



U.S. Department of Agriculture



Office of Inspector General
Northeast Region

Audit Report

Review of Contract Administration at the Natural Resources Conservation Service

Report No.10001-01-Hy
March 2007



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



March 20, 2007

REPLY TO

ATTN OF: 10001-01-Hy

TO: Arlen L. Lancaster
Chief
National Resources Conservation Service

THROUGH: Daniel Runnels
Director
Operations Management and Oversight Division

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Review of Contract Administration at the Natural Resources Conservation Service

This report presents the results of our audit of contract administration at the Natural Resources Conservation Service. Your written response, dated March 5, 2007, is included as exhibit A with excerpts of the response and the Office of Inspector General's position incorporated into the Findings and Recommendations section of the report, where applicable.

We have reached management decision for Recommendations 1 and 2. Please follow your agency's internal procedures in forwarding documentation for final action to the Office of the Chief Financial Officer.

In order to achieve management decision on Recommendation 3, please furnish a reply within 60 days describing the timeframes required to implement the proposed corrective actions. Please note that Departmental Regulation 1720-1 requires a management decision to be reached on all recommendations within a maximum of 6 months from report issuance and completion of final action within 12 months of management decision.

We appreciate the courtesies and cooperation extended to us by members of your staff during this audit.

Executive Summary

Review of Contract Administration at the Natural Resources Conservation Service

Results in Brief

We evaluated the Natural Resources Conservation Service's (NRCS) administration of the agency's procurement activity to determine whether it was conducted in accordance with Federal, Departmental, and agency regulations. NRCS is the primary Federal agency responsible for working with private landowners to help conserve, maintain, and improve natural resources. NRCS procures services and equipment to assist in carrying out its conservation efforts. To accomplish our objective, we reviewed applicable regulations and policies, interviewed pertinent personnel, and visited NRCS' Acquisition Policy Team which is responsible for issuing contracting guidance. We also visited 7 NRCS State offices and examined 61 of 142 contracts awarded from January 2004 to March 2006.

We found that NRCS' procurement activities were conducted in accordance with Federal and Departmental regulations. However, we concluded that NRCS' system of internal controls for administering its procurement activities needed to be strengthened. Specifically, NRCS did not perform planned oversight reviews to ensure procurement activities were administered properly. We also found that NRCS had not fully implemented the U.S. Department of Agriculture's (USDA) Integrated Acquisition System (IAS). IAS is designed to provide paperless entry and approval of requisitions, accurate procurement related financial information, and a real-time interface with USDA's Foundation Financial Information System (FFIS).¹

- NRCS performed only 9 oversight reviews of contracting activities in the agency's 51 State offices between October 2003 and February 2006. Agency officials attributed the small number of reviews to a lack of staff resources. The small number of reviews and lack of other alternative management controls reduced management's assurance that over \$170 million in procurements were properly administered. Deficiencies identified during our review included firm fixed price contracts increased without justification and sealed bids opened and reviewed by only one individual. For example, a firm fixed price contract for \$560,000 was increased by 180 percent to \$1,566,850 based on a contractor-identified need for additional work. The contracting officer agreed to the modification because processing a modification was easier than going through the full contracting process over again. Such actions, however, raise questions about the integrity of the contracting process because the expectation with this type of contract is modifications in scope and amount will not be necessary.

¹ FFIS is a software package designed to meet USDA's stringent budget and funds control needs, as well as complex multi-fund accounting and reporting needs. FFIS supports a standard general ledger and provides financial managers with timely and reliable information.

- NRCS has only partially implemented IAS. As of February 2006, 20 of 51 NRCS State offices were not using IAS. Full implementation of IAS was scheduled for October 2004, but due to lack of guidance and direction from the Department, implementation was not confirmed. In July 2006, NRCS' Deputy Chief for Management expressed his commitment to fully implement IAS; however, he did not set specific milestones for doing so.

**Recommendations
In Brief**

NRCS should develop and implement control techniques to ensure performance of procurement oversight reviews and resolve identified deficiencies. NRCS also needs to implement policies and procedures on how the agency will use and monitor IAS.

Agency Response

NRCS agreed with the report's recommendations. We have incorporated the agency's response in the Findings and Recommendations section of this report, along with the OIG position. The response is included as Exhibit A.

