



FDIC Oversight of a Telecommunications Contract

March 2023

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**REDACTED VERSION
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The redactions contained in this report are based upon requests from FDIC senior management to protect the Agency's information from disclosure.



NOTICE

Pursuant to Pub. L. 117-263, section 5274, non-governmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context to any specific reference. Comments must be submitted to comments@fdicoig.gov within 30 days of the report publication date as reflected on our public website. Any comments will be appended to this report and posted on our public website. We request that submissions be Section 508 compliant and free from any proprietary or otherwise sensitive information.



Executive Summary

FDIC Oversight of a Telecommunications Contract

The Federal Deposit Insurance Corporation (FDIC) procures goods and services from contractors in support of its mission. The FDIC Division of Administration (DOA) awarded 2,633 contracts valued at \$2.85 billion over the 5-year period 2017-2021, averaging \$570 million annually. Of this amount, the Chief Information Officer Organization (FDIC CIOO) contracted for goods and services totaling \$1.5 billion which represented 53 percent of FDIC contract funds awarded over this period.

The FDIC needs a strong culture of compliance and internal controls related to acquisition and procurement. These internal controls must include comprehensive acquisition policies and procedures, supervisory processes that promote compliance, and effective contract oversight management. Absent strong internal controls, the FDIC faces increased operational, monetary, legal, and reputational risks.

Over the past 6 years, since 2017, the FDIC Office of Inspector General (OIG) has identified Contract Management as a Top Management and Performance Challenge facing the FDIC. Additionally, the OIG issued two reports in October 2019 and March 2021 identifying that the FDIC needed to strengthen its contract oversight management and monitoring activities. Further, in both 2021 and 2022, the Government Accountability Office concluded, in its financial statements audit of the FDIC, that the FDIC had significant internal control deficiencies within its contract oversight and invoice review and payment processes.

In February 2014, the FDIC awarded a telecommunications service contract to AT&T Corp. (AT&T) in the amount of \$12 million. The contract had a base period of 1 year, and four 1-year option periods, potentially resulting in a 5-year contract if all option years were exercised. However, the FDIC did not exercise the option years, and allowed the contractor to continue to perform despite the fact that the base year period of performance ended in February 2015. On February 4, 2019, the FDIC modified the contract to extend the period of performance to February 2020 and increase the contract value to \$13.2 million. On October 28, 2019, the FDIC again modified the contract to extend the period of performance to June 2022 and to increase the contract value to \$18.3 million.

In May 2019, the FDIC CIOO approved a strategy to upgrade the bandwidth of AT&T's telecommunication services within the FDIC Field Offices. Although the

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contract provided the FDIC the option to upgrade its services, enacting this option required the FDIC and AT&T to process a formal contract modification. In March 2021, the FDIC CIOO notified the OIG of major internal control failures with the AT&T telecommunications contract and that:

- The FDIC had not completed a contract modification for the FDIC Field Office upgrades;
- The FDIC contract had already reached its funded ceiling; and
- The FDIC owed AT&T \$2.2 million for unpaid invoices at that time.

The objective of our review was to determine if the FDIC authorized and paid AT&T for services to upgrade bandwidth in FDIC Field Offices in accordance with its policies and procedures and existing telecommunications contract.

Results

The FDIC did not authorize and pay AT&T for services to upgrade bandwidth in the FDIC Field Offices in accordance with its policies and procedures and existing telecommunications contract. The FDIC did not adhere to its acquisition policies and procedures because FDIC CIOO Executive Managers did not establish an accountable organizational culture or “tone at the top” for compliance with FDIC acquisition policies and procedures. FDIC CIOO Executive and Corporate Managers also did not implement proper internal controls for the AT&T contract. In addition, risks related to the FDIC CIOO’s reliance on contractor services and the need to maintain an effective internal control environment for its contract oversight management activities were not included in the FDIC’s Enterprise Risk Management Risk Inventory. Lastly, FDIC CIOO personnel failed to fulfill their roles and responsibilities with regard to the AT&T contract.

As a result, the FDIC was subject to an unauthorized contractual commitment that cost the FDIC \$4.2 million and a prolonged increase in operational, monetary, legal, and reputational risks. Further, we found that the FDIC incurred costs above the market price for similar services in the amount of at least \$1.5 million. We consider these costs to be Funds Put to Better Use, and we will report this amount in our Semiannual Report to the Congress.

Recommendations

We made 14 recommendations to the FDIC, the Chief Information Officer, and the Chief Financial Officer. The recommendations included incorporating improvements into the FDIC CIOO's organizational culture, internal control environment, and internal controls; identifying the extent and significance of the FDIC CIOO's risk related to its procurement activities; and assessing whether management action related to employee or contractor performance or conduct is needed based on the facts presented in the report.

The FDIC concurred with all 14 recommendations in this report. The FDIC plans to complete all corrective actions by February 28, 2024.

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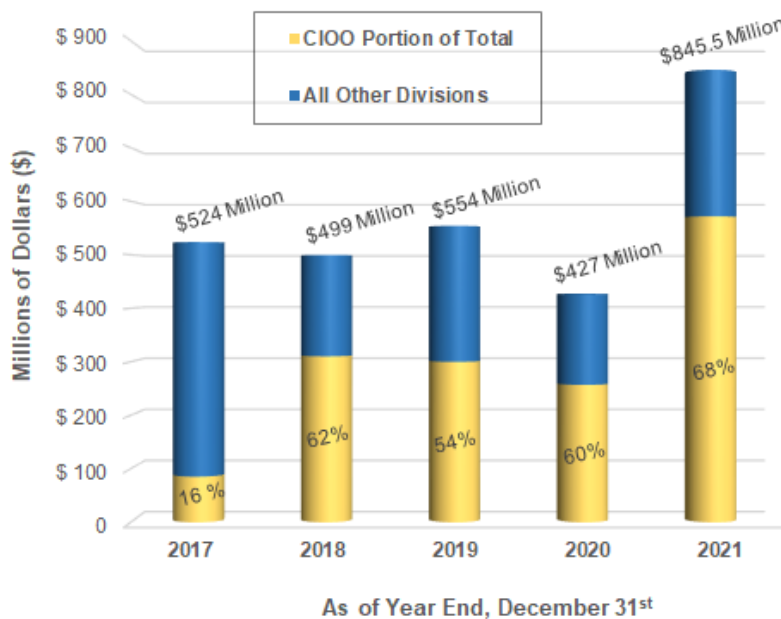
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March 31, 2023

Subject | *FDIC Oversight of a Telecommunications Contract*

The Federal Deposit Insurance Corporation (FDIC) procures goods and services from contractors in support of its mission, especially for information technology (IT), receiverships, and administrative support services. The FDIC Division of Administration (DOA) awarded 2,633 contracts valued at \$2.85 billion over the 5-year period 2017-2021, averaging \$570 million annually.¹ Of this amount, the Chief Information Officer Organization (FDIC CIOO) contracted for goods and services that represented 53 percent of FDIC contract funds awarded (\$1.5 billion). Figure 1 shows the amount of funds the FDIC awarded for goods and services for each year from 2017 through 2021, and the portion attributed to the FDIC CIOO. During the 2-year period from January 2017 through December 2018, the CIOO portion of the FDIC’s annual contract procurement increased significantly from 16 percent (\$85 million) to 62 percent (\$310 million).

Figure 1: FDIC Contract Amounts by Year (2017-2021) and FDIC CIOO Portion



Source: OIG analysis of FDIC Annual Reports and Purchase Order Summary Reports (2017 – 2021). The data excludes Basic Ordering Agreements lacking corresponding Purchase Orders.

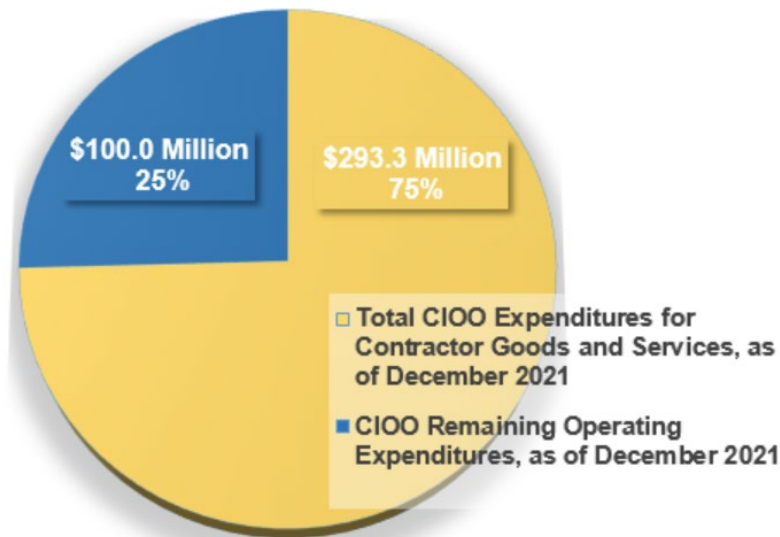
¹ The FDIC’s mission, as an independent agency created by the Congress, is to maintain stability and public confidence in the nation’s financial system by: insuring deposits, examining and supervising financial institutions for safety and soundness and consumer protection, making large and complex financial institutions resolvable, and managing receiverships.

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In 2021, the FDIC CIOO's expenses for procured goods and services represented 75 percent of its total operating expense. At this level of procurement activity, FDIC CIOO personnel should have sufficient knowledge and expertise in contract management to ensure a strong control environment and to provide assurance that the organization will achieve its mission.

Figure 2 depicts the FDIC CIOO's 2021 expenditures for contractor goods and services and the portion for all remaining expenditures, as of December 2021.

Figure 2: 2021 FDIC CIOO Expenditures



Source: OIG analysis of 2021 FDIC CIOO financial data.

In February 2014, the FDIC awarded a telecommunications service contract to AT&T Corp. (AT&T) in the amount of \$12 million. The contract had a base period of 1 year, and four 1-year option periods, resulting in a 5-year contract if all option years were exercised. However, the FDIC did not exercise the option years and allowed the contractor to continue to perform despite the fact that the period of performance ended in February 2015.² On February 4, 2019, the FDIC modified the contract to extend the period of performance to February 2020 and increase the contract value to \$13.2 million. On October 28, 2019, the FDIC again modified the contract to extend the period of performance to June 2022 and to increase the contract value to \$18.3 million. These contract modifications were to extend the period of performance and increase funding;

² During the course of our review, the team identified numerous compliance issues with the FDIC's administration of the contract (CORHQ-14-C-0057) that were outside the scope of our review. The scope of this review was narrowly defined in our objective. Accordingly, our focus was on FDIC action and inaction in implementing the FDIC CIOO's strategy to upgrade its Field Offices.

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no new services were added. Under this contract, AT&T provided Wide Area Network services and voice and data services to all FDIC office locations nationwide.³ In May 2019, the FDIC CIOO approved a strategy to upgrade the bandwidth of AT&T's telecommunication services within the FDIC Field Offices. Although the contract provided the FDIC the option to upgrade its services, exercising this option required the FDIC and AT&T to process a formal contract modification.⁴ When the FDIC authorized and paid AT&T for these services, it did not adhere to its acquisition policies and procedures.

The FDIC did not adhere to its acquisition policies and procedures and contractual agreement because:

- The FDIC CIOO had not established an accountable organizational culture nor an appropriate internal control environment to ensure compliance with FDIC acquisition policies and procedures;
- The FDIC CIOO and DOA did not implement proper internal controls for the AT&T contract;
- The FDIC did not include risks related to the FDIC CIOO's reliance on contractor services and the need to maintain an effective internal control environment for its contract oversight management activities in the FDIC Enterprise Risk Management's Risk Inventory; and
- Certain FDIC CIOO personnel did not fulfill their roles and responsibilities.

As a result, the FDIC was subjected to an Unauthorized Contractual Commitment costing \$4.2 million. The FDIC was also subjected to a prolonged increase in operational, monetary, legal, and reputational risks. Further, the FDIC incurred costs above the market price for similar services of at least \$1.5 million.

The objective of our review was to determine if the FDIC authorized and paid AT&T for services to upgrade bandwidth in FDIC Field Offices in accordance with its policies and procedures and the AT&T telecommunications contract. We conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Federal Offices of Inspector General* (August 2012) (Silver Book). Appendix 1 includes additional details on our objective, scope, and methodology.

³ A Wide Area Network is a telecommunications network that extends over a large geographic area. Wide Area Networks are often established with leased telecommunication circuits.

⁴ The contract terms and conditions and FDIC acquisition policies and procedures required a formal contract modification for implementing the FDIC Field Office upgrades.

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BACKGROUND

The FDIC's acquisition process involves a number of organizations within the Agency, including the Division or Office that initiates a procurement action (known as the Program Office), the DOA's Acquisition Services Branch (ASB), the Legal Division, and in some instances, the FDIC Board of Directors (FDIC Board).

FDIC Acquisition Process

The FDIC acquisition policies and procedures are contained within the *FDIC Acquisition Policy Manual* (August 2008) (APM) and the *FDIC Acquisition Procedures, Guidance and Information* (January 2020) (PGI) document. In June 2017, the FDIC issued its Directive 1380.2, *Information Technology (IT) Asset Management Program* to supplement the APM and PGI document. This Directive establishes policies, guidelines, and responsibilities for the FDIC's IT Asset Management Program. The FDIC's acquisition process is divided into four phases: (1) procurement planning, (2) solicitation and award, (3) contract management, and (4) closeout award.

Figure 3 presents the four phases of the FDIC's acquisition process and provides an overview of the activities within each phase.

Figure 3: The FDIC's Acquisition Process



Source: OIG analysis of the APM and PGI document.

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Roles within FDIC Acquisition Processes

Key Divisions and Offices in the FDIC acquisition process include:

- **Program Office.** A Program Office is any FDIC Division or Office that is responsible for identifying contracting requirements, conducting market research, and working closely with the Contracting Officer to initiate the procurement process.⁵ A Program Office is also responsible for authorizing funds to cover contract awards, nominating an Oversight Manager and Technical Monitor(s), and managing and overseeing the contract.⁶
- **Division of Administration.** The DOA oversees ASB, which is responsible for the overall management of the Agency's acquisition activities. ASB assigns Contracting Officers to work closely with the Program Office on each acquisition. The assigned Contracting Officer is the authorized agent to engage contractors and has sole authority to solicit proposals and negotiate, award, administer, modify, or terminate contracts on behalf of the FDIC. In addition, based on the Program Office's nomination, the Contracting Officer appoints the Oversight Manager and Technical Monitor.
- **Division of Finance.** The Division of Finance (DOF) maintains the Disbursement Operations Section, which is responsible for overseeing the proper processing of invoices and ensuring that the FDIC pays invoices within the Prompt Payment Act timeframes.⁷
- **Legal Division.** The Legal Division is responsible for interpreting laws and regulations, providing legal advice to FDIC Divisions and Offices, identifying and assessing legal risks to the FDIC, and representing the FDIC in legal matters. The Legal Division provides legal guidance to FDIC personnel concerning agency acquisition policies and procedures.
- **The FDIC Board of Directors.** According to the PGI document, the FDIC Board must approve – through a business case addressed to the FDIC Board (i) new procurement actions or modifications when the contract value equals or exceeds

⁵ According to the APM and PGI document, the Contracting Officer is responsible for ensuring the performance of all actions necessary for efficient and effective contracting, ensuring compliance with the terms of contracts, and protecting the interests of the FDIC in all of its contractual relationships.

⁶ According to the APM and PGI document, the Oversight Manager monitors the contractor's performance under the contract, acts as a technical liaison between the FDIC and the contractor, and ensures technical compliance with the contract by all parties. The Technical Monitor is responsible for assisting the Oversight Manager in monitoring and evaluating contractor performance under an FDIC contract.

⁷ The Prompt Payment Act requires an agency to make a payment within 30 days after receipt of a proper invoice from the contractor or another such date as specified in the contract. The Act states that an agency that fails to pay within the required time will be liable for interest on the delinquent payment (31 U.S.C. Section 3901).

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\$20 million; or (ii) a proposed contract modification exceeding 15 percent of the prior FDIC Board-approved amount or period of performance.

The FDIC's CIOO was the Program Office that initiated the AT&T Contract. A number of FDIC CIOO supervisory personnel were involved in initiating the procurement strategy and supervising contract oversight management, including:

- **FDIC CIOO Executive Managers.** FDIC CIOO Executive Managers are responsible for maintaining an agency-wide perspective, demonstrating the FDIC's values and ensuring the achievement of the FDIC's mission.⁸ Executive Managers are also responsible for ensuring that internal controls are operating as intended and achieving their objective(s). For the AT&T contract, Executive Managers were responsible for approving the strategy to upgrade the FDIC Field Offices, and establishing the "tone at the top" to ensure compliance with FDIC acquisition policies and procedures.⁹
- **FDIC CIOO Corporate Managers.** FDIC CIOO Corporate Managers have direct supervisory responsibility for overseeing the performance of FDIC CIOO personnel. Corporate Managers are responsible for advancing the desired organizational culture; creating norms and modeling desired behaviors; ensuring the adoption of policies, procedures, and processes; and supporting the FDIC's mission by achieving applicable FDIC and Division/Office/Branch/Work Unit performance goals and objectives. For the AT&T contract, Corporate Managers were responsible for ensuring personnel complied with FDIC acquisition policies and procedures.

The FDIC CIOO's Division of Information Technology (DIT) leads and maintains the FDIC's communications and information systems requirements and capabilities, which support the Agency's mission. The FDIC has formally designated its IT operations (under DIT) as an Essential Business Function.¹⁰ Therefore, the FDIC has recognized the critical nature of its IT operations and the need to minimize any disruption on the FDIC's operations, personnel, and facilities. According to the *FDIC Continuity of Operations Plan* (February 2020), the FDIC has acknowledged that its mission and programs are dependent on the availability of, and the FDIC's access to, communications systems to perform essential functions and provide critical services during a disruption.

⁸ The FDIC has six core values that guide it in accomplishing its mission: (1) integrity, (2) competence, (3) teamwork, (4) effectiveness, (5) accountability, and (6) fairness.

