Office of Inspector General

The FDIC's Purchase and Deployment of the FDIC Acquisition Management System

January 2024 EVAL-24-04

Evaluation Report

Audits, Evaluations, and Cyber

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Office of Inspector General

NOTICE

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

The FDIC's Purchase and Deployment of the FDIC Acquisition Management System

In December 2020, the Federal Deposit Insurance Corporation (FDIC) entered into an agreement to purchase an enterprise-wide acquisition management system. In June 2022, the FDIC went live with the system. However, the FDIC was unsuccessful in deploying the new system and abandoned it within 5 months. As a result, the FDIC incurred contract and staff labor-hour costs of nearly $10 million and had to revert to its legacy acquisition systems and manual reporting of some acquisition activities. The FDIC Office of Inspector General (OIG) is making a recommendation regarding the cost of nearly $10 million, which is considered funds that could be put to better use. This amount would be realized over time as the FDIC achieves better outcomes when implementing future change initiatives.

The FDIC procures goods and services from contractors in support of its mission primarily using two electronic systems. In 2019, the FDIC initiated its acquisition planning process to purchase a new automated acquisition management system to replace these two existing systems. This initiative was to modernize its legacy acquisition systems and address contract management and internal control weaknesses identified by the OIG and the Government Accountability Office (GAO). The initiative represented a significant organizational change for the FDIC. The new acquisition management system was intended to enhance the acquisition capabilities of all Divisions and Offices and provide increased reporting transparency regarding the FDIC's over 400 contracting actions per year. During the period from 2018 through 2022, the FDIC awarded an average of $587 million per year.

Change management is the process of guiding organizational change from the earliest stages of conception and preparation for the change through implementation and sustainment of the change. A change management process is essential to the success of enterprise-wide initiatives that implement significant changes. Specifically, a change management process allows an organization to maximize employee adoption and minimize employee resistance to a significant change, by ensuring open communication and engaging employees from the conception of the change throughout the change process.

When making significant organizational changes that impact multiple Divisions, the FDIC needs to implement effective change management strategies. With regard to purchasing and implementing an acquisition management system, an effective change management strategy would have improved the FDIC's potential for success in selecting and implementing a new system. Successful deployment could have also enhanced operational effectiveness and efficiency for contract oversight management, contract documentation, and contract reporting capabilities.

The objective of our evaluation was to review the primary factors that led to the FDIC's unsuccessful deployment of the FDIC Acquisition Management System (FAMS) and identify improvements for implementing future significant organizational changes.

Results

The FDIC's deployment of FAMS was unsuccessful because the FDIC did not employ an effective change management process. The FDIC did not employ an effective change management process because its policies and procedures did not require it. In addition, FDIC managers lacked awareness and training on when and how to implement a change management process.

If the FDIC had developed and implemented an effective change management process from conception of the change throughout the entire change process, then FDIC managers and employees would have had the opportunity to:

- Obtain a greater understanding of, and acceptance for, the changes;
- Engage more proactively in the process to develop and implement a new system;
- Implement the desired technological, structural, and procedural changes to ensure the FDIC's performance and achievement of its mission and goals; and
- Ultimately adopt and successfully implement the FDIC's new acquisition management system.

Recommendations

We made three recommendations to the FDIC's Chief Operating Officer (COO) and Chief Financial Officer (CFO) to incorporate change management processes into the FDIC's policies and procedures and internal controls, provide training on the change management process, and implement a change management strategy and plan for the acquisition of a new acquisition management system. We also identified $9.9 million of funds to be put to better use.

The FDIC concurred with all of our recommendations and the funds to be put to better use. The FDIC plans to complete corrective actions by December 31, 2024.

