



# Office of Inspector General

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Report No. EVAL-08-003

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**Evaluation of Contract Rationalization**

*Office of Evaluations*



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## Background and Purpose of Evaluation

The FDIC has approximately \$1.56 billion in outstanding contracts. The Acquisition Services Branch (ASB) awards contracts on behalf of FDIC divisions and offices for a broad array of corporate services, from information technology development contracts to contracts to assist with failed bank resolution and receivership efforts.

Accordingly, it is important that the FDIC make informed and strategic acquisition decisions when evaluating new procurement requests for possible duplication and assessing existing contracts for continuing need. For the purposes of this report, we refer to those decisions as *contract rationalization*.

Our evaluation objective was to assess whether the FDIC has mechanisms in place to periodically evaluate the continuing need for contracts and determine whether there are corporate contracts that can be eliminated.

To accomplish our objective, we selected Division of Resolutions and Receiverships (DRR) contracts to verify they (1) did not duplicate the services being provided under other corporate contracts and (2) served a continuing business need.

## Evaluation of Contract Rationalization

### Results of Evaluation

The FDIC has informal processes in place for evaluating new procurement requests for potential duplication and existing contracts for continuing need. The FDIC relies on the knowledge of its two ASB Associate Directors as the primary mechanism to evaluate whether new procurement requests could be met through active contracts and whether there is a continuing need for existing contracts. ASB management also meets on a regular basis to review and discuss pre- and post-award contract activity. Such reliance on a limited number of individuals can present continuity risks in the event that the individuals separate from the Corporation. However, we confirmed with a procurement services consultant that most agencies rely on the knowledge of acquisition staff to determine potential duplication and continuing need.

Further, this approach is reasonable considering that the FDIC's procurement function has been largely centralized and because the number of contracts has been reduced through contract consolidation. However, this approach may not be sufficient in the future should the economic environment impacting the banking industry deteriorate and contracting activity correspondingly increase to facilitate increased resolution activity. ASB is developing an Automated Procurement System (APS) to provide improved contract management information that will help address this risk. ASB representatives indicated, and we confirmed, that the APS system will include query capabilities and ad-hoc reporting capabilities that will assist contracting officers with identifying duplicative contracts. In addition, ASB officials advised us that they intend to provide training to users regarding the manner in which contracts are described in APS data fields to take full advantage of the system's search and reporting capabilities.

Based on our testing of selected DRR contracts, we determined that these contracts were generally not duplicative of other corporate contracts and addressed a continuing need of the Corporation.

We also identified two recurring system-related issues that may hinder ASB's ability to evaluate contracts for duplication or continuing need:

- Contracting activity reports from the New Financial Environment's procurement module continue to contain inaccuracies.
- Statements of work for 17 of the 39 DRR contracts we reviewed were not uploaded into CEFile, the FDIC's official contracting file repository.

We, DOA's Management Services Staff, and DRR Internal Review have previously reported and/or made recommendations on these issues. In addition, ASB has reported that sufficient corrective actions have been taken to close most of the recommendations. Finally, the contract management system (i.e., contracting activity reports) and CEFile were identified as non-material or second-tier issues—areas where improvements can be made—as a result of the Corporation's 2006 assurance statement process. Nevertheless, the issues to some extent had not been resolved at the time we conducted our evaluation.

### Recommendations and Management Response

The FDIC has ongoing actions to address the contracting activity report issues we identified. In addition, DOA officials indicated that the CEFile issue was limited to DRR contracts and, because our testing was limited to DRR contracts, we have no basis to know whether the deficiencies we noted extend to other divisions' contracts. We also provided DOA with the information it needed to load the missing documents into the CEFile. Accordingly, we did not make recommendations in this report and written comments were not required. Management provided clarifications and editorial comments that we have incorporated in this final report.

