the draft Memorandum of Agreement substantially addresses the first component of the recommendation—that is, develop and implement a policy in which NDF documents the closeout of a contract upon the signature of a contract closeout package by the

CO. However, OIG could not identify clear guidance in the Agreement related to the second component of the recommendation—that is, the recommendation that additional closeout procedures performed by the CCT subsequent to the approval of the package signed by the CO should be performed separately and independently from the CO’s closeout procedures.

This recommendation will be closed when OIG receives and accepts documentation demonstrating that the draft Memorandum of Agreement has been updated to clearly address CCT’s role and the Agreement has been finalized, and fully implemented. Specifically, the Agreement should document that a contract is closed out upon the signature of the package by the CO and explain clearly that additional closeout procedures subsequently performed by CCT, such as quality assurance reviews, must be performed separately and independently from the CO’s contract closeout procedures. OIG notes that inclusion of this information in another policy document would also be acceptable.

Recommendation 3: OIG recommends that the Office of Nonproliferation and Disarmament Fund develop and implement a process to discuss and document the status of each open contract during the weekly meeting between the Contracting Officer and Contracting Officer’s Representatives.

Management Response: NDF concurred with the recommendation, stating that it had already begun to review “current contract close out practices.”

OIG Reply: On the basis of NDF’s concurrence with the recommendation and stated actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that NDF developed and implemented a process to discuss and document the status of each open contract during the weekly meeting between the CO and COR.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Office of Nonproliferation and Disarmament Fund (NDF) develop, document, and implement procedures for NDF finance officers and project managers to regularly monitor overseas post obligations and any other external obligations on behalf of NDF. At a minimum, the procedures should include a requirement for NDF to periodically communicate with overseas posts and external offices to obtain the status of the obligation and anticipated expenditures as well as verification that funds are no longer needed prior to action to deobligate the funds.

Recommendation 2: OIG recommends that the Office of Nonproliferation and Disarmament Fund (NDF), in coordination with the Bureau of Administration, develop and implement a policy related to contract closeout in accordance with the Federal Acquisition Regulation, in which NDF documents the closeout of a contract upon the signature of the contract closeout package by the Contract Officer (CO) administering the contract. Additional closeout procedures performed by the Contract Closeout Team subsequent to the approval of the contract closeout package by the CO, such as quality assurance reviews, should be performed separate and independent of the CO's contract closeout procedures.

Recommendation 3: OIG recommends that the Office of Nonproliferation and Disarmament Fund, in coordination with the Bureau of Administration, develop and implement a process to discuss and document the status of each open contract during the weekly meeting between the Contracting Officer and Contracting Officer's Representatives.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

To expand upon earlier audits performed at the request of the Office of Nonproliferation and Disarmament Fund (NDF), NDF requested this performance audit to determine whether NDF had implemented effective funds control and contract administration during FY 2016 and FY 2017. An external audit firm, Kearney & Company, P.C. (Kearney), acting on behalf of the Office of Inspector General (OIG), performed this audit.

Kearney conducted this performance audit from March to July 2018 in the Washington, DC, metropolitan area. This work was delayed because of the lapse in OIG's appropriations that occurred from December 21, 2018, through January 25, 2019. Kearney planned and performed the audit in accordance with performance audit requirements in the Government Accountability Office's *Government Auditing Standards*, 2011 revision. Those standards require that Kearney plan and perform the audit to obtain sufficient, appropriate audit evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. Kearney believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives.

To obtain background information for this audit, Kearney researched and reviewed the Federal Acquisition Regulation, the Department of State Acquisition Regulation, and Federal appropriations law. Kearney also reviewed standards for internal control as documented by the Government Accountability Office's *Standards for Internal Control in the Federal Government*.¹ In addition, Kearney leveraged information obtained during earlier audits of NDF and documentation provided by NDF to OIG in response to open recommendations. Furthermore, Kearney met with NDF personnel and contractors to obtain information regarding NDF's processes for contracting and project management and to obtain an understanding of the use of the Project Information Management System (PIMS). Kearney met with the Contracting Officer from the Bureau of Administration, Office of the Procurement Executive, Office of Acquisitions Management (AQM), to obtain an understanding of the contract management and closeout process.