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In December 2020, the Federal Deposit Insurance Corporation (FDIC) awarded a Basic Ordering Agreement (BOA) for an enterprise-wide acquisition management system.[1] In March 2021, the FDIC issued its first Task Order on the BOA, creating a formal contract with the selected service provider. In June 2022, the FDIC went live with the system. However, the FDIC was unsuccessful in deploying the new system and abandoned it within 5 months. As a result, the FDIC incurred contract and labor-hour costs of nearly $10 million and had to revert to its legacy acquisition systems and manual reporting of some acquisition activities. The FDIC Office of Inspector General (OIG) is making a recommendation regarding the cost of nearly $10 million that funds be put to better use.[2]

The FDIC's purchase of the new acquisition management system, that it named FDIC Acquisition Management System (FAMS), represented a significant, organization-wide change. According to FDIC personnel, FAMS implementation and deployment was significant due to its breadth, scope, and impact to the FDIC. The application was a modern, full-lifecycle acquisition management system that was intended to enhance the acquisition capabilities of all Divisions and Offices and provide increased reporting transparency. Further, FAMS was part of an FDIC initiative to modernize its information technology (IT) infrastructure and retire outdated legacy systems.

According to FDIC officials and its internal review, [redacted]

[redacted]

We found that the FDIC's deployment of FAMS was unsuccessful because the FDIC did not develop nor implement an effective change management process that could have addressed the failings noted above. The FDIC did not develop an effective change management process because its policies and procedures did not require it. In addition,

[1] According to the *FDIC Acquisition Procedures, Guidance, and Information* (PGI) document (January 2023), a BOA is not a contract. A BOA is a written understanding negotiated between the FDIC and a contractor for future delivery of unspecified quantities of goods or services. A BOA becomes a binding contract when a task order is issued.
[2] For further information on the calculation of the contract and labor-hour costs pertaining to our recommendation that funds be put to better use, refer to Appendix 2.

FDIC managers lacked awareness and training on when and how to implement a change management process.

When making significant organizational changes that impact multiple Divisions, the FDIC needs to implement effective change management strategies. An effective change management process that is implemented from the conception of the change and followed throughout the entire change process would improve the initiative's potential for success. An effective change management process could also improve the FDIC's potential to maximize employee adoption and minimize employee resistance and fatigue due to the change.

According to the FDIC, it selected FAMS because it represented the best value to the Agency "to obtain a full life-cycle acquisition management solution (low-code, with minimal custom development) that offers the full functionality required to plan, prepare, award, and administer contracts."[3] The FDIC also intended for FAMS to address some outstanding FDIC OIG audit and evaluation recommendations related to contract oversight management. Since 2017, the FDIC OIG has identified contract management as a Top Management and Performance Challenge and issued 3 reports and 39 recommendations related to the Agency's continuing need to strengthen contract oversight management and monitoring activities.[4] Similarly, the Government Accountability Office (GAO) reported internal control deficiencies in the FDIC's acquisition and invoice payment processes in 2021, 2022, and 2023. As of January 2024, 18 percent (7 of 39 recommendations) of the OIG's audit and evaluation recommendations remained unaddressed. Ultimately, the intended enhanced controls of FAMS were not realized and the FDIC reverted to its legacy acquisition management systems.[5]

The objective of our evaluation was to review the primary factors that led to the FDIC's unsuccessful deployment of FAMS and identify improvements for implementing future significant organizational changes. We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation* (December 2020). Appendix 1 includes additional details on our objective, scope, and methodology.