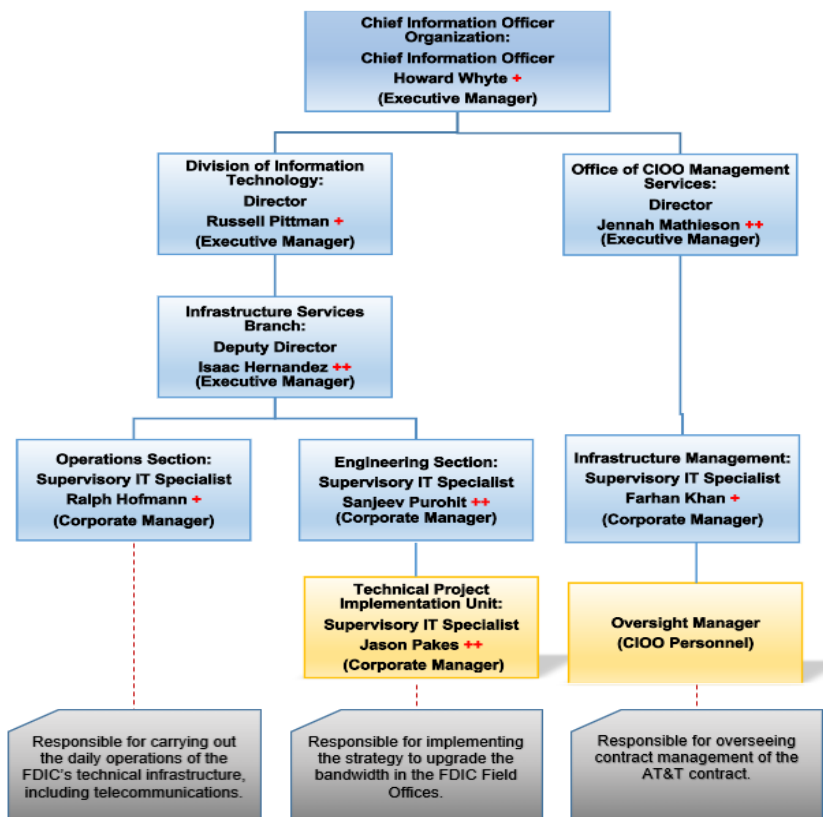
⁹ For purposes of this report, we defined Tone at the Top as an organization's general ethical climate as established by its oversight body and management. The oversight body and management establish the "tone at the top" and demonstrate the importance of integrity through their directives, attitudes, and behavior.

¹⁰ According to the *FDIC Continuity of Operations Plan* (February 2020), Essential Business Functions are specific Division or Office functions and processes that must be executed in order to support the performance of the FDIC mission – or, Mission Essential Functions.

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Figure 4 presents a simplified FDIC CIOO Organization Chart of key offices and personnel as of May 2019, when Executive Managers approved the procurement strategy to upgrade the bandwidth in FDIC Field Offices. As noted in the figure, the key FDIC CIOO Executive Managers identified either no longer hold the position they had in May 2019 or are no longer employed by the Agency.

Figure 4: Simplified FDIC CIOO Organization Chart



Source: OIG analysis of the FDIC CIOO's organizational structure and positions of key employees (May 2019).

+ Former FDIC employee

++ No longer holds this position but remains an FDIC employee

Government Standards for Internal Controls and the Influence of Organizational Culture

The *Standards for Internal Control in the Federal Government* issued by the Government Accountability Office (GAO) state that an effective internal control system includes components that address an entity's control environment and activities.¹¹ In addition,

¹¹ According to GAO *Standards for Internal Control in the Federal Government* (GAO-14-704G) (September 2014), internal control is a process established by an entity's oversight body, management, and other personnel, and is

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the standards establish components and principles of internal control, including, demonstrating a commitment to integrity, ensuring individual and employee competence, ensuring adherence to policies and procedures, and verifying and maintaining a strong internal control environment.

A key element that influences an entity's internal control system is its organizational culture. According to Gartner, organizational culture is the set of behavioral norms and unwritten rules that shape the organizational environment and how individuals interact and get work done in that environment.¹² As an aspect of organizational culture, compliance culture is the culture of adhering to policies and decisions whether from internal directives and procedures or from external laws, regulations, and standards. A culture of compliance starts with an organization that executes and implements its mission and values, where Executive and Corporate Managers express a commitment to compliance with policies and encourage open communication and honest feedback.¹³

If an agency lacks a culture of compliance regarding its procurement activities or has weaknesses in its internal controls, it may be subject to increased operational, monetary, legal, and reputational risks. In particular, the agency may:

- Fail to properly execute a contract;
- Fail to oversee contractors;
- Fail to protect the agency's rights when obtaining goods and services at an agreed-upon condition, time, and cost;
- Expose itself to legal risk; and
- Suffer reputational damage for failing to control the agency's operations.

Unauthorized Contractual Commitments

When internal controls are not followed or adhered to, FDIC personnel can adversely affect contract performance or acquisition processes up to and including creating an Unauthorized Contractual Commitment. According to the PGI document, an Unauthorized Contractual Commitment is "[a]ny action by an Oversight Manager,

comprised of the plans, methods, policies, and procedures used to fulfill an entity's mission, strategic plan, goals, and objectives. A control environment is the foundation for an internal control system. It provides the discipline and structure, which affect the overall quality of internal control. It influences how objectives are defined and how control activities are structured. The oversight body and management establish and maintain an environment throughout the entity that sets a positive attitude toward internal control. Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system. Management should conduct periodic reviews of control activities.

¹² GARTNER is the registered trademark and service mark of Gartner Inc., and/or its affiliates in the U.S. and/or internationally and has been used herein with permission. All rights reserved.

¹³ Gartner, *How to Audit Culture, Part 1: Define Culture and Assess Audit's Readiness*, Audit Research Team, (July 2021).

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Technical Monitor, or others that causes the contractor to extend or expand the requirements of the contract and thus impact the price, schedule, quantities or quality of the deliverables, or change other substantive terms and conditions of the contract without the Contracting Officer's direction.”

According to the PGI document, upon discovery of an Unauthorized Contractual Commitment, the FDIC is required to review the unauthorized action and consider ratification. The Program Office initiates ratification procedures through the Contracting Officer by preparing a Program Office Statement.¹⁴ Upon receipt, the Contracting Officer prepares a Contracting Officer Recommendation Report.¹⁵ The Contracting Officer Recommendation Report is reviewed and approved by DOA ASB.¹⁶ The PGI document also requires the FDIC Board to review and authorize all contract funding increases, when the contract's Total Award Value exceeds \$20 million.¹⁷

History of Deficient Contract Oversight Management at the FDIC

For the past 6 consecutive years, since 2017, the OIG has identified Contract Management as a Top Management and Performance Challenge facing the FDIC.¹⁸ The OIG initially recognized contract oversight management as a concern based on the FDIC's review and analysis of its performance during the 2008-2013 financial crisis. In particular, the FDIC explained that contracting was an essential part of the FDIC's failure resolution process during the financial crisis, but it was overtaxed early in the crisis. Specifically, staffing was thin and the FDIC had to rapidly hire and train Oversight Managers.¹⁹ From 2017 to 2022, based on work performed by the OIG and corresponding audit findings, the OIG has continued to identify contract oversight management as a challenge. Since 2017, the OIG's Top Management and Performance Challenges reports highlighted the Agency's continuing need to strengthen FDIC contract oversight, including examining Oversight Managers' workload. Most recently, in February 2023, the Top Management and Performance Challenges report highlighted the FDIC's continuing need to strengthen FDIC contract oversight.

¹⁴ According to the PGI document, the Program Office Statement provides the following: (1) the responsible employee, (2) a statement of pertinent facts, (3) a statement that goods or services have been, or will be, provided and accepted, and (4) an approved Procurement Request. In addition, the statement must be signed by the Program Office Deputy Director for ratification actions of \$10,000 or less. For actions greater than \$10,000, the statement must be signed by the Division/Office Director.

¹⁵ According to the PGI document, the Contracting Officer Recommendation Report details the findings of facts provided by the contractor and Program Office, determines if the goods and services are acceptable and the price is fair and reasonable, and provides a recommendation for either approving or denying the ratification action.

¹⁶ According to the PGI document, the Contracting Officer Recommendation Report is reviewed and approved by the ASB Assistant Director for actions \$10,000 or less. Only the ASB Deputy Director may approve actions greater than \$10,000.

¹⁷ According to the PGI document, FDIC Board approval is required when the value of any contract valued at less than \$20 million will be modified to increase the value to \$20 million or greater. In such instances, FDIC Board approval must be received prior to issuance of the modification.

¹⁸ Contract management was identified within the FDIC OIG Top Management and Performance Challenges reports issued in [February 2018](#), [February 2019](#), [February 2020](#), [February 2021](#), [February 2022](#), and [February 2023](#).

¹⁹ FDIC, *Crisis and Response, An FDIC History, 2008-2013* (December 2017).

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Further, our OIG report, [Contract Oversight Management](#) (October 2019), assessed the FDIC's contract oversight management processes. We focused on four main areas: (1) the FDIC's oversight and monitoring of contracts using its contracting management information system, (2) the workload of Oversight Managers in overseeing assigned contracts, (3) Oversight Manager training and certifications, and (4) security risks posed by contractors and their personnel. Based on our work, we concluded that the FDIC needed to strengthen its contract oversight management. In particular, the FDIC needed to improve its contracting management information system, contract documentation, Oversight Manager workload, and Oversight Manager training and certification. As a result of our findings, we made 12 recommendations, one of which remains unimplemented by the FDIC.

Prior OIG and GAO

Recommendations. The former FDIC Chair recognized the urgent need for improvements in the area of contract oversight management. In June 2021, in response to identifying the Unauthorized Contractual Commitment, the former FDIC Chair acknowledged that “[i]n the last 10 years, the [FDIC CIOO] has been the subject of 303 recommendations from the [OIG] or the GAO. Roughly 61 of these recommendations, or 20 percent, related to program management or acquisition issues. About 62 reflected inadequate policies, procedures or program documentation.” Further, the former FDIC Chair stated that, “[t]he FDIC acquisition process has also been routinely criticized during this period with [an] additional 55 contracting recommendations. . . . They point to systemic cultural shortfalls that must be remedied.” As recorded within the *Minutes of the Meeting of the Board of Directors – Federal Deposit Insurance Corporation* (June 2021).

Lastly, our OIG report, [Critical Functions in FDIC Contracts](#) (March 2021) assessed whether a contractor performed Critical Functions.²⁰ Based on our work, we found that the FDIC did not have policies and procedures for identifying Critical Functions in its contracts, as recommended by best practices and industry standards. The FDIC also did not implement heightened contract monitoring activities for procured Critical Functions. As a result, the FDIC could not be assured that it provided sufficient management oversight of contractors performing Critical Functions. In addition, we reported that if the FDIC did not manage its risks associated with Critical Functions, it may become over-reliant on a contractor and fail to control the Agency's mission and operations. Further, the Agency may fail to provide independent judgments and informed oversight and identify and evaluate alternative courses of action. Finally, we noted that if the FDIC did not manage this risk, the Agency may create inefficiencies through increased cost and decreased operational effectiveness. As a result of our findings, we made 13 recommendations, of which 12 remain unimplemented by the FDIC.

²⁰ Office of Federal Procurement Policy, Office of Management and Budget Policy Letter 11-01, *Performance of Inherently Governmental and Critical Functions* (February 13, 2012) defined a Critical Function as “a function that is necessary to the agency being able to effectively perform and maintain control of its mission and operations. Typically, critical functions are recurring and long-term in duration.”

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The FDIC's Significant Internal Control Deficiencies

For two consecutive years, in both 2021 and 2022, the GAO found that the FDIC had a significant internal control deficiency within its contract oversight and invoice review and payment processes.

In May 2021, GAO identified five deficiencies related to the FDIC's contract-payment review processes, which collectively represented a Significant Deficiency.²¹ These deficiencies involved the failure of Oversight Managers to appropriately review and approve contract invoices. As a result, the GAO concluded that the FDIC could not be reasonably assured that its internal controls over contract payments were operating effectively. Therefore, the FDIC incurred increased risks of improper payments and misstatements in its financial statements.

In May 2022, GAO identified 11 additional deficiencies related to the FDIC's contract-payment review processes and the FDIC's failure to consistently execute internal controls over contract documentation that collectively represented a Significant Deficiency.²² These deficiencies resulted from the continuing failure of Oversight Managers to appropriately review and approve contract invoices and the failure of Contracting Officers to adhere to FDIC acquisition policies and procedures regarding contract modifications. In particular, GAO identified instances where a Contracting Officer:

- Signed a contract modification without sufficient authority;
- Failed to provide documented support for a contract ceiling increase; and
- Failed to properly modify and close out a contract, subject to early termination.

FDIC Contract with AT&T

In February 2014, the FDIC awarded a \$12 million telecommunications service contract to AT&T. Under this contract, AT&T provided managed Wide Area Network services and voice and data services to all FDIC office locations nationwide. The contract had a base period of 1 year, and four 1-year option periods, resulting in a 5-year contract if all option years were exercised. On February 4, 2019, the FDIC modified the contract to extend the period of performance to February 2020 and increase the contract value to \$13.2 million. On October 28, 2019, the FDIC again modified the contract to extend the

²¹ GAO *Management Report: Improvements Needed in FDIC's Internal Control over Contract-Payment Review Processes* (GAO-21-420R) (May 2021). A Significant Deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

²² GAO *Management Report: Improvements Needed in FDIC's Internal Control over Contract Documentation and Payment-Review Processes* (GAO-22-105824) (May 2022).

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period of performance to June 2022 and to increase the contract value to \$18.3 million. These contract modifications extended the period of performance and increased the funding; no new services were added.

Although the AT&T contract period of performance ended in February 2019, the FDIC CIOO neither planned for nor initiated a competitive procurement action to replace the expiring contract. Concurrently, the FDIC CIOO recognized existing concerns with the telecommunication services being provided to the FDIC Field Offices. In March 2019, the FDIC CIOO identified a strategy to improve telecommunication services at the FDIC Field Offices that it believed was a short-term, low-cost solution. In May 2019, FDIC CIOO Executive Managers approved the strategy. Also in May 2019, an FDIC CIOO Official directed AT&T to upgrade the bandwidth at the FDIC's Field Offices. The FDIC CIOO incorrectly believed that the FDIC Field Office bandwidth could be upgraded in 90 days at an annual cost of \$198,000. Although the contract provided the FDIC the option to upgrade its services, exercising this option required the FDIC and AT&T to process a formal contract modification. A formal contract modification was required by the contract terms and conditions and FDIC acquisition policies and procedures.

In March 2021, the FDIC CIOO notified the OIG of major internal control failures with the AT&T telecommunications contract and that:

- The FDIC had not completed a contract modification for the FDIC Field Office upgrades;
- The contract had already reached its funded ceiling; and
- The FDIC owed AT&T \$2.2 million for unpaid invoices at that time.

In April 2021, the FDIC's Legal Division, working with the FDIC CIOO and DOA, investigated the circumstances surrounding the FDIC's administration of the contract. In May 2021, the Legal Division issued its report.²³ The report discussed the following three general findings:

- FDIC CIOO and DOA failed to properly plan the acquisition and properly administer the contract;
- FDIC CIOO and DOA failed to track expenditures to contract work, and DOF paid invoice amounts based solely on the Oversight Manager's approval; and
- FDIC CIOO failed to appropriately manage its budget in relation to this contract.

The FDIC CIOO and DOA found that the CIOO was not following proper FDIC processes and procedures. FDIC CIOO and DOA developed 18 recommendations to address their longstanding process and procedural failures associated with contract

²³ FDIC Legal Division internal report titled *Report* (May 2021).

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oversight management and the AT&T contract.²⁴ According to information provided by the FDIC's Office of Risk Management and Internal Controls (ORMIC), FDIC CIOO and DOA addressed 15 of these recommendations and planned to complete the remaining three recommendations.

TIMELINE OF SIGNIFICANT EVENTS

From March 2019 to August 2021, FDIC personnel took the following significant actions relating to the request for and payment to AT&T for services to upgrade bandwidth in FDIC Field Offices:

- In **March 2019**, FDIC CIOO officials recognized a need to upgrade the FDIC Field Offices for expanded telecommunication services (increased bandwidth), and a Supervisory IT Specialist (Corporate Manager), provided an annual cost estimate of \$198,000 to a Deputy Director (Executive Manager).
- In **May 2019**, the Supervisory IT Specialist created an Unauthorized Contractual Commitment by requesting, via email, that AT&T perform the upgrade, and AT&T accepted, without following FDIC acquisition policies and procedures.
- From **May 2019 to July 2020** (over a 14-month period), the Supervisory IT Specialist reviewed and accepted AT&T's work to upgrade the FDIC Field Offices.
- In **August 2019**, the Oversight Manager identified, through discussions with the Supervisory IT Specialist, that AT&T was performing new services and instructed him, through email, to submit a Procurement Request.²⁵
- In **August/September 2019**, the Supervisory IT Specialist asked his team to prepare a cost estimate and Procurement Request. His team prepared a cost estimate totaling \$7.3 million for a 2-year period. FDIC officials were not advised, nor were they aware, that this cost estimate was significantly higher than the one previously communicated or provided in March 2019. The Supervisory IT Specialist did not submit a detailed cost estimate supporting the \$198,000, this new cost estimate, nor a Procurement Request for the FDIC Field Office upgrades.
- In **August 2020**, the Oversight Manager received and approved payment for the first invoice for the FDIC Field Office upgrades. This invoice contained charges totaling \$1.2 million for the FDIC Field Office upgrades; however, at this time, the

²⁴ FDIC Board Case Memorandum titled *Request for Authority to Increase the Ceiling of the AT&T Voice and Data Services Contract* (June 2021).

²⁵ For purposes of this report, we refer to the Oversight Manager who was responsible for overseeing the contract from January 2018 to March 2021. We do not name FDIC personnel categorized as Corporate Grade employees.

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FDIC had not modified the contract to include the upgrades and to provide funding.

- In **October 2020**, the Oversight Manager received the second invoice for FDIC Field Office upgrades. The second invoice contained \$1.4 million in charges for the FDIC Field Office upgrades. This invoice exceeded the remaining Total Award Value of the contract.²⁶ The Oversight Manager delayed paying the invoice until December 2020.
- In **December 2020**, the Oversight Manager approved a partial payment of the invoice from October 2020. The Oversight Manager approved the payment for charges related to the FDIC Field Office upgrades of \$1.4 million (without a contract modification to include these upgrades and funding). The Oversight Manager also delayed the payment for monthly recurring voice and data services that were included in the contract.
- From **December 2020 to June 2021** (7 months), the FDIC continued to receive invoices from AT&T for the FDIC Field Office upgrades and recurring monthly service charges totaling \$2.9 million. However, the Oversight Manager did not approve payment of these invoices because the contract ceiling amount had already been reached.
- In **March 2021**, the FDIC CIOO informed the OIG of the funding shortfall, internal control failure, and unauthorized services performed by AT&T.
- In **June 2021**, the FDIC Board adopted a resolution authorizing the increase of the contract ceiling and extended the contract period of performance.
- In **July 2021**, the DOA ASB Deputy Director ratified the Unauthorized Contractual Commitment, and the Contracting Officer modified the contract to add the FDIC Field Office upgrades and increase contract funding.
- In **August 2021**, the FDIC resumed payment of invoices to AT&T for this contract. The Agency determined the FDIC Field Office upgrades cost a total of \$4.2 million.