During the audit, Kearney identified risks and controls related to contract administration. To assess the operating effectiveness of controls related to contract initiations, contract modifications, and invoices, Kearney obtained reports listing all obligations and expense activity recorded in PIMS during the scope period, from which Kearney selected statistical samples for testing. Kearney used reports from the Department's accounting system, the Global Financial Management System (GFMS), to identify the contracts that NDF closed during the scope period.

¹ GAO-14-704G, September 2014.

Prior Reports

2012 Audit Report

NDF requested an audit to determine the sufficiency of NDF controls over contracting and project management and the integrity of data in NDF's internal financial and project management system. OIG reported² that NDF's controls over the contracting process were sufficient to meet many objectives but needed improvement. Specifically, controls over contract initiation and modification, invoice approval, and contract closeout were well designed but were not consistently executed. In addition, NDF did not have sufficient controls over unliquidated obligations (ULO), a control to close out contracts in a timely manner, or a process to document the projects for which NDF's "notwithstanding authority" was used. OIG also reported that NDF project managers effectively managed the status of projects. However, PMs did not manage projects consistently and did not always use the project management functionality of PIMS. Furthermore, OIG reported that PIMS contained accurate and complete information on funds received and amounts in the Congressional Notification (CN) for each project. However, obligations and expenses in the system were not always accurate, complete, or entered in a timely manner, and the system lacked key reporting functionality. Additionally, NDF had not implemented certain application level controls. OIG made 18 recommendations in the report, all of which are closed.

2014 Audit Report

NDF requested a follow-up audit to assess NDF's progress in addressing the control deficiencies identified in the 2012 audit report. OIG reported³ that NDF strengthened controls over contract initiation and modification, and these controls were operating effectively. In addition, NDF developed a process to monitor its ULOs. NDF also implemented contract closeout controls and made progress in remediating the backlog of contracts requiring closure. Although NDF made progress, OIG reported the need for additional improvements. NDF strengthened its controls over invoice approvals, but the control over the certification of receipt of goods or services was not consistently executed. NDF also developed a policy for documenting the use of its notwithstanding authority, but the policy did not align with actual practice and did not require that NDF document the use of the authority at a sufficient level of detail.

NDF had also improved its controls over project management; however, Project Managers (PM) did not consistently follow policies relating to managing project scope and project risk in PIMS. Similarly, PMs did not consistently maintain project-related documents in PIMS. Furthermore, although NDF had established a timeframe for closing projects, some projects were not closed timely because of the lack of timeframes for all project closeout tasks. OIG also reported that NDF had improved significantly the integrity of the data in PIMS. NDF also improved PIMS reporting capabilities; however, the reliability of the reports was limited by the accuracy,

² OIG, *Audit of Nonproliferation and Disarmament Fund Controls Over Contracting and Project Management and Integrity of Financial Data* (AUD-FM-13-17, December 2012).

³ OIG, *Follow-up Audit of Nonproliferation and Disarmament Fund Controls Over Contracting and Project Management and Integrity of Financial Data* (AUD-FM-15-18, December 2014).

timeliness, and completeness of the data in PIMS. NDF improved PIMS application controls and strengthened its processes to ensure that only approved changes to PIMS were made and developed a user access matrix. However, one user profile was not included in the matrix, and the system administrator profiles allowed system administrators to change key financial data. OIG made 11 recommendations to NDF, all of which have been closed.

