

NATIONAL CREDIT UNION ADMINISTRATION  
OFFICE OF INSPECTOR GENERAL



AUDIT OF  
NCUA'S PROCUREMENT PROGRAM

Report #OIG-17-07

June 28, 2017



A handwritten signature in black ink, appearing to read "James W. Hagen".

*James W. Hagen*  
*Inspector General*

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## EXECUTIVE SUMMARY

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The National Credit Union Administration (NCUA) Office of Inspector General (OIG) conducted this self-initiated audit to assess NCUA's procurement program. The objectives of our audit were to determine whether: 1) management's control framework that supports procurement activities is appropriate, complete, and effective; and 2) NCUA's procurement activities comply with applicable policies, procedures, laws, and regulations.

Results of our audit determined that NCUA's procurement program needs reform. In addition, we found that the depth and scope of the issues we identified are a symptom of a long-standing agency culture that seemingly valued expeditiousness and flexibility over following established policies and procedures. In answering our first objective, we concluded management's control framework over the procurement program was not appropriate, complete, or effective during the scope period of our audit. In answering our second objective, we concluded that those charged with governance and the authority to procure goods and services for the agency did not consistently follow applicable policies and procedures, laws, and regulations.

Although NCUA received the goods and services procured, the manner in which the agency obtained those goods and services led to a high frequency of policy exceptions – which became the normal course of business. Although the procurement program operated with minimal staffing, ensuring NCUA received goods and services through fair and open competition was generally secondary to procuring the goods or services as expeditiously as possible. Further, we found a general lack of accountability among those responsible for ensuring that agency procurement policies and procedures were followed. We note however, that all management, and all but one staff employee involved in NCUA's procurement program prior to 2015 have since been replaced.

We identified issues related to the procurement program's Information Technology (IT) systems; Delegations of Authority for Procurement and Property Management (Delegations); policies and procedures; contract planning, monitoring, and documentation activities; contract file security; and staffing needs.

In addition to having an ineffective control environment, we identified the following issues related to NCUA's procurement program:

We determined NCUA management:



1. Utilized two incompatible information systems, SharePoint<sup>1</sup> and DELPHI,<sup>2</sup> neither specifically designed for procurement operations. This created a scenario where management could not achieve procurement objectives due to inherent system limitations.
2. Should rescind and implement Delegations PRO 9 and PRO 16, respectively, and revise the 2015 Procurement Policy Manual (2015 PPM) and Instruction 1501 (Rev. 1)<sup>3</sup> to reflect current procurement processes.
3. Did not conduct adequate contract planning. Specifically, Division of Procurement and Facilities Management (DPFM) contract files did not consistently contain evidence that the requesting office considered information such as the need, timeline, budget, allocation of resources, contract requirements, or legal implications.
4. Did not have an established Contracting Officer's Representative (COR)<sup>4</sup> program until September 2015 and did not identify internal control deficiencies related to contract monitoring activities. In addition, once NCUA established a COR program, DPFM did not follow its 2015 PPM<sup>5</sup> related to CORs, and furthermore, the 2015 PPM only provided CORs for oversight of Office of Chief Information Officer (OCIO) but no other program offices' procurement contracts. OCIO was the initial focus since it accounts for the majority of contracted services at NCUA. However, management was in the process of expanding the program beyond OCIO at the conclusion of the audit. DPFM officially began appointing CORs following the scope period of our audit.
5. Did not ensure that contract files contained sufficient evidence to support the acquisition life cycle process. Specifically, contract files did not document basic procurement activities from identifying the procurement need through contract closeout.
6. Kept contract files in an unsecured multi-purpose room in unlocked and non-locking cabinets and did not track files when removed from the room. We observed that anyone with access to NCUA's Central Office could enter the DPFM suite and retrieve contract files from either of the two file cabinets without DPFM's knowledge. In addition, we

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<sup>1</sup>Organizations use SharePoint to create websites. It can be used as a secure place to store, organize, share, and access information from almost any device with a web browser. (Microsoft Office Support, April 2017)

<sup>2</sup> During the scope period of our audit, NCUA utilized DELPHI for its procurement process. DELPHI is a shared service accounting system NCUA uses for managing its general ledger, accounts receivable, accounts payable, fixed assets, and complying with federal reporting requirements.

<sup>3</sup> In April 2017, NCUA management cancelled Instruction 1501 (Rev.1).

<sup>4</sup> The COR is the NCUA employee jointly appointed by the program office and the Contracting Officer, whose responsibility it is to monitor and evaluate contractor performance under an NCUA contract. (2015 PPM)

<sup>5</sup> During the scope period of our audit, NCUA issued two procurement manuals both superseding the March 2003 manual: one in January and one in April 2011. In September 2015, the ED issued a new manual titled "Procurement Policy Manual." This manual superseded the NCUA PM – NCUA M1170, dated April 2011. Unless otherwise noted, all referred to collectively as "Manuals."



determined DPFM did not manually track contract files removed from the multi-purpose room. This made locating contract files for our audit difficult.

7. Did not provide adequate staffing for its overall procurement function to ensure the agency's procurement process operated successfully in accordance with established policies and procedures.

As a result, we are making ten recommendations to NCUA management that we believe will help those with the authority to procure goods and services for NCUA and improve the procurement program.

We recognize management has prioritized the need for improvement noted throughout this report. With a change in OCFO management beginning in October 2014, the new CFO recognized and began implementing changes in the procurement program. Those actions included obtaining the funding to acquire a dedicated procurement system in 2015 with implementation in January 2017, and instituting a COR program in 2015. In addition, we continually brought issues to NCUA management's attention throughout our audit, and note that management began implementing corrective actions immediately. For example, management increased staff dedicated to procurement and issued a new Acquisition Procurement Manual (APM).<sup>6</sup> However, many of the corrective actions management took were outside the scope of our audit, which ended in June 2016. Therefore, we did not draw any conclusions regarding the effectiveness of those corrective actions. We appreciate the cooperation and courtesies NCUA management and staff provided to us during this audit.

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<sup>6</sup> The APM supersedes the PPM – NCUA M1770, dated September 2015 and cancels the NCUA Purchase Card Manual, dated June 2016, and Instruction 1501 (Rev. 1), Conference Planning Policies, Procedures, and Approval Requirements, dated September 27, 2013.



## BACKGROUND

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The National Credit Union Administration (NCUA) is the independent federal agency created by the U.S. Congress to regulate, charter, and supervise federal credit unions. NCUA's organizational structure consists of a Central Office, Asset Management and Assistance Center (AMAC), and five regional offices. NCUA's operating fund contains the attributes of a revolving fund,<sup>7</sup> which is a permanent appropriation. NCUA is authorized to collect annual operating fees from sources outside of congressional appropriations, define the purpose for which these collections may be used, and use the collections without fiscal year limitation.

The Federal Credit Union Act (12 U.S.C. § 1766 (i)(2)), empowers NCUA to enter into contracts for goods or services with public and private sector organizations and persons, by lease or purchase, without regard to the provisions of any other law applicable to executive or independent agencies of the United States. Without conceding this authority, NCUA may adopt or adapt federal procurement laws and regulations for use in its procurement activities.

### Contracting Authority

The NCUA Board, through the agency's Delegations of Authority for Procurement and Property Management (Delegations), appointed the Director of the Division of Procurement and Facilities Management (DPFM) as the Senior Contracting Officer with authority to develop contracting policy; solicit proposals; and approve, sign, and issue procurement documents for all goods or services required for normal operations. The Delegations also grant Regional Directors (RD) and the President of AMAC the authority to approve, sign, and issue purchase orders<sup>8</sup> (PO) and blanket purchase agreements (BPA) up to \$20,000 per PO and BPA for goods or services required for the normal operation of their respective region and for normal procurements of AMAC.<sup>9</sup>

Only a duly appointed Contracting Officer (CO) may enter into and sign contracts on behalf of NCUA. In May 2015, COs began to operate under the authority of Contracting Officer Certificates of Appointment (warrants) issued by the Director, DPFM. These warrants delegate contracting authority to named individuals, rather than to positions, based on the individual's education, experience, and training. NCUA's contracting program provides COs the exclusive authority to enter into, administer, and terminate contracts, and to make related decisions.

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<sup>7</sup>A revolving fund amounts to "a permanent authorization for a program to be financed, in whole or in part, through the use of its collections to carry out future operations." GAO/PAD-77-25 at 47.

<sup>8</sup> A PO is an offer to a vendor to supply NCUA with goods or services upon specified terms and conditions. When accepted by the vendor, it serves as the procurement contract. (2011 PM)

<sup>9</sup> The Director of DPFM can redelegate in accordance with NCUA procurement policy. Regional Directors can redelegate their authority to Associate Regional Directors/Operations. (Delegations of Authority)



## Contracting Policies and Procedures

NCUA's Manuals govern its procurement program. In January 2011, NCUA's Executive Director (ED) issued a revised manual, to consolidate and update NCUA's March 2003 Procurement Manual. The revisions included changes to cover procurements of hotels for meetings and lodging for groups, security clearances for contractors, references to DELPHI, and purchase orders. The 2011 Procurement Manual (2011 PM) granted certain NCUA positions within the agency<sup>10</sup> the authority to obtain goods and services required to fulfill the agency's mission. The 2011 PM also structured NCUA's procurement program "to provide a controlled and an efficient framework that is fair to competing vendors and beneficial to NCUA." The 2011 PM stated in part that NCUA generally "conducts its procurement activities in compliance with the Federal Acquisition Regulation (FAR),"<sup>11</sup> and although exempt from complying with the FAR, the agency did use the FAR for guidance. The 2011 PM provided guidance in areas such as: 1) contracting basics; 2) categories of procurements; 3) procurement methods and when to use them; and 4) delegations and responsibilities.