For a Detailed Timeline of Relevant Events, please see Appendix 2.

²⁶ For purposes of this report, we define Total Award Value or contract ceiling as the total amount that could be obligated on the contract if the base year and all option years are exercised.

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REVIEW RESULTS

The FDIC did not authorize and pay AT&T for services to upgrade bandwidth in the FDIC Field Offices in accordance with its policies and procedures and existing telecommunications contract. The FDIC did not adhere to its acquisition policies and procedures, and contractual agreement because:

- The FDIC CIOO did not establish an organizational culture that promoted compliance with FDIC acquisition policies and procedures.
- The FDIC CIOO and DOA did not implement proper internal controls for the AT&T contract.
- The FDIC CIOO did not identify its significant reliance on, and internal control weaknesses related to, contractor services within its FDIC Enterprise Risk Management's Risk Inventory.
- Certain FDIC CIOO personnel did not fulfill their roles and responsibilities.

As a result, the FDIC was subject to an Unauthorized Contractual Commitment costing \$4.2 million. In addition, the FDIC was subjected to a prolonged increase in operational, monetary, legal, and reputational risks. Further, the FDIC incurred \$1.5 million in costs above the market price for similar services.

The FDIC CIOO Did Not Establish an Accountable Culture of Contract Compliance

The FDIC CIOO had not established an organizational culture that ensured compliance with FDIC acquisition policies and procedures. The FDIC created an Unauthorized Contractual Commitment because of systemic weaknesses within the FDIC CIOO's organizational culture. In addition, the FDIC failed to take corrective actions in a timely

FDIC Culture. The former FDIC Chair, in response to identifying the Unauthorized Contractual Commitment, recognized the urgent need to address operational deficiencies within the Agency (particularly related to contract oversight) and resolve recommendations for improvements. According to the former FDIC Chair, "[s]ince joining the FDIC, I have found far too many instances of operational deficiencies that were identified but never corrected or corrective actions were not properly sustained. Unfortunately, as it relates to contract oversight and proper documentation of our acquisitions, we find ourselves in that same situation today.

Since this AT&T contract was signed in 2014, the FDIC personnel responsible for program management and contract oversight have failed to meet the requirements of their job. In many instances, they have repeated past acquisition and program management failures.

These actions reflect poorly on the responsible individuals. They reflect poorly on the FDIC. They have also revealed FDIC cultural failures that cannot and must not be tolerated." As recorded within *the Minutes of the Meeting of the Board of Directors – Federal Deposit Insurance Corporation* (June 2021).

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manner. These FDIC systemic weaknesses included a disregard for, and a lack of understanding of, FDIC acquisition policies and procedures and controls.

According to statements from the Contracting Officer, Oversight Manager, and FDIC CIOO officials, FDIC CIOO personnel routinely failed to comply with FDIC acquisition policies and procedures. FDIC personnel stated that CIOO officials demonstrated systematic and pervasive failures to adhere to FDIC acquisition policies and procedures, including creation of Unauthorized Contractual Commitments. The FDIC also failed to oversee contractor performance, and FDIC CIOO employees engaged in procurement activities without supervisory oversight.

According to Gartner, organizational culture is the set of behavioral norms and unwritten rules that shape the organizational environment and how individuals interact and get work done in that environment. The GAO *Standards for Internal Control in the Federal Government* are also integral to the organizational environment and the organization's internal control system. In particular, GAO established key components and principles that provide managers criteria for designing, implementing, and operating an effective internal control system. Each principle has important characteristics, called attributes, which explain the principles in greater detail. For example, GAO established an internal control principle for organizations to "demonstrate commitment to integrity and ethical values" within its control environment. In order to implement this principle, the organization should establish, in part, the "tone at the top" as an attribute of the internal control environment.

Although our review focused on the AT&T contract, interview statements by FDIC CIOO Executive and Corporate Managers, the Contracting Officer, and the Oversight Manager supported that there were generally accepted standards of behavior within the FDIC CIOO that allowed personnel to bypass established controls and FDIC acquisition policies and procedures.

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Generally Accepted Standards of Behavior. Based on interviews with FDIC personnel, the FDIC CIOO's organizational culture ignored or bypassed established controls and FDIC acquisition policies and procedures. In particular, FDIC personnel stated the following:

- **The former Director of DIT.** The former Director of DIT, Russell Pittman (Executive Manager), stated that it was not his role or responsibility to “get into the weeds.”
- **Supervisory IT Specialist.** The Supervisory IT Specialist, Sanjeev Purohit (Corporate Manager), stated that “[i]t is not unusual for [Executive Management] to work directly with lower level employees on projects and bypassing their direct supervisors.”
- **Supervisory IT Specialist.** The Supervisory IT Specialist, Jason Pakes (Corporate Manager), stated that once things were on Executive Management's “radar, or being talked about in the town hall, there was a lot of pressure to get it done quickly, by a certain date.”

In addition, he stated that there was a lack of governance over the entire process, e.g., who was responsible for what and what controls were in place that should have prevented the AT&T contract issue from happening.

- **Oversight Manager.** The Oversight Manager stated that the FDIC CIOO Executive and Corporate Managers “set a tone of whatever it takes to get things done ... it was take action and fix it later – chase the decision.”

In addition, he stated that “the procurement process was an afterthought under previous [FDIC CIOO Executive and Corporate Management].”

- **Contracting Officer.** The Contracting Officer stated that when she had to initiate the ratification process for another Unauthorized Contractual Commitment “anywhere else, that would be a big deal.” She also stated that she “wanted to understand how this situation happened, but management did not support her and did not seem to care. Also, people in the CIOO were defensive.”

In addition, she stated that she “never felt ... supported by ... management. They did not have my back; they usually had the [Chief Information Officer] CIO's back.”

The FDIC CIOO identified, within its *CIOO 2019 Culture Survey*, significant cultural deficiencies. Subsequently, within its *CIOO Culture Pulse Check Survey: Q2 Results* (July 2021), the FDIC CIOO identified a continuing need to focus across all survey areas; and, in particular, communication, cooperation, and employee workload as continuing areas of emphasis for improvement. These areas for improvement were consistent with the results of our review.

The FDIC CIOO Executive Managers did not ensure an organizational culture that promoted corporate governance by establishing a “tone at the top,” overseeing the internal control environment, and ensuring achievability of assigned tasks.²⁷

²⁷ The term “FDIC CIOO Executive Managers” refers to those officials identified in Figure 4. As noted in the figure, these officials no longer hold their former positions or are no longer employed by the Agency.

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FDIC CIOO Executive Managers Did Not Establish a Commitment to Compliance with FDIC Acquisition Policies and Procedures

The GAO *Standards for Internal Control in the Federal Government* provides the principles for establishing an effective control environment, including setting the “tone at the top.” Management establishes a positive “tone at the top” by:

- Modeling the importance of commitment through their directives, attitudes, and behaviors.
- Demonstrating a commitment to competence – to themselves and the entity’s employees.
- Ensuring accountability by management holding personnel accountable for performing their assigned internal control responsibilities.

FDIC CIOO Executive Managers did not establish a commitment to compliance with FDIC acquisition policies and procedures. FDIC CIOO Executive Managers did not communicate a positive attitude toward compliance by modeling compliant behaviors, demonstrating commitment to knowledge and understanding, and ensuring adherence to FDIC acquisition policies and procedures.

- **Failure to Exhibit and Demonstrate Compliant Behaviors.** FDIC CIOO Executive Managers did not exhibit or demonstrate the need to comply with FDIC acquisition policies and procedures and standards of conduct. Executive Managers did not demonstrate compliant behaviors because they lacked sufficient knowledge of the acquisition process and contract oversight management. Lastly, Executive Managers demonstrated a disregard for the internal control structure by routinely bypassing direct supervisors when assigning tasks.

The FDIC Reiterated to Division and Office Directors and Deputy Directors Expectations for Executive and Corporate Managers.

In November 2021, in response to identifying the Unauthorized Contractual Commitment, the FDIC’s former Chief Operating Officer and Chief of Staff reiterated the expectation that Executive and Corporate Managers must be actively engaged in, and accountable for, program delivery; consider and mitigate risks to program success; implement strong internal controls; and effectively monitor and manage program budget, health, and outcomes. In addition, the former FDIC Chief Operating Officer and Chief of Staff stated that Executive and Corporate Managers, as leaders in the Agency, they set the tone needed to maintain a “Culture of Excellence.” In creating a “Culture of Excellence,” they needed to ensure the focus of their entire team on program risks, and the freedom for staff to respectfully discuss program opportunities, risks, and mitigations with each other and program leaders.

Although the former Chief Operating Officer and Chief of Staff communicated to Executive and Corporate Managers their accountability and program ownership, the FDIC did not establish appropriate roles and responsibilities for its personnel in carrying out acquisition policies and procedures.

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According to the former Director of DIT, Russell Pittman (Executive Manager), it was not his role or responsibility to “get into the weeds.” Nor did Mr. Pittman demonstrate knowledge or understanding of the contract modification processes when interviewed by the OIG. Mr. Pittman also was not aware who the assigned Oversight Manager and Technical Monitor were for the AT&T contract, or if one had been assigned. In addition, he did not understand the roles and responsibilities of the Oversight Manager and Technical Monitor positions.

Mr. Pittman’s lack of knowledge and understanding of these important contract oversight positions, roles, and responsibilities limited his ability to model compliant behavior. Specifically, Mr. Pittman’s lack of knowledge prevented him from (1) engaging in informed discussions about FDIC CIOO procurement actions and internal control processes, (2) ensuring adherence to FDIC acquisition policies and procedures, and (3) knowing when to hold people accountable for policy violations. Furthermore, Mr. Pittman and the former Deputy Director of DIT, Isaac Hernandez (Executive Manager), exhibited a disregard for the established control structure in assigning tasks by bypassing, and failing to ensure, direct supervisory oversight.

Compounding Mr. Pittman’s lack of knowledge and understanding, Mr. Hernandez, who was directly involved in assigning procurement actions, also did not know or understand his staff’s assigned roles and responsibilities for contract oversight.

Ultimately, Mr. Pittman and Mr. Hernandez’s behaviors and attitudes did not demonstrate compliance with FDIC acquisition policies and procedures.

- **Lack of Commitment to Knowledge and Understanding.** FDIC CIOO Executive Managers did not demonstrate a commitment to competence by completing training and gaining knowledge and understanding of FDIC acquisition policies and procedures.²⁸

Based on a review of training records and interview statements, FDIC CIOO Executive Managers did not complete training on contract oversight management. Although FDIC Executive and Corporate Managers overall are not required to obtain any contract oversight management training, 75 percent of the FDIC CIOO’s operational expenses are derived from contracted services. In

²⁸ According to a KPMG International Limited (KPMG) article, *Auditing Culture-Practical introduction to auditing your organizational culture* (June 2020), commitment occurs when management and employees feel called to actively uphold an organization’s interests and identify with the entity’s values. For purposes of this report, we define Competence, or knowledge and understanding, as the qualification to carry out assigned responsibilities. This requires relevant knowledge, skills, and abilities, gained from professional experience, training, and certifications and is demonstrated by an individual’s behavior as they perform their duties.

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other words, a significant portion of the FDIC CIOO's expenditures are centered in obtaining and managing contractor-provided information technology resources and services. In addition, Executive Managers have delegated authority to review and approve procurement actions. Further, the FDIC has established its own unique acquisition policies and procedures – separate and distinct from the Federal Acquisition Regulations. Therefore, it is critical that FDIC CIOO Executive and Corporate Managers have knowledge and understanding of the FDIC's acquisition policies and procedures. Nevertheless, Mr. Pittman and Mr. Hernandez did not receive any FDIC-specific contract oversight management training.

FDIC CIOO Executive Managers Have Delegated Authority for Initiating Procurement Actions. The FDIC Program Offices' Deputy Directors have delegated approval authority for non-competitive procurement actions valued between \$500,000 and \$1 million. The FDIC Program Offices' Directors have delegated approval authority for non-competitive procurement actions valued at \$1 million or greater.

Yet, based on our review, FDIC CIOO Executive Managers had limited knowledge and understanding of FDIC acquisition policies and procedures. Although not required, we also noted that FDIC CIOO Executive Managers did not obtain training on FDIC acquisition policies and procedures.

Based on interview statements, Mr. Hernandez did not appear to have a clear understanding of the assigned roles and responsibilities (of Technical Monitors, Oversight Managers, and Contracting Officers) with respect to FDIC CIOO personnel involved in contract oversight. In particular, Mr. Hernandez stated that he "assumed" Mr. Pakes was a Technical Monitor (which he was not), and that he was unsure if an Oversight Manager could order goods and services (which an Oversight Manager cannot).

Due to the significant level of FDIC CIOO contracted goods and services, FDIC CIOO Executive and Corporate Managers should have knowledge and expertise in FDIC acquisition and procurement processes. This knowledge would assist Executive Managers in ensuring that Corporate Managers oversee the activities of their staff in complying with FDIC acquisition policies and procedures. In addition, Executive Managers' increased awareness would provide them a greater ability to ensure that the FDIC CIOO achieves its goals and objectives, and internal controls are operating as intended.

FDIC CIOO Executive Managers also did not promote an organizational culture that ensured its personnel possessed and maintained a level of competence surrounding acquisition policies and procedures commensurate with their responsibilities. According to statements from the Contracting Officer, Oversight Manager, and FDIC CIOO officials, FDIC CIOO personnel routinely failed to

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comply with FDIC acquisition policies and procedures, including (1) creating Unauthorized Contractual Commitments; (2) overseeing contract performance without authority and serving as “unofficial” Technical Monitors; and (3) engaging in procurement activities without direct management oversight.

Although key FDIC CIOO personnel received contract oversight management training, FDIC CIOO Executive Managers did not ensure that these personnel understood and complied with FDIC acquisition policies and procedures. For example, in one instance, when presented with an initial cost estimate, of \$198,000 for upgrading FDIC Field Offices, Mr. Hernandez accepted the cost estimate without reviewing and evaluating whether market research was conducted and the cost estimate was appropriately and accurately prepared in compliance with FDIC acquisition policies and procedures. Subsequently, Mr. Hernandez communicated this estimated cost to his superior, Mr. Pittman, as a recommended solution to the FDIC Field Office bandwidth needs.

The FDIC Provided Refresher Training to Oversight Managers. In an effort to promote compliance with FDIC acquisition policies and procedures, the FDIC provided training to Oversight Managers in December 2021.

Although the FDIC provided refresher training to Oversight Managers, the training was not provided to FDIC CIOO Executive Managers and other personnel who interact with contractors or service providers. Also, the training did not address avoiding Unauthorized Contractual Commitments.

Mr. Pittman relied on this information to approve the strategy to upgrade the FDIC Field Offices. Rather than following the CIOO’s established control structure, Mr. Pittman then instructed Mr. Pakes to initiate the strategy to upgrade all FDIC Field Offices. As the Executive Manager overseeing the Infrastructure Services Branch, Mr. Hernandez was aware that Mr. Pittman had assigned Mr. Pakes this responsibility without involving his supervisor, Supervisory IT Specialist, Sanjeev Purohit (Corporate Manager). Nevertheless, Mr. Hernandez similarly did not engage Mr. Purohit or assume the responsibility to provide direct oversight and ensure compliance with FDIC acquisition policies and procedures.

As a result, Mr. Pakes coordinated with AT&T and served as an unofficial Technical Monitor. According to his statements, Mr. Pakes did not consider it his responsibility to follow, or ensure adherence to, procurement policies and procedures because he was not officially designated as the Technical Monitor. Had Executive Managers adhered to the established internal control system and supervisory oversight process, Mr. Pakes would have understood the need for, and importance of, ensuring such compliance.

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- **Failure to Hold Personnel Accountable by Monitoring and Enforcing Acquisition Policies and Procedures.** FDIC CIOO Executive Managers did not ensure that Corporate Managers monitored employee performance for compliance with, and held personnel accountable for adhering to, FDIC acquisition policies, procedures, and processes. Specifically, Executive Managers did not monitor for compliance because they did not possess the requisite knowledge and understanding of FDIC acquisition policies and procedures. Further, when Executive Managers and Corporate Managers were notified of policy violations, they did not ensure that personnel were held accountable for these violations.²⁹ For example, FDIC CIOO Executive Managers did not take personnel actions against employees who created an Unauthorized Contractual Commitment on another contract.

According to the Performance Standards for an Executive Manager, Executive Managers are responsible for ensuring and promoting compliance with corporate governance and holding others accountable – by monitoring and addressing performance concerns.

FDIC CIOO Executive Managers, however, did not engage Corporate Managers to establish and implement monitoring activities to oversee the FDIC CIOO's procurement and contract oversight activities. In particular, after the former FDIC Director of DIT, Mr. Pittman, authorized the procurement strategy to upgrade all FDIC Field Offices, Mr. Hernandez did not monitor Mr. Pakes or engage his supervisor, Mr. Purohit, to oversee and monitor compliance with acquisition policies and procedures. Based on our review of training records and interview statements, Mr. Purohit had the knowledge and expertise to ensure adherence to FDIC acquisition policies and procedures; however, Mr. Hernandez lacked such knowledge and expertise.

When informed, FDIC CIOO Executive Managers, in coordination with Corporate Managers, also did not hold Agency personnel accountable for their contract oversight management performance weaknesses and policy violations of FDIC acquisition policies and procedures. When FDIC CIOO personnel reported contract oversight performance concerns to the Oversight Manager's supervisor, no action was taken.

²⁹ According to KPMG's article, *Auditing Culture-Practical introduction to auditing your organizational culture* (June 2020), Accountability is when management and employees feel comfortable reporting misconduct, either formally or informally. People are then held accountable for their actions.

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Further, according to the FDIC Contracting Officer, FDIC CIOO did not support the Contracting Officer's effort to ensure compliance with FDIC acquisition policies and procedures and was resentful toward the ratification process for an Unauthorized Contractual Commitment that occurred on a different contract. Similar to the AT&T contract, no formal Technical Monitor was assigned and Mr. Pakes' team was responsible for administering the contract. For this other contract, Mr. Pittman reviewed and approved the Program Office Statement as part of the ratification process. However, Mr. Pittman did not take disciplinary action against those involved or communicate a clear message about avoiding such unauthorized actions and when identified, reporting them to ensure appropriate corrective action.