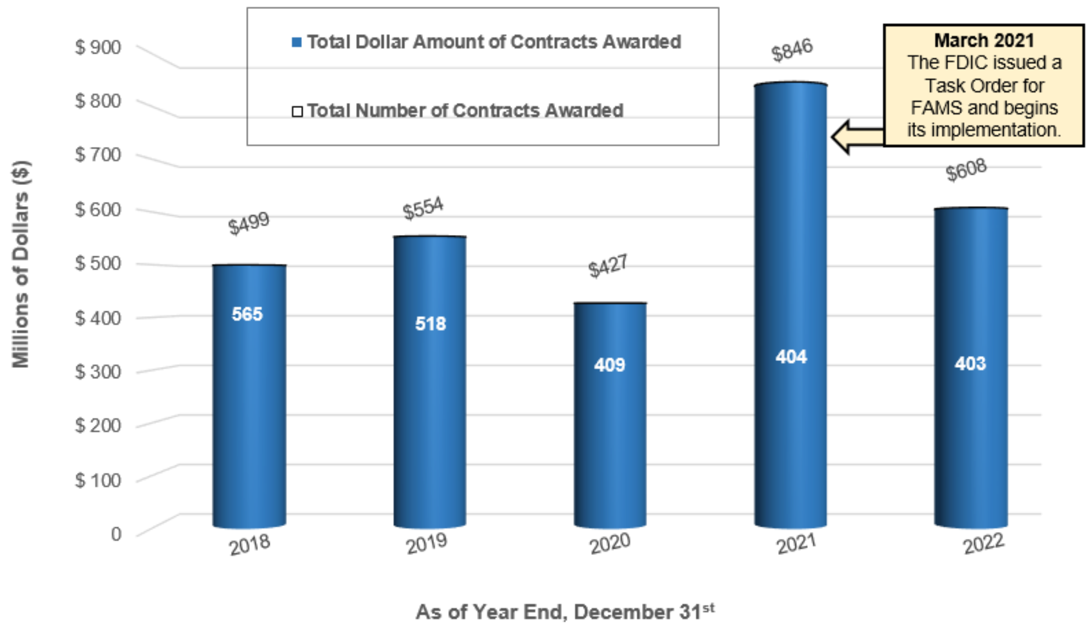
BACKGROUND

The FDIC purchases goods and services from contractors in support of its mission. The FDIC Division of Administration (DOA) awarded 2,299 contracts valued at $2.93 billion over the 5-year period 2018−2022, averaging $587 million annually. Figure 1 shows the

[3] The FDIC's *Selection Recommendation Report* (December 2020). According to Erbis, low-code is a software development method that uses visual tools to create programs by piecing together pre-built functions and modules.
[4] Most recently, in February 2023, the FDIC OIG continued to identify contract management within the *FDIC OIG Top Management and Performance Challenges* report.
[5] For our report titled *Contract Oversight Management* (EVAL-20-001) (October 2019), there was one open recommendation regarding the FDIC providing enhanced contract portfolio reports to FDIC executives, senior management, and the Board of Directors.

amount and number of FDIC contract awards for goods and services for each year from 2018 through 2022.

Figure 1: FDIC Contract Amounts by Year (2018-2022)



Source: OIG analysis of FDIC Annual Reports and Purchase Order Summary Reports (2018 – 2022). The data excludes BOAs which represent written agreements to purchase goods and services in the future.
Note: In 2021, the FDIC's annual total amount of contract awards increased 98 percent (from $427 million to $846 million) due, in part, to the re-issuance of long-term ongoing FDIC support services and employee benefit contracts.

The FDIC's acquisition process can start in any FDIC Division or Office that intends to acquire goods or services. The Division or Office that initiates the acquisition process serves as the Program Office in carrying out FDIC acquisition policies and procedures. The DOA's Acquisition Services Branch (ASB) and the FDIC Legal Division provide support for all contract actions. Contract actions over $20 million require approval by the FDIC Board of Directors. Because FAMS was intended to serve as the FDIC's acquisition management system of record, its implementation affected all FDIC Divisions and Offices and ultimately Board oversight.

FDIC Acquisition Process

At the time FAMS was purchased, the FDIC acquisition policies and procedures were contained within the *FDIC Acquisition Policy Manual* (August 2008) (APM) and the PGI document.[6] The FDIC's acquisition process, as presented in Figure 2, is divided into four phases: (1) procurement planning, (2) solicitation and award, (3) contract management, and (4) closeout award.

Figure 2: The Four Phases of the FDIC's Acquisition Process

Source: OIG analysis of the APM and PGI document.