In September 2015, the ED issued a new Procurement Policy Manual (2015 PPM), to provide internal guiding principles to NCUA procurements. The 2015 PPM once again noted in part that NCUA's procurement process is not subject to the FAR. However, it explained that the process does take advantage of a competitive and commercial marketplace to obtain the goods and services needed and which offer the best value<sup>12</sup> to NCUA. The 2015 PPM included additional information not found in the 2011 PM, such as a section on Guiding Principles, Authority, Ethics, and Controls, and added the following key attributes of professional acquisition management:

- Effectiveness: The timely and cost-effective procurement of goods and services that work well for the customer;
- Flexibility: The ability to make good decisions based on best practices for particular circumstances;
- Efficiency: Simple processes that achieve great results without waste of resources;
- Responsibility: The role of each member of the NCUA acquisition team to exercise sound business judgment;
- Public Trust: Achieved through fairness and open and honest communications with contractors and the public; and

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<sup>10</sup> The 2011 PM identified the following positions as having authority: NCUA Chairman; Executive Director; Director of the Division of Procurement and Facilities Management; Chief Financial Officer; Regional Directors; President of the Asset Management and Assistance Center; and the Inspector General.

<sup>11</sup> The FAR is a set of rules governing the federal acquisition process. (2011 PM)

<sup>12</sup> "Best value" means the expected outcome of an acquisition that, in the Government's estimation, provides the greatest overall benefit in response to the requirement. ([www.acquisition.gov](http://www.acquisition.gov), Subpart 2.1)





- Transparency: All the required steps, procedures, paperwork, or other requirements for procurement are presented clearly at the outset and information is conveyed in a timely manner.

The 2015 PPM also stated that the policies within the manual would allow NCUA to:

- Emphasize competition as the preferred method of source selection;
- Select contractors on the basis of the best value to NCUA;
- Ensure the inclusion of minority- and women-owned businesses (MWOB) in the agency's contracting opportunities to the maximum extent possible;
- Enable innovative and creative tailoring of procurement processes to meet individual requirements, so that the right contractor is selected for each requirement; and
- Resolve protests and contract disputes fairly and expeditiously at the lowest level possible.

Although outside the scope of our audit, the ED revised NCUA's procurement policies and procedures through the issuance of the NCUA Acquisition Policy Manual (APM) in April 2017.

### **Division of Procurement and Facilities Management**

NCUA organized DPFM under the Office of the Chief Financial Officer (OCFO). The DPFM Director is responsible for the general management and implementation of NCUA's procurement program. Prior to May 2015, DPFM operated with a staff of three – a CO and two contract specialists. By the end of our scope, June 2016, DPFM staff had increased to a total of five. In March 2017, executive management authorized four additional full-time staff for DPFM, adding three contract specialist positions, and one procurement analyst, bringing the total DPFM staff to nine. Additionally, executive management authorized hiring an attorney assigned to the Office of General Counsel (OGC) that specializes in procurement. This increased staffing related to procurement from three to ten.

#### *Contracting Officers and Contracting Officer's Representatives*

COs are responsible for ensuring the performance of all actions necessary for efficient and effective contracting, ensuring compliance with the terms of contracts, and with protecting the interests of NCUA in all of its contractual relationships. Only a duly appointed CO may enter into and sign contracts on behalf of NCUA. As previously noted, COs operate under the authority of warrants issued by the Director, DPFM. Under the 2015 PPM, NCUA made control improvements by delegating contracting authority to named individuals based on the individual's education, experience, and training, rather than the position the individual holds, which, as



previously mentioned, was the method NCUA used prior to the 2015 PPM. NCUA's contracting program provides COs the exclusive authority to enter into, administer, and terminate contracts, and to make related decisions. In addition, a CO may delegate certain responsibilities to Contracting Officer's Representatives (CORs) to act on behalf of the CO in overseeing general contractor performance and the technical work of the contractor.

CORs are responsible for administering the contract. Contract administration includes the following:

- Ensuring the contractor followed the terms and conditions of the contract;
- Providing technical supervision or direction to the contractor;
- Preserving NCUA's legal rights under the contract;
- Managing modifications to the contract in the event the requirement changes;
- Maintaining files and documentation pertaining to the procurement; and
- Ensuring the contractor received payment in accordance with the contract.

Further, because CORs are not duly appointed COs, they may not authorize contractors to perform work or incur costs, which are not specified in the contract. Prior to appointment as a COR, the individual must be fully qualified in accordance with the NCUA COR certification program, a program which is managed by the Director, DPFM.

### **Contract Activity**

From January 1, 2011 through June 30, 2016, we determined that DPFM processed 2,476 transactions<sup>13</sup> for approximately \$237 million. These contract actions resulted in an average of 450 transactions per year or approximately \$41 million in procured goods and services for the agency.<sup>14</sup> Table 1 (below) provides the total number of transactions and the dollar value for the scope period of our audit:

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<sup>13</sup> The number of transactions, obtained from DELPHI, utilized the calendar year associated with the transaction. A transaction could include exercising option years of a contract, which may not require additional processing. Due to an information limitation, discussed later in the report, we could not determine the completeness of the universe of contract transaction data obtained from NCUA's IT systems.

<sup>14</sup> We calculated the average number of transactions and dollar value per year using data from 2011 – 2015. Because procurement activities tend to fluctuate throughout the year, we did not annualize the 2016 data to account for the partial year (January 1 through June 30, 2016).

**Table 1. Transactions and Dollar Value by Calendar Year\*\***

Calendar Year	Number of Transactions	Dollar Value
2011	450	\$36,310,097.19
2012	503	\$44,332,450.78
2013	477	\$37,012,373.04
2014	449	\$49,923,804.76
2015	372	\$36,583,625.32
As of June 30, 2016	225	\$33,028,237.34
<b>TOTALS</b>	<b>2,476</b>	<b>\$237,190,588.43</b>

\*\*Data obtained from DELPHI

### ***Procurement Process***

NCUA's procurement process begins with developing an overall procurement strategy with guidance from the CO. NCUA requires program offices to plan procurements by considering the needs, timeline, budget, resource allocation, contract requirements, IT/network security requirements, clearance/security requirements for contract personnel, as well as legal aspects and implications. Additionally, NCUA requires requesting offices to secure the best value by considering price, quality, service, delivery date, and whole life costs, and not only the lowest price. With few exceptions, requirements include submitting a procurement plan in writing to the CO including supporting details for the best value judgment.

NCUA's procurement process utilizes SharePoint and DELPHI. Program offices create purchase requisitions (PR) in SharePoint on the Purchase Request Entry Form using InfoPath Form Services<sup>15</sup> that allows them to enter information on their acquisition needs, type of contract action, funding, and potential vendors.<sup>16</sup> After the program office completes the PR, SharePoint routes the PR to OCFO's budget office for approval. After budget approval, OCFO forwards the approved PR to management within the program office and to the Enterprise Services Center<sup>17</sup> (ESC) for processing in DELPHI. After ESC enters the PR into DELPHI, the approved PR appears in DPFM's DELPHI queue to create a PO. A DPFM CO signs the PO after completion of a prescribed set of steps.<sup>18</sup>

Recognizing the limitations of DELPHI and SharePoint, in November 2015, the Chief Financial Officer (CFO) requested funding to acquire PRISM, a web-based system used to manage

<sup>15</sup> InfoPath Forms Services is a server technology that makes it possible to fill out forms in a web browser. (Microsoft Office Support, April 2017)

<sup>16</sup> NCUA's 2011 PM indicated DELPHI created PRs, however we confirmed that as of January 2010, NCUA has been using SharePoint to create PRs.

<sup>17</sup> ESC is a designated shared service provider operating as a division of the Department of Transportation. (www.esc.gov)

<sup>18</sup> NCUA's 2011 PM provides five prescribed steps to create a PO; however, we noted the steps did not incorporate NCUA's use of SharePoint.



procurement activities. PRISM creates PRs, POs, and contracts, which will track procurement actions, commitments, obligations, and de-obligations, as well as provide full contract life cycle support from advance acquisition planning to closeout. Although outside the scope of our audit, but prior to issuance of our report, NCUA implemented PRISM in January 2017.



## RESULTS IN DETAIL

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Results of our audit identified a breakdown of controls over every aspect of NCUA's procurement program. Based on the issues we identified throughout this report, we determined the lack of internal controls created an environment where procurement policies were not followed, which became the normal course of business. Our audit identified numerous examples that show a lack of accountability over the procurement program.

NCUA has a long history of responding expeditiously to address issues affecting its mission to provide a safe and sound credit union system. We believe this expeditiousness drives NCUA's culture, which in turn negatively affected its procurement program. As shown throughout our report, management did not ensure staff performed all procurement functions effectively, which we believe created an ineffective control environment. In addition to the ineffective control environment, the issues we identified related to the procurement program were many times inter-related. A control breakdown in one area would have repercussions in another. We identified issues related to the procurement program's IT systems; Delegations; policies and procedures; contract planning, monitoring, and documentation activities; as well as contract file security; and staffing needs.

### Information Limitation

We also identified an information limitation during this audit based on the IT systems used for procurement activities. OCFO management could not assert to the completeness of the universe of contract transaction data obtained from NCUA's IT systems. In addition, we could not perform a secondary test for completeness by matching the existence of hard-copy contract files against DELPHI transactions because little or no documentation existed in the contract files.

During our audit, we concluded we could not rely on the data obtained from DELPHI to provide a complete listing of all transactions for testing purposes. DELPHI is not a procurement system. Therefore, it was limited in the information it provided such as a complete history of commitments, obligations, and de-obligations. Instead, DELPHI provided a contract dollar value that often changed because of accounting entries entered by OCFO. Generally Accepted Government Auditing Standards require auditors, when confronted with such information limitations, to apply additional procedures, as appropriate.

We initially obtained two spreadsheets of transactions from two different sources within OCFO for comparison. We compared these two transaction spreadsheets and identified 69 differences between them, which we determined were associated with 25 different POs. In addition, we noted changes in vendor names between the two spreadsheets, which created further differences. We also determined we could not use NCUA's physical files to obtain a listing of all contract files because files were missing and DPFM did not maintain a tracking system to account for their whereabouts. As described in detail later in the report, contract files did not contain sufficient documentation to support the life cycle of the procurement. We compared printed and



signed DELPHI POs within the physical files to our DELPHI spreadsheets and noted the differences. OCFO management informed us that they could not assert to the completeness of the contract data they provided to us for testing purposes, given the inherent system limitations. In addition, OCFO staff later explained that printed POs reflected a specific point in time, and users could choose to print all lines from the PO, only cancelled lines, or only non-cancelled lines.