2015 Audit Report

NDF requested an audit to determine the extent to which NDF internal controls relating to the management activities and the budget and finance activities listed in the Department of State Management Controls Checklist, as well as monitoring controls related to NDF's work in Egypt. OIG reported⁴ that NDF had designed and implemented most controls effectively. However, NDF needed some control improvements as well. Specifically, NDF lacked controls to ensure compliance with laws and regulations. For example, NDF did not identify and document the specific provisions for which it used notwithstanding authority. In addition, OIG reported that NDF had effectively designed and implemented controls to systematically and timely identify ULOs in need of deobligation, thereby helping ensure contracts were closed out in a manner to prevent invalid ULOs. NDF also had effective controls to ensure the collection of unspent project funds provided to other government agencies and international organizations. However, OIG also reported that contracting controls were not effectively implemented for the Egypt project. Specifically, NDF did not maintain contract documentation, as required. OIG made seven recommendations to NDF, all of which have been closed.

Work Related to Internal Controls

Kearney performed steps to assess the adequacy of internal controls related to the areas audited. Specifically, Kearney gained an understanding of and tested the controls over funds control and contract management. Work performed on internal controls during the audit is detailed in the Audit Results section of the report.

Use of Computer-Processed Data

The audit team used computer-processed data during this audit. Kearney obtained FY 2016 and FY 2017 obligation information from GFMS and a listing of ULOs from the GFMS reporting tool Data Warehouse. Kearney performed procedures to evaluate the listing of ULOs obtained from the Data Warehouse as part of the audits of the Department's FY 2016 and FY 2017 financial statements and concluded that the listing was sufficiently reliable for sample selection purposes.

Kearney also obtained listings of projects and obligations from PIMS. Kearney used these populations to select samples for testing. Kearney performed procedures to determine the accuracy and completeness of the data recorded in PIMS. For appropriations, the amounts recorded in FY 2016 and FY 2017 were traced and agreed to the appropriation legislation. For

⁴ OIG, *Audit of Selected Nonproliferation and Disarmament Fund Management Controls* (AUD-FM-15-40, September 2015).

the authorized project funding levels, Kearney validated amounts when testing CNs. When possible, control samples were leveraged for these procedures; otherwise, new samples were selected.

For obligations, Kearney performed a two-way reconciliation of obligation data from GFMS to PIMS and from PIMS to GFMS to ensure completeness and accuracy of the PIMS obligation population that Kearney planned to leverage for sampling. Kearney obtained transaction-level detail of the establishment and modification of obligations from GFMS. Kearney summarized this information by obligation number to compile a list of unique obligation numbers that had an action (that is, establishment or modification) during the audit scope period. Kearney then compared these transactions with a PIMS-generated report of obligations that were active during the scope period. Reconciling items from both systems were evaluated to confirm that transactions excluded from one system were reasonable. Additionally, the starting populations of GFMS expenditures was agreed to the year-end trial balance for each respective fiscal year to ensure the completeness of the data.

To obtain the universe of NDF expenses, Kearney performed a two-way reconciliation of expense data from GFMS to PIMS and from PIMS to GFMS to ensure completeness of the expense population. Reconciling items from both systems were evaluated to confirm that transactions excluded from one system were reasonable. Additionally, the starting populations of GFMS expenditures was agreed to the year-end trial balance for each respective fiscal year to ensure the completeness of the data.

Detailed Sampling Methodology

Active Projects

To select a sample of CNs for testing, Kearney first obtained an Active Projects Reports from NDF's PIMS system as of October 1, 2015; March 14, 2016; and September 18, 2017. Kearney determined that it would test only projects that were active at some point during the scope period (that is, FY 2016 and FY 2017). On the basis of its analysis of the data in PIMS, Kearney determined that 31 projects (27 mission-related and 4 administrative) were active at some point in either FY 2016 or FY 2017, as shown in Table A.1.

Table A.1: Population of Active Projects by Type

Project Type	Number of Projects
Mission-related	27
Administrative	4
Total Projects	31

Source: Prepared by Kearney on the basis of an analysis of PIMS Active Projects Reports for periods as of October 1, 2015; March 14, 2016; and September 18, 2017.