Roles Within the FDIC Acquisition Process

All FDIC Divisions and Offices rely on the ASB and its system(s) to acquire goods and services. However, the Division of Resolutions and Receiverships (DRR), Chief Information Officer Organization (CIOO), and DOA purchase the most goods and services.[7] The key Divisions and Offices in the FDIC acquisition process include:

- **Program Office.** A Program Office is any FDIC Division or Office that is responsible for identifying contracting requirements, conducting market research, and working closely with the ASB Contracting Officer to initiate the acquisition process.[8] A Program Office is also responsible for authorizing funds to cover contract awards, nominating an Oversight Manager and Technical Monitor(s), and managing and overseeing the contract.[9]

  For the FAMS initiative, the CIOO acted as the Program Office to purchase and implement the system that would be used by all FDIC Divisions and Offices.[10]

[6] The FDIC does not use appropriated funds and is not subject to the Federal Acquisition Regulation. As a result, the FDIC established its own unique acquisition policies and procedures – separate and distinct from the Federal Acquisition Regulation.
[7] According to the FDIC, DRR promotes confidence in the financial system by paying insured depositors quickly and effectively managing failed bank receiverships.
[8] According to the APM and PGI document, the Contracting Officer is responsible for ensuring the performance of all actions necessary for efficient and effective contracting, ensuring compliance with the terms of contracts, and protecting the interests of the FDIC in all of its contractual relationships.
[9] According to the APM and PGI document, the Oversight Manager monitors the contractor's performance under the contract, acts as a technical liaison between the FDIC and the contractor, and ensures technical compliance with the contract by all parties. The Technical Monitor is responsible for assisting the Oversight Manager in monitoring and evaluating contractor performance under an FDIC contract.
[10] According to the FDIC's online resources, the CIOO provides leadership, vision, definition, and oversight of the FDIC information management and technology program, including information systems, information security and privacy programs, data/information management, and governance. In addition, the CIOO is responsible for formulating the overall FDIC IT strategic vision in partnership with business leaders to establish enterprise goals and strategies aligned to objectives and ensuring an enterprise approach is taken to support current and long-term business priorities.

- **Division of Administration.** The DOA oversees the ASB, which is responsible for the overall management of the FDIC's acquisition activities. The ASB assigns Contracting Officers to work closely with the Program Office on each acquisition. The assigned Contracting Officer is the authorized agent to engage contractors and has sole authority to solicit proposals and negotiate, award, administer, modify, or terminate contracts on behalf of the FDIC. In addition, based on the Program Office's nomination, the Contracting Officer appoints the Oversight Manager and Technical Monitor(s).

- **Division of Finance.** The Division of Finance (DOF) maintains the Disbursement Operations Section, which is responsible for overseeing the proper processing of invoices. DOF is responsible for overseeing the FDIC's New Financial Environment (NFE) application, which facilitates the Agency's financial management and reporting and processes vendor payments.

- **Legal Division.** The Legal Division is responsible for interpreting laws and regulations, providing legal advice to FDIC Divisions and Offices, identifying and assessing legal risks to the FDIC, and representing the FDIC in legal matters. The Legal Division provides legal guidance to FDIC personnel concerning Agency acquisition policies and procedures.

Roles Within the FAMS Implementation Process

The FDIC established a Project Governance Charter for FAMS that defined the roles and responsibilities of key participants, operating procedures, and a reporting structure.[11] Some of the key roles the FDIC established in the charter included the following:

- **Steering Committee.** The FDIC formed a Steering Committee comprised of Executive Managers representing the CIOO, DOA, DRR, and Office of Risk Management and Internal Controls (ORMIC). The Steering Committee was responsible for overseeing the project scope, schedule, and degree of customization. In addition, the committee was responsible for obtaining feedback from all stakeholders, advising on risk management strategies, and ensuring project management and quality assurance. Further, the Project Governance Charter for FAMS designated the Steering Committee as the Champion for Change Management, and final arbitrator of decisions.

- **Product Owner.** The FDIC designated a CIOO Product Owner responsible for, among other things, conveying the FDIC's vision for FAMS to the Project Team. In addition, the Product Owner was responsible for, in conjunction with the Project Manager, reporting to the Steering Committee. Overall, the Product

[11] *FDIC Acquisition Management System Project Governance Charter* (April 2021).

Owner was responsible for overseeing the Project Team and its technical implementation of FAMS. The Product Owner was authorized to review and approve changes that did not affect project scope or schedule.