For this other contract, in June 2019, the FDIC Contracting Officer identified and initiated ratification procedures for the Unauthorized Contractual Commitment. In August 2019, the Unauthorized Contractual Commitment was ratified. However, no formal personnel actions were taken against the individuals involved in this incident. Had Executive Managers taken personnel actions, it would have reinforced to FDIC CIOO personnel the need to comply with FDIC acquisition policies and procedures, and encouraged timely corrective action for the Unauthorized Contractual Commitment with AT&T.

FDIC CIOO Executive Managers' actions and inactions contributed to an organizational culture that did not ensure compliance with, and employee understanding of, FDIC acquisition policies and procedures.

Other Unauthorized Contractual Commitments. An FDIC CIOO employee created an unrelated, Unauthorized Contractual Commitment on contract CORHQ-18-C-0300. Mr. Pakes and the Oversight Manager reviewed and concurred with the Program Office Statement – Unauthorized Commitment (August 2019), and Mr. Pittman approved the statement for ratification.

In addition, the DOA ASB determined that another Unauthorized Contractual Commitment occurred, associated with contract CORHQ-21-G-0021. In October 2022, an IT Specialist, at the direction of a Corporate Manager, ordered goods directly from the contractor. These individuals did not have the authority to purchase these goods because they were not the Contracting Officer, and the goods were not part of the contract. Additionally, this action was taken without notifying the Oversight Manager and without following FDIC acquisition policies and procedures.

The IT Specialist and Corporate Manager were within the FDIC CIOO's Infrastructure and Operations Services Branch (formerly, the Infrastructure Services Branch). This is the same FDIC CIOO branch discussed throughout our report. Similarly, the contractor was AT&T, the same contractor discussed throughout our report. This Unauthorized Contractual Commitment further demonstrates the relevance of our findings and the need for FDIC CIOO to continue advancing a culture of compliance.

To remedy the unauthorized purchase, the FDIC told us that it reached agreement with AT&T to return the goods and receive a full refund.

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Further, Executive Managers did not have sufficient knowledge to monitor employee performance or take corrective action for noncompliance. While Corporate Managers are typically responsible for monitoring employee compliance, Executive Managers must also enforce and not bypass established supervisory oversight processes designed to ensure FDIC CIOO personnel comply with FDIC acquisition policies and procedures. Finally, when Executive and Corporate Managers are informed of performance concerns and policy violations, they must hold personnel accountable. The Executive Managers' failures to establish a positive "tone at the top," monitor employee performance, and hold employees accountable impaired the established internal control system and employees' adherence to those internal controls.

FDIC CIOO Executive Management Take Actions to Enhance Organizational Culture. In January 2020, the FDIC appointed a new Chief Information Officer to head the FDIC's CIOO. In January/February 2020 the FDIC CIOO received the results of an organizational culture survey. Based on these results, FDIC CIOO leadership identified the need to develop a plan to improve the FDIC CIOO organizational culture. In particular, the FDIC CIOO "collaborated with Corporate University (CU) on a get-well plan for the CIOO and started the Strengthening the CIOO Culture effort." In February 2020, the Chief Information Officer addressed the survey results with the entire CIOO organization during an "All Hands" meeting. At this time, FDIC CIOO leadership began implementing the first stages of the organizational culture improvement plan. Efforts to improve the FDIC CIOO organizational culture included, but were not limited to:

- Conducting CIOO culture quarterly pulse check surveys;
- Developing the CIOO Cultural Transformation Plan, which focused on skills, people and systems; and
- Creating a CIOO Culture Handbook.

In February 2021, FDIC CIOO Executive Management demonstrated a change in organizational culture, and the "tone at the top," when they were notified of the existence of an Unauthorized Contractual Commitment. FDIC CIOO Executive Management took action to ensure compliance with FDIC acquisition policies and procedures by initiating ratification procedures. The FDIC CIOO also requested an internal review by the FDIC Legal Division and developed and implemented recommendations to improve acquisition procedures and contract oversight management (in conjunction with FDIC DOA). Lastly, the FDIC CIOO promoted accountability by notifying the FDIC OIG of the incident.

The FDIC CIOO is continuing its efforts to improve the organizational culture.

FDIC CIOO Executive Managers Did Not Oversee the Internal Control Environment for Contract Compliance

FDIC CIOO Executive Managers did not oversee the internal control environment for the acquisition process to ensure that it was clearly understood, followed, and achieving its intended objectives. While Executive Managers had expectations of employees'

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compliance with FDIC acquisition policies and procedures, Executive Managers' lack of knowledge about those policies limited their ability to direct staff and to oversee the internal control environment.

According to the *GAO Standards for Internal Control in the Federal Government*, managers should implement control activities through policies, including, but not limited to, the periodic review of these control activities. In addition, management should perform such reviews to determine whether the control activities are designed and implemented appropriately. In particular, management should perform periodic reviews of policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks.

Based on our review, FDIC CIOO Executive Managers did not demonstrate knowledge or understanding of FDIC acquisition policies and procedures and the internal controls surrounding contract oversight management. In addition, the FDIC CIOO and DOA did not implement several key internal controls associated with the FDIC Field Office upgrades, and the AT&T contract, that stemmed from a lack of knowledge and understanding of FDIC acquisition policies and procedures and the internal controls surrounding contract oversight management.

As discussed elsewhere, Mr. Hernandez bypassed Mr. Pakes' supervisor, Mr. Purohit, to assign and delegate tasks, without ensuring proper oversight or the direct supervisor's involvement. According to Mr. Purohit, he felt his authority and ability to provide oversight was limited, and this placed him in an awkward position where he had no authority or oversight role, and limited knowledge and awareness of his staff's activities.

In addition, FDIC CIOO Executive Managers did not ensure that internal controls were operating as intended to mitigate the risk of non-compliance. According to the former Director of DIT, Mr. Pittman, he expected his staff to be knowledgeable of and follow FDIC acquisition policies and procedures. However, he did not understand the established internal controls surrounding contract oversight management and procurement actions and the corresponding roles and responsibilities of contract oversight personnel. His lack of knowledge was partly due to his lack of training in FDIC acquisition policies and procedures, and contract oversight management.

Based on our review, Mr. Pittman was not aware of, and had no direct involvement in, the FDIC's acquisition process, or in ensuring that controls were operating as intended. Similarly, Mr. Hernandez was also not aware of FDIC acquisition policies and procedures, nor did he monitor contract performance and ensure controls were followed. In addition, when delegating tasks, he routinely bypassed established supervisory controls and did not ensure direct supervisory oversight.

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In addition, from January 2015 to December 2021, the FDIC CIOO only performed one internal review to assess its compliance with FDIC acquisition policies and procedures, contract oversight management, or the effectiveness of its established internal controls surrounding its contracts. In September 2016, the FDIC CIOO's Audit and Internal Control Section performed an internal review and prepared a report titled *Contract Administration – Internal Control Review*.³⁰ The FDIC CIOO's Audit and Internal Control Section identified risks associated with an FDIC contract serviced by the General Services Administration (GSA), including: inexperienced/under-skilled staff, timing and availability of critical resources, and compliance with FDIC guidance.³¹ However, the FDIC CIOO did not identify concerns with its compliance with FDIC acquisition policies and procedures.

Office of Risk Management and Internal Controls' Vertical Contract Reviews. Since March 2022, ORMIC has conducted risk-based reviews of individual contracts for compliance with FDIC acquisition policies and procedures. As part of this continuous monitoring process, ORMIC developed a contract review work plan and data collection instrument. These reviews are intended to provide assurance over the FDIC's contract management function. These reviews may also identify deficiencies such as missing documentation or inadequate market research, oversight, or funds management. As of February 2023, ORMIC has conducted four such reviews.

Further, as discussed later in this report, FDIC CIOO Executive Managers did not recognize, within the Agency's Enterprise Risk Management's Risk Inventory, the significance of the FDIC CIOO's procurement activities and the risk surrounding compliance. This recognition could have focused and reinforced the FDIC CIOO's need to ensure that CIOO personnel understood and complied with FDIC acquisition policies and procedures and the internal controls surrounding contract oversight management.

Overall, FDIC CIOO Executive Managers did not understand FDIC acquisition policies and procedures. FDIC CIOO Executive Managers also did not ensure the organization's personnel understood these policies and procedures, nor that they were following the Agency's internal controls.

Mr. Pittman was not engaged in ensuring that CIOO personnel understood and complied with FDIC acquisition policies and procedures and that FDIC's internal controls were operating as intended. Additionally, Corporate Managers ignored potential performance issues, and allowed a weak internal control environment to exist surrounding FDIC acquisition policies and procedures. As Executive Managers, Mr. Pittman and

³⁰ The objective of the review was "to assess Oversight Manager ... compliance and adherence with respect to those roles and responsibilities outlined in three FDIC circulars and three Contract Oversight Management Training guides."

³¹ Based on the risks identified, the FDIC CIOO's Audit and Internal Control Section recommend that "an assessment be conducted for the implementation of additional controls [that] should be considered to help mitigate any potential risk introduced due to insufficient [GSA] controls that may not provide the necessary risk coverage to the FDIC." However, a report addendum noted that corrective action was not warranted because the Oversight Manager's responsibilities were being performed by the GSA, who was servicing the contract.

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Mr. Hernandez were responsible for ensuring and promoting corporate governance, holding others accountable for using program monitoring and evaluation procedures, and ensuring an appropriate internal control environment.

Because of this lack of awareness and understanding, FDIC CIOO Executive Managers, in coordination with Corporate Managers, failed to oversee and review the internal control environment and to ensure that it was operating as intended. A strong internal control environment and periodic review process could provide management with reasonable assurance that risks are appropriately addressed and controls are operating as intended and in accordance with FDIC acquisition policies and procedures.

FDIC CIOO Executive Managers Did Not Alleviate Workload Capacity and Excessive Pressures on Employees to Accomplish Tasks

FDIC CIOO Executive Managers did not address employee workload capacity challenges and applied pressure to accomplish tasks quickly. In addition, FDIC CIOO Executive Managers did not create an organizational culture that allowed employees to raise issues regarding workload burdens and excessive pressures.³²

The GAO *Standards for Internal Control in the Federal Government* provides the principles for establishing an effective control environment, including enforcing accountability and by management considering excessive pressures on their staff.

Based on our review of FDIC CIOO employee workload capacity and excessive pressures, FDIC CIOO Executive Managers demonstrated the following:

- **Repeated Failures to Ensure Effective and Sustained Corrective Action Addressing Employee Workload Capacity and Excessive Pressures to Accomplish Tasks.** Our OIG report, [Contract Oversight Management](#) (October 2019), identified the FDIC CIOO's

FDIC CIOO Increased Oversight Manager Staffing. In response to our prior recommendations, as detailed within the OIG report [Contract Oversight Management \(October 2019\)](#), the FDIC developed an Oversight Manager Workload Ratio Report and instructed all Divisions and Offices to review their proposed 2021 budget and consider oversight resources and the fulfillment of oversight responsibilities on an ongoing basis. From December 2017 to December 2021, the FDIC CIOO increased Oversight Manager staffing levels from 12 to 23 employees, and decreased the average number of contracts assigned to each Oversight Manager from 62 to 26 contracts.

Despite this effort, the FDIC CIOO had not documented an analysis of the appropriate number of Oversight Managers needed. As a result, the workload of Oversight Managers remains unaddressed and a serious concern at the FDIC.

³² For purposes of this report, we define Open Communication as when management and employees feel comfortable discussing dilemmas or conflicts they experience on a day-to-day basis.

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Oversight Managers' workload in overseeing assigned contracts as a concern, and we recommended that the FDIC assess and alleviate Oversight Managers' workloads.³³ Although the FDIC CIOO increased staffing, it did not document an analysis of, and conclusion on, the appropriate number of Oversight Managers needed.

According to the Oversight Manager, he had limited capacity to oversee his portfolio of contracts due to the volume assigned. As of December 2019, the Oversight Manager was assigned 43 contracts, which was 65 percent higher than the average FDIC Oversight Manager assigned workload.

- **Failure to Maintain Technical Monitors.** FDIC CIOO Executive Managers did not ensure Corporate Managers maintained a Technical Monitor to assist with the oversight of the AT&T contract, and to alleviate the Oversight Manager's workload, after the initial Technical Monitor retired.

According to the APM and PGI document, assigning Technical Monitors to facilitate (by assisting with and alleviating the Oversight Manager's review and evaluation of contractor performance) contract oversight is optional and subject to the Program Office's discretion. Further, the PGI document stated in complex areas of performance, the Oversight Manager (and Program Office) may find it appropriate to nominate one or more Technical Monitors.

The FDIC CIOO missed two opportunities to assess the need for a Technical Monitor to assist with contract oversight, and to alleviate the Oversight Manager's workload. Although the Program Office nominated and the Contracting Officer approved a Technical Monitor when the FDIC first awarded the AT&T contract in February 2014, this initial Technical Monitor retired in July 2018 and was never replaced. Upon the Technical Monitor's retirement, the FDIC Program Office did not subsequently nominate a successor Technical Monitor. FDIC CIOO Executive Managers, in coordination with the Program Office, also did not

The FDIC CIOO Assigned Designated Technical Monitors to all Telecommunications Contracts.

According to the FDIC CIOO and DOA, the Program Office is required to use its professional judgment to determine the number and qualifications of Technical Monitors given the complexity and scope of the contract.

As of the 4th quarter of 2020, the FDIC CIOO nominated Technical Monitors to all of its 34 telecommunications contracts.

³³ Our OIG report, [Contract Oversight Management](#) (October 2019), made three recommendations to improve the FDIC's evaluation and oversight of Oversight Manager workload capacity. These recommendations encouraged the FDIC to collect Oversight Manager workload data, report this data to Division and Office Management, and determine the appropriate number of Oversight Managers needed and ensure appropriate staffing.

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nominate or even assess the need for a Technical Monitor in May 2019 when they approved the procurement strategy to upgrade the FDIC Field Offices.

Due to the complexity of the FDIC's telecommunication services contract, its Field Office upgrades, and concerns with the Oversight Manager's workload, the FDIC CIOO needed a Technical Monitor. The inspection of the FDIC Field Office upgrades was complex due to the need to develop and run a test to validate the quality of the upgrades and to collect and analyze the results. The Oversight Manager did not have the technical expertise and workload capacity to perform the test and analyze the results.

- **Failure to Ensure Open Communication.** FDIC CIOO Executive Managers did not create an organizational culture that allowed for Open Communication between employees and FDIC CIOO Executive and Corporate Managers. Specifically, employees expressed concerns with their assigned workload and excessive pressures to perform tasks quickly – which could limit their ability to comply with FDIC acquisition policies and procedures.

According to Mr. Pakes and the Oversight Manager, FDIC CIOO Executive Managers exerted a lot of pressure to get tasks done quickly, without regard for ensuring compliance with FDIC acquisition policies and procedures. The Oversight Manager stated that because of the office culture, he was scared to make or admit to mistakes and afraid that his mistakes would be held against him. When he did express concerns, his issues were not taken seriously.

Overall, FDIC CIOO Executive Managers did not evaluate and address the workload and excessive pressure on its personnel to accomplish tasks. FDIC CIOO employees, prior OIG reports, and FDIC CIOO Culture Surveys brought this to their attention. In particular, the Oversight Manager noted that employee workload imbalances had been an issue since he started employment with the FDIC in April 2013, and when he informed management of his concerns, the issue was not taken seriously. According to the Oversight Manager, he was responsible for overseeing all of the FDIC telecommunication contracts and routinely reviewed and approved more than 40 invoices daily for payment. In addition, he stated that his workload did not afford the time or ability to “take a deep dive” into his assigned contracts, and he could only “fix what he could fix.” If Executive Managers had taken employee workload capacity concerns seriously, then they would have provided additional support to the Oversight Manager, by nominating and appointing Technical Monitors, or restructured his assigned work.

According to Mr. Pakes, FDIC CIOO Executive Managers exerted a lot of pressure to get the FDIC Field Office upgrades done quickly. The Oversight Manager also stated that

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Executive and Corporate Managers set the tone to “do whatever it takes to get it done.” Upon notification to initiate the FDIC Field Office upgrade strategy, Mr. Pakes took immediate action to engage AT&T without ensuring compliance with FDIC acquisition policies and procedures.

Due to the FDIC CIOO Executive Managers’ lack of communication and discussion of assigned workload and excessive pressures, Mr. Pakes focused his efforts on achieving results and completing tasks quickly, without regard for ensuring compliance with FDIC acquisition policies and procedures. As such, he did not provide, or communicate, sufficient or transparent information to facilitate the Oversight Manager’s (1) knowledge and understanding of the FDIC CIOO’s strategy to upgrade the FDIC Field Offices – and its implication to the AT&T contract, and (2) ability to ensure compliance with FDIC acquisition policies and procedures.

Similarly, 40 percent of respondents to the 2021 FDIC CIOO culture survey stated that they did not have an appropriate amount of work assigned. Specifically, FDIC CIOO personnel noted the following with the FDIC CIOO Cultural Survey:

I feel this is the lowest my morale has been since I joined the CIOO. Sustained elevated workloads and poor communication have made the job miserable and are driving myself and others to consider leaving if changes are not made.

We need more actual workers to help balance out the huge workloads being placed on a lot of people ...

[W]hen upper management escalates something in our service tower, we are expected to take immediate action while providing five star customer service. This is negatively impacting morale.

The FDIC CIOO Culture Survey also identified the need for FDIC CIOO leadership (Executive and Corporate Managers) to improve communication. During the 2021 FDIC CIOO culture survey, 43 percent of respondents stated that FDIC CIOO leadership did not communicate effectively. In particular, FDIC CIOO personnel noted the following within the FDIC CIOO Cultural Survey:

Communication flow here is very limited and based on a hierarchical approach. ... Any information is trickled down, and heavily filtered, so the staff feels disconnected to the overall mission, purpose, and isn't aligned to the top priorities of the CIO.

Everyone at the working level is 'on their own' to figure out how to get things accomplished.

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It is my impression that executives do not get engaged on glaring issues that are raised by staff, but pay attention to issues that are raised/escalated to them from outside ...