We applied alternative procedures by seeking independent, corroborating evidence from the contract files to verify the DELPHI transaction data for completeness. We determined these inaccurate and incomplete contract files resulted in an information limitation. Consequently, despite encountering a significant information limitation, this report still presents valid findings and conclusions based on evidence we deemed to be sufficient and appropriate to support our conclusions. We did not identify fraud or any indicators of fraud during our audit. However, given the significant information limitation, we believe that the risk for fraud within NCUA's procurement program was high due to an ineffective internal control environment and therefore make no judgments as to its existence.

### Ineffective Control Environment

We determined that NCUA's control environment over its procurement process was ineffective. Specifically, we determined that those charged with procuring goods and services did not always follow the policies and procedures established in NCUA's Manuals. Frequently, NCUA overlooked or bypassed established procurement requirements with little or no consequences for doing so. Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government (Green Book)<sup>19</sup> provides, in part, that "management enforces accountability of individuals performing their internal control responsibilities," and the tone at the top drives accountability and influences "the control culture of the entity." The agency's culture favored an expeditious and flexible procurement process and lacked enforcement of policies and procedures, which resulted in an environment with the potential for waste, fraud, and abuse.

### Procurement Process Not Followed

Following are examples we identified during our fieldwork of contracts where NCUA management and staff did not follow controls in the procurement process:

#### *Sole Source Method*

In March 2012, NCUA's Office of Small Credit Union Initiatives (OSCUI) did not follow the agency's competitive process. Rather, it used the sole source<sup>20</sup> method to acquire goods and

<sup>19</sup> Section 5.02 Enforcement of Accountability. (Green Book)

<sup>20</sup> Sole source procurement method refers to instances where the required goods or services are available from only one vendor, and no other type of goods or services will satisfy NCUA's need. This method requires advanced written justification, and the concurrence of the CO and the ED. (2011 PM)



services that nine other vendors could have provided. Although NCUA management obtained advance written justification and concurrence, we determined they identified nine vendors and interviewed three that could have provided the same goods and services to satisfy NCUA's needs. Before NCUA awarded the contract, the prior CO informed the prior OSCUI Director that NCUA generally did not award contracts using the sole source method and advised him of the directed procurement method.<sup>21</sup> In addition, the CO informed the Director that for these types of procurements, it would be advisable to process the contract through DPFM to ensure a competitive process in accordance with NCUA's procurement rules. The OSCUI Director disregarded the advice of the CO, and the prior ED granted authority for the requesting office to use the sole source method. The CO concurred with use of the sole source method when he signed the PO five days later.

### *Contract Amendments without Competition*

In July 2012, NCUA awarded an Office of the Chief Information Officer (OCIO) contract to provide an experienced team to implement website improvements and feature enhancements for \$25,000. We noted the contract listed the period of performance as "to be determined." Other than the company's proposal, we found no evidence in the contract file of a competitive procurement process. After the initial contract award, DPFM amended the contract nine times through November 2014 to extend the period of performance, bringing the total contract value to \$1.05 million (a 4,120 percent increase) without requiring competition. In June 2013, prior OCIO management provided DPFM with an email justification explaining that NCUA consulted the catalogs/pricelists of other contractors. Management used this information to evaluate the level of effort and mix of labor needed to perform the specific task ordered and to determine whether the total firm-fixed price (FFP)<sup>22</sup> or ceiling price was fair and reasonable. The email also noted that based on their review, OCIO management determined that the contractor's terms represented the best value to NCUA. Although the email referred to the contract as an FFP contract, we determined the purchase order itself did not state this.

### *Competition Threshold*

During our audit, we identified two contracts where OCIO and Office of General Counsel (OGC) did not follow competition threshold<sup>23</sup> rules. OCIO procured the services of a product specialist to assist in enhancing and upgrading NCUA's applications. OGC procured services to assist in document production for Congressional and lawsuit requests, as well as document file management (e.g., printing, sorting, and drafting documents). In both cases, we found that the program offices initially procured services under the \$7,500 competition threshold. Following are the details for each of these contracts.

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<sup>21</sup> For the directed method, in extraordinary circumstances, the NCUA Board, or the CO with the concurrence of the ED, may determine that for a particular acquisition it is necessary to use procedures other than those discussed in the PM. This requires written justification. (2011 PM)

<sup>22</sup> Under a firm-fixed price contract, the contractor promises to perform at a fixed price and bears the cost risk and the responsibility for increased costs of performance. (2011 PM)

<sup>23</sup> NCUA's competition threshold begins at \$7,500.01. (2011 PM)



In January 2011, OCIO received consultant services to enhance NCUA's Windows 7 client deployment image and upgrade related applications. OCIO made the initial request for \$7,400 with a period of performance from January 1 – 31, 2011. Although we could not confirm the specific date, OCIO modified the contract by an additional \$29,600, a 300 percent increase. This modification also extended the period of performance by eleven months, to December 2011. We determined through DELPHI that OCIO again modified the contract for the period of performance from February 18 – 25, 2011, for an additional \$6,845. We question whether the February 2011 period of performance is correct because OCIO covered this same period in its second modification.

In April 2014, OGC requested a temporary specialist to assist the office in a document production effort related to a Congressional request. OGC made an initial request for \$7,000 for a one-month period of performance from May 6 – June 6, 2014. However, the contractor worked for NCUA without a contract in place because the prior CO signed the first PO, dated June 3, 2014, awarding the contract three days prior to the end of the period of performance. The PO also stated that the amount of this contract was “not to exceed \$7,000,” referring to the original contract price. However, we determined from the contract file that OGC modified the contract four times in a ten-month period and changed the scope of work. For the first modification, OGC submitted a PR on June 12, 2014, for \$5,000 to add more time to the contract for the same scope of work. The signed PO for this PR was dated June 1, 2014, two days *prior* to the original June 3, 2014 contract. We question why a modified PO was dated prior to the initial PO. For the second and third modifications, OGC requested \$20,000 and \$15,000, respectively, for a different scope of work from the initial PO. These modifications extended the new period of performance to February 28, 2015. Finally, we determined OGC changed the scope of work and extended the contract again for \$15,000 for the temporary specialist to create computer file databases, and print and sort hundreds of documents.<sup>24</sup> The final cost for this purchase order was \$62,000, a 786 percent increase over the initial request.

Although the CO is ultimately responsible for compliance with NCUA's Manuals, given the number of modifications made by both program offices in less than one year, neither office properly planned their procurements and did not follow NCUA's procurement competition rules. As a result, neither program office complied with the Dodd-Frank Act's requirement of soliciting MWOB's and potentially overpaid for services given the lack of competition.

#### *Firm-Fixed Price*

We identified one FFP contract, with no option years, awarded in August 2013 for approximately \$6,000 more than the proposed amount. In addition, OCIO requested and the prior CO approved a modification for \$25,000 to extend the period of performance for the same requirements. Due to lack of documentation in the contract file, we could not confirm why the CO awarded the

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<sup>24</sup> OGC provided memoranda between their office and DPFM showing the work involved reviewing large amounts of documents to determine the applicability of legal protections and sophisticated legal research. However, the requisitioner did not capture this information in the modified PO.





contract for the additional money or why the CO allowed modification of the FFP contract when the contractor bears responsibility for increased costs.

### *Hotel Contracting*

The Office of Human Resources (OHR) Division of Training and Development (DTD) requested that the DPFM Director sign a \$996,000 hotel contract for the 2018 National Conference, which DTD had already negotiated.<sup>25</sup> Upon initial review, the DPFM Director questioned the conference location and conducted an independent cost analysis. The analysis identified a potential cost savings of approximately \$300,000 in surcharges (taxes) if the agency held the conference in a more cost effective location. The DPFM Director advised the CFO of the cost analysis who then discussed it with Office of the Executive Director (OED). The decision to hold the conference in the original location did not change. The DPFM Director, despite his concerns, signed the hotel contract.

Subsequently, management provided the OIG with a best value analysis prepared by OHR. OED used OHR's analysis to reach its decision for this procurement. Some of the factors OED considered among offerors when making their final decision included:

- Complimentary meeting space from the selected hotel;
- Reduced air travel costs and unproductive travel time for staff;
- Wi-Fi access for staff;
- Discount on shipping and receiving for materials;
- Discount on audio/visual equipment rentals; and
- Access to restaurants within walking distance, eliminating the need for rental cars.

However, we could not determine whether NCUA received the best value because the best value determination did not provide a trade-off or comparative analysis between offerors explaining in detail why the selected hotel provided NCUA with the best value. We believe such an analysis would have assessed the importance of the price and non-price evaluation factors, evaluated the proposals against these factors, and resulted in a best-value determination to support why it made sense to pay a premium to hold the conference in the original location.

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<sup>25</sup> DTD appropriately followed Instruction 1501 (Rev. 1) Conference Planning Policies, Procedures, and Approval Requirements dated September 27, 2013.



### *Unauthorized Commitment*<sup>26</sup>

We identified one instance where OGC did not ensure a contract was in place prior to the contractor's commencement of work. Specifically, in October 2012, OGC requested to hire an attorney who specialized in the Freedom of Information Act, to assist with OGC's workload. This contract had a period of performance that expired in December 2012. After the initial contract expiration, the contractor continued to provide services through February 2013 without a signed contract in place. The contractor submitted an invoice to NCUA in March 2013, which resulted in an unauthorized commitment to the agency. The prior CO ratified<sup>27</sup> this contract by signing the PO in March 2013 to pay the January and February services provided. NCUA, however, could have held the obligating individual personally liable for the expense, if not approved by the CO.

We believe these examples demonstrate how the tone set by previous management led to NCUA valuing expeditiousness in the procurement process more than following the established guidelines.