All administrative and mission-related projects were selected for testing. These items were tested to determine whether a project was properly authorized and whether the notwithstanding information was correctly included in the CN.

Obligations, Contract Initiations, and Contract Modifications

Kearney used the PIMS population of 238 obligations, totaling \$79,142,421, to select a monetary unit sample⁵ of 26 obligations (11.3 percent), totaling \$68,315,088 (86.3 percent). In addition, Kearney identified one obligation, totaling \$11,453, that had a total amount expended greater than the obligation amount. Kearney judgmentally selected this obligation for testing. Kearney tested the 27 sampled obligations to determine whether they had been property authorized and whether they were property supported.

In addition, Kearney used the obligation sample of 27 to select a sample of contract initiations and contract modifications for testing and to test whether notwithstanding information was properly included in the contracts. Of the 27 obligations selected using the monetary unit and judgmental sampling methodologies, Kearney identified 14 obligations that were contract-related. The 14 obligations related to 12 unique contracts, as two contracts had two sampled obligations each. Kearney tested all 12 unique contracts for contract initiations, contract modifications, and notwithstanding language.

Unliquidated Obligations Monitoring

To test the effectiveness of ULO monitoring controls, Kearney used the listings of ULOs obtained from GFMS Data Warehouse. Specifically, Kearney obtained and analyzed quarterly listings from September 30, 2015, to September 30, 2017. Kearney identified 28 NDF ULOs that were included in the listing during at least one quarter of the scope period.^{6,7} Kearney reviewed the ULO balance for the 28 ULOs included on the listing to verify whether the unliquidated balance had changed from quarter to quarter, indicating that the obligation was either active or deobligated. Kearney identified one ULO without activity since June 2016 and obtained and reviewed the supporting documentation for this ULO to assess its validity.

⁵ Monetary unit sampling is a statistical sampling technique used to select a sample based on the proportionate unit size of the sample to the overall population. For purposes of this audit, the unit is the dollar value of the transactions. This means that every dollar in the population has an equal chance of being selected. If a particular dollar unit is selected, the entire transaction that is associated with the dollar unit will be selected for testing.

⁶ The ULO listing obtained from GFMS Data Warehouse summarizes the NDF obligations by contract number as opposed to an individual obligation number (there may be numerous obligations related to an NDF contract). Therefore, the number of ULOs identified for this procedure does not match the total number of obligations identified in PIMS that was used to identify active projects.

⁷ The dollar-value of ULOs will fluctuate from quarter to quarter, as obligations are established, liquidated, and closed out. Of the 28 ULOs analyzed, 13, with a value of approximately \$27 million, were still open as of September 30, 2017.

Expenses and Invoices

Kearney obtained expense data from GFMS for NDF appropriations (funds 1911_X10710000, 1911_X10750000, and 1911_X1075000D). As shown in Table A.2, NDF recorded 1,231 expenses, totaling \$14.4 million, in FY 2016 and 1,459 expenses, totaling \$39.5 million, in FY 2017.

Table A.2: NDF Expenses From GFMS

Fiscal Year	Number of Transactions	Amount of Transactions
FY 2016	1,231	\$14,394,973
FY 2017	1,459	\$39,457,285
Total	2,690	\$53,852,258

Source: Prepared by Kearney on the basis of an analysis of general ledger detail.

Accrual accounting requires organizations to record certain items as expenses that are not related to payments for goods or services. Kearney excluded the transactions that did not represent a true expenditure of funds. Specifically, Kearney excluded 37 transactions related to the Cost Capitalization Offset GL account,⁸ depreciation,⁹ and bad debt.¹⁰ Kearney also excluded 37 transactions that were related to journal voucher activity and 34 transactions that related to other offices. In addition, Kearney excluded 100 transactions that were in GFMS but not in PIMS. Kearney performed separate procedures over these transactions to ensure that it was appropriate to exclude the items. Finally, Kearney removed transactions with a \$0 impact (that is, transactions that netted to \$0). As shown in Table A.3, after these transactions were excluded, the universe of NDF expenses for testing was 2,114, totaling \$36,463,054.