OIG Position

Based on NRCS' response, we were able to reach management decision on Recommendations 1 and 2 of the report's three recommendations. NRCS needs to provide the date by which implementation will be completed before we can reach management decision on Recommendation 3.

Abbreviations Used in This Report

AGAR	Agriculture Acquisition Regulation
AGCAS	Agriculture Contract Automation System
C.F.R.	Code of Federal Regulations
FAR	Federal Acquisition Regulations
FFS	Federal Financial System
FFIS	Foundation Financial Information System
FY	Fiscal Year
IAS	Integrated Acquisition System
IDIQ	Indefinite Delivery Indefinite Quantity
MSD	Management Services Division
NRCS	Natural Resources Conservation Service
OIG	Office of Inspector General
OPPM	Office of Procurement and Property Management
PRCH	Purchase Order System
USDA	U. S. Department of Agriculture

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Background and Objectives

Background

The Natural Resources Conservation Service (NRCS) was established by the Department of Agriculture Reorganization Act of 1994 (Public Law 103-354). NRCS is the primary Federal agency responsible for working with private landowners to help conserve, maintain, and improve natural resources. NRCS' technical experts help land managers and communities take a comprehensive approach in planning the use and protection of soil, water, and related resources on private and non-Federal lands. NRCS works in rural, suburban, urban, and developing areas. NRCS assistance to individual landowners is provided partially through conservation districts, which are units of local government created by State law. NRCS works in partnership with the State conservation agencies, other State and local agencies such as resource conservation and development councils, locally elected farmer committees, Federal agencies, Tribal governments, and private sector organizations. NRCS' mission is to provide leadership in a partnership approach to help people conserve, maintain, and improve our natural resources and the environment.

Agency activities help to sustain agricultural productivity and provide broader public benefits such as cleaner, safer, and more dependable water supplies; reduce damage caused by floods and other natural disasters; and enhance our natural resource base to support continued economic development and opportunities for recreation. NRCS' programs include the Agricultural Management Assistance Program, Wildlife Habitat Incentives Program, Environmental Quality Incentives Program, Conservation Security Program, Grassland Reserve Program, and Wetlands Reserve Program.

NRCS obligates approximately 6.8 percent² of the U.S. Department of Agriculture's (USDA) non-commodity procurement dollars, and is USDA's fourth largest procuring agency. During the period of our review, October 2003 to February 2006, NRCS' non-commodity procurement activity totaled approximately \$170 million. NRCS' procurement activity includes services and equipment related to its conservation efforts, information technology, and communications.

The Federal Acquisition Regulation (FAR) is the primary regulation used by Federal executive agencies in the acquisition of supplies and services with appropriated funds. The FAR is recorded in Title 48 of the Code of Federal Regulations (C.F.R.) Chapter 1 and was issued pursuant to the Office of Federal Procurement Policy Act of 1974 (Public Law 93-400, as amended). The Agriculture Acquisition Regulation (AGAR), at 48 C.F.R.

² Percentage based on FY 2001-2003 dollars obligated.

Chapter 4, prescribes the policies and procedures that implement and supplement the FAR within USDA.

NRCS' Management Services Division (MSD) is responsible for performing pre-award contract planning, developing requests for bidders' proposals, awarding contracts, and monitoring each contractor's performance to ensure successful contract completion. MSD's Acquisition Policy Team is responsible for establishing rules, policies, and procedures to ensure that effective management control is maintained over the procurement process. Each NRCS State office has contracting officers who have primary responsibility for contracts and contract activity.

The Office of Procurement and Property Management (OPPM) has the overall responsibility for coordinating the departmentwide implementation of the Integrated Acquisition System (IAS). IAS is USDA's corporate, web-based e-procurement and contract management tool. IAS replaced the Purchase Order (PRCH) and Agriculture Contract Automation System (AGCAS), USDA's legacy acquisition systems. MSD has the specific responsibility for ensuring that IAS is fully implemented within NRCS.

Objectives

Our objectives were to: (1) evaluate NRCS's administration of the acquisition process to determine whether the agency's procurement activity was conducted in accordance with Federal, Departmental, and agency regulations, and (2) determine whether NRCS maintained an adequate system of internal control over the contracting process.

Findings and Recommendations

Section 1. Oversight of Contract Administration

NRCS has not established adequate internal control to manage the agency's contracting activities. Specifically, NRCS did not perform planned oversight reviews to ensure activities are administered properly. In addition, NRCS has not fully implemented IAS.