However, executive management has made several positive changes that we believe should improve the culture, as well as the effectiveness, of the procurement controls and processes. Beginning with staffing changes within OCFO, we have observed a new tone at the top that should have a positive influence going forward. One such change we observed that we believe will significantly affect NCUA's procurement culture is a series of procurement training sessions DPFM began providing in March 2016 for all employees to increase the technical depth of the procurement process. These training sessions provided an overview of the 2015 PPM and other various topics within the procurement life cycle such as acquisition planning, sole source justifications, and proposal evaluation. Management advised us that the sessions scheduled after April 2017 will incorporate the newly signed APM. In addition, we noted that management's implementation of PRISM should ensure DPFM's involvement earlier in the procurement process, which will help strengthen the overall internal control environment. Because NCUA management had already undertaken a large-scale effort to change the culture surrounding its procurement practices, we are not making a recommendation at this time.

**Information Systems  
Not Designed to Achieve  
Procurement Objectives**

We determined NCUA utilized two existing information systems, SharePoint and DELPHI, neither specifically designed for procurement. Therefore, NCUA did not achieve procurement objectives due to inherent system limitations. Specifically, transaction data obtained from DELPHI did not reconcile with the contents of physical or electronic contract files. GAO's Green Book states, in part, "[m]anagement evaluates information processing

<sup>26</sup> An unauthorized commitment is an agreement that is not binding solely because the government representative who made it lacked the authority to enter into that agreement on behalf of the government. (2015 PPM)

<sup>27</sup> Ratification is the act of approving an unauthorized commitment by an official who has the authority to do so. (2015 PPM)



objectives to meet the defined information requirements. Information processing objectives may include the following:

- Completeness - Transactions that occur are recorded and not understated;
- Accuracy - Transactions are recorded at the correct amount in the right account (and on a timely basis) at each stage of processing; and
- Validity - Recorded transactions represent economic events that actually occurred and were executed according to prescribed procedures.”

We believe prior management utilized two existing information systems to function for procurement operations because they did not make procurement a priority. As a result, the procurement information obtained from the systems did not provide relevant and reliable data that was appropriate, current, complete, and accurate.

#### *Details*

During our contract testing, we compared approval dates on signed POs contained in contract files to the PR approval date in our DELPHI transaction spreadsheet. For 22 of the 49 (45 percent) contract files reviewed, we found: 1) an approved PR date after the PO approval date, or 2) we could not determine the date because neither the physical nor the electronic contract files contained a PO. We also tested these same 49 contract files to determine whether the PR and PO dollar amounts reconciled with the data in the DELPHI transaction spreadsheet. We found that 30 of 49 (61 percent) contract files did not match. Finally, we also found that DELPHI changed or deleted the obligating line on the PO when OCFO de-obligated funds. These de-obligations changed the original obligation amount within the DELPHI system.

NCUA's SharePoint application and the DELPHI system did not provide relevant and reliable data for its procurement activities and operations. As previously mentioned, NCUA implemented its new procurement system—PRISM, in January 2017. Because implementation was outside the scope period of our audit, we did not assess the design or operating effectiveness of PRISM to determine whether it produces complete, accurate, and valid data. Therefore, we are making one recommendation.

#### **Recommendation**

We recommend NCUA management:

1. Assess PRISM to ensure it produces complete, accurate, and valid data to meet NCUA's procurement objectives.



### Management Response:

Management agreed with the recommendation. Management indicated they are currently performing on-going assessments of PRISM to ensure it produces complete, accurate, and valid data to meet NCUA's procurement objectives, and plans to conduct a more formalized assessment scheduled for completion by December 31, 2017.

### OIG Response:

We concur with management's actions taken and planned.

#### Delegations and Policies and Procedures Need Attention

NCUA needs to rescind and/or revise its Procurement and Property Management Delegations.<sup>28</sup> Specifically, NCUA needs to rescind and implement its Delegations PRO 9 and PRO 16, respectively, and revise its 2015 PPM, and

Instruction 1501 (Rev.1) to reflect current procurement processes. Specifically, we identified the following areas in need of attention:

- PRO 9;
- PRO 16;
- Buy American Act; and
- Instruction 1501 (Rev.1).

#### *PRO 9*

NCUA's PRO 9 authorizes RDs<sup>29</sup> to approve, sign, and issue purchase orders and blanket purchase agreements up to \$20,000 for goods or services required for the normal operation of their region and normal procurements of AMAC. We interviewed RDs who told us they request that DPFM's CO sign POs after conducting the procurement process. This occurred due to a decentralized procurement function, which allowed the RDs to conduct all procurement activities. In addition, RDs told us they did not utilize PRO 9 for procurements up to the authority amount of \$20,000. We also interviewed regional management who told us most of their purchases were under \$7,500, and that they obtain most goods and services using their purchase card. As a result, we believe NCUA should rescind PRO 9 so that all procurements over the \$7,500 threshold flow through DPFM, creating a more centralized procurement function.

<sup>28</sup> NCUA issued Procurement and Property Management Delegations in March 2013.

<sup>29</sup> The Region IV Regional Director is also the President of AMAC. ([www.ncua.gov](http://www.ncua.gov))



### *PRO 16*

NCUA management did not have a procurement debarment and suspension program, even though PRO 16 gave the DPFM Director the authority to develop, establish, implement and manage a program. OCFO management stated they were not aware who had the responsibility for the program. Therefore, the DPFM Director never developed a program and was not in a position to debar or suspend contractors. We believe a procurement debarment and suspension program is important for an effective procurement program and that the DPFM Director should implement a program in accordance with his authority.

### *Buy American Act*

NCUA's 2015 PPM Contract Reporting Policy, section 6.203, directs DPFM to prepare and submit a report to the head of the agency for submission to Congress regarding NCUA's contracting activities under the Buy American Act. We consulted with NCUA's OGC regarding this contract reporting policy. OGC indicated that the agency is not required to follow the Buy American Act reporting requirement because the provision included in the legislation terminated the reporting requirement in 2011. However, management stated the Buy American Act was included in the 2015 PPM as a business decision.

### *Instruction 1501 (Rev. 1)*

NCUA's Instruction 1501 (Rev. 1) needs revision. Specifically, Section 6, Part C (3) states that OHR will have a role in all large conferences including "[c]ontracting with the hotel/property, after the selection has been made." The Instruction also suggests that OHR can enter into hotel contracts on behalf of the agency for large conferences and group meetings, which directly conflicts with the Delegations authorized by NCUA's Board. The Delegations do not provide OHR with such authority because only a CO can legally bind NCUA to a contract. Consequently, although Instruction 1501 (Rev.1) suggests OHR can enter into contracts for hotel/property, we determined this is not the case. OHR staff informed the OIG that once the requesting office has made a hotel selection, OHR reaches out to the DPFM CO to sign the hotel contract. Because Instruction 1501 (Rev.1) implies that OHR can sign contracts for hotel/property, we believe NCUA management should remove such references from Instruction 1501 (Rev. 1). In addition, we also believe it would be beneficial to incorporate this type of procurement into NCUA's 2015 PPM.

In April 2017, management cancelled Instruction 1501 (Rev.1). Because this cancellation occurred outside the scope period of our audit, we did not review or test whether management restricted the ability to enter into conference contracts to the DPFM CO. As such, we are not making a recommendation to revise or cancel the Instruction.

Because NCUA management did not provide consistent guidance within its Delegations and Manuals during our scope period, we are making three recommendations.



## **Recommendations**

We recommend NCUA management:

2. Rescind Delegation of Authority for Procurement and Property Management PRO 9 and require all procurements over \$7,500 to flow through the Office of the Chief Financial Officer's Division of Procurement and Facilities Management for a centralized procurement function.

### **Management Response:**

Management agreed with the recommendation and indicated that implementation was complete when the NCUA Board approved the rescission by unanimous vote on June 14, 2017.

### **OIG Response:**

We concur with management's action taken.

3. Implement a debarment and suspension program in accordance with NCUA's Delegation of Authority for Procurement and Property Management PRO 16.

### **Management Response:**

Management agreed with the recommendation and plans to implement a debarment and suspension program by December 31, 2017. Management plans to incorporate the program into the Acquisition Policy Manual.

### **OIG Response:**

We concur with management's planned corrective actions.

4. Revise the 2015 Procurement Policy Manual, section 6.203, to remove the Buy American Act language.

### **Management Response:**

Management agreed with the recommendation and indicated they completed implementation on June 23, 2017 with the release of an update to the Acquisition Policy Manual.

### **OIG Response:**

We concur with management's action taken.

**Inadequate  
Contract Planning**

We could not determine whether requesting offices conducted contract planning with guidance from the CO. Specifically, DPFM contract files did not contain evidence that the requesting office considered information such as the needs, timeline, budget, allocation of resources, contract requirements, and legal implications of prospective procurements. NCUA's 2011 PM required requesting offices to consider these elements and others as part of the planning process. In addition, Office of Management and Budget (OMB) Circular A-123,<sup>30</sup> in part, states that "management should have a clear, organized strategy with well-defined documentation processes that contain an audit trail, and verifiable results, and specify document retention periods so that someone not connected with the procedures can understand the assessment process." This occurred because those charged with procurement authority did not hold requesting offices accountable for following the Manuals. As a result, NCUA did not ensure that its procurement activities consistently fostered fair competition or the timely receipt of quality goods and services at the best value. We identified the following examples of improper planning:

*Requirements Package*

During our audit, we judgmentally selected 49 contract files for testing to determine whether requesting offices conducted adequate contract planning. The results of our testing determined that 48 of 49 contract files reviewed contained no contract planning documentation such as disadvantaged businesses/Minority- and Women-Owned Business (MWOB), market research, and a requirements package.<sup>31</sup> We cannot confirm whether the planning actually occurred, only that program offices did not provide DPFM planning documentation for the contract files. The majority of the contract files we reviewed contained only PRs and POs. We did find, however, adequate planning documents in a contract file executed in June 2016, which met the requirements of the 2015 PPM.