## **Table of Contents**

	<b><u>Page</u></b>
<b>EVALUATION OBJECTIVE AND APPROACH</b>	<b>1</b>
<b>BACKGROUND</b>	<b>1</b>
<b>EVALUATION RESULTS</b>	<b>2</b>
<b>The FDIC Has Established Contract Rationalization Mechanisms</b>	<b>2</b>
<b>Contract Rationalization Mechanisms Appear to Be Working     for DRR Contracts</b>	<b>4</b>
<b>Other Matters</b>	<b>5</b>
<b>CORPORATION COMMENTS AND OIG EVALUATION</b>	<b>7</b>
<b>APPENDIX: Objective, Scope, and Methodology</b>	<b>8</b>



**DATE:** January 2, 2008

**MEMORANDUM TO:** Arleas Upton Kea  
Director, Division of Administration

**FROM:** Stephen M. Beard  
Assistant Inspector General for Evaluations and Management

**SUBJECT:** *Evaluation of Contract Rationalization*  
(Report No. EVAL-08-003)

This report presents the results of our subject evaluation. The FDIC has approximately \$1.56 billion<sup>1</sup> in outstanding contracts and awarded approximately \$206 million in contracts during 2006. Thus, the FDIC's ability to make informed and strategic decisions related to *contract rationalization*—the evaluation of new procurement requests for potential duplication and existing contracts for continuing need—is important to ensuring the efficient and effective management of the FDIC's acquisition program.

## **EVALUATION OBJECTIVE AND APPROACH**

Our objective was to assess whether the FDIC has mechanisms in place to periodically evaluate the continuing need for contracts and determine whether there are corporate contracts that can be eliminated. To accomplish our objective, we selected Division of Resolutions and Receiverships (DRR) contracts to verify they (1) did not duplicate the services being provided under other corporate contracts and (2) served a continuing business need.

The appendix to this report describes in detail our objective, scope, and methodology.

## **BACKGROUND**

The FDIC's Acquisition Services Branch (ASB) of the Division of Administration (DOA) has overall responsibility for the acquisition process. FDIC contracting officers in ASB award and administer contracts in accordance with the FDIC *Acquisition Policy Manual* (APM). The APM

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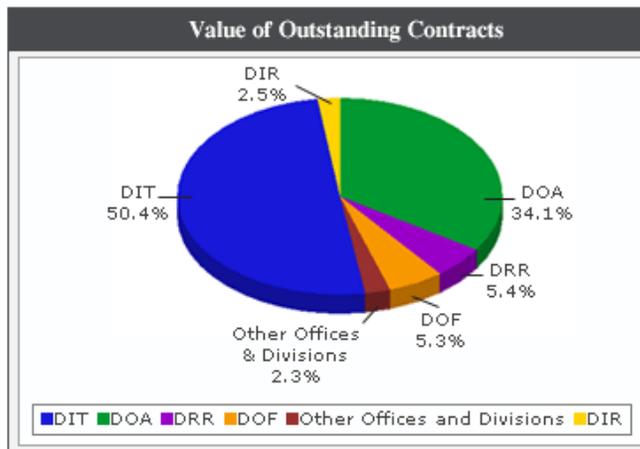
<sup>1</sup> This amount includes all active contracts and expired contracts that have not been formally closed out in the New Financial Environment (NFE). The NFE is an enterprise-wide, integrated software solution to support the current and future financial needs of the FDIC. NFE includes various financial software packages such as activity-based management, asset management, budgeting, cash management, general ledger, payables, and receivables.

requires the program office<sup>2</sup> to provide ASB a complete requirements package. Specifically, the APM states that the requirements package should contain a clear and specific description of the goods and services required (statement of work), a detailed cost estimate, a period of performance (with options), and expenditure approval.

Among other things, FDIC oversight managers (OM) are responsible for ensuring that contractors' work is performed satisfactorily in accordance with contract terms and conditions, reviewing contractors' invoices to ensure that services or goods have been delivered and are represented correctly on the invoice, and assisting contracting officers during the contract modification process.