IAS is intended to become USDA's corporate, web-based e-procurement and contract management tool. IAS will replace the PRCH and AGCAS legacy acquisition systems.

Finding 1

NRCS Did Not Perform Planned Oversight Reviews

NRCS planned to perform 8 to 10 oversight reviews per year on a 5-year rotation in order to review the agency's 51 State offices. However, we found that NRCS performed only nine oversight reviews of contracting activities between October 2003 and February 2006. According to NRCS officials, the small number of reviews occurred because of a lack of staff resources. Additionally, NRCS had not established alternative management controls to address the lack of reviews. Consequently, NRCS' management has reduced assurance that over \$170 million in procurements were properly administered. For example, the dollar amounts of several firm fixed price contracts were increased from 40 percent to, in one instance, as much as 180 percent. Additionally, as required by regulations, sealed bids were not opened by the contracting officer in public, and reports were not prepared to properly close completed contracts.

NRCS,³ as well as Departmental guidance,⁴ does not specify the quantity or frequency with which oversight reviews should be performed.⁵ In light of the resource constraints identified by NRCS, the agency did not implement alternative control techniques to perform reviews of contracting activities and resolve identified deficiencies.

Oversight reviews could be enhanced to detect and prevent the types of deficiencies identified in our review including areas such as contract modifications, bid reviews, and contract close-outs.

Contract Modifications. For 41 of the 61 contracts reviewed, NRCS awarded firm fixed price contracts. The expectation with this type of contract is that modifications in scope and amount will not be necessary. In 6 of the

³ NRCS Electronic Directive System Part 403 - Administrative and Information Technology Functional Reviews, dated August 2000.

⁴ Departmental Regulation 1110-002 - Management Accountability and Control, dated April 2004.

⁵ NRCS guidance does specify how and what the oversight reviews consist of.

41 contracts, modifications were made. The contracts, all awarded in one State, were modified to expand the scope of work and increase the original contract amounts by 40 to 180 percent. One of the six contracts originally awarded at \$560,000 was increased to \$1,566,850, a 180 percent increase. It was increased because the contractor convinced the NRCS contracting officer that additional work was needed. According to two contracting officers, processing a modification was easier and more expedient than going through the entire contracting process.

Contract modifications, in our opinion, may be an indicator of deficient contract planning. The need to make modifications typically indicates that a contract's original statement of work was not sufficiently developed or clearly stated. These actions weaken the contracting process because, as in the above case, the additional work performed will not be subject to full and open competition. We also reviewed 20 indefinite delivery indefinite quantity contracts. We did not identify any concerns with contract modifications for these contracts.

Improper Bid Reviews. For 13 of the 61 contracts reviewed, the contracting officer opened and reviewed sealed bids without anyone else present. This occurred in two of the seven State offices we visited. According to the contracting officers, this was caused by the need to meet time constraints and a lack of staff. Regulations⁶ require that the contracting officer responsible for opening bids shall personally and publicly open all bids. The State office contracting officers stated that they will ensure more than one person is present at future bid openings.

Contract Completion Statements. Our sample of the 61 contracts included 19 for which the work was completed and the contract was closed. None of the 19 closed contracts contained a required contract completion statement. Accordingly, there was no documentation to substantiate that the close-out was properly performed and that the remaining funding was appropriately deobligated. Regulations⁷ require the contracting officer to ensure that a contract completion statement is prepared and filed. According to the NRCS contracting officers, they were unaware of the requirement; however, they agreed to implement it immediately.

According to NRCS officials, oversight reviews were not performed due to a lack of staff resources. In light of this constraint, NRCS needs to identify, evaluate, and implement alternative management controls to perform reviews and resolve deficiencies.

⁶ FAR 14.402 Opening of Bid, dated March 2005.

⁷ FAR 4804-5 Procedures for closing out contract files, dated March 2005.

Recommendation 1

Identify, evaluate, and implement alternative management controls, in consideration of current resource constraints, to ensure performance of oversight reviews of acquisition activities and resolution of identified deficiencies.

Agency Response.

NRCS agrees with OIG Recommendation 1. NRCS has approximately 56 procuring offices agency-wide. Starting September 2007, NRCS will commit to a complete contract management review of these offices on a 5 year cycle. As such, NRCS will conduct approximately 11 contract management reviews per year.