*Procurement Administrative Lead Time (PALT)*

In May 2016, the CFO proactively issued guidance to all program office directors to instruct them of the importance of providing lead times for procurement processing. Specifically, the CFO's memo provided the PALT for simplified procurements, formal contracting, and modifications to existing contracts or orders. Using PALT, the CFO indicated that NCUA would be able to obtain best in class products and services at fair and reasonable prices from quality contractors.

We attempted to determine NCUA's PALT for the scope period of our audit. Based on the insufficient actionable items (e.g., statement of work (SOW)/statement of objectives (SOO),

<sup>30</sup> The Revisions to OMB Circular A-123, Management's Responsibility for Internal Control, dated December 21, 2004. ([www.whitehouse.gov](http://www.whitehouse.gov))

<sup>31</sup> The requirements package consists of all the documents and information needed to produce a solicitation or contract to fulfill a requirement. The core documents in the requirements package are the approved requisition; the SOW or SOO; and the independent government price estimate. (2015 PPM)



market research, government cost estimates, and sole source justifications) within the contract files, we could not test NCUA's PALT. As a result, we could not determine whether program offices provided DPFM with sufficient lead-time. We believe given the CFO's memo, the program offices did not give DPFM adequate lead-time.

### *Contractor Eligibility Reviews*

During the scope period of our audit, we found contract files did not contain adequate documentation to support whether COs conducted eligibility reviews over potential contractors. NCUA's Manuals require the CO to check the Excluded Parties List System to verify contractor eligibility. Our review of 49 contract files found that 48 had no evidence that DPFM staff checked the General Service Administration's System for Awards Management or any other databases to verify contractors' eligibility. This occurred because of an inadequate staffing level in DPFM to execute all steps in the procurement process. As a result, NCUA potentially exposed itself to hiring contractors that may have been suspended, debarred, or excluded from receiving federal government contracts.

Because NCUA did not conduct adequate contract planning during the scope period of our audit, we are making one recommendation.

### **Recommendation**

We recommend NCUA management:

5. Ensure program offices adequately plan and conduct procurements to obtain goods and services needed that offer the best value to NCUA.

### **Management Response:**

Management agreed with the recommendation and indicated they completed the corrective action with the issuance of the Acquisition Policy Manual in April 2017, where proper planning is required and emphasized in Chapter 2, Acquisition Planning. Additionally, management indicated they held a training session for acquisition planning in June 2017 as part of its procurement training series.

### **OIG Response:**

We concur with management's actions taken.



**Contract Monitoring  
Activities Not Conducted**

We determined NCUA did not have an established COR program until September 2015. In addition, we determined that once management established the COR program, it needed strengthening. Specifically, we determined that: 1) DPFM did not follow the NCUA Manuals related to CORs and 2) the 2015 PPM only provided for CORs within OCIO. We also determined DPFM did not officially appoint CORs until after the scope period of our audit. GAO's Green Book states in part, "management should establish and operate monitoring activities to monitor the internal control system and evaluate the results" and "management should remediate identified internal control deficiencies on a timely basis." We believe this occurred due to competing priorities preventing DPFM management from monitoring contract activities, which the establishment of a COR program would have addressed. As a result, NCUA did not identify internal control deficiencies related to contract monitoring or address them in a timely manner, which subjected the agency to an increased risk of waste, fraud, abuse, and litigation.

Although the 2011 PM provided COTR<sup>32</sup> duties and responsibilities, we found the guidance insufficient in depth and scope with no discussion of a COR program. NCUA improved COR guidance in the 2015 PPM by including more specific duties and responsibilities and added a section on COR nomination and appointment. However, as previously noted, DPFM officially began appointing CORs following the scope period of our audit. We also found that the NCUA 2015 PPM only established CORs in one office – OCIO. OCFO management explained that, although they desired CORs in all program offices, they were limited to COR appointments in the OCIO program office due to union negotiations. OCFO chose OCIO due to the concentration of contract activity, dollar, and volume, and planned to use OCIO as the blueprint for the COR program to be implemented agency-wide. Whether NCUA had a COR program or not, results of our testing determined that DPFM COs did not designate CORs in 46 of 49 contracts reviewed.

We noted contracts in nearly every program office could have benefited from COR contract monitoring activities. Following are some examples where COR monitoring activities could have identified or corrected internal control deficiencies:

*Contract Termination*

In November 2015, NCUA terminated an OCIO contract due to dissatisfaction with the final work performed. The contract – initially awarded in August 2013 for \$1,015,000 – provided support services for the agency. A November 2013 PO referred to this contract as FFP and stated that the contract value could not be exceeded. However, DPFM modified the contract several times through May 2015. During this period, the total contract value increased to \$2,803,000. Subsequently, two additional modifications were included in the contract file increasing the value to \$3,093,000. At no time did the prior CO sign or execute the modifications. Also in May 2015, NCUA issued the contractor a memo halting its work and

<sup>32</sup> The 2011 PM refers to CORs as Contracting Officer's Technical Representatives (COTRs).



requested a corrective action plan. NCUA later met with the contractor and rejected this corrective action plan. The contractor subsequently provided a revised plan. Ultimately, however, NCUA terminated the contract before the contract end date, and NCUA reached a mutual agreement with the contractor to provide a credit for future services.

OCFO, OCIO, and OGC were involved in the termination process. Due to the lack of documentation associated with the contract file, NCUA had to request documentary evidence from the contractor to support the termination. We believe the contract termination resulted from the lack of contract monitoring. In addition, we believe a COR could have identified issues earlier in the process and potentially prevented the agency from paying the contractor prior to meeting performance milestones.

#### *Sole Source Justifications*

In July 2016, NCUA's DPFM CO requested that the Competition Advocate (CA)<sup>33</sup> approve a sole source justification for fifteen contracts totaling approximately \$761,960, which had expired, were due to expire in 30 days, or for which the program office had an immediate or urgent need. The DPFM CO indicated that the need for the approval was due to insufficient time available to conduct a competitive procurement process or to process individual sole source justifications. Although the CA's approval for the sole source justification was outside the scope of our audit, the majority of these actions were for contracts approved during our scope period, which ended in June 2016. This occurred due to a combination of poor planning, weak contract monitoring within OCIO, and the lack of a reliable procurement system. We believe if NCUA had a more reliable automated procurement information system and an effective COR program where a COR continually monitors contracts, there would have been no need for the CA to approve a blanket sole source justification.

#### *Contract Payments*

In April 2011, OCIO amended a contract to pay for services performed in March 2011. This occurred because there was not enough funding to cover the invoice during the contract's period of performance. The prior CO signed the original PO for approximately \$53,000 to cover a period of performance from January 1 to March 31, 2011. The contractor invoiced NCUA in February and March 2011, which left approximately \$4,300 remaining from the original PO.

The contractor submitted a third invoice for payment in early April in excess of the remaining contract value. To cover this additional invoice, OCIO needed to amend the contract for approximately \$20,000, a 38 percent increase. We believe COR monitoring activities could have identified that the first two invoices nearly exhausted all of the funds obligated under this contract prior to the end of the period of performance. In addition, a COR could have

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<sup>33</sup> The NCUA CA is the CFO. The CA is responsible for promoting the acquisition of commercial items and promoting full and open competition. (2015 PPM)



determined whether a modification was needed before the contractor performed and invoiced for the additional work.

We also determined COR monitoring could have prevented NCUA from paying contractors who submitted improper invoices that were not in accordance with the 2015 PPM. During our audit, we identified instances where NCUA paid invoices that did not comply with its 2015 PPM. NCUA's 2015 PPM required a review of invoices to ensure they were proper and paid in compliance with the Prompt Payment Act (PPA). During our audit, we determined all invoices contained an invoice date, the contractor's name, description of services with amounts, and total invoiced amounts. However, NCUA paid invoices with other data elements missing. Most notably, we reviewed 62 invoices and determined that in 11 (18 percent), the invoices did not contain the contract/purchase order number and in 25 (40 percent), the invoices did not contain the purchase orders' associated line number. We believe the two data elements are important because they determine the source from which the invoice is paid and assist CORs in monitoring the expenses charged against the contract. During our contract testing, we found no evidence of invoice approval by a CO or COR or evidence that invoice approvers confirmed contractor performance prior to payment. We could not determine why NCUA paid invoices with missing information. Ultimately, NCUA paid invoices not in compliance with its 2015 PPM or the PPA.

Because NCUA management did not identify internal control deficiencies related to contract monitoring activities, we are making two recommendations.

### **Recommendations**

We recommend NCUA management:

6. Ensure the Division of Procurement and Facilities Management appoints Contracting Officer's Representatives throughout NCUA, as necessary, for continual monitoring of contracts to assist in preventing internal control deficiencies.

### **Management Response:**

Management agreed with the recommendation and plans to complete implementation of the Contracting Officer's Representatives certification process throughout NCUA by December 31, 2017.

### **OIG Response:**

We concur with management's planned corrective action.



7. Inform staff and contractors of the elements of a proper invoice and advise invoice approvers to return invoices that do not meet the standards of the Prompt Payment Act.

### **Management Response:**

Management agreed with the recommendation and indicated they took corrective action by conducting training sessions on contract invoicing and payments to educate staff and program offices in May 2017. Management also indicated that the Acquisition Policy Manual requires Contracting Officer's Representatives to review invoices for propriety and to ensure proper rationale and adequate support exists to support payment of contractor invoices. Further, management indicated that the Acquisition Policy Manual explains the elements of a proper invoice and the Contracting Officer's Representative's obligation to notify the contracting officer if instances of error or inconsistency are identified.

### **OIG Response:**

We concur with management's actions taken.

#### **Contract Files Lacked Supporting Documentation**

NCUA's contract files lacked sufficient evidence to support the acquisition life cycle process. Specifically, contract files did not document basic procurement activities – from identifying the procurement need to contract closeout. Although the 2011 PM is silent on contract file maintenance, the 2015 PPM states, in part, that “documentation in the file must provide a complete history of all procurement-related actions and the basis for informed decisions at each step in the acquisition and contract oversight process.” In addition, GAO's Green Book states in part that management must ensure that transactions are promptly recorded to maintain their relevance and value in controlling operations and making decisions throughout the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. We believe the lack of documentation in contract files occurred because the agency favored an expeditious procurement process. As a result, contract files did not contain a complete history of all procurement-related actions throughout the procurement life cycle.