Over the past few years, the FDIC has simplified its contracting environment by centralizing its contracting operations in ASB and consolidating individual contracts. For example, in 2006, DOA eliminated regional contracting operations in the San Francisco, Chicago, and Kansas City regional offices. Contracting operations exist only in ASB Headquarters and in the Dallas Regional Office. ASB has also greatly reduced the number of outstanding contracts by consolidating contracts, such as the Consolidated Facilities Maintenance contract in DOA and the Infrastructure Services Contract and Information Technology Application Services contract in the Division of Information Technology (DIT).

As shown in the figure, DRR has the third largest dollar percentage of active contracts. DRR primarily contracts for services associated with assisting the FDIC in preparing for possible bank failures, resolving failed institutions, and managing receivership assets through disposition following failures.



## EVALUATION RESULTS

### The FDIC Has Established Contract Rationalization Mechanisms

The FDIC has established informal processes to evaluate new procurement requests for potential duplication and existing contracts for continuing need. The FDIC relies on the knowledge of its two ASB Associate Directors as the primary mechanism to evaluate whether new procurement requests could be met by active contracts and whether there is a continuing need for existing contracts. ASB management also meets on a regular basis to review workload status, including pre- and post-award contract activity. ASB also communicates with the program offices and

<sup>2</sup> The FDIC division or office sponsoring and/or holding ownership of products leased or bought, or services performed.

uses NFE reports to make procurement consolidation and elimination decisions. Nonetheless, such reliance on a limited number of individuals can present continuity risks in the event that the individuals separate from the Corporation.

### Evaluating New Procurement Requests

The FDIC recognizes the need for strong planning during the procurement of goods and services. The APM discusses the benefits of early communication between the program office and ASB during acquisition planning efforts. The APM, among other things, states that early communication allows ASB to identify upcoming requirements and plan how to meet them, work with program offices to finalize statements of work, and combine duplicative requirements for similar services.

When initial requests for new contract work are submitted to ASB, the Associate Directors make an assessment based on first-hand knowledge and consultation with the program offices as to whether the requests can be fulfilled using existing contracts. For example, the FDIC used its In-bound Call Center contract, which exists to provide resources for the FDIC Central Call Center, during Hurricane Katrina. Rather than awarding a new contract, the FDIC was able to use the existing In-bound Call Center contract to establish a call center for Gulf Coast residents because the services needed were within the scope of that contract. The FDIC also responded to a request for benchmarking services from the Division of Finance by expanding the scope of an existing DRR nationwide benchmarking services contract.

### Determining Continuing Need

We discussed with ASB management the mechanisms they have in place to determine the continuing need for contracts. ASB officials indicated that ASB staff meet on a regular basis to review and discuss workload status and the continuing need for active contracts using the monthly Management Data Report. The monthly Management Data Report provides information regarding outstanding requisitions and contracts awarded by ASB.

ASB officials indicated that they also rely on continual input from the program offices to assess whether there is a continuing need for a contract. Specifically, once a contract has been awarded, the Associate Director and program officials meet on a regular basis to discuss the program offices' future contracting needs. If the work will be completed by the expiration date of the contract, the contract will be allowed to expire. If there are future needs for the contract, ASB will determine whether the contract should be extended or recompleted. This information is then compiled in a spreadsheet and sorted by contract expiration date. If different program offices have contracts involving similar services expiring in the same general period, the Associate Director will discuss with the program offices involved whether the requirements can be combined into one contract.

We discussed with ASB officials the risks associated with allowing dormant contracts and task orders to remain active in NFE once contract work has been completed or the contract is no longer needed. ASB officials responded that risks could include an improper payment made against a dormant contract or outstanding balances due to the FDIC or a contractor associated

with a dormant contract. ASB officials indicated there are also safeguards in place that should address risks associated with dormant contracts, such as (1) the contract specialist and OM review the entire invoice before it is approved or rejected and processed for payment to ensure it involves an active contract and (2) the contract closeout process involves a reconciliation and verification that both parties to the contract have fulfilled their contract obligations and there are no open issues or responsibilities remaining. We did not test the safeguards related to the close-out process as part of our evaluation.