- **Project Manager.** The FDIC designated a CIOO Project Manager. The Project Manager was responsible for coordinating with, and reporting to, the Steering Committee. In addition, the Project Manager was responsible for overseeing CIOO and contractor activities and deliverables. Further, the Project Manager was designated as a Technical Monitor and assisted the Oversight Manager.[12] The Project Manager was authorized to review and approve changes that did not affect project scope or schedule.

- **Program Manager.** The FDIC designated an ASB Program Manager. The Program Manager was responsible for conveying the ASB's vision and business requirements for FAMS to the Project Team. In addition, the Program Manager was responsible for providing feedback to the Product Owner and Project Team, supporting the initiative's activities from the ASB's perspective, and reporting back to DOA managers and senior leaders. The Program Manager was not assigned decision-making authority.

- **Project Team.** The FDIC designated a Project Team with cross-divisional and contractor representation. The Project Team was led by the CIOO Product Owner, CIOO Project Manager, and ASB Program Manager. The Project Team was assigned responsibility for implementing the technical aspects of configuring, integrating, populating (data migration), testing, and deploying FAMS. In addition, the Project Team was responsible for ensuring appropriate communications to the Steering Committee and system users.

- **Risk Manager.** The FDIC designated a project Risk Manager from ORMIC's Process Improvement Section.[13] The Risk Manager was responsible for identifying risks, overseeing and coordinating project risk management activities, and reporting to the Steering Committee.

As detailed above, the Project Governance Charter assigned decision-making authority and established rules for escalating issues or changes to appropriate stakeholders for resolution. The Steering Committee was assigned overall decision-making authority on changes that impacted the project's scope and schedule. The CIOO Product Owner and CIOO Project Manager were authorized to make decisions on changes that did not

[12] According to the *FDIC Acquisition Management System Project Governance Charter* (April 2021), the Oversight Manager was also an assigned member of the Project Team.
[13] According to the FDIC's online resources, the Process Improvement Section is an interdisciplinary team of problem-solving consultants. They bring knowledge of the most current best practices to the FDIC's work. In addition, the section helps groups throughout the FDIC to identify and manage risks, implement strategic initiatives, and recover troubled projects.

impact the project's scope and schedule. The charter did not assign a decision-making role for the ASB Program Manager.

FDIC Performance Goals

In February 2019, the FDIC established a performance goal for the CIOO to modernize its IT infrastructure, which included the need to modernize the FDIC's legacy acquisition systems – Automated Procurement System (APS) and Contract Electronic File (CEFile). In February 2020, the FDIC established a performance goal to develop and implement a strategic planning framework to improve planning for the IT acquisition lifecycle. The FDIC assigned the CIOO, DOA, and Legal as the Divisions responsible for achieving this goal. The FDIC Performance Goal (FPG) was intended to have these Divisions work together to develop solutions that promoted competition, reduced costs, drove acquisition agility, and optimized vendor engagement.

In December 2020, the FDIC selected FAMS as its new acquisition management system, and entered into a BOA to purchase FAMS.[14] In February 2021, the FDIC established a performance goal to begin the implementation of FAMS. In March 2022, the FDIC established a performance goal to "complete approved enhancements to and fully implement the new FDIC Acquisition Management System."

The FAMS Contract

In December 2020, the FDIC awarded a $12.1 million BOA for an enterprise-wide, full life-cycle, acquisition management system.[15] The BOA also required the contractor to provide employee resources such as training, user guides, and help desk support. The BOA had a base period of 1 year (January 2021 to January 2022), and four 1-year option periods (January 2022 to January 2026), resulting in a 5-year contract if all option years were exercised. Subsequent modifications to the contract increased the total award value to $13.8 million, provided for additional employee training and support, and extended the period of performance.

From March 2021 to June 2022, the FDIC worked with the contractor to configure, integrate, populate, test, and implement FAMS. During this time, the contractor also provided training to FDIC employees on how to use the acquisition management system based on their assigned roles.[16] In June 2022, FAMS went live and all FDIC Divisions

[14] *Selection Recommendation Report FDIC Acquisition Management System Basic Ordering Agreement for the Division of Information Technology* (December 2020).
[15] The December 2020 BOA was issued with an effective date of January 2021. In March 2021, the FDIC issued its first Task Order, or contractual agreement, under the BOA.
[16] According to the contract's Statement of Work, the contractor was to provide training plans, commercial off-the-shelf training material, FDIC-tailored training materials, web-based training materials and access, continually updated training reports, and certificate tracking. The contractor was also to provide FDIC-tailored training materials, such as user guides, job aids, cheat sheets, and training exercises.

and Offices were required to use FAMS for all acquisitions across the FDIC. From June 2022 through October 2022, the contractor provided user support to FDIC employees to assist with processing acquisitions.