⁸ Cost Capitalization Offset is an account used to record costs related to a specific job or product. These costs are transferred to an "in-progress" asset account, such as construction in progress, or to a completed asset account.

⁹ Depreciation is the process of allocating costs of an asset over the period of time benefitted by the asset or the asset's useful life.

¹⁰ Bad debt expense is an estimated amount of accounts receivable that is uncollectible.

Table A.3: NDF Expenses From GFMS After Exclusions

Expense Detail	Number of Transactions	Value of Transactions
FY 2016 and FY 2017 GFMS Expense Population	2,690	\$53,852,258
Less: Excluded GL Accounts	37	(138,447)
Less: Journal Vouchers	37	4,969,359
Less: Other Offices Expenses	34	12,154,546
Less: GFMS Expenditures not Recorded in PIMS*	235	403,746
Less: Net-Zero Transactions	233	0
Total	2,114	\$36,463,054

* Kearney performed procedures to verify that they were appropriately excluded, as described in the section "Use of Computer-Processed Data."

Source: Prepared by Kearney on the basis of an analysis of general ledger detail.

Using information in PIMS and GFMS, Kearney identified the expenses that were administrative and the expenses that were mission related, as shown in Table A.4.

Table A.4: Administrative and Mission-Related Expenses

Expenditure Type	Number of Transactions	Transaction Amount
Administrative Expenses	1,029	\$2,806,964
Mission-Related Expenses	1,085	33,656,091
Total	2,114	\$36,463,055

Source: Prepared by Kearney on the basis of an analysis of the general ledger detail.

From the population of administrative expenditures, Kearney summarized the transactions by document or invoice number. This analysis identified 931 unique documents or invoices. Then Kearney identified debit and credit transactions.¹¹ Specifically, Kearney identified 929 debit transactions, totaling \$2.8 million, and 2 credit transactions, totaling \$370. Kearney selected a monetary unit sample of 55 items from the debit transactions, totaling \$1.3 million. Additionally, Kearney selected the two administrative expenditure credit transactions for testing.

From the population of mission-related expenditures, Kearney summarized the transactions by document or invoice number. This analysis identified 799 unique documents or invoices. Kearney identified debit and credit transactions. Specifically, Kearney identified 791 debit transactions, totaling \$34.5 million, and 8 credit transactions, totaling \$814,302. Kearney selected a monetary unit sample of 43 items from the debit transactions, totaling \$25.2 million, as well as a judgmental sample of two expenditures from the debit transactions, totaling \$662,476, for testing: one judgmental sample was selected on the basis of the transaction

¹¹ Debits and credits are terms used to identify how accounting transactions are recorded. A debit is the normal entry for an expense. A credit entry would be abnormal and would be tested differently.

description provided in PIMS¹² and one judgmental sample was selected because it was an expenditure related to donated funds.¹³ Kearney's complete sample of mission-related debit transactions was 45 expenditures, totaling \$25.9 million. Additionally, Kearney judgmentally¹⁴ selected two credit transactions, totaling \$806,323 (which was approximately 99 percent of the population), for testing. Table A.5 summarizes the final populations for sampling and the debit samples selected.

Table A.5: Population and Sample Selection for Debit Expenditures

Project	Population Size (Amount)	Sample Size (Amount)
Administrative	929 (\$2,807,334)	55 (\$1,261,950)
Mission-Related	791 (\$34,470,393)	45 (\$25,882,057)
Total	1,720 (\$37,277,727)	100 (\$27,144,007)

Source: Prepared by Kearney on the basis of general ledger detail and testing.

For the 55 administrative and 45 mission-related expenditures selected, Kearney used the Reference Document Number¹⁵ field in GFMS to determine whether the expenditure was related to a contract or another instrument of obligation, as that would dictate the levels of authorization and supporting documentation required. Kearney found that of the 55 administrative transactions sampled, 27 were related to contracts. Of the 45 mission-related expenditures sampled, 34 were related to contracts.