We confirmed with a procurement services consultant<sup>3</sup> that most agencies rely on the knowledge of acquisition staff when evaluating new procurement requests for duplication and determining any continuing need for existing contracts. The procurement consultant indicated that evaluating contracts for duplication and continuing need is a legitimate concern for most agencies, especially agencies with a distributed, or non-centralized, contracting environment. Some agencies address this issue by having Contracting Officers specialize in separate areas. The procurement consultant was not aware of any sophisticated contract management system in the acquisition industry to identify duplicate requirements.

In that regard, DOA is developing a new automated procurement system (APS) which it plans to implement by May 2008. ASB representatives indicated that the APS system will include query capabilities and ad-hoc reporting capabilities that will assist contracting officers with identifying duplicative contracts. DOA provided us with the APS requirements traceability matrix, and we confirmed the matrix shows that there are a number of system requirements associated with query capability and reporting. In addition, ASB officials advised us that they intend to provide training to users regarding the manner in which contracts are described in APS data fields to take full advantage of the system's search and reporting capabilities.

### **Contract Rationalization Mechanisms Appear to Be Working for DRR Contracts**

To test the FDIC's mechanisms for avoiding contract duplication and assessing continuing need, we evaluated existing DRR contracts. We judgmentally selected 39 of 61 contracts with a total value of \$62.2 million.<sup>4</sup> Our evaluation of the statements of work related to the 39 contracts showed that these contracts were generally not duplicative of other corporate contracts and addressed a continuing need of the Corporation.

During our review, we also learned that DRR has drafted a Long-Term Strategic Plan, dated January 2007, which includes a contracting goal to establish a comprehensive contracting strategy with objectives to (1) Establish a DRR program to ensure contracts are in place to maintain readiness and (2) Review DRR contracting management policy and make revisions as necessary. Table 1 below presents relevant excerpts from the Plan.

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<sup>3</sup> CACI Dynamic Systems, Inc.

<sup>4</sup> We also evaluated active contracts for which the FDIC had not incurred any billings or costs as of the date of our evaluation. We found that these contracts were primarily contingency contracts or active contracts in which the contractor had not provided services to the FDIC; thus, we did not perform additional evaluation work. The 39 contracts in our sample represent 31 stand-alone contracts and 8 task orders from the Purchase Order Summary Report dated 04/02/2007.

**Table 1: Excerpts from DRR’s Long-Term Strategic Plan**

<b>Deliverable</b>	<b>Estimated Target Date</b>
• Reviewing all DRR contracts and determining if additional contracts are needed to maintain readiness.	September 2007
• Defining short- and long-term contracting priorities.	October 2007
• Establishing a process for continuous review of contracting needs.	March 2008

Source: DRR Long-Term Strategic Plan

This plan should provide a sound mechanism for assessing existing and planned contracts for duplication and continuing need.

### **Other Matters**

We identified two recurring system-related issues that may hinder ASB’s ability to evaluate contracts for continuing need or duplication. First, contracting activity reports from NFE’s procurement module continue to contain inaccuracies. Second, important contract documents associated with the DRR contracts in our sample were missing from CEFile, the FDIC’s official contracting file repository. We, DOA’s Management Services Staff, and DRR Internal Review have previously reported and/or made recommendations on both issues, and ASB has reported that sufficient corrective actions have been taken to close most of the recommendations. Finally, the contract management system (i.e., contracting activity reports) and CEFile were identified as non-material or second-tier issues—areas where improvements can be made—as a result of the Corporation’s 2006 assurance statement process.<sup>5</sup> Nevertheless, the issues to some extent had not been resolved at the time we conducted our evaluation. A brief discussion regarding both issues follows.