#### *Details*

We judgmentally selected 49 contract files (127 transactions) to test whether the selected files provided sufficient evidence to support the acquisition life cycle. Based on the results of our testing, we determined that DPFM officials generally ensured that contract files contained a signed PO. However, the files lacked additional documentary evidence to support the acquisition. We found contract files lacked core documentation to support actions taken during



the procurement life cycle from the pre-solicitation,<sup>34</sup> solicitation,<sup>35</sup> pre-award,<sup>36</sup> and contracting administration<sup>37</sup> phases. Following are examples identified during each of the four phases of contracting:

#### Pre-solicitation Phase

- We identified only one of 49 contract files that included a list of MWOBs, provided by OMWI and based on market research, during the pre-solicitation phase.
- We identified no evidence of CA approval in seven of eight contract files that NCUA designated as “sole source” from among our sampled contracts.

#### Solicitation Phase

- We determined eight of the 49 contract files reviewed contained a request for proposal/quotation (RFP/Q).
- We identified one of 49 contract files with a proposal that met the RFP/Q required date and time.

#### Pre-Award Phase

- We identified five of 49 contract files where DPFM convened a technical evaluation panel<sup>38</sup> to evaluate proposals. However, we found no evidence of a source selection plan to meet NCUA's need(s).

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<sup>34</sup> The pre-solicitation phase includes, for example: the PR, acquisition planning information, and other pre-solicitation documents such as justifications and approvals, determinations and findings, Acceptance Memorandum/Procurement Plan; Negotiation Authority (e.g. sole source, review memorandum and related supporting documentation); Source Selection Memorandum, list of sources solicited and a list of any firms or persons whose request for of the solicitation were denied, together with denial justification, and Service Contract Act (Notice of Intent and Wage Determination). (2015 PPM)

<sup>35</sup> The solicitation phase includes the program office review/approval; RFP/RFQ or letter request for proposal/quotation and amendments thereto; record of written requests for explanation of solicitation and replies thereto; record of pre-proposal correspondence; and no bid/proposal correspondence. (2015 PPM)

<sup>36</sup> The pre-award phase includes documents such as record of late bids/proposals; record of technical evaluation requests and reports; summary of negotiations; legal review of documents; Office of Minority and Women Inclusion approval of subcontracting plan; CO's determination of responsibility; source selection documentation/technical evaluation panel documents; record of protests before award, and Federal Procurement Data System-Next Generation Data Input Record. (2015 PPM)

<sup>37</sup> The contracting and administrative phase includes, for example: general administration documents (including transmittals, COR designation, etc.); record of debriefing; record of protests after award; backup documentation for modifications; performance reports; invoice reports; executed contract/award document (including contractor's proposal and subcontracting plan); modifications to the contract; and contract closeout. (2015 PPM)

<sup>38</sup> A technical evaluation panel is a group of individuals appointed by the CO to evaluate and score the technical components of bids. (2011 PM)



## Contracting and Administrative Phase

- We identified five of 49 contract files with the COR noted in the file.
- Because no contract closeout procedures existed, we found no evidence that DPFM ensured COs conducted contract closeout within any of the contract files. As a result, we found no documentation in the contract files to support that: 1) NCUA received the goods and services it paid for; 2) the contractor returned any equipment furnished; 3) NCUA made final payment against the contract; and 4) any balances remaining were de-obligated.
- Although the 2015 PPM included a contract file checklist, results of our testing revealed that only one of five contract files executed after this date contained a completed checklist for each section of the contract file. Sections included pre-solicitation, solicitation, pre-award, post award, and contract administration.

Because NCUA's contract files lacked sufficient evidence to support the acquisition life cycle process, we are making one recommendation.

### **Recommendation**

We recommend NCUA management:

8. Ensure Contracting Officers and Contracting Officer's Representatives maintain documentation in the contract file to provide a complete history of all procurement-related actions and the basis for informed decisions at each step in the acquisition and contract oversight process.

### **Management Response:**

Management agreed with the recommendation and indicated they took corrective action with the issuance of the Acquisition Policy Manual in April 2017. Management indicated the Acquisition Policy Manual addresses Contracting Officer contract files and Contracting Officer's Representative's files separately and includes guidance related to creating contract files and file organization and documentation, structure and assembly, and content requirements. Management also indicated that the Acquisition Policy Manual also establishes an internal contract file review process and clarifies the requirements for legal review.

### **OIG Response:**

We concur with management's actions taken.

**Contract Files  
Left Unsecured  
and Untracked**

DPFM officials kept contract files in an unsecured multi-purpose room in unlocked and non-locking cabinets and did not track files when removed from the room. Specifically, OIG staff observed that anyone with access to NCUA's Central Office could enter the DPFM suite and retrieve contract files from either of the two file cabinets without DPFM's knowledge. In addition, we determined DPFM did not manually track contract files removed from the multi-purpose room. Although the 2011 PM was silent on guidance related to contract file security and maintenance, the 2015 PPM stated in part that COs and CORs "must ensure that their contract files are maintained in a secure environment." The Green Book also states, in part, that management should design control activities to limit "access to resources and records to authorized individuals," and assign and maintain "accountability for their custody and use." We believe this occurred because DPFM officials did not view the unsecured location or cabinets as a security risk. As a result, anyone with access to the Central Office could have obtained confidential procurement records containing sensitive information such as personally identifiable information,<sup>39</sup> proprietary information, and pricing data, which could potentially cause embarrassment to the agency or create unfairness in the procurement process.

*Details*

We determined DPFM maintained contract files within a multi-purpose room. The multi-purpose room contained two lateral file cabinets, a copy machine, a shredder bin, and shelving for staff mail. One of the two cabinets DPFM used to hold its contract files was equipped with a key lock but OIG staff observed that DPFM staff did not lock the cabinet. The other file cabinet did not have a locking mechanism. As previously noted, NCUA's contract files lacked adequate documentation. However, these files still contained sensitive information, which NCUA had a responsibility to protect from improper use.

We also determined that DPFM did not utilize a manual check out process to track contract files removed from the multi-purpose room. As previously mentioned, we judgmentally selected 49 POs for compliance with the Manuals. We also selected and tested an additional eight hotel POs for meeting and lodging groups. Initially, 25 of 49 contract files and two of eight hotel contract files could not be located in the DPFM multi-purpose room. We notified the DPFM Director of the missing contract files and provided him with the list of the contract files we removed. The DPFM Director later provided all of the missing files with the exception of one, a hotel contract for a group meeting with an obligation of over one million dollars.

During our review, we were given duplicate contract files for six of the 49 contracts, each with various contents. In one instance, the contract folder contained a copy of the PO while the other folder contained the original PO and several additional pieces of documentation. We could not determine why two folders existed for these six contracts. We believe this occurred because

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<sup>39</sup> The term "personally identifiable information" refers to information which can be used to distinguish or trace an individual's identity, such as their name, social security number, biometric records, etc. alone, or when combined with other personal or identifying information which is linked or linkable to a specific individual, such as date and place of birth, mother's maiden name, etc. ([www.whitehouse.gov](http://www.whitehouse.gov))



DPFM did not have a checkout process for contract files. Therefore, DPFM staff may have created duplicate folders when they could not locate the original file.

Because DPFM did not secure contract files and did not have a checkout process to track them, we are making two recommendations.

### **Recommendations**

We recommend NCUA management:

9. Ensure that Contracting Officers and Contracting Officer's Representatives adhere to the Procurement Policy Manual and maintain contract files in a secure environment throughout the life of the contract.

### **Management Response:**

Management agreed with the recommendation and plans to implement a uniform and accessible file system by December 31, 2017. Management indicated that the Acquisition Policy Manual states that all contracts must be maintained in an accessible file, with a nomenclature and numbering system that is uniform and facilitates reliable file retrieval. Management also indicated they are in the process of creating a secure central location and obtaining secure storage for each contracting officer's office. Management plans to complete the creation of a secure environment by the end of September 2017.

### **OIG Response:**

We concur with management's planned corrective actions.

10. Implement a manual checkout process to track contract files removed from the Division of Procurement and Facilities Management multi-purpose room.

### **Management Response:**

Management agreed with the recommendation and indicated they completed the corrective action by implementing a manual checkout process in May 2017 to track contract files removed from the Division of Procurement and Facilities Management multi-purpose room. Management also indicated that the Acquisition Policy Manual establishes a revised policy regarding the checkout process for contract files.

### **OIG Response:**

We concur with management's actions taken.



**Staffing Levels Not Sufficient for Procurement Operations**

We determined that DPFM's and OGC's staffing levels for procurement operations were insufficient to ensure the agency's procurement process operated successfully in accordance with established policies and procedures.

Specifically, DPFM operated with a staff of three prior to May 2015, one CO and two contracting specialists. By the end of our scope period, June 2016, the staffing level increased to five.<sup>40</sup> In addition, OGC did not have a dedicated fulltime attorney on staff with sufficient contract expertise to meet the legal needs of DPFM. The Green Book states in part, "effective management of an entity's workforce, its human capital, is essential to achieving results and an important part of internal control. Only when the right personnel for the job are on board and are provided the right training, tools, structure, incentives, and responsibilities is operational success possible." Based on our observations and findings identified throughout this report, we believe NCUA procurement officials focused on awarding new contracts to meet basic mission operations without the time to complete the procurement life cycle requirements such as planning, solicitation, contract award, and administration. In addition, as noted throughout this report, expeditiousness and flexibility on the part of the requesting offices came at a price, in this case, a breakdown of controls throughout the procurement process.