As previously noted, the FDIC CIOO is currently engaged in a number of efforts to improve its organizational culture and promote Open Communication between employees and FDIC CIOO Executive and Corporate Managers. The FDIC CIOO needs to continue these efforts to address employee concerns surrounding workload capacity and excessive pressures. The failure to ensure appropriate Oversight Manager workload and Open Communication increases the risk that the FDIC's operations could be impaired due to inefficiencies and ineffectiveness in its procurement and contract oversight management processes.

Recommendations:

We recommend that the CIO:

- 1) Develop, document, and implement roles and responsibilities for FDIC CIOO Executive Managers to ensure compliance with FDIC acquisition policies and procedures.
- 2) Develop, provide, and require training for FDIC CIOO Executive Managers on their roles and responsibilities for procurement activity and management oversight.
- 3) Develop, document, and communicate FDIC CIOO Executive Managers' expectations for staff to comply with FDIC acquisition policies and procedures; and consequences for non-compliance or for creating an Unauthorized Contractual Commitment.
- 4) Develop, provide, and require periodic training to FDIC CIOO personnel on the following:
 - Their roles, responsibilities, and limitations in interacting with contractors;
 - The identification and avoidance of Unauthorized Contractual Commitments; and
 - Disciplinary ramifications that may result from creating an Unauthorized Contractual Commitment.
- 5) Develop and implement FDIC CIOO processes to monitor and oversee internal controls for procurement activities, including ensuring the internal control environment is clearly understood, adhered to, and achieving its intended objectives and reporting out the results.

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- 6) Identify which FDIC CIOO contracts do not have an assigned Technical Monitor, review whether a Technical Monitor(s) should be nominated and appointed and, in cases where a Technical Monitor should be nominated and appointed, ensure such nomination and appointment occurs, in compliance with FDIC guidance.
- 7) Develop and implement a process to document the Program Office's analysis and conclusion for not nominating a Technical Monitor(s) when initiating or significantly modifying a contract.
- 8) Perform and document a periodic assessment that analyzes and determines the appropriate staffing level of Oversight Managers, including resources, time, and effort needed to comply with FDIC policies and procedures.
- 9) Develop a strategy to periodically assess workload imbalances and implement a strategy to address such imbalances among Oversight Managers in the FDIC CIOO.

The FDIC CIOO and DOA Did Not Implement Proper Internal Controls

The FDIC CIOO and DOA did not implement the following internal controls for the FDIC Field Office upgrades associated with the AT&T contract:

- Conduct market research and document, review, and approve the cost for new services;
- Submit or process a Procurement Request;
- Ensure appropriate inspection and acceptance of contractor goods and services; and
- Reject and return unsupported invoices.

As a result of the FDIC's failure to comply with the FDIC's acquisition process, the FDIC incurred \$1.5 million in funds it could have put to better use.

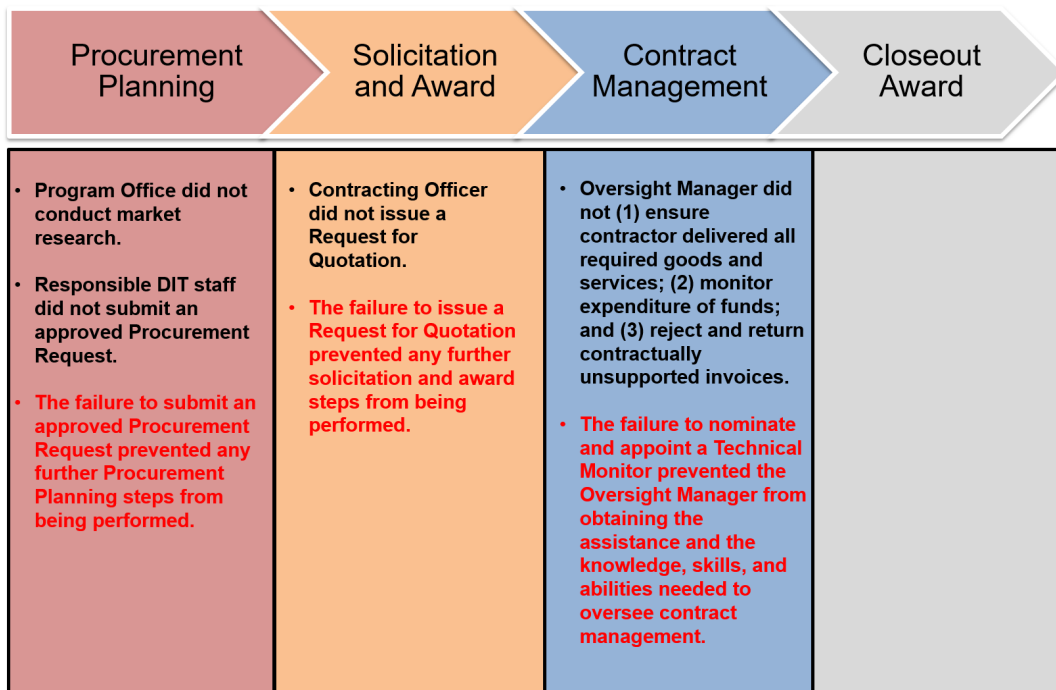
The FDIC did not appropriately implement the three applicable phases of the acquisition process (Procurement Planning, Solicitation and Award, and Contract Management) and corresponding procedural steps. The FDIC failed to initiate required Procurement Planning steps that had a cascading effect in preventing the Solicitation and Award phase from being initiated and the Contract Management phase from being properly completed.

Figure 5 illustrates the cascading effects of the FDIC CIOO Executive Managers' failure to implement and oversee key internal controls during the phases of the FDIC's

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acquisition process. Because FDIC CIOO Executive Managers bypassed established internal controls for ensuring supervisory oversight, the FDIC’s procurement planning, solicitation and award, and contract management processes were not properly implemented.

Figure 5: The FDIC CIOO’s Failure to Comply with the FDIC’s Acquisition Process



Source: OIG analysis of the APM, PGI document, FDIC Directive, 1380.2, *Information Technology (IT) Asset Management Program* (June 2017), and the FDIC’s actions taken and not taken.

The FDIC Did Not Conduct Proper Procurement Planning – Market Research

In May 2019, FDIC CIOO Executive Managers approved the strategy to upgrade the bandwidth in FDIC Field Offices without ensuring that the appropriate procurement planning procedures were followed and without obtaining sufficient information to make an informed decision. The FDIC did not conduct market research for the Field Office upgrades, and it did not properly document, review, nor approve the costs for new services.

The APM and PGI document require that the Program Office, in coordination with the Contracting Officer, conduct appropriate market research, and obtain appropriate documentation, review, and approval when procuring new goods or services, including those obtained through contract modifications. In particular, the PGI document required the following actions during the Procurement Planning and Solicitation and Award phases:

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- The Program Office to coordinate and communicate with the Oversight Manager and Contracting Officer;
- The Contracting Officer and Oversight Manager to complete market research;
- The Program Office to develop a Requirements Package;
- The Contracting Officer to submit a Request for Quotation or Request for Proposal;³⁴ and
- The Program Office to evaluate the submitted proposal(s) for technical considerations, and the Contracting Officer to prepare a Price Evaluation Memorandum.³⁵

In May 2019, the FDIC CIOO initiated the acquisition without: (1) notifying and involving the Oversight Manager and Contracting Officer, (2) conducting market research, (3) preparing a requirements package, (4) requesting and obtaining a contractor proposal, and (5) reviewing and determining the reasonableness and realism of the offeror's proposed price.

According to Mr. Pakes, in order to estimate the cost of upgrading the FDIC Field Offices, he completed a cost estimate that was based on AT&T's pricing sheets that AT&T had previously submitted in June 2018.

According to the FDIC's Cost Estimate Guide, however, an Independent Cost Estimate (or Cost Estimate) includes all aspects of required contractor performance, and should represent the total amount projected to be paid to the contractor. The purpose of the cost estimate is to develop an assessment of the probable cost of services being acquired and to help determine the reasonableness of an offeror's proposed costs. Therefore, the approach used by Mr. Pakes does not meet the FDIC's requirement for an Independent Cost Estimate.

Mr. Pakes, given his role in the Program Office (FDIC CIOO - Infrastructure Services Branch Engineering Section), should have notified and involved the Oversight Manager and Contracting Officer to provide guidance on, and involvement, in conducting market research, preparing the requirements package (including the Independent Cost Estimate), and evaluating proposal(s). In particular, prior to formulating the cost estimate, the Program Office, in coordination with the Contracting Officer, should have conducted market research to obtain information and knowledge about the different types of goods or services in the commercial marketplace, and their availability and pricing. The Program Office should have then used this information to consider

³⁴ According to the APM, a Request for Quotation "is a solicitation document used in simplified procurements to communicate requirements to prospective contractors and to solicit quotations from them. An [Request for Quotation] may be oral or written." According to the APM, a Request for Proposal "is a document sent to prospective offerors to request a formal proposal to provide the goods or services required by FDIC, under stated terms and conditions."

³⁵ According to the PGI document, a Price Evaluation Memorandum is "award decision documentation that documents a determination of price reasonableness, the basis for award, etc."

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alternatives and formulate a cost estimate that captured the projected/anticipated cost to provide the Agency's desired goods and services. The cost estimate should have included port and access service fees and associated installation costs. At the time, the FDIC CIOO believed the FDIC Field Office upgrades were a short-term, minimal cost, solution that could be employed until a new Basic Ordering Agreement could be issued for the FDIC's Wide Area Network Redesign.³⁶

Funds Put to Better Use

Due to potential changes in market trends, goods and services, and competition, market research enables the FDIC to obtain goods and services at a reasonable and realistic price.

Based on our analysis, we identified \$1.5 million in Funds Put to Better Use.³⁷ We calculated these Funds Put to Better Use by subtracting the GSA's Multiple Award Schedule costs for similar services from the FDIC and AT&T's agreed upon price.³⁸ For further information on the calculation of Funds Put to Better Use, refer to Appendix 4.

Because the FDIC did not perform market research, it did not ensure that the Agency obtained the best price for the services that AT&T provided. The FDIC relied on AT&T to determine the cost and schedule of goods and services. In particular, AT&T charged the FDIC monthly port access fees that were 115 percent above similar service fees provided through the GSA's Multiple Award Schedule.³⁹

Subsequently, in June 2021, the FDIC performed a cost analysis and determined that AT&T's price was fair and reasonable, despite AT&T's rates being higher than some Government-wide acquisition contracts for similar services and other regional carriers' rates (that is, other telecommunication services providers' rates). We determined that the FDIC was overpaying \$52,168 per month - or \$1.5 million - since July 2020.⁴⁰

³⁶ According to CIO Key Initiatives, the Wide Area Network Redesign, or WAN Redesign, is "a multiphased approach to provide improved network access services to FDIC offices throughout the enterprise. Each phase, when implemented in the order provided, will provide cumulative benefits for all users by improving network performance/response times, adding capacity for new services and/or applications as well as enhancing service recovery capabilities in the event of a disaster."

³⁷ According to the Inspector General Act of 1978, a Recommendation that Funds be Put to Better Use is "a recommendation by the [OIG] that funds could be used more efficiently if management of an establishment took actions to implement and complete the recommendation, including ... avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or... any other savings which are specifically identified."

³⁸ The GSA's mission is to provide stewardship of the way the government uses and provides real estate, acquisition services, and technology. According to GSA, a Multiple Award Schedule is a long-term government-wide contract with commercial companies that provide access to millions of commercial products and services at fair and reasonable prices to the government.

³⁹ According to online resources, Access Ports on a router allow devices to connect to one another and to share data. The Access Port speed determines the amount of data that can be transferred given a specified amount of time – such as 50 megabits per second.

⁴⁰ According to the contract, as amended after the ratification (modification P00021), the amount of overpayment would be reduced, but not eliminated, in the next period of performance beginning June 18, 2022.

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The FDIC paid a higher price for AT&T's services, because the Agency did not determine the fair and reasonable price for port access fees until after the FDIC Field Office upgrades were completed. Had the FDIC conducted its market research, it could have been better informed to negotiate a lower rate from AT&T. When the FDIC extended the contract in October 2021, the Agency was able to obtain a lower price. However, this price was still 54 percent above that listed in the GSA's Multiple Award Schedule.

The FDIC Did Not Conduct Proper Procurement Planning – Procurement Requests

In May 2019, Mr. Pakes informally notified the Oversight Manager that the FDIC CIOO wanted AT&T to upgrade the FDIC Field Offices.

According to FDIC Directive 1380.2, *Information Technology (IT) Asset Management Program* and associated guidance, FDIC CIOO staff charged with requesting, issuing, installing, or supporting IT assets are responsible for:

- Completing a Procurement Request;
- Ensuring appropriate procurement funding – along with recurring maintenance activities;
- Obtaining and documenting management authorization and approval for the Procurement Request; and
- Submitting the Procurement Request to DIT Procurements.⁴¹

However, the FDIC CIOO did not (1) submit a Procurement Request; (2) ensure that the request was funded, along with recurring maintenance activities; (3) document supervisory approval and authorization; or (4) submit this request through appropriate channels.

A Procurement Request helps to ensure that contracted goods and services are authorized and funded, and that the FDIC's rights are adequately protected and financial obligations are recorded.

The FDIC Did Not Conduct Proper Contract Management by Appropriately Inspecting and Accepting Goods and Services

From May 2019 to July 2020, the FDIC did not have appropriate FDIC CIOO personnel inspecting or accepting the goods and services provided by AT&T in upgrading the FDIC Field Offices. In addition, the FDIC did not reject AT&T's unauthorized goods and

⁴¹ The associated guidance includes *DIT Infrastructure Management Section Procurement Planning Matrix, Requirements Package Checklist* (November 2018) and *Form 1380/10 DIT Request For Goods and Services Instruction Sheet* (May 2019).

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services, nor did it seek appropriate corrective action for the Unauthorized Contractual Commitment.

According to the APM, the Oversight Manager was responsible for inspection and acceptance of goods and services, and the Oversight Manager had the authority to reject nonconforming goods and services.

From July 2018 to the fourth quarter of 2020, FDIC CIOO Executive Managers, did not ensure that the Program Office nominated a Technical Monitor for this contract. Therefore, Mr. Pakes inspected and accepted AT&T's work without the designated authority or appropriate authorization. The APM allows for a designated Technical Monitor to inspect and accept contracted goods and services under the supervision of the Oversight Manager. However, Mr. Pakes was not designated as having any role in the AT&T contract. Additionally, he did not effectively and transparently communicate to the Oversight Manager his strategy and actions in inspecting and accepting AT&T's goods and services. Such communication would have allowed the Oversight Manager to fulfill his role and responsibilities in inspecting and accepting goods and services, as required by the APM and PGI document.

Proper inspection and acceptance was important to ensure that the FDIC received conforming goods and services, and that the FDIC's rights were adequately protected.

The FDIC Did Not Conduct Proper Contract Management by Rejecting and Returning Contractually Unsupported Invoices

In August and December 2020, the FDIC CIOO approved contract invoices that included costs for the FDIC Field Office upgrades, thereby authorizing payments that were not supported by the contract provisions.⁴²

According to the PGI document, the Oversight Manager must: (1) ensure that all charges contained on each invoice are within the contract provisions; (2) ensure that the goods or services were delivered in an acceptable manner and comply with the statement of work and other technical requirements of the contract;

The FDIC Reiterated the Invoice Control Process. In January 2022, DOA ASB reiterated the FDIC contract invoice submission requirements with its vendors to submit invoices through DOF.

In addition, the FDIC will require all new vendors, including the vendors specified in the Telecommunications (Voice and Data Services) Basic Ordering Agreement, to use the Accounts Payable Mailbox to submit pending invoices.

Although DOA ASB reinforced existing internal controls for submitting invoices, DOF's review process would not have identified the unsupported charges or corresponding Unauthorized Contractual Commitment. In particular, the FDIC did not establish an oversight process to ensure that Oversight Managers reviewed and approved invoices for payment, in accordance with FDIC acquisition policies and procedures.

⁴² While the FDIC CIOO reviewed and approved for payment the August 2020 invoice within the same month, the FDIC CIOO delayed review and approval of the October 2020 invoice until December 2020.

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(3) monitor total payments to the contractor to ensure that they do not exceed the contract ceiling; and (4) work with contractors to resolve issues. According to the APM, the Oversight Manager must reject invoices that are incomplete or otherwise unacceptable.

The FDIC CIOO did not ensure that all charges included on each invoice were within the contract provisions. In particular, the invoices in August and October 2020 contained charges for the Field Office upgrades – services that, at the time, were outside the scope of the contract. The FDIC CIOO did not ensure that the goods or services delivered complied with the terms of the contract.

In particular, from May 2019 to July 2020, the FDIC did not have the appropriate FDIC CIOO personnel involved in reviewing and accepting AT&T's services related to the FDIC Field Office upgrades. The FDIC CIOO authorized invoices for payment up to the contract ceiling. Lastly, the FDIC CIOO did not work with the contractor to resolve the invoicing and contracting issues before authorizing payment.

In addition, according to the Oversight Manager, CIOO personnel routinely ordered additional goods and services without coordinating with or submitting a Procurement Request to him. He often learned after-the-fact about such orders which in turn, required him to submit requests for additional funding. Based on the Oversight Manager's statements, FDIC CIOO personnel's actions resulted in unauthorized procurements and inadequate funding. However, the Oversight Manager believed his primary responsibilities were to ensure funding and pay invoices; not to correct the unauthorized procurements or ensure goods and services were included on the contract.

As a result of the Unauthorized Contractual Commitment on the AT&T contract, the FDIC made payments totaling \$2.6 million that, at the time of payment, were not supported by contract provisions. In August 2020, the Oversight Manager authorized for payment invoice charges of \$1.2 million that were not supported by the contract. The Oversight Manager also authorized a payment for services not supported by the contract in December 2020 (for the October 2020 invoice) in the amount of \$1.4 million. This amount did not cover the full balance of the invoice. Additionally, the \$1.4 million payment depleted the remaining funding that the FDIC had allocated to this contract. Because contract funding had been depleted, the FDIC was unable to pay the October 2020 invoice in full and subsequent monthly invoices until August 2021.

Moreover, due to the lack of funds and non-payment, the FDIC could have suffered interruptions or lost important voice and data services that were integral to its ability to achieve its mission. During this period, the FDIC required all employees to work remotely due to the global pandemic. Had AT&T decided to terminate services due to non-payment, the FDIC could have experienced a loss of connectivity between FDIC

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employees and Agency data centers. The interruption in connectivity could have severely impacted the FDIC's operations.

Proper review and approval of invoices is important to ensure that the FDIC's financial interests are protected and contractual obligations are appropriately administered. In particular, the FDIC must ensure that its financial interests are protected when paying a negotiated price for contracted goods and services, and that the FDIC is not overcharged or billed for unauthorized services. In addition, the FDIC must ensure that its contractual obligations to contractors are appropriately recorded and paid.