#### NFE Reporting

In a prior evaluation report dated September 2006,<sup>6</sup> the OIG recommended that DOA work with DOF and DIT to promptly correct inaccuracies in the Alert Report and Purchase Order Summary Report and resume distribution of corrected informational reports to Contracting Officers and Contract Specialists. According to the Internal Risk Information System (IRIS),<sup>7</sup> DOA, DOF and DIT worked together to identify needed reporting query changes necessary to improve

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<sup>5</sup> Each year, as required by the Federal Managers Financial Integrity Act, the Chairman must submit to the President, OMB, and Congress a statement on the adequacy of internal and management/financial systems controls at the FDIC. The statement is included in the FDIC’s Annual Performance and Accountability Report (Annual Report). As part of the process leading to the 2006 assurance statement, managers were encouraged to identify non-material challenges (second-tier issues).

<sup>6</sup> *FDIC’s Contract Administration*, (Report No. 06-026), dated September 2006.

<sup>7</sup> The Internal Risk Information System (IRIS) is the official FDIC tracking system for all GAO and OIG audits and reviews. IRIS is used to track audit findings/conditions, recommendations, and corrective actions/milestones. Divisions/Offices can also use IRIS to track results of their internal control reviews (ICRs), visitations, internal reviews, management control reviews, and other activities related to managing risks.

reporting accuracies and closed the recommendation. However, based on our analysis of NFE reports, we noted that deficiencies in the Purchase Order Summary Report persist. We found instances where the department identification, oversight manager's division, and the responsible oversight manager fields in the report were not always accurate. The DRR Internal Review Unit found similar issues when it performed its review in April 2007. According to the DRR internal review report, the Purchase Order Summary Report typically contains incomplete and inaccurate data that requires manual changes in order to identify all DRR contracts and task orders. During our review, we confirmed with DRR staff that NFE reports were still requiring significant manual intervention to compile a complete and accurate listing of DRR contracts. DRR is currently working with DOA and OMs to correct the data quality issues. Although we are not making a recommendation, it is important that these issues be resolved to facilitate effective contract administration.

### Missing CEFile Data

We also found that statements of work for 17 of the 39 DRR contracts that we selected for review were not entered into CEFile, although the two responsible contracting officers were able to provide us with hard copies. CEFile is the FDIC's official electronic contract file of record and its use is required by all acquisition personnel in the Headquarters and Regional Contracting Offices. CEFile is a Web-based template utility on the FDICnet used to create official purchase orders and contract files and to electronically organize and store contractual documents in the FDIC Digital Library.<sup>8</sup> The CEFile should document the basis for the acquisition and the award, the assignment of contract administration, and any subsequent actions taken by ASB. ASB issued interim Acquisition Policy Number 2004-05, which states that it is the responsibility of both the contract specialist and the oversight manager to ensure that their CEFile is current, accurate, and complete.

As stated in Acquisition Policy Number 2004-05, the CEFile must be sufficient to constitute a complete history of the transaction for the purpose of (a) providing a complete background as a basis for informed decisions at each step in the acquisition process; (b) supporting actions taken; (c) providing information for reviews and investigations; and (d) furnishing essential facts in the event of litigation or congressional inquiries.

We discussed this issue with DOA officials, and they indicated there is a lack of available administrative support to assist the two contracting officers with updating CEFile for DRR contracts. Further, these officials told us they have taken a number of steps to ensure that CEFile has been updated and they maintained that the instances we found were isolated to DRR contract files.

In our previously referenced report (Report No. 06-026, dated September 2006), we made several recommendations to address findings related to CEFile. Table 2 on the following page presents the status of these recommendations.

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<sup>8</sup> The FDIC Digital Library (FDL) is an electronic repository created for the storage and management of FDIC electronic documents.