For the four credit transactions selected for testing, Kearney concluded that the transactions were related to refunds of payments or corrections of previous expenditure entries and the amounts were supported by documentation.

Contract Closeouts

To obtain the universe of contracts closed during the audit scope period, October 1, 2015, to September 30, 2017, Kearney obtained ULO databases dated June 30, 2015; September 30,

¹² While performing research in PIMS prior to the selection of samples, Kearney identified an expenditure for \$3,693 that PIMS indicated exceeded the obligation. To further research the transaction and determine whether NDF had spent more than was obligated, Kearney selected this transaction for testing.

¹³ During the initial analysis of expenditure transactions, Kearney excluded 34 transactions related to funds belonging to other offices that were donated funds. Kearney identified one additional transaction related to donated funds, for \$658,783, that had not been identified during the initial analysis. Kearney sampled the transaction for testing.

¹⁴ To maximize testing efficiency and coverage over the dollar value of transactions, Kearney analyzed the credit transactions and found that by selecting the two highest dollar value transactions, Kearney would achieve over 99 percent coverage over the total dollar value of the credit transactions.

¹⁵ The Reference Document Number field in GFMS is used to reference a transaction back to its obligating document; for example, if the obligating document is related to a contract, then the contract number will be used.

2015; December 31, 2015; March 31, 2016; June 30, 2016; September 30, 2016; December 31, 2016; March 31, 2017; June 30, 2017; September 30, 2017; and March 31, 2018. Kearney identified any ULOs related to contracts. From that subgroup, Kearney then identified ULOs included in one database but not the subsequent database, which would imply that the contract had been closed out and the obligation was either liquidated or deobligated. Kearney identified 15 contracts, totaling \$25.4 million, which had their obligations either fully expended or deobligated during the audit scope period. According to PIMS, nine of these contracts, totaling \$11.4 million, had a closed status. From these nine closed contracts, Kearney selected a random sample of three contracts, totaling \$2.3 million, to test the adequacy of the contract closeout package and timeliness of closeout procedures.¹⁶ The remaining 6 contracts, totaling \$13.9 million, either were identified in PIMS as active or were identified as being closed out outside the scope period of the audit. Kearney discussed the status of these six contracts with NDF officials but did not perform testing of them.

¹⁶ According to the American Institute of Certified Public Accountants' *Audit Guide, Audit Sampling*, for performing tests of controls with a population of 12, an appropriate size would be 2 to 4. Because the population of closed contracts was nine, Kearney selected a sample size of three.

APPENDIX B: OFFICE OF NONPROLIFERATION AND DISARMAMENT FUND RESPONSE



United States Department of State

*Bureau of International Security,
and Nonproliferation*

Washington, D.C. 20520

March 7, 2019

MEMORANDUM

TO: OIG/AUD – Norman P. Brown

FROM: ISN/NDF – Joanna M. Gabryszewski

A handwritten signature in blue ink, appearing to be 'JMG', written over the name Joanna M. Gabryszewski.

SUBJECT: *Draft Report on Audit of the Office of Nonproliferation and Disarmament Financial and Contract Activities During FY2016 and FY2017*

I would like to thank the audit team for their hard work and professionalism while examining the Nonproliferation and Disarmament Fund's (NDF) financial and contract activities. I am pleased to know that the NDF generally implemented effective controls in FY 2016 and 17, including properly authorized expenditures and effective contract administration.

We agree with all 3 of the 2019 audit recommendations.

The NDF has already begun to review its procedures for monitoring overseas transactions (Recommendation 1) and current contract close out practices (Recommendations 2 and 3) and will make every effort to provide timely feedback on improvements as requested. During the OIG-NDF audit exit interview, the NDF provided a copy of the latest version of the Memorandum of Agreement regarding contract closeouts between the NDF and AQM (attached with AQM's signature) and would appreciate feedback as to whether this agreement addresses the OIG's concerns raised in Recommendation 2 prior to NDF signature.