Recommendations:

We recommend that the CIO:

- 10) Develop and implement a process to ensure proper communication of proposed contract changes or new procurement activities among the Program Office, Technical Monitor, Oversight Manager, and Contracting Officer, in order to avoid Unauthorized Contractual Commitments and overpayments, which in this case, resulted in \$1.5 million in Funds Put to Better Use.⁴³
- 11) Develop and implement processes to identify and perform a secondary review of variations in invoice amounts and burn rates, and depletions in contract funds, in accordance with FDIC acquisition policies and procedures.
- 12) Develop and implement a process to report and track Procurement Requests and approvals to FDIC CIOO Executive Management.

The FDIC Did Not Capture Reliance on Contractors in Its Enterprise Risk Management Processes

The FDIC's Risk Profile captured the risk related to the Agency's contract oversight activities, and the FDIC's Risk Inventory attributed the risk for contract management to DOA. However, as of September 2022, the FDIC's Risk Inventory did not include risks related to the FDIC CIOO's level of contracts, contract management oversight activities, and overall controls for its procurement activities.

FDIC Directive 4010.3, *Enterprise Risk Management and Internal Control Program* (ERM Directive) (October 2018), establishes the FDIC's policy, responsibilities, and key components for its Enterprise Risk Management Program. The FDIC's Enterprise Risk Management Program seeks to identify, assess, and address risks that could adversely

⁴³ The OIG will report this amount in our Semiannual Report to the Congress.

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impact the Agency's ability to achieve its goals, objectives, and mission. The objectives of the Enterprise Risk Management Program include ensuring that the FDIC properly aligns resources, processes, policies, and procedures to adequately address key risks.

The FDIC's Risk Inventory is a detailed list of risks that could affect the FDIC's ability to meet its strategic objectives. FDIC Divisions and Offices identify the risks and provide an assessment of their potential impact and likelihood of occurrence. The Risk Inventory is required to be updated as the FDIC identifies new risks or as risks change. Risk Inventory items are prioritized and summarized in the FDIC's Risk Profile. The purpose of the FDIC's Risk Profile is to provide an analysis of the risks the FDIC faces both as it seeks to achieve its strategic objectives and as risks arise in Agency activities and operations.⁴⁴ It lists the most significant risks identified through the risk assessment process and is not intended to be a complete inventory of all risks.

The FDIC's Risk Profile captured risks related to contract planning, administration, and oversight, and the importance of maintaining a strong and effective control environment.⁴⁵ The FDIC's Risk Inventory identified contract management risks; however, those risks were attributed to DOA operations and activities. Additionally, the FDIC's Risk Inventory included an FDIC CIOO item titled "IT Acquisition;" however, this risk pertained to the prioritization of IT commodity procurements and inventory levels. The FDIC's Risk Inventory should have also captured and assessed the FDIC CIOO's risk related to its level of contracts and contract management oversight activities due to the following:

- A significant portion of the FDIC CIOO's operations, and budget projections, were procured goods and services. In 2021 and 2022, 75 percent (\$293.3 million) of FDIC CIOO annual operating expenses and 76 percent (\$336 million) of FDIC CIOO budgeted annual operating expenses, respectively, were for contractor-provided goods and services.⁴⁶ According to the GAO, the use of a contractor poses a risk of fraud, waste, and abuse. An entity's procurement of services does not transfer an entity's responsibilities for ensuring an appropriate internal control environment. If an entity has a weak internal

⁴⁴ The Risk Profile captures the aggregate level and types of risk that the FDIC is willing to assume. The FDIC Chief Risk Officer, together with DOF and ORMIC, maintain the Risk Profile.

⁴⁵ According to the FDIC Risk Profile, "[i]f the FDIC does not have a strong and effective control environment that promotes engagement and accountability, sufficient and current policies and procedures, defined processes and control activities, and reliable information for monitoring programs, then management may not achieve its objectives related to effective and efficient operations, reliable reporting, and compliance with laws and regulations." The FDIC Risk Profile also recognized that "[i]f FDIC does not effectively plan, procure, and manage its contracts, then FDIC (1) may not have access to the products, systems, and services it depends on; (2) may not structure, award, or manage contracts in a manner that provides the most value; (3) may pay for goods and services not provided, or provided in a manner inconsistent with contract terms; and (4) may face legal and other risks because of poor contract administration practices."

⁴⁶ According to the FDIC CIOO budget projections for the year ended December 2022, the FDIC CIOO intends to maintain its current level of spending for procured goods and services.

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control environment and contract oversight management practices, the entity increases the risk that it may lose control over its procured services and the actions and decisions of the contractor.

- The OIG and GAO have found serious weaknesses and significant deficiencies in FDIC procurement and contract management activities. We continue to identify systemic internal control weaknesses within the FDIC CIOO contract oversight activities. In May 2021 and May 2022, GAO reported that Oversight Managers failed to review and approve invoices and ensure effective contract oversight management. In May 2022, GAO also reported that Contracting Officers failed to adhere to FDIC acquisition policies and procedures regarding contract modifications.
- In August 2019 and again in July 2021, the FDIC CIOO identified significant organizational culture deficiencies surrounding its operations and internal controls.⁴⁷ These deficiencies included a need to emphasize cultural enhancement in FDIC CIOO leadership (Executive Managers and Corporate Managers) communications, cooperation across different parts of the FDIC CIOO organization, and the appropriate amount of work assigned to staff. These areas correlate to the systemic internal control weaknesses in the FDIC CIOO's procurement and contract management activities.

The FDIC stated that many of the Risk Inventory items were “enterprise risks” that spanned multiple Divisions, but were only assigned to one Division. However, we noted that some Risk Inventory items were assigned primary and secondary risk owners, and one risk item was assigned a primary and three secondary risk owners.

Ultimately, based on our review, the Risk Inventory entries and mitigating analysis supporting this Risk Profile did not address the FDIC CIOO risk relating to its internal control environment for its contract procurement and management activities. The FDIC, not explicitly recognizing the FDIC CIOO's risks within its Risk Inventory, contributed to Executive Management's failure to ensure FDIC CIOO personnel complied with FDIC acquisition policies and procedures, and appropriately oversaw its contracts.

According to the FDIC's ERM Directive, if risks are not effectively identified, assessed, and addressed, they could negatively affect the FDIC's ability to achieve its goals and objectives. The ability to address risks is critically important for the FDIC to fulfill its mission amid existing and emerging challenges. Furthermore, a weak internal control environment increases the FDIC's potential for operational, monetary, legal, and reputational risks, such as Unauthorized Contractual Commitments.

⁴⁷ In response to the identification of significant organizational culture deficiencies, the FDIC CIOO in January 2020 began an initiative to enhance its organizational culture. See *Strengthen the CIOO Culture* (January 2020); and *Cultural Transformation Plan* (January 2021).

FDIC Oversight of a Telecommunications Contract

Recommendation:

We recommend that the CIO and Chief Financial Officer:

- 13) Ensure that the FDIC Risk Inventory clearly articulates the risks related to the FDIC CIOO procurement activities and lack of a strong internal control environment and organizational culture surrounding its contract management.

Key FDIC CIOO Personnel Did Not Properly Execute Their Roles and Responsibilities

The FDIC CIOO's "tone at the top" and organizational culture, at the time, created the environment susceptible to the Unauthorized Contractual Commitment. The actions of some individuals contributed to the creation or perpetuation of the Unauthorized Contractual Commitment, the risks the FDIC faced, and the associated costs.

(b) (6)

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(b) (6)

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FDIC Oversight of a Telecommunications Contract

Appendix 3 includes additional details on the actions [REDACTED] [REDACTED] surrounding the creation and continuance of the Unauthorized Contractual Commitment.

Recommendation:

We recommend that the FDIC:

- 14) Review the facts presented in this report, assess whether these facts support further management action related to the performance or conduct of any FDIC employee or FDIC contractor employee, and implement any management actions determined to be appropriate.⁵⁰

FDIC COMMENTS AND OIG EVALUATION

On March 20, 2023, the Chief Information Officer and the Deputy to the Chairman and Chief Financial Officer provided a written response to a draft of this report. The response is presented in its entirety in Appendix 6.

In its response, the FDIC stated that it places a high priority on ensuring that effective controls are in place to manage procurement and contract management activities. The FDIC also stated that it is committed to continually assessing and making control improvements in these areas. The FDIC CIOO identified actions it has taken to strengthen its procurement controls and promote a culture of accountability and compliance with respect to contracting. Our report highlights some of these activities to enhance the FDIC CIOO organizational culture.

The FDIC expressed concern with the OIG's decision to include employee names in the public version of our report. In the FDIC's view, the inclusion of employee names does not provide additional context or insight to help readers understand the report's findings and recommendations. The FDIC also noted that the practice of identifying employee names in public reports may have an unintended consequence of employees being uncomfortable to report unsatisfactory job performance or misconduct. Lastly, the FDIC expressed concern that the report publicly disclosed employee performance issues before the employees had an opportunity to respond.

The OIG believes that the inclusion of employee names promotes transparency and serves to deter employee noncompliance with FDIC policies and procedures. Additionally, our report

⁵⁰ (b) (6), (b) (3) (A) [REDACTED]

FDIC Oversight of a Telecommunications Contract

provides the FDIC an opportunity to promote a culture of accountability. As noted in our report, FDIC CIOO Executive Managers did not ensure that Corporate Managers monitored employee performance. Further, when notified of policy violations, they did not ensure that personnel were held accountable for these violations. Our report shows the value of accountability as a component of a strong organizational culture. Also, the OIG provided the FDIC employees and former employees the opportunity to review a draft of the report prior to issuance and considered the responses received. The OIG only included the names of employees at or above the Corporate Grade-15 level and redacted certain information for privacy reasons, consistent with the Freedom of Information Act.

The FDIC's response also mischaracterized one of our recommendations. The FDIC's response stated that our report recommended that the Agency take additional personnel actions against some individuals named in the report. However, our report recommends that the FDIC review the facts presented in the report, assess whether these facts support further management action, and implement any management actions it determines to be appropriate (see recommendation 14).

The FDIC concurred with all 14 report recommendations. With regard to recommendation 12, the FDIC proposed an alternative corrective action that we concluded is sufficient to address the recommendation. The FDIC plans to complete corrective actions for these recommendations by February 28, 2024. We consider all 14 recommendations to be resolved.

With respect to Funds Put to Better Use, FDIC management determined that the amount of Funds Put to Better Use is \$0. The FDIC stated that the Contracting Officer performed an analysis in June 2021 that determined the contract rates the FDIC paid were fair and reasonable. This conclusion was based, in part, on the costs included in the original February 2014 contract.

All of the recommendations in this report will remain open until we confirm that corrective actions have been completed and the actions are responsive. A summary of the FDIC's corrective actions is contained in Appendix 7.

Objective

Our objective was to determine whether the FDIC authorized and paid AT&T for services to upgrade bandwidth in FDIC Field Offices in accordance with its policies and procedures and existing telecommunications contract.

We performed our work from April 2021 through May 2022. We performed our work in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Federal Offices of Inspector General* (August 2012) (Silver Book).

Scope and Methodology

The project's scope included our review of (1) the FDIC and AT&T telecommunications contract scope and Statement of Work, Total Award Value, and Period of Performance; (2) the FDIC pre-award and post-award contract oversight processes used to ensure proper procurement planning, solicitation and award, contract management, and contract closeout; and (3) FDIC processes for contract modification.⁵¹

To achieve our objective, we conducted the following procedures:

- Reviewed the contract and subsequent contract modifications to understand the contract terms and conditions, and each party's contractual rights, responsibilities, and obligations.
- Reviewed the FDIC acquisition policies and procedures, including:
 - *FDIC Acquisition Policy Manual* (August 2008);
 - *Acquisition Procedures, Guidance and Information* (January 2020) document;
 - FDIC Directive 1380.2, *Information Technology (IT) Asset Management Program* (June 2017); and
 - FDIC DOF, Disbursement Operations Section's *Accounts Payable and Supplemental Payments Procedures - Voucher Review and Approval* (November 2020).
- Researched and identified best practices for reviewing and approving contractor invoices at the following Federal agencies: GSA, Nuclear Regulatory Commission, Department of Energy, Federal Transit Administration, and National Institutes of Health.
- Reviewed contract files, supporting documentation, procurement requests, requisition requests, email communications, Telecom Combined Phone Services Effort team meeting minutes, and contractor invoices.

⁵¹ Contract CORHQ-14-C-0057.

Objective, Scope, and Methodology

- Reviewed Gartner’s on-line resources for assessing and auditing organizational culture, including, *How to Audit Culture, Part 1 - Define Culture and Assess Audit’s Readiness* (July 2021).
- Assessed the FDIC CIOO’s organizational culture based on KPMG’s article, *Auditing Culture-Practical introduction to auditing your organizational culture and the GAO Standards for Internal Control in the Federal Government* (GAO-14-704G) (September 2014).
- Reviewed the following FDIC training courses and related course material:
 - *Contract Oversight Management Training Level I* (February 2015 and March 2018);
 - *Contract Oversight Management Training Level II* (January 2015 and February 2017); and,
 - *Contract Oversight Management Training Level III* (August 2014 and January 2020).
- Assessed key FDIC personnel’s training in FDIC acquisition policies and procedures.
- Considered Federal regulations, Executive Orders, and standards related to employee conduct and competence, including:
 - Code of Federal Regulations, *Standards of Ethical Conduct for Employees of the Executive Branch* (January 2011) (5 C.F.R. § 2635.101(b) (5) and (6));
 - Executive Order 12731, *Principles of Ethical Conduct for Government Officers and Employees* (October 1990); and
 - *Standards for Internal Control in the Federal Government* (GAO-14-704G) (September 2014) (Green Book).
- Reviewed the FDIC Directive 2750.01, *Disciplinary and Adverse Actions* (March 2021).
- Assessed key FDIC personnel’s performance, conduct, and competence in adhering to FDIC acquisition policies and procedures, and contract provisions; and effecting corrective action.
- Assessed and searched email communications and interview statements of key FDIC CIOO and contract personnel.
- Considered the following GAO reports:
 - GAO Report, *Management Report: Improvements Needed in FDIC’s Internal Control over Contract-Payment Review Processes* (GAO-21-420R) (May 2021); and

Objective, Scope, and Methodology

- GAO Report, *Congress and the Executive Branch Have Taken Steps to Address Key Issues, but Challenges Endure* (GAO-18-627) (September 2018).
- Reviewed the following OIG reports:
 - *Critical Functions in FDIC Contracts* (EVAL-21-002) March 2021; and
 - *Contract Oversight Management* (EVAL-20-001) October 2019.
- Reviewed the FDIC OIG Top Management and Performance Challenges reports issued in February 2018, February 2019, February 2020, February 2021, and February 2022.
- Reviewed the FDIC Legal Division's internal due diligence report (May 2021), supporting documentation, and selected interview write-ups.
- Interviewed FDIC CIOO personnel and contract support personnel assigned responsibility for procurement and contract oversight processes, or who were involved in requesting, overseeing, inspecting and accepting contractor goods and services, and reviewing and approving contractor invoices.

We provided a copy of the draft report to AT&T as a courtesy. AT&T provided a response to the draft report, which we reviewed and considered.

We applied internal control principles promulgated by GAO (Green Book) to guide our work and to support the recommendations that we made, when appropriate. For example, we considered internal control standards, and activities, related to (1) the control environment (such as adherence to Standards of Conduct, exercise of oversight responsibility, segregation of duties, expectations of competence, enforcement of accountability, and consideration of excessive pressures); (2) control activities (such as design of appropriate types of control activities, design of control activities at the appropriate levels, segregation of duties, design activities for the Information System, documentation of responsibilities through policies, and periodic review of control activities); and (3) monitoring (such as internal control system monitoring, and evaluation of results).

We relied on computer processed information that was used to generate total contract award amounts and annual expenditures. The total contract award amounts were generated for and presented within the FDIC's annual reports, which were audited by the GAO during its annual audit of the FDIC's financial statements, and corresponding reviews of the Agency's Deposit Insurance Fund and Federal Savings and Loan Insurance Corporation Resolution Fund. In addition, for specific FDIC and AT&T contract data, we relied on source documents. We also performed e-mail vault searches on key personnel involved in approving and implementing the strategy to upgrade the

Objective, Scope, and Methodology

FDIC Field Office telecommunication services. These e-mail search results were corroborated by, and used to corroborate, key personnel interview statements and the established timeline of events. As a result, we determined that the information was sufficiently reliable for the purposes of our analysis.

This timeline presents the events surrounding the Unauthorized Contractual Commitment and the Program Office’s interactions with other FDIC Divisions and Offices and AT&T.

Date	Events
	<i>Identification of a Procurement Need and a Solution</i>
2018	The FDIC Chief Information Officer Organization (CIOO) identified a problem with the connectivity at the FDIC Field Offices and Data Centers.
03/20/2019	A Supervisory Information Technology (IT) Specialist (Corporate Manager) from the Division of Information Technology (DIT) proposed AT&T upgrade the FDIC Field Offices based on a \$198,000 cost estimate.
03/21/2019	The Supervisory IT Specialist presented his solution and cost estimate to a Deputy Director of DIT (Executive Manager). The Deputy Director of DIT discussed the proposed solution and cost estimate with the Director of DIT. Executive Management approved the strategy to upgrade two test FDIC Field Offices.
05/10/2019	The Director of DIT instructed the Supervisory IT Specialist to initiate the upgrade of all FDIC Field Offices. The Supervisory IT Specialist informed the Oversight Manager of senior management’s decision to upgrade the FDIC Field Offices and two Data Centers.
	<i>Creation of an Unauthorized Contractual Commitment</i>
05/10/2019	The Supervisory IT Specialist contacted AT&T and requested the upgrading of the FDIC Field Offices and two Data Centers and AT&T agreed.
	<i>Identification of New Services Performed by AT&T</i>
08/19/2019	The Oversight Manager and the Supervisory IT Specialist discussed AT&T activities, and the Oversight Manager instructed the Supervisory IT Specialist to submit a Procurement Request for the FDIC Field Office and Data Center upgrades.
	<i>Preparation of a Revised Cost Estimate, but No Initiation of Corrective Action</i>
08/22/2019 to 09/16/2019	The Supervisory IT Specialist (or, his team members – in consultation with the Supervisory IT Specialist) drafted two Procurement Request forms pertaining to the FDIC Field Office upgrades. However, he did not submit either Procurement Request.
	<i>Review and Acceptance of Goods and Services</i>
May 2019 through July 2020	The Supervisory IT Specialist met with AT&T on a bi-weekly basis to review AT&T’s progress in upgrading the FDIC Field Offices and Data Centers, and reviewed and accepted AT&T’s work.
07/30/2020	AT&T reported to the Oversight Manager that the FDIC Field Office upgrades were completed.
	<i>Review and Approval of Invoices for the FDIC Field Office Upgrades; and Discovery of Funding Shortfall</i>
07/30/2020	AT&T reported to the Oversight Manager that billing for the FDIC Field Office upgrades was delayed due to problems between AT&T’s ordering and billing systems, and “Catch-Up” billing would begin in August 2020.
08/26/2020	The Oversight Manager reviewed and approved the first “Catch-Up” invoice for payment, and the Division of Finance (DOF) paid the approved amount.