**Table 2: Status of Prior Recommendations Related to CEFile**

<b>Rec. #</b>	<b>Recommendations</b>	<b>Corrective Actions Taken</b>	<b>Status</b>
4	Reiterate to all acquisition personnel, including OMs, the requirement to use CEFile to record contract documentation and events.	ASB issued a memo dated 10/18/06 to FDIC contracting officers and oversight managers reminding these officials of the requirement to maintain contract file documentation in CEFile. ASB also issued a revised Letter of Oversight Manager Confirmation (FDIC 3700/22 (10-06)).	Completed
5	Issue guidance to Contract Specialists and OMs that lists specific contracting documents and contracting events that should be recorded in CEFile and standardizes the organization and location of required documents within CEFile.	On December 26, 2006, the Assistant Director, ASB, sent a memorandum to all FDIC contracting officers and oversight managers. The memorandum provided updated guidance for standardizing the organization and location of required documents within CEFile.	Completed
6	Establish an internal quality review program or process for routinely monitoring CEFile to ensure completeness of individual contract file contents.	ASB sent an e-mail dated December 28, 2006 to remind ASB's section chiefs that a quarterly review was scheduled for January 2007 and that CEFile will be reviewed to ensure documentation is present and that it adequately supports the actions taken (post-award review).	Completed

Source: OIG System for Tracking Audits and Reports

As shown, DOA has reported and we confirmed that corrective actions were taken to address all three recommendations. In addition, because our testing was limited to DRR contracts, we have no basis to know whether the deficiencies we noted extend to other divisions' contracts. As a result, in lieu of making a recommendation, we provided DOA a listing of those contracts lacking statements of work in CEFile, and DOA officials agreed to promptly upload the documents into the system.

## **CORPORATION COMMENTS AND OIG EVALUATION**

A draft of this report was provided to FDIC management for review and comment. The draft report did not include recommendations, and thus did not require a written response. DOA and DRR management advised us they would not be preparing written comments, but they did provide us with clarifications and editorial comments that we have incorporated in this final report, where appropriate.

## OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess whether the FDIC has mechanisms in place to periodically evaluate the continuing need for contracts and determine whether there are corporate contracts that can be eliminated. To accomplish our objective, we conducted interviews with DOA management to understand the mechanisms used by contracting officials to evaluate the continuing need for contracts. We focused our review on procurement actions in DRR because DOA has consolidated many of the contracts within DOA and DIT. We judgmentally selected and reviewed statements of work from 39 DRR contracts to determine if contracts were duplicative, overlapped, or could possibly be eliminated.

### Evaluation Methodology

To accomplish our objectives, we did the following:

- Obtained contract listings from NFE and verified the accuracy of these listings through discussions with DOA officials.
- Met with DOA to identify mechanisms used by contracting officials to evaluate the continuing need for contracts.
- Stratified the contract listing by division and met with DRR officials to gain an understanding of the status of each DRR contract and whether the contract was active.
- Judgmentally selected 39 DRR contracts whose awarded contract value totaled \$62.2 million and which represented approximately 83 percent of the value of total contracts and task orders outstanding. We evaluated individual contract statements of work, scope of effort, and contract terms to identify contracts that may be duplicative or no longer needed. These consisted of 31 stand-alone contracts and 8 task orders from the Purchase Order Summary Report dated April 2, 2007.
- Reviewed past FDIC OIG and GAO reports relevant to our scope and objective.
- Reviewed FDIC APM policies applicable to our objective.
- Conferred with a procurement services consultant for best practices information in the area of contract duplication and overlap.
- Obtained and reviewed the draft DRR Contracting Plan and Long-Term Strategic Plan.
- Reviewed contracts/requisitions with limited or no activity to determine if these procurement actions were still needed or could be eliminated.

We performed our evaluation from April 2007 through August 2007, in accordance with the *Quality Standards for Inspections*.