OIG Position.

We accept NRCS' management decision.

Finding 2**NRCS Has Not Fully Implemented IAS**

NRCS has not fully implemented IAS, which is designed to provide paperless data entry and approval of requisitions, accurate procurement related financial information, and a real-time interface with USDA's Foundation Financial Information System (FFIS). Full implementation of IAS was scheduled for October 2004, but due to lack of guidance and direction from the Department, full implementation could not be assured. As of February 2006, IAS was not in use at 20 of NRCS' 51 State offices. Additionally, one of the eight offices we visited only used IAS for small purchase procurements.

According to NRCS National Bulletin 120-4-8, September 2004, NRCS was to complete its implementation and begin using IAS for acquisition transactions generated on or after October 4, 2004. The current version of PRCH was to be disabled on that date and closed for new transactions. In addition, AGCAS was not to be used after that date. IAS is USDA's corporate, web-based e-procurement and contract management tool. IAS will replace the PRCH and AGCAS, USDA's legacy acquisition systems. The usage of IAS was to coincide with the functionality of the FFIS interface with IAS.

According to OPPM's IAS System Implementation Life Cycle documents, the implementation of the IAS is a major undertaking for USDA agencies. A successful implementation of IAS requires that agency management assign dedicated resources to the planning, implementation, and operation of the project. NRCS is continuing its implementation of the IAS; an effort that began in fiscal year (FY) 2003.

When USDA began its program to implement IAS, NRCS officials did not mandate the use of the system or issue related guidance. NRCS' Policy and Management Team stated that the former Deputy Chief for Management decided to delay these actions until such time as USDA provided formal guidance. According to officials from the Office of Procurement and Property Management⁸ (OPPM), a memorandum was issued August 6, 2002, regarding the deployment of IAS. OPPM officials explained that this memorandum was signed by USDA's Assistant Secretary for Administration and the Chief Financial Officer. However, neither OPPM nor NRCS could provide us with a copy of this memorandum.

In a presentation to NRCS staff in July 2006, the current NRCS Deputy Chief for Management stated that NRCS needs to take steps to fully implement IAS. However, no specific milestones were established. This was due in part

⁸ OPPM reports to USDA'S Assistant Secretary for Administration and is responsible for issuing departmentwide guidance.

to NRCS management stating that they would prefer OPPM to issue a written directive first. To ensure the effective implementation of IAS, NRCS needs to establish the necessary control structure. This would include policies and procedures to provide guidance on how NRCS will employ and monitor the use of IAS.

Although we found evidence that contracting officers had received generalized IAS training, agency-specific training, required to meet their unique needs, was not provided. This was due in part to NRCS management not establishing their own IAS policies and procedures to guide contracting officers on how to best use IAS in conjunction with day to day NRCS contracting activities. State office officials stated this has caused them to either not use IAS or work around the IAS system instead of wasting valuable time resolving problems with the IAS helpdesk.

Recommendation 2

Establish a plan with a timeframe and assessable milestones for implementing IAS for the agency's acquisition activities.

Agency Response.

NRCS agrees with OIG Recommendation 2. The NRCS Deputy Chief for Management has signed Bulletin 120-7-9, making use of the IAS mandatory within the agency. This new requirement will be incorporated into the NRCS policy guidance in their General Manual. NRCS also has agreed to develop a plan for a 100 percent implementation of IAS within the agency. This will be evidenced by the production of IAS generated reports which will show that all NRCS procuring offices are using the system by the end of FY 2007.

OIG Position.

We accept NRCS' management decision.

Recommendation 3

Develop and implement the necessary control structure (e.g., policies and procedures) to ensure effective implementation of IAS at NRCS. This structure would include, but not be limited to, detailed guidance on how to use IAS, specific training for the acquisition workforce, and an oversight plan to monitor NRCS' implementation and use of IAS.

Agency Response.

NRCS agrees with OIG Recommendation 3. NRCS will develop an implementation policy and procedure to ensure 100 percent implementation of IAS within the NRCS. The necessary training, detailed guidance and oversight planning and execution will be in accordance with USDA issued procedures for IAS.

OIG Position.