Detailed Timeline of Events

October through November 2020	<p>DOF identified an FDIC CIOO budget variance in the amount of funds spent. As a result, the DOF official reached out to FDIC CIOO personnel for clarification of the spending variance.</p> <p>A Deputy Director of DOF, met with the Chief Information Officer (CIO), Chief Privacy Officer, and Director of DIT, to discuss FDIC CIOO budgeting and spending concerns.</p> <p>FDIC CIOO personnel identified potential concerns with the FDIC and AT&T contract and the August 2020 invoice for \$1.6 million. FDIC CIOO personnel sought further clarification from the Program Office on the underlying support for the amount and payment approval.</p>
10/21/2020	AT&T submitted the second “Catch-Up” invoice for \$1.8 million.
12/21/2020	The Oversight Manager requested and AT&T personnel provided a detailed review of charges related to the FDIC Field Office upgrades.
12/30/2020	The Oversight Manager reviewed and approved the second “Catch-Up” invoice for partial payment, up to the availability of funding per the contract ceiling. DOF paid this approved amount, thereby depleting nearly all the remaining funds obligated to the contract.
4 th Quarter 2020	The Supervisory IT Specialist notified his direct supervisor and the Deputy Director of DIT of his error in the initial cost estimate. The Supervisory IT Specialist’s initial cost estimate of \$198,000 per year for the upgrades was in error and the actual cost would be \$4.2 million.
02/17/2021 and 02/19/2021	The Deputy Director of the CIO Acquisition Strategy and Innovation Branch, informed the Division of Administration (DOA) Acquisition Services Branch (ASB) and FDIC CIOO Senior Management of the funding shortfall and unauthorized services performed by AT&T.
03/31/2021	The CIO informed the OIG of the funding shortfall, internal control failure, and unauthorized services performed by AT&T.
Early April 2021	The former Deputy to the Chairman, Chief of Staff, and Chief Operating Officer informed the former FDIC Chairman of the funding shortfall, internal control failure, and unauthorized services performed by AT&T resulting from an Unauthorized Contractual Commitment created by an FDIC CIOO official.
	<i>Ratification of the Contractual Commitment</i>
04/07/2021	The FDIC Legal Division, working with the FDIC CIOO, initiated an internal review to investigate the circumstances surrounding the FDIC’s administration of the contract. The Legal Division issued its report in May 2021.
06/08/2021	The FDIC CIOO and DOA ASB prepared a request to the FDIC Board of Directors (FDIC Board) to ratify the Unauthorized Contractual Commitment and obtain additional contract funding.
06/15/2021	The FDIC Board adopted a resolution authorizing the increase of the contract ceiling by an additional \$8.4 million and extended the authorized contract period of performance to June 2023.
07/08/2021	The DOA ASB Deputy Director ratified the Unauthorized Contractual Commitment.
7/15/2021	The Contracting Officer modified the contract to add the FDIC Field Office upgrades and increase contract funding.

Source: OIG prepared based on review and analysis of contract documentation, e-mail communications, and interview statements of FDIC personnel.

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Calculation of Funds Put to Better Use

Based on our analysis, we identified \$1.5 million in Funds Put to Better Use.

According to the Inspector General Act of 1978, a *Recommendation that Funds be Put to Better Use* is “a recommendation by the [OIG] that funds could be used more efficiently if management of an establishment took actions to implement and complete the recommendation, including ... avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or... any other savings which are specifically identified.”⁵⁹

As of August 2018, AT&T offered government agencies, through the AT&T GSA Multiple Award Schedule, port access at each service location for a cost of \$597.58 per month.⁶⁰ However, for the same port access, AT&T charged the FDIC \$1,284 per month from July 2020 to June 2022 (22.6 months). In September 2021, the FDIC and AT&T issued a contract modification to increase the contract ceiling, extend the period of performance, and update pricing. The FDIC negotiated a lower port access cost for each location that reduced the monthly access charge to \$923 per month for the extended period of performance – June 2022 to June 2023 (12.4 months). This lower rate was still above the price available through the AT&T GSA Multiple Award Schedule.

Based on our analysis, we identified potential cost savings, or Funds Put to Better Use, totaling \$1.5 million. Figure 7 details the potential costs savings attributed to the two periods of performance established within the contract.

Figure 7: Calculation of Funds Put to Better Use

Contract Period	(A) Period of Performance (Months)	(B) AT&T Price Charged to FDIC for 50M Port Access	(C) AT&T Price Offered to Government Agencies for 50M Port Access	(D) Number of Service Locations	(E) Cost Savings (E = (B-C)(A)(D))
July 2020 to June 2022	22.6	\$1,284.00	\$597.58	76	\$1.2 Million
June 2022 to June 2023	12.4	\$923.00	\$597.58	76	\$0.3 Million
				Total Funds Put to Better Use	\$1.5 Million

Source: OIG analysis of AT&T GSA Multiple Award Schedule and FDIC’s contract, as amended.

⁵⁹ The Funds Put to Better Use are associated with recommendation 10, as noted in our report.

⁶⁰ AT&T Multiple Award Schedule GSA Contract Number 47QTCA18D00JG for contracts originated from August 2018 through August 2023.

APM	FDIC Acquisition Policy Manual
ASB	Acquisition Services Branch
AT&T	AT&T Corp.
CIO	Chief Information Officer
CIOO	Chief Information Officer Organization
DIT	Division of Information Technology
DOA	Division of Administration
DOF	Division of Finance
FDIC	Federal Deposit Insurance Corporation
FDIC Board	FDIC Board of Directors
GAO	Government Accountability Office
GSA	General Services Administration
IT	Information Technology
KPMG	KPMG International Limited
OIG	Office of Inspector General
ORMIC	Office of Risk Management and Internal Controls
PGI document	FDIC Acquisition Procedures, Guidance and Information document

**MEMO**

TO: Terry L. Gibson
Assistant Inspector General for Audits, Evaluations, and Cyber

FROM: Sylvia W. Burns SYLVIA BURNS Digitally signed by SYLVIA BURNS Date: 2023.03.20 18:33:15 -0400
Chief Information Officer, Chief Privacy Officer, and Director, Division of Information Technology

BRET EDWARDS Digitally signed by BRET EDWARDS Date: 2023.03.20 18:33:15 -0400

Bret Edwards, Deputy to the Chairman and Chief Financial Officer

CC: Daniel H. Bendler, Deputy to the Chairman and Chief Operating Officer
E. Marshall Gentry, Chief Risk Officer
Mark F. Mulholland, Deputy Chief Information Officer for Management

DATE: March 20, 2023

RE: Management Response to the Office of Inspector General's Report, Entitled FDIC Oversight of a Telecommunications Contract

Thank you for the opportunity to comment on the Office of Inspector General's (OIG) draft review report, entitled *FDIC Oversight of a Telecommunications Contract* (No. 2021-012). The OIG issued the draft report on February 10, 2023. The objective of the review was to determine if the FDIC authorized and paid AT&T Corp. (AT&T) for services to upgrade bandwidth in FDIC Field Offices in accordance with its policies and procedures and existing telecommunications contract. The FDIC awarded the telecommunications contract (FDIC Contract Number CORHQ-14-C-0057) to AT&T in February 2014 to obtain corporate-wide data, voice, and router management services (excluding wireless cell phone and mobile services).

In February 2021, the Chief Information Officer Organization (CIOO) informed the Division of Administration's (DOA) Acquisition Services Branch (ASB) that staff in the Division of Information Technology (DIT) had directed AT&T to upgrade the network bandwidth in the Field Offices without proper authorization. The upgrade represented an expansion in the scope of the FDIC's contract with AT&T, and DIT staff did not pursue a modification to the contract to capture the scope expansion. Further, DIT staff who directed AT&T to implement the upgrade were not authorized under the contract or FDIC policies and procedures to direct



a scope increase. In addition, the contract's funding ceiling was not sufficient to pay for the work that AT&T performed. FDIC management notified the OIG and Government Accountability Office (GAO) of the control breakdowns with the AT&T contract in March 2021 and informed both organizations that the FDIC was undertaking a comprehensive internal review of the matter. In response, the OIG initiated a review of the FDIC's oversight of the AT&T contract.

In June 2021, FDIC management sought and obtained approval from the FDIC Board of Directors (Board) to increase the award value of the AT&T contract to allow for the ratification of the unauthorized commitment and extend the contract's period of performance to serve as a bridge to a follow-on competitive contract. The case submitted to the Board to obtain these approvals noted that FDIC management had completed an internal operational review of the FDIC's oversight and administration of the AT&T contract in May 2021. The results of the operational review helped the FDIC to formulate 18 recommendations included in the June 2021 Board case. The recommendations were intended to address breakdowns in the FDIC's procurement processes and procedures. In May 2021, the FDIC's Legal Division completed a separate review of the activities of FDIC personnel that led to the unauthorized contractual commitment. FDIC management subsequently took action to hold accountable those employees responsible for the control breakdowns with the AT&T contract.

Notwithstanding the control breakdowns that occurred with the AT&T contract, the network bandwidth upgrades in the Field Office locations addressed a critically important and time sensitive business requirement supporting the FDIC's mission. In addition, the FDIC received the services for which it paid AT&T. The bandwidth upgrades allowed for the effective operation of communication and collaboration tools, such as Microsoft Teams and Cisco WebEx, that place high demands on the FDIC's network circuits. FDIC employees and contractors rely heavily on these collaboration tools to perform their work.

Actions to Strengthen Procurement and Contract Management Controls

The FDIC places a high priority on ensuring that effective controls are in place to manage its procurement and contract management activities and is committed to continually assessing and making control improvements in these areas. As described below, the FDIC has taken significant actions in recent years to strengthen its procurement controls and promote a culture of accountability and compliance with respect to contracting. We are including this information in our management response because it provides important context to the issues described in the OIG's report.



- In December 2020, the FDIC's former Chief Operating Officer (COO) and Chief of Staff (COS) established an interdivisional working group to strengthen contract oversight management controls and practices. The FDIC established the working group in response to findings and recommendations made in prior OIG reports, including the OIG's report on *Contract Oversight Management* issued in October 2019. The working group focused on:
 - Increasing the independence and professionalism of the FDIC's contract Oversight Managers (OM),
 - Creating a corporate-wide program for OMs,
 - Enhancing training for OMs, and
 - Conducting independent invoice and contract compliance reviews.

FDIC management established an FDIC Performance Goal in 2021 to emphasize and report on the activities of the working group. The FDIC has completed work on most of the four referenced work streams.

- In May of 2021, the FDIC resumed meetings of its interdivisional Acquisition Community of Practice and encouraged broader attendance among agency OMs and Technical Monitors (TM).
- In June 2021, the CIO Acquisition Strategy and Innovation Branch developed and provided training to CIOO OMs and TMs on contract oversight and invoicing controls.
- In October 2021, the COO established a project team to assist ASB in addressing recommendations in OIG and GAO reports and FDIC internal review reports to improve the acquisition planning, contract oversight management and administration, and payment processes. The project team included executive managers from the CIOO, DOA, Division of Resolutions and Receiverships, and Office of Risk Management and Internal Controls (ORMIC). The project team's responsibilities included:
 - Assessing and strengthening policies and practices for managing Justifications for Non-Competitive Procurement (JNCP),
 - Surveying Contracting Officers (CO) on how to improve training and reviewing external vendors and other federal sources for procurement training opportunities,



- Addressing recommendations from OIG’s *Critical Functions in FDIC Contracts* evaluation report, issued in March 2021, and
 - Reviewing and proposing changes to FDIC’s contract execution and oversight governance structure, where appropriate.
- In April 2021, ORMIC began conducting semiannual horizontal reviews of a statistical sample of contract transactions using the same testing procedures that GAO employs on the annual audit of the financial statements of the FDIC’s insurance funds.
 - In September 2021, ORMIC completed a comprehensive review of telecommunications contracts as required by the June 2021 Board Case.
 - In February 2022, ORMIC expanded its review of contracts by establishing a vertical contract compliance review program. Vertical contract reviews cover a number of areas, including pre-solicitation/market research, acquisition planning, contract clauses, contract modifications, JNCs, invoices, confidentiality agreements, training, contract documentation, and contractor performance evaluations. These reviews result in a memorandum that is shared with the program office with observations and suggestions for improvement.
 - As discussed earlier, the case presented to the FDIC Board in June 2021 on the AT&T contract included 18 recommendations to strengthen the FDIC’s procurement processes and procedures. The FDIC completed actions to address 13 of the 18 recommendations, and work to complete the remaining recommendations is ongoing. Notable accomplishments to address the recommendations include the following:
 - The FDIC’s Legal Division reviewed the role of employees involved in the AT&T contract and took appropriate and timely personnel action against individuals responsible for the unauthorized contractual commitment and oversight management weaknesses.
 - The former COO/COS issued a communication to all FDIC executive managers emphasizing the importance of: assuming program ownership and accountability, including that leaders actively engaged in, and assume accountability for, program delivery; mitigating risks to program success; implementing strong internal controls; and effectively monitoring and managing program budgets, performance, and outcomes.



- DOA clarified the roles and responsibilities of OMs, TMs, and program managers, including revising the OM position description responsibilities and performance management expectations for ensuring strong contract oversight.
- DOA clarified and communicated FDIC policy regarding when JNCPs are appropriate and applied increased scrutiny to JNCP justifications.
- DOA delivered training to OMs and COs on contract administration and oversight management expectations and areas that were problematic under the AT&T contract.
- The FDIC strengthened invoice controls by requiring the use of the Division of Finance's centralized invoice mailbox for Telecommunications contracts, which is consistent with the practice in place for the administration of all other contracts. The FDIC also eliminated partial payment of invoices and is making other control improvements.

The FDIC is taking additional actions in 2023 to address the remaining open recommendations from the June 2021 Board case. These actions include publishing a revision to the Acquisition Policy Manual (APM) and accompanying Procedures, Guidance, and Information (PGI) during the second quarter of 2023 and establishing an ASB quality assurance program to strengthen contract management practices.

Actions to Improve the Organizational Culture in the CIOO

In January 2020, the FDIC appointed a new Chief Information Officer (CIO). Shortly thereafter, the CIO identified the need to develop a plan to improve the organizational culture in the CIOO. The CIO collaborated with the FDIC's Corporate University to develop an organizational culture improvement plan. In February 2020, the CIO addressed the results of the then most recent organizational culture survey with the entire CIOO organization during an All-Staff meeting. At that time, CIOO leadership began implementing the culture improvement plan. Actions taken to improve the organizational culture of the CIOO include:

- Requiring CIOO executives and managers to conduct 360-degree feedback and emotional intelligence assessments; participate in leadership development and team building training activities; and receive professional coaching and mentoring.
- Conducting CIOO culture quarterly pulse check surveys and hosting pulse check open forums for all CIOO staff wherein anyone could ask the CIOO Leadership Team and CIOO Culture Team questions and make comments. During these sessions, the results of the surveys and potential improvement actions were discussed.



- Hosting regular “Ask Me Anything” sessions for all CIOO staff by the CIOO Leadership Team.
- Creating a CIOO Culture Handbook that emphasizes the importance of employee accountability, and developing a CIOO Cultural Transformation Plan that focused on skills, people, and systems.
- Conducting a series of seminars for CIOO employees that focus on concepts like the “Outcome, Method, Resources – OMR” model to promote more accountability planning, communications, and execution.
- Sponsoring a reading challenge where employees read and discussed the book, *Extreme Ownership: How U.S. Navy Seals Lead and Win*, to explore different leadership models and inspire improvements in accountability and leadership at all levels of the CIOO.
- Incorporating key concepts from CIOO culture improvements into executive manager annual performance expectations including:
 - Taking personal responsibility in managing their program and resources (i.e., federal staff, contractors, assets, contracts and budget) and serving as a role model for a culture of accountability.
 - Providing constructive feedback to managers and staff on an ongoing basis and holding oneself and their subordinates accountable for outcomes and appropriate levels of performance and conduct.
 - Serving as a role model in fostering high ethical standards and a culture of accountability in the CIOO’s day-to-day work to fulfill the CIOO goals and commitments.
- Hiring a contractor to implement Human Element training to improve culture. More than 200 CIOO staff have attended this training since 2020, including the CIOO Leadership Team.

The actions described above, together with the corrective actions we plan to take in response to the OIG’s report recommendations, will promote an accountable organizational culture and enhance effective controls to help ensure compliance with procurement policies and procedures.



Concerns Regarding the Inclusion of Employee Names and Potential Personnel Actions in the OIG's Report

During the draft report review process and exit conference with the OIG, FDIC management expressed concern regarding the OIG's plans to include employee names in the public version of its report. The report describes how named individuals did not execute their roles and responsibilities or contributed to an organizational culture of noncompliance. The report recommends that the FDIC review the facts presented and consider taking additional personnel actions against these named individuals, and potentially others. Publicly disclosing employee performance issues before an employee has had an opportunity to respond, and management has had the opportunity to review and decide whether further personnel actions are warranted, could taint the disciplinary process and prejudice the employee's rights to due process. For example, officials responsible for proposing and deciding personnel actions should be free of undue influence. A government-issued public report recommending that agency management consider implementing personnel actions against named individuals could create an undue expectation for a proposing or deciding official, thereby influencing what should otherwise be independent and impartial decision-making and the employee's rights to due process. It also creates potential reputational harm to the employees involved as the employee has not been given an opportunity to respond to the allegations, and management has not yet had an opportunity to complete its review of the OIG report and make decisions. The FDIC raised these concerns with the OIG throughout the report review process, yet the names remain.