*Procurement Staff*

Based on our concern that inadequate staffing may have played a part in the breakdown of NCUA's procurement process, we attempted to determine the adequacy of NCUA's procurement staffing levels by benchmarking with two federal agencies (Agency A and Agency B). However, we determined it would not be possible to make a true comparison due to reporting differences and other factors that affect procurement operations. We determined that agencies may procure similar dollar amounts on a yearly basis, but their contracts vary greatly in terms of the number, complexity, modifications, and option years for each contract, which makes it difficult, if not impossible, to equally compare them.

We determined, however, that both of the agencies we attempted to benchmark had larger procurement staff than NCUA. Agency A told us that they operate their procurement office with a staff of thirteen, and Agency B told us that they operate their office with eleven. Although NCUA's annual contract spending and contract actions were slightly less than these two agencies, both Agency A and Agency B staffed their procurement offices with more than double the number of NCUA. Given the number of procurement issues identified in this report, which includes contract files, competition, and contract closeout, we believe NCUA did not adequately staff DPFM to ensure the agency's procurement operations functioned in accordance with established policies and procedures.

We were informed during our audit that the CFO previously identified staffing issues within DPFM. In March 2015, the CFO requested and received authorization to fill a contracting

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<sup>40</sup> All management and all but one staff employee involved in NCUA's procurement program prior to 2015 have been replaced.



specialist vacancy and one other position because he knew that the then current CO intended to retire in the near future. Although outside the scope period of our audit, the CFO requested one additional contracting specialist in NCUA's 2017–2018 budget, which the Board approved. Further, because we kept management informed of issues related to procurement operations during our audit, in particular staffing, NCUA senior executives proactively requested an exemption from the 2017 federal hiring freeze. After getting approval from the Office of Personnel Management (OPM), OED authorized the hiring of four additional staff – three contract specialists and one procurement analyst within DPFM.

### *OGC Contract Support*

We identified 31 contract files that required OGC's review because they were valued over \$100,000. Based on our testing, we determined OGC did not review any of these contracts for legal sufficiency. Best practices suggest, and the 2015 PPM requires, that OGC review all contracts over \$100,000 for legal sufficiency. The contract files contained no evidence that DPFM ever provided OGC with any of the 31 contracts for review. However, based on our interviews with management and their action to hire a dedicated procurement attorney, we believe this occurred because OGC did not have a full time procurement attorney to support the legal needs of DPFM. As a result, NCUA subjected itself to potential protests and litigation.

OGC management advised us that although they did not have a dedicated procurement attorney, they had multiple attorneys who worked at least part-time on procurement matters. OGC agreed that a dedicated procurement attorney would have been the better practice, but believes that they were still able to provide effective legal counsel.

After the scope period of our audit, OGC also requested and received approval from OPM to hire one procurement attorney during the recent federal hiring freeze. After OPM granted the exemption, OED then approved OGC's request to fill the vacancy.

Because executive management authorized DPFM to hire additional procurement staff, as well as an attorney with contract expertise, we are not making a recommendation at this time.



## Appendix A: Objective, Scope, and Methodology

We developed our objectives for this engagement based on NCUA's Manuals dated January 2011, April 2011 (revised), and September 2015. Specifically, our objectives were to determine whether:

- Management's control framework that supports procurement activities is appropriate, complete, and effective; and
- NCUA's procurement activities comply with applicable policies, procedures, laws, and regulations.

As previously mentioned, management could not assert to the completeness of the information they provided us from the DELPHI accounting system. As a result, we identified an information limitation related to the transactional activity obtained from the DELPHI system. However, we were able to obtain sufficient, appropriate evidence to support our findings and conclusions without evaluating the effectiveness of the controls over NCUA's SharePoint or DELPHI systems for purchase requests and purchase orders, respectively. We relied on our analysis of the information, review of contract files, and discussions with management to corroborate the data obtained from these systems to support our audit conclusions.

To accomplish our audit, we performed fieldwork at NCUA's Central Office located in Alexandria, VA, and contacted management in each of NCUA's five regions. The scope of this audit focused on internal controls and compliance with NCUA's Manuals. The scope period of our audit covered transactional activity from January 1, 2011, through June 30, 2016. To achieve our objectives, we:

- Reviewed NCUA's policies, directives, and procedures for procurements;
- Reviewed related subparts of the Federal Acquisition Regulations (FAR);
- Reviewed applicable sections of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act)<sup>41</sup>;
- Reviewed A Guide to Best Practices for Contract Administration – Office of Federal Procurement Policy, dated October 1994;
- Reviewed revised OMB Circular A-123, Management's Responsibility for Internal Controls, dated December 2004;

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<sup>41</sup> P.L. 111-203, sect. 342. ([www.gpo.gov](http://www.gpo.gov))



- Reviewed Government Accountability Office's Standards for Internal Control in the Federal Government, dated September 2014;
- Reviewed Government Accountability Office's Government Auditing Standards, dated December 2011;
- Reviewed NCUA's Delegations of Authority, dated March 2013, specifically Procurement and Property Management, PRO 2, PRO 9, and PRO 16;
- Interviewed management officials with procurement responsibilities from NCUA's Central Office as well as from all five of NCUA's regional offices;
- Obtained approved PRs converted into approved POs from DELPHI to attempt to identify the universe of contracts on hand during the scope period of our audit;
- Selected and analyzed a judgmental sample of 49 purchase orders (127 transactions) including 18 POs with amounts in the \$7,500.01 - \$100,000 threshold; and 31 POs with amounts in the \$100,000.01 and above threshold (NCUA's Manuals contain different requirements based on these thresholds);
- Tested a judgmental sample of 127 PO transactions to determine the accuracy of PR numbers, PO numbers, and dollar amounts against the contract file supporting documents;
- Reviewed contract files for the 49 POs for compliance with NCUA's Manuals;
- Selected and analyzed an additional judgmental sample of two transactions under \$7,500.01;
- Reviewed eight hotel contract files for compliance with NCUA's Manuals, Hotels: Meetings and Lodging for Groups;
- Reviewed one hotel contract file for compliance with Section 6, Part C of Instruction 1501 (Rev. 1); and
- Interviewed procurement staff at two federal agencies to benchmark against their procurement practices.

We conducted this audit from July 2016 through June 2017 in accordance with generally accepted government auditing standards and included such tests of internal controls, as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings



and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

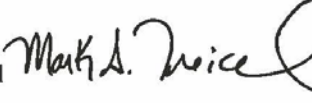


## Appendix B: NCUA Management Response



National Credit Union Administration  
Office of the Executive Director

**TO:** Inspector General James W. Hagen

**FROM:** Executive Director Mark A. Treichel 

**SUBJ:** Management Response – Audit of NCUA's Procurement Program

**DATE:** June 27, 2017

The following is our response to the recommendations set forth in the Office of Inspector General's (OIG) report titled *Audit of NCUA's Procurement Program (Report #OIG-17-07)*. NCUA concurs with the report's recommendations and is fully committed to continued improvements in contracting. As noted below in our response to the ten recommendations, we have already implemented six with the others well underway and scheduled for full implementation this year.

Over the past two years, NCUA undertook several actions to strengthen internal controls and mature the procurement policies, procedures, and operations. With strong leadership support and a unified effort from the dedicated staff within the Office of the Chief Financial Officer (OCFO), NCUA has made significant progress towards improving the acquisition program. We understand many of these enhancements were adopted outside the audit timeframe so your staff could not assess the changes, but we are confident our program is now set on a much stronger foundation than presented in the audit report.

A major milestone towards achieving an improved acquisition program occurred in January 2017 when NCUA implemented the Procurement Request Information System (PRISM) for contract management. NCUA recognized that the prior system did not support its business needs, and the selection process began in 2015 when the NCUA Board authorized the funding. PRISM fully integrates with NCUA's core accounting system, which improves data integrity by eliminating manual entry of acquisition documents into the financial system. It also decreases the time, resources and costs required to complete the acquisition process. With the implementation of PRISM, NCUA has made substantial progress towards information processing objectives such as completeness, accuracy, and validity of our procurement data.

NCUA expanded our acquisition function resources to ensure the agency's procurement process operates successfully. In 2014, OCFO revised the position descriptions for CU-14 contract specialists to require Federal Acquisition Certification (FAC)-C Level III certifications. This helps ensure technical depth of knowledge for current and future contracting staff. In 2015, when recruiting for the new head of the Division of Procurement and Facilities Management (DPFM), the position was reclassified to a Contracting Series 1102 and the position description was updated to require FAC-C Level III certification. This helped ensure the person who filled the leadership position would have the requisite procurement knowledge of all aspects of the procurement life cycle, legislation, and applicable regulations.

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NCUA's authorized procurement staffing increased from three personnel in April 2015 to ten in 2017. Many of the audit findings are directly related to being understaffed in DPFM. In 2017, five full-time positions were added. The new positions included three contracting officers, one procurement analyst and one attorney that specializes in procurement. As of June 2017, nine of the ten positions are filled or job offers have been extended.

In 2016, OCFO launched a series of specialized trainings to further develop the technical depth of our contracting staff and members of our program offices. As a result, OCFO trained more than 200 Central and Regional Office participants in the areas of acquisition planning, policy, requirements development, market research, proposal evaluation, and competition. Related procurement templates also were posted agency-wide facilitating easy access for users. This successful training effort is on-going in 2017, with at least one training course offered per month.

On April 18, 2017, NCUA issued Instruction 1770, *Acquisition Policy Manual*. The purpose of the Acquisition Policy Manual (APM), formerly the Procurement Policy Manual, is to provide internal guiding principles and instruction for NCUA acquisitions. The APM incorporates clarified policies, enhanced control procedures, as well as practical templates and checklists for users. To further NCUA's efforts towards a single source of information for all procurement information, this instruction consolidated the NCUA Purchase Card Manual into the APM and cancelled Instruction 1501 (Rev 1), *Conference Planning Policies, Procedures, and Approval Requirements*. The APM improves guidance around acquisition planning, contract monitoring, contract closeout, file management, and substantially strengthens the internal control environment for NCUA acquisitions. With the release of the APM, NCUA demonstrates our commitment to accountability in all NCUA acquisitions and communicates expectations and responsibility to all NCUA staff.