Attachment:

Draft Memorandum of Agreement between the NDF and AQM regarding contract closeouts

Drafted: ISN/NDF: Emma Grimes ext. 7-0095

Cleared: ISN/NDF: KBlunt

MEMORANDUM OF AGREEMENT

Between

**The Office of Acquisition Management (AQM)
and the Bureau of International Security and Nonproliferation (ISN),
Nonproliferation and Disarmament Fund (NDF)
Regarding Closeout of NDF Contracts**

This is a three party agreement between offices within AQM, International Programs Division (IP) and Business Operations Division (BOD), and ISN's Nonproliferation and Disarmament Fund (NDF) regarding the contract closeout procedures and processes of NDF contract actions. This Memorandum of Agreement (MOA) supersedes the attached MOAs executed in March 2014 and August 2010. This MOA is by and between AQM's International Programs Division (IPD), AQM's Business Operations Division (BOD), and ISN's Nonproliferation and Disarmament Fund (NDF) (referred to as the Parties). The 2010 MOA was the first formal procedure established with AQM regarding closeout of NDF contracts. In 2014, the MOA was updated. The purpose of this MOA is to streamline NDF's closeout procedures and processes in accordance with updated guidance from AQM. This MOA covers all NDF contracting actions including task orders, but does not include Personal Service Contracts.

AQM manages, plans, and directs the Department of State's acquisition programs; serves as the contract administration office; and conducts operations in support of activities worldwide. AQM is responsible for the closeout of all Department contracts that are executed through AQM, and provides guidance on contract administration and contract closeout. The AQM/BOD/QA Contract Closeout Coordinating Services Team (CCCST) facilitates the closeout process of DOS contracts within specific categories that meet the closeout criterion contained in the FAR and DOSAR.

The NDF was established under section 504 of the FREEDOM Support Act of 1992 (Public Law 102-511) to promote bilateral and multilateral nonproliferation and disarmament activities. These activities include assistance worldwide for various nonproliferation and disarmament projects that involve (a) efforts to halt the spread of weapons of mass destruction (WMD), their delivery systems, related technologies, and other weapons, and (b) the dismantlement and destruction of WMD, their delivery systems, and conventional weapons.

All NDF contracts/procurements are based on (a) the approval and Congressional notification of an activity, or (b) an assessment or survey to determine the feasibility of the development of an activity that is within NDF's mandate. The closeout of the NDF's currently active contracts will comply with this updated MOA.

FOR: Office of Acquisition Management, Business Operations Division (AQM/BOD)

Signature: Vincent J. Sanchez Date: 3/7/2019
Vincent J. Sanchez
Director, AQM/BOD

FOR: Nonproliferation and Disarmament Fund, Bureau of International Security and Nonproliferation (ISN/NDF)

Signature: _____ Date: _____
Joanna Gabryszewski
Acting Director, ISN/NDF

FOR: Nonproliferation and Disarmament Fund, Bureau of International Security and Nonproliferation (ISN/NDF)

Signature: _____ Date: _____
Karla R. Blunt
Comptroller, ISN/NDF

Attachments:

AQM-NDF MOA Attachment 1
AQM-NDF MOA Attachment 2
2104 MOA
2010 MOA
Contract Closeout Checklist (ref. DOSAR 604.804)

AQM-NDF MOA Attachment I

GENERAL CONTRACT CLOSEOUT STEPS (OVER \$250K)

The following list provides the steps that NDF and AQM must take in order to close out a contract over \$250,000. The items that are italic indicate NDF responsibilities.