Representatives of the OIG informed us that the unusual step of including employee names in the public version of the report promotes transparency, and serves to deter future employee noncompliance with FDIC policies and procedures. In our view, the inclusion of employee names in the public report does not provide additional context or insights to help readers understand the report's findings and recommendations and, therefore, does not further the goal of transparency. The vast majority of publicly-issued OIG reports do not contain employee names, but do achieve transparency. With respect to deterring noncompliance, the practice of identifying employee names in a public report may likely have the unintended consequence of creating a chilling effect where employees feel uncomfortable disclosing concerns and raising awareness of problems due to the fear that they or their colleagues will be publicly criticized for unsatisfactory job performance or misconduct while the matters are being considered during a deliberative process.



Management Response to the Recommendations

The OIG's report contains 14 recommendations to address weaknesses in the FDIC's oversight of the AT&T contract. FDIC management concurs with all of the recommendations. A summary of our planned corrective actions and associated milestones follows.

Recommendation 1 -

We recommend that the CIO:

Develop, document, and implement roles and responsibilities for FDIC CIOO Executive Managers to ensure compliance with FDIC acquisition policies and procedures.

Management Decision: Concur

Corrective Action: The CIOO will update its Acquisition Planning Guide and issue a new Contract Management Guide that defines roles and responsibilities for CIOO employees, including executive managers, involved in managing and administering contracts to help ensure compliance with FDIC acquisition policies and procedures. In addition, the CIO will establish written performance goal expectations for all CIOO executive managers that address their responsibility to promote compliance with FDIC acquisition policies and procedures within their offices and branches. To support implementation, executive managers will communicate and reinforce these roles, responsibilities, and expectations to CIOO managers and staff during senior management meetings.

Estimated Completion Date: June 30, 2023

Recommendation 2 -

We recommend that the CIO:

Develop, provide, and require training for FDIC CIOO Executive Managers on their roles and responsibilities for procurement activity and management oversight.

Management Decision: Concur

Corrective Action: In response to the recommendations contained in the June 2021 FDIC Board case, DOA issued a Program Office Procurement Update in June of 2022. The



Procurement Update reiterates acquisition roles and responsibilities and provides guidance to program managers on a number of acquisition-related issues relevant to the AT&T contract, including unauthorized contractual commitments. The CIOO will develop new training for all CIOO employees, including executive managers, that reinforces roles and responsibilities for procurements and oversight of CIOO contracts. All current and new CIOO employees will be required to certify that they have completed the training and understand the materials presented.

Estimated Completion Date: September 30, 2023

Recommendation 3 –

We recommend that the CIO:

Develop, document, and communicate FDIC CIOO Executive Managers expectations for staff to comply with FDIC acquisition policies and procedures; and consequences for non-compliance or for creating an Unauthorized Contractual Commitment.

Management Decision: Concur

Corrective Action: On February 21, 2023, the CIO issued a letter to all CIOO employees communicating short and long term actions intended to strengthen CIOO contract management practices. The letter stated that a basic understanding of contract management principles, concepts, and requirements is a fundamental business acumen that every CIOO employee must possess to ensure compliance with FDIC procurement policies. The letter explained that effective contract oversight management and monitoring is critically important for ensuring the CIOO receives the IT products, systems, and services it contracts for, and for ensuring compliance with acquisition policies and procurement laws and regulations. The letter encouraged all CIOO employees to demonstrate a heightened sense of program ownership and accountability and constant vigilance towards compliance with FDIC acquisition policies, adding that failure to comply with contract and acquisition requirements may result in disciplinary action.

In addition, the training delivered in response to Recommendation 2 will communicate Executive Manager expectations that staff comply with the FDIC's acquisition policies and procedures, and the consequences for non-compliance or for creating an unauthorized contractual commitment.



Estimated Completion Date: September 30, 2023

Recommendation 4 –

We recommend that the CIO:

Develop, provide, and require periodic training to FDIC CIOO personnel on the following:

- Their roles, responsibilities, and limitations in interacting with contractors;
- The identification and avoidance of Unauthorized Contractual Commitments; and
- Disciplinary ramifications that may result from creating an Unauthorized Contractual Commitment.

Management Decision: Concur

Corrective Action: As discussed in the response to Recommendation 2, the FDIC developed a Procurement Update for program managers that reiterated acquisition roles and responsibilities and provided guidance on acquisition-related issues relevant to the AT&T contract, including avoiding unauthorized contractual commitments. The CIOO will also develop new training for all CIOO employees that addresses, among other things: employee roles, responsibilities, and limitations in interacting with contractors; guidance to identify and avoid potential unauthorized contractual commitments; and disciplinary ramifications that may result from creating an unauthorized contractual commitment. The CIOO will require all current and new CIOO employees to certify that they have completed the training and understand the materials presented. The CIOO will also determine an appropriate frequency for refresher training.

Estimated Completion Date: September 30, 2023

Recommendation 5 –

We recommend that the CIO:

Develop and implement FDIC CIOO processes to monitor and oversee internal controls for procurement activities including ensuring the internal control environment is clearly understood, adhered to, and achieving its intended objectives and reporting out the results.

Management Decision: Concur



Corrective Action: As required by the June 2021 Board case, ORMIC and the Legal Division reviewed multiple telecommunications contracts during 2021. Further, in 2022, ORMIC began working in partnership with other FDIC Divisions and Offices (including the CIOO) to perform regular reviews of FDIC contracts for compliance with the APM and PGI. The first of these reviews that involved an IT contract was completed in June 2022. ORMIC shares the results of IT contract reviews with CIOO executive management to support oversight of the CIOO's acquisition and contract management activities. In addition, the CIOO's Policy, Audits, Compliance and Risk Section (PACRS) will review the resulting reports for purposes of ensuring that identified risks are properly considered, monitored and addressed by leveraging the Corporation's enterprise risk management program guidance and the CIOO IT Risk Advisory Council. ORMIC will continue to partner with the CIOO to conduct contract compliance reviews in 2023 and beyond.

PACRS will also update its 2023 internal review plan to include coverage of controls over procurement activities, including contract management reviews. Further, to help ensure the CIOO's internal control environment for procurement activities is clearly understood, adhered to, and achieving intended objectives, PACRS will periodically report the results of its internal control reviews to the IT Risk Advisory Council.

Estimated Completion Date: October 30, 2023

Recommendation 6 –

We recommend that the CIO:

Identify which FDIC CIOO contracts do not have an assigned Technical Monitor, review whether a Technical Monitor(s) should be nominated and appointed and, in cases where a Technical Monitor should be nominated and appointed, ensure such nomination and appointment occurs, in compliance with FDIC guidance.

Management Decision: Concur

Corrective Action: The CIOO will review its inventory of contracts and identify whether each has an assigned TM. For contracts without an assigned TM, the CIOO will make a determination as to whether a TM should be appointed consistent with the FDIC's APM and PGI. The CIOO will document supplemental criteria in the CIOO's Contract Management Guide to inform decisions by program office officials regarding whether a TM should be appointed to a contract. Due to the large volume of contracts that the CIOO



manages, the CIOO will implement a risk-based schedule for appointing TMs to its existing contracts.

Estimated Completion Date: November 30, 2023

Recommendation 7 –

We recommend that the CIO:

Develop and implement a process to document the Program Office’s analysis and conclusion for not nominating a Technical Monitor(s) when initiating or significantly modifying a contract.

Management Decision: Concur

Corrective Action: As stated in the response to Recommendation 6, the CIOO will document criteria in the CIOO’s Contract Management Guide to inform decision-making by program office officials regarding when a TM should be appointed to a contract. The criteria will supplement policy and guidance in the FDIC’s APM and PGI and apply to all new contracts, and significant modifications to existing contracts.

Estimated Completion Date: June 30, 2023

Recommendation 8 –

We recommend that the CIO:

Perform and document a periodic assessment that analyzes and determines the appropriate staffing level of Oversight Managers, including resources, time, and effort needed to comply with FDIC policies and procedures.

Management Decision: Concur

Corrective Action: ORMIC, working in coordination with the CIOO, will conduct an assessment and recommend appropriate staffing levels for CIOO OMs. The assessment will consider resources, time, and effort needed to comply with FDIC policies and procedures. Our response to Recommendation 9 describes how the CIOO will implement the results of the assessment.



Estimated Completion Date: November 30, 2023

Recommendation 9 –

We recommend that the CIO:

Develop a strategy to periodically assess workload imbalances and implement a strategy to address such imbalances among Oversight Managers in the FDIC CIOO.

Management Decision: Concur

Corrective Action: After considering the results of the assessment completed in response to Recommendation 8, CIOO management will take actions to ensure that staffing levels of OMs are appropriate and that any workload imbalances are addressed. CIOO management will also define a frequency for conducting periodic reassessments of OM workloads.

Estimated Completion Date: February 28, 2024

Recommendation 10 –

We recommend that the CIO:

Develop and implement a process to ensure proper communication of proposed contract changes or new procurement activities among the Program Office, Technical Monitor, Oversight Manager, and Contracting Officer, in order to avoid Unauthorized Contractual Commitments and overpayments, which in this case, resulted in \$1.5 million in Funds Put to Better Use.

Management Decision: Concur

Corrective Action: The PGI describes the importance of early communication in procurements “as soon as a requirement is identified.” In addition, DOA’s Program Office Procurement Update published in June 2021 emphasizes management’s expectation for members of the Acquisition Team, including the Program Office, OM, TM, and CO, to collaborate and work together effectively. To supplement the guidance in the PGI and Procurement Update, the CIOO will update its Acquisition Planning Guide and issue a new Contract Management Guide to define expectations regarding communication of



proposed contract changes or new procurement activities among the Program Office, OM, TM, and CO. The CIOO will reinforce these expectations in the training described in response to Recommendation 2.

With respect to the Funds Put to Better Use, the OIG's report identified potential cost savings of \$1.5 million in port access charges associated with rates paid by the FDIC that were higher than rates offered to government agencies through the AT&T General Services Administration's Multiple Award Schedule. FDIC management has determined that the amount of funds put to better use in implementing this recommendation are \$0. This determination is supported by a written analysis prepared by the FDIC Contracting Officer in June 2021 that determined the rates paid under the AT&T contract were fair and reasonable. The analysis, which was a part of the AT&T ratification document, was reviewed and approved by both the Director and Assistant Director of ASB, with concurrence by a representative of the FDIC Legal Division.

The Contracting Officer's analysis cited several factors supporting the fair and reasonable price determination. Specifically, the port rate, which was included in the original contract, was determined to be fair and reasonable at the time the contract was competitively awarded. The Contracting Officer also compared the rates in the AT&T contract to rates in other contracts and commercial price catalogs, including government wide acquisition contracts (GWACs). In comparing the rates, the Contracting Officer noted that some GWACs offered somewhat lower prices for similar services. Those lower prices, however, were often associated with long-term multi-year contracts. In order for the FDIC to obtain similar rates, it would have to agree to those longer-term contracts – as long as 15 years. However, the FDIC planned to obtain those services via other contracts.

Further, the Contracting Officer identified regional carriers that offered somewhat lower rates than AT&T, but those regional carriers were not able to service all of the specified locations required by the FDIC. Therefore, the servicing models offered by those carriers did not provide the full complement of services at all FDIC locations. The FDIC was able to negotiate lower port access rates for each location for the period June 2022 to June 2023 as part of the contract ratification.

Estimated Completion Date: September 30, 2023



Recommendation 11 –

We recommend that the CIO:

Develop and implement processes to identify and perform a secondary review of variations in invoice amounts and burn rates, and depletions in contract funds, in accordance with FDIC acquisition policies and procedures.

Management Decision: Concur

Corrective Action: The CIOO will develop and implement a process to centrally review variations in contract invoice amounts and track burn rates and depletions in contract ceiling funds for individual contracts. Anomalies identified through these processes will be reported to the OMs for review and action, and issues will be escalated to CIOO management as warranted. These processes are in addition to the same activities already performed by individual OMs.

Estimated Completion Date: November 30, 2023

Recommendation 12 –

We recommend that the CIO:

Develop and implement a process to report and track Procurement Requests and approvals to FDIC CIOO Executive Management.

Management Decision: Concur

Corrective Action: We concur with the underlying concerns that prompted this recommendation, but plan to take alternative corrective actions. The New Financial Environment (NFE) already records pending, approved, and cancelled procurement requests and can generate reports containing this information for CIOO executive managers. In the case of the AT&T contract, however, the individuals involved in directing the work that led to the unauthorized contractual commitment never developed a procurement request as required by FDIC policy. As a result, NFE did not have a procurement request to track or report.



As stated in the OIG's report, the executive managers and corporate manager directly involved in the work did not comply with FDIC procurement policy because they demonstrated a lack of knowledge and understanding of FDIC procurement policies and procedures. In addition, the executive managers overseeing the work lacked sufficient training in procurement and contract management. To address Recommendation 12, the CIOO will implement the training described in Recommendation 2 for all CIOO employees, including executive managers and corporate managers, that addresses (among other things) the roles and responsibilities for conducting and overseeing procurement planning activities, including requirements for developing and submitting procurement requests. All current and new CIOO employees will be required to certify that they have completed this training and understand the materials presented. Further, the CIOO will update its Acquisition Planning Guide and issue a new Contract Management Guide that supplements and clarifies roles and responsibilities for CIOO employees during the procurement planning process. Such guidance will help to ensure compliance with FDIC procurement policy, including requirements for developing and obtaining approvals for procurement requests.

Estimated Completion Dates: October 30, 2023

Recommendation 13 –

We recommend that the CIO and Chief Financial Officer:

Ensure that the FDIC Risk Inventory clearly articulates the risks related to the FDIC CIOO procurement activities and lack of a strong internal control environment and organizational culture surrounding its contract management.

Management Decision: Concur

Corrective Action: The FDIC added several risk items to the Enterprise Risk Management (ERM) Risk Inventory and Risk Profile in response to the unauthorized contractual commitment on the AT&T contract and other contract management compliance findings identified in OIG and GAO reports. The risk inventory includes a risk item specific to IT acquisition risk. Further, the CIOO Leadership Team and ORMIC worked together to identify and add several items to the CIOO Risk Inventory that address CIOO culture, including items related to CIOO reputation, IT governance, financial management practices, and IT planning and execution. In addition to these actions, the FDIC will review the ERM Risk Inventory to ensure that it adequately captures risks related to the need for



a strong internal control environment and a culture of accountability and compliance with respect to the FDIC's contract management policies and requirements.

Estimated Completion Date: June 30, 2023

Recommendation 14 -

We recommend that the FDIC:

Review the facts presented in this report, assess whether these facts support further management action related to the performance or conduct of any FDIC employee or FDIC contractor employee, and implement any management actions determined to be appropriate.

Management Decision: Concur

Corrective Action: FDIC management will carefully review the facts presented in the OIG's report and determine whether further management action related to the performance or conduct of any FDIC or contractor employee involved in the management or administration of the AT&T contract is warranted. If management determines that further action is warranted, it will take appropriate action.

Estimated Completion Date: June 30, 2023

This table presents management's response to the recommendations in the report and the status of the recommendations as of the date of report issuance.

Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date	Monetary Benefits	Resolved: ^a Yes or No	Open or Closed ^b
1	The CIOO will update and issue guidance that defines roles and responsibilities and establish performance goals for Executive Managers.	June 30, 2023	\$0	Yes	Open
2	The CIOO will develop training and require certification for Executive Managers that reinforces roles and responsibilities for procurements and oversight of CIOO contracts.	September 30, 2023	\$0	Yes	Open
3	The CIO communicated expectations that employees possess a basic understanding of contract management principles, concepts, and requirements. The CIO also communicated that non-compliance with FDIC acquisition policies and procedures may result in disciplinary action. In addition, the training delivered in response to recommendation 2 will reinforce Executive Manager expectations.	September 30, 2023	\$0	Yes	Open
4	The CIOO will develop and provide periodic training for all CIOO employees that addresses 1) their roles, responsibilities, and limitations for interacting with contractors; 2) guidance to identify and avoid potential unauthorized contractual commitments; and 3) disciplinary ramifications that may result from creating an Unauthorized Contractual Commitment.	September 30, 2023	\$0	Yes	Open
5	The CIOO will update its internal review plan to include coverage of controls over procurement activities, including contract management reviews. The CIOO will also review other internal reports on the FDIC's compliance with its acquisition policies and procedures.	October 30, 2023	\$0	Yes	Open

Summary of the FDIC's Corrective Actions

6	The CIOO will review its inventory of contracts and determine whether a Technical Monitor(s) should be appointed in accordance with FDIC acquisition policies and procedures. In addition, the CIOO will issue supplemental guidance to inform decisions regarding whether a Technical Monitor should be nominated to a contract.	November 30, 2023	\$0	Yes	Open
7	The CIOO will issue guidance to inform decision-making regarding when a Technical Monitor should be nominated to a contract.	June 30, 2023	\$0	Yes	Open
8	The CIOO and ORMIC will assess and determine the appropriate staffing levels for CIOO Oversight Managers.	November 30, 2023	\$0	Yes	Open
9	The CIOO will take action to ensure that staffing levels of Oversight Managers are appropriate and periodically assess Oversight Managers' workloads.	February 28, 2024	\$0	Yes	Open
10	The CIOO will issue guidance, and provide training that defines expectations for communicating proposed contract actions.	September 30, 2023	\$1.5 million	Yes	Open
11	The CIOO will develop and implement a process to centrally review and report 1) variations in contract invoice amounts, 2) contract burn rates, and 3) depletions in available contract funding.	November 30, 2023	\$0	Yes	Open
12	The CIOO will implement training that addresses procurement planning activities, including requirements for developing and submitting Procurement Requests. In addition, the CIOO will update and issue new guidance that supplements and clarifies the procurement process.	October 30, 2023	\$0	Yes	Open
13	The FDIC will review the Enterprise Risk Management Risk Inventory to ensure that it adequately captures CIOO procurement and contract oversight management risks.	June 30, 2023	\$0	Yes	Open

Summary of the FDIC’s Corrective Actions

14	The FDIC will review the report and determine whether further management action is needed.	June 30, 2023	\$0	Yes	Open
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^a Recommendations are resolved when —

1. Management concurs with the recommendation, and the planned, ongoing, and completed corrective action is consistent with the recommendation.
2. Management does not concur with the recommendation, but alternative action meets the intent of the recommendation.
3. Management agrees to the OIG monetary benefits, or a different amount, or no (\$0) amount. Monetary benefits are considered resolved as long as management provides an amount.

^b Recommendations will be closed when the OIG confirms that corrective actions have been completed and are responsive.



Federal Deposit Insurance Corporation
Office of Inspector General

3501 Fairfax Drive
Room VS-E-9068
Arlington, VA 22226

(703) 562-2035

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