NCUA considers an effective control framework for procurement activities to be a critical component of our acquisition program. We will continue to build on the progress we have made over the last two years, and implement procedures to monitor our progress.

The remainder of this memo outlines our response to the ten specific recommendations in the report.

#### **OIG Recommendation**

1. Assess PRISM to ensure it produces complete, accurate, and valid data to meet NCUA's procurement objectives.

#### ***Management Response***

Management concurs with this recommendation and will complete the assessment by December 31, 2017. OCFO is already performing on-going assessments of PRISM to ensure it produces complete, accurate, and valid data to meet NCUA's procurement objectives, but a more



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formalized assessment will be completed by yearend 2017. PRISM also undergoes a Statement on Standards for Attestation Engagements (SSAE) 16 Type II examination; ensuring that all business reporting controls are evaluated and operating consistently.

NCUA's PRISM use has enabled several major process improvements, including the following:

- Ensuring continuity of mission critical services by establishing contracts with future year performance start dates and exercising contract option periods based on better financial monitoring.
- Enhancing internal controls by only allowing the purchase requisitions (PRs) to be created in PRISM and producing procurement data that is more complete, accurate, and valid.
- Enhancing budget, financial, and procurement internal controls and policy enforcement through more robust workflow and approval processes.
- Providing improved data capture and tracking capabilities.

**OIG Recommendation**

2. Rescind Delegation of Authority PRO 9 and require all procurements over \$7,500 to flow through the Office of the Chief Financial Officer's Division of Procurement and Facilities Management for a centralized procurement function.

***Management Response***

Management concurs with this recommendation and has completed implementation. The NCUA Board approved the rescission by unanimous vote on June 14, 2017.

**OIG Recommendation**

3. Implement a Debarment and Suspension program in accordance with NCUA's Delegation of Authority for Procurement and Property Management PRO 16.

***Management Response***

Management concurs with this recommendation and will implement the program by December 31, 2017. The suspension and debarment program will be incorporated into the APM. The APM is part of the continuous effort to improve the service and support provided to program offices within a framework that ensures NCUA has effective processes and sound internal controls. The planned release date for the revised version of the APM is yearend 2017.





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**OIG Recommendation**

4. Revise the 2015 Procurement Policy Manual, section 6.203, to remove the Buy American Act language.

***Management Response***

Management concurs with this recommendation and completed implementation on June 23, 2017 with the release of the updated APM version 1.01.

**OIG Recommendation**

5. Ensure program offices adequately plan and conduct procurements to obtain goods and services needed that offer the best value to NCUA.

***Management Response***

Management concurs with this recommendation and completed the corrective action with the issuance of the APM. Proper planning is required and emphasized in the April 2017 APM Chapter 2, *Acquisition Planning*. Additionally, OCFO held a dedicated session for acquisition planning on June 13, 2017, as part of its procurement training series. We consider this action complete but understand it is also an on-going effort that requires continual diligence and discipline.

OCFO will ensure adequate acquisition planning through policy enforcement, monitoring, and training. The APM outlines procedures for the acquisition planning process and clarifies required planning elements. The APM defines the documentation necessary for a requirements package to ensure all purchase requests sent through PRISM are complete, incorporate requirements for procurement administrative lead-time (PALT), and provide a sample acquisition planning workflow for a typical acquisition process. For unique procurement actions, especially those involving security or business continuity requirements, the APM recommends program offices hold early strategy sessions with OCFO contracting staff to identify additional documentation that might be necessary.

Concurrent with the release of the APM, OCFO now reviews program office new requirements packages for compliance. To reinforce review and monitoring, the APM also established an OCFO contracting peer review requirement for contract actions and file documentation to ensure compliance with the APM. This internal review, which requires a two-party completion of an internal review document, takes place on all actions before contract award and is incorporated as part of the contract file.



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**OIG Recommendation**

6. Ensure the Division of Procurement and Facilities Management appoints Contracting Officer's Representatives throughout NCUA, as necessary, for continual monitoring of contracts to assist in preventing internal control deficiencies.

***Management Response***

Management concurs with this recommendation and will complete implementation by December 31, 2017. Compliance with this recommendation is well underway.

Chapter 7 of the APM establishes a Contracting Officer Representative (COR) section ensuring that CORs monitor both performance and financial aspects for contracts. The APM communicates roles, responsibilities, and certification and training requirements for CORs. The NCUA COR certification program follows the Federal Acquisition Institute (FAI) FAC-COR certification program available to all federal agencies. This section includes comprehensive procedures for contract administration, implements key controls and documentation requirements around invoice processing and payments, and provides valuable templates and checklists.

Contracting officers currently appoint representatives that perform the duties of a COR in accordance with Chapter 7 of the APM. NCUA has many staff members that received the proper COR training, but have not yet completed the full certification process. OCFO will establish written procedures in the form of frequently asked questions to facilitate COR registration in the Federal Acquisition Institute Training Application System and processing of FAC-COR certifications and temporary COR certification waivers.

**OIG Recommendation**

7. Inform staff and contractors of the elements of a proper invoice and advise invoice approvers to return invoices that do not meet the standards of the Prompt Payment Act.

***Management Response***

Management concurs with this recommendation and completed the corrective action. We recognize also that this is an on-going effort. Management has taken specific steps to ensure the elements of a proper invoice are properly communicated internally to staff and externally to contractors. OCFO conducted training sessions to educate program offices on procurement policies to include a session on contract invoicing and payments held on May 9, 2017.

The APM requires the COR to review the invoice for propriety and to conduct a methodical review of the invoice to ensure proper rationale and adequate support exists to support payment of contractor invoices. The APM also includes an invoice checklist to guide the COR through a detailed invoice review and provides documented evidence of the COR's review procedures.



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The APM explains the elements of a proper invoice and the COR's obligation to notify the contracting officer if instances of error or inconsistency are identified. The contracting officer is ultimately responsible for ensuring legality, propriety and validity of payments and is required to work with the contractor to resolve any issues.

Externally, contractors are notified of NCUA's requirement for a proper invoice in the contract clause *Submission of Invoices*.

**OIG Recommendation**

8. Ensure Contracting Officers and Contracting Officer's Representatives maintain documentation in the contract file to provide a complete history of all procurement-related actions and the basis for informed decisions at each step in the acquisition and contract oversight process.

***Management Response***

Management concurs with this recommendation and completed implementation with the issuance of the APM. As with other recommendations and our corrective action, we understand this is an on-going effort. The APM addresses contracting officer contract files and COR files separately. APM Chapter 6.1, *Contract File Management*, includes guidance related to creating contract files and file organization and documentation, structure and assembly, and content requirements. Documentation in the file must provide a complete history of all procurement-related actions and the basis for informed decisions at each step in the acquisition and contract oversight process. Contract file checklists have been updated with controls in place to tie the checklist content to the source information.

The APM also establishes an internal contract file review process and clarifies the requirements for legal review. The purpose of the internal contract file review is to provide a peer review of the contract action and file documentation to ensure the action adheres to the APM. Internal contract file reviews must take place on all actions before the contract is awarded. An internal contract file review document has been developed to facilitate this process. All procurements initiated since April 18, 2017 have undergone peer review.

**OIG Recommendation**

9. Ensure that Contracting Officers and Contracting Officer's Representatives adhere to the Procurement Policy Manual and maintain contract files in a secure environment throughout the life of the contract.



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***Management Response***

Management concurs with this recommendation and will complete implementation by December 31, 2017. APM Section 6.110, *Contract File Maintenance*, indicates all contracts must be maintained in an accessible file, with a nomenclature and numbering system that is uniform and facilitates reliable file retrieval. Contract files will be maintained in a secure, central location within OCFO. Only those contract files that are currently being used can be held in the workspace of each employee, but must be stored in a secure location at the end of each work day. Once an employee no longer has a need to work on the contract file, it must be returned to the secure central contract file location and checked-in. OCFO is in the process of creating a secure central location and obtaining secure storage for each contracting officer's office to be completed by the end of September 2017.

**OIG Recommendation**

10. Implement a manual checkout process to track contract files removed from the Division of Procurement and Facilities Management multi-purpose room.

***Management Response***

Management concurs with this recommendation and completed the corrective action. OCFO implemented a manual checkout process in May 2017 to track contract files removed from the DPFM multi-purpose room. The APM establishes a revised policy regarding the checkout process for contract files as outlined in the prior recommendation response.

Thank you for the opportunity to review and comment on the report. We appreciate your contributions and insights. We look forward to working with you as we implement the additional corrective actions to address our remaining challenges and further strengthen NCUA's acquisition management and internal control environment. NCUA is dedicated to being a responsible steward and we stand firm in our commitment to sound acquisition management practices.



## Appendix C: Acronyms and Abbreviations

2011 PPM	2011 Procurement Manual
2015 PPM	2015 Procurement Policy Manual
AMAC	Asset Management & Assistance Center
APM	Acquisition Policy Manual
BPA	Blanket Purchase Agreement
CA	Competition Advocate
CO	Contracting Officer
COR	Contracting Officer's Representative
COTR	Contracting Officer's Technical Representative
Delegations	Delegations of Authority
DPFM	Division of Procurement and Facilities Management
DTD	Division of Training and Development
ED	Executive Director
FAR	Federal Acquisition Regulations
FFP	Firm-Fixed Price
GAO	Government Accountability Office
Green Book	Standards for Internal Controls in the Federal Government
IT	Information Technology
MWOB	Minority- and Women-owned Business
NCUA	National Credit Union Administration
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OED	Office of the Executive Director
OGC	Office of General Counsel
OHR	Office of Human Resources
OIG	Office of Inspector General
OMB	Office of Management and Budget
OSCUI	Office of Small Credit Union Initiatives
OPM	Office of Personnel Management
PALT	Procurement Administrative Lead Time
PPA	Prompt Payment Act
PO	Purchase Order
PR	Purchase Requisition



**Acronyms and Abbreviations (Continued)**

RD	Regional Director
RFP/Q	Request for Proposal/Quotation
SOO	Statement of Objectives
SOW	Statement of Work