1. The NDF Contract Management Section (CMS) and Financial Management Section (FMS) perform an internal review/reconciliation of obligations and expenditures.
2. The COR notifies the AQM Contract Closeout Coordinating Services Team (CCCST) that a given contract action is complete and ready to begin the closeout process.
3. The CCCST completes the Contract Brief, identifies any missing information, and conducts an initial funds review.
4. If the contract is flexibly priced, the CCCST, CO, and COR work together to determine if an audit is necessary and if a quick closeout is possible.
5. The CCCST sends a memorandum to the COR requesting completion of contract closeout documentation.
6. The COR verifies satisfactory completion of the contract, disposition of any Government-furnished property, and prepares the applicable COR Completion Certificate.
7. The COR obtains a detailed financial reconciliation from the NDF Comptroller and submits it to the CCCST.
8. If excess un-liquidated funds remain, NDF submits an ARIBA requisition to the CO, requesting de-obligation of the balance.
9. The CO will issue a contract modification de-obligating the excess balance.
10. The CO sends a memorandum to the COR requesting completion of a Contractor Performance Evaluation.
11. The COR provides performance evaluation input into the Department of Defense's Contractor Performance Assessment Reporting System (CPARS), or completes a paper evaluation when requested by the CO memorandum.
12. If it is not feasible to obtain performance evaluation data, the CCCST will complete the Waiver of Performance Evaluation form for the CO's signature and inclusion in the contract file.
13. The CCCST sends a Request for Contractor's Release and Assignment of Refunds, Rebates, and Credits, to the contractor, with the appropriate release and assignment forms included.
14. If it is not feasible to obtain the release or assignments mentioned above, the CCCST will put a memorandum in the contract file that describes the basis for the determination, e.g. the period for retention of records specified in FAR 4.805 has passed.
15. The CCCST prepares the Contract Closeout Checklist and Memorandum Regarding Closeout of Contract for the CO to sign and place in the contract file.
16. The CCCST provides the entire final closeout package, including a copy of the signed Memorandum Regarding Closeout of Contract and the completed closeout checklist, to the NDF CMS and FMS.

AQM-NDF MOA Attachment 2

CLOSEOUT FOR CONTRACTS USING SIMPLIFIED ACQUISITION PROCEDURES
(\$250K AND BELOW)

The following list provides the steps that NDF and AQM must take in order to close out a contract under \$250,000. The items that are italic indicate NDF responsibilities.

1. The NDF COR verifies satisfactory completion of the contract, disposition of any Government-furnished property, and prepares the applicable COR Completion Certificate.
2. The NDF COR obtains a detailed financial reconciliation from the NDF Comptroller and submits it to the CCCST.
3. If excess un-liquidated funds remain, NDF submits an ARIBA requisition to the CO, requesting de-obligation of the balance.
4. The CCCST prepares the Contract Closeout Checklist and Memorandum Regarding Closeout of Contract for the CO to sign and place in the contract file.
5. The CCCST provides the entire final closeout package, including a copy of the signed Memorandum Regarding Closeout of Contract and the completed closeout checklist, to the NDF CMS and FMS.

ABBREVIATIONS

AQM	Bureau of Administration, Office of the Procurement Executive, Office of Acquisitions Management
CN	Congressional Notification
CO	Contracting Officer
CCT	Contract Closeout Team
COR	Contracting Officer's Representative
FAH	Foreign Affairs Handbook
FAM	Foreign Affairs Manual
FAR	Federal Acquisition Regulation
GFMS	Global Financial Management System
ISN	Bureau of International Security and Nonproliferation
NDF	Office of Nonproliferation and Disarmament Fund
PIMS	Project Information Management System
PM	Project Manager
PSC	Personal Services Contractor
ULO	Unliquidated Obligations

UNCLASSIFIED



HELP FIGHT

FRAUD, WASTE, AND ABUSE

1-800-409-9926

[Stateoig.gov/HOTLINE](https://stateoig.gov/HOTLINE)

If you fear reprisal, contact the
OIG Whistleblower Coordinator to learn more about your rights.

WPEAOmbuds@stateoig.gov

UNCLASSIFIED