Although we agree with NRCS' proposed corrective action, for management decision the agency needs to provide the date by which implementation will be completed

Scope and Methodology

Our review was performed in accordance with Government Auditing Standards established by the Comptroller General of the United States. Our fieldwork was performed from January 2006 through July 2006. Fieldwork was performed at the NRCS Headquarters in Washington, DC, NRCS Acquisition Policy Team in Beltsville, Maryland, and at seven State offices located in Maryland, Virginia, New York, New Jersey, Pennsylvania, Missouri, and California.

To accomplish our audit we reviewed pertinent contracting regulations and guidance, interviewed appropriate officials, and examined a sample of service contracts.

- We reviewed pertinent Federal regulations and documentation to familiarize ourselves with the requirements, scope, and current operation of the contract administration process within NRCS. We also assessed how well NRCS maintains and oversees its contract administration operations.
- We interviewed appropriate staff and officials from the NRCS Headquarters and State offices to obtain information and documentation needed to complete the audit. We also established contacts with OPPM and Office of Small and Disadvantaged Business Utilization officials whose work impacts NRCS' contract administration.
- We judgmentally selected five States from the Northeast Region to determine what States were using IAS in conjunction with the contract administration process. In addition, we selected one State identified by NRCS and a State with a high dollar amount in contracts.
- We judgmentally selected 61 of 142 contracts awarded during the period from January 2004 through March 2006 on the basis of dollar amounts and contract type at the selected State offices. These contracts consisted of 41 firm fixed price and 20 indefinite delivery indefinite quantity⁹ (IDIQ).
- We analyzed the 61 contracts to assess the adequacy of NRCS' processes and controls.
- We researched USDA's new IAS to determine how it has been implemented and how it is working in conjunction with NRCS' contract administration.

⁹ IDIQ contracts have set minimum and maximum amounts.

Exhibit A – Agency Response

Exhibit A – Page 1 of 2

United States Department of Agriculture



Natural Resources Conservation Service
P.O. Box 2890
Washington, D.C. 20013

MAR 5 2007

SUBJECT: Office of the Inspector General Audit 10001-01-Hy

TO: Robert W. Young
Assistant Inspector General for Audit
Office of the Inspector General

This memorandum transmits the Natural Resources Conservation Service's (NRCS) response to the Office of the Inspector General (OIG) draft report, "Review of Contract Administration at the Natural Resources Conservation Service" (OIG 10001-01-Hy). This report provided valuable information that will help NRCS improve management and internal controls over its contract administration.

OIG Recommendation 1.

Identify, evaluate, and implement alternative management controls, in consideration of current resource constraints, to ensure performance of oversight reviews of acquisition activities and resolution of identified deficiencies.

NRCS Response:

NRCS agrees with OIG Recommendation 1. NRCS has approximately 56 procuring offices Agency wide. NRCS will commit to a complete contract management review of these offices on a 5-year cycle. As such, NRCS will conduct approximately 11 contract management reviews per year, consistent with the fiscal year (FY) 2007 NRCS Leadership, Operations, and Civil Rights Review Schedule.

OIG Recommendation 2.

Establish a plan with a timeframe and assessable milestones for implementing the Integrated Acquisition System (IAS) for the Agency's acquisition activities.

NRCS Response:

NRCS agrees with OIG Recommendation 2. Kevin Brown, Deputy Chief for Management, has signed National Bulletin No. 120-7-9, making use of the Department of Agriculture's IAS mandatory within the Agency. This action will be incorporated in writing into NRCS' policy guidance in the General Manual. NRCS will develop a plan for 100 percent implementation as evidenced by IAS-generated reports that show all procuring offices are using the system by the end of FY 2007.

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OIG Recommendation 3.

Develop and implement the necessary control structure (e.g., policies and procedures) to ensure effective implementation of IAS at NRCS. This structure would include, but not limited to, detailed guidance on how to use IAS, specific training for the acquisition workforce, and an oversight plan to monitor NRCS' implementation and use of IAS.

NRCS Response:

NRCS agrees with OIG Recommendation 3. NRCS will develop and implement policy and procedure to ensure 100 percent implementation of IAS within NRCS. The necessary training, detailed guidance, and oversight planning and execution will be in accordance with the USDA procedures for IAS.

If you have questions, please contact Daniel Runnels, Director, Operations Management and Oversight Division, at (202) 720-9135.



Arlen L. Lancaster
Chief