During this time, the ASB processed 40 percent (162 of 403) of contract awards within FAMS. The percentage of contracts processed aligned with the percentage of time FAMS was in use during the year. However, according to the ASB's Deputy Director, the ASB required extensive assistance from the FAMS help desk to complete actions, and the majority of the actions processed in FAMS were low-value, basic contracts that were simple to process.

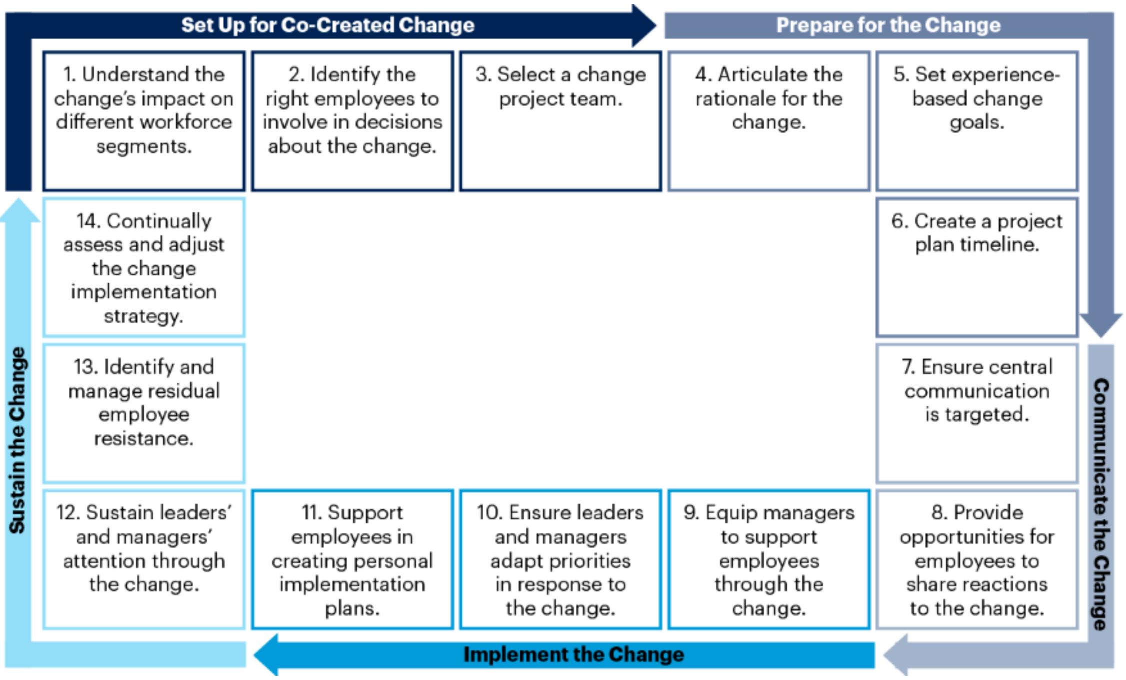
In October 2022, the FDIC directed staff to stop using FAMS due to usability challenges that made it difficult to timely meet acquisition demands and operational needs. In its analysis of FAMS performance, the FDIC cited core functionality concerns involving the lack of automation, inadequate reporting, unnecessary process constraints, integration issues, and poor user experience. In addition, the FDIC informed staff that it would revert to its legacy acquisition systems as the Agency evaluated its options and implemented a more long-term and comprehensive solution. In February 2023, after the base period and the first option year ended, the FDIC did not extend the contract and had expended $6.7 million in contract costs for FAMS.

Change Management Process

According to Gartner, best practices show that implementing an effective change management process increases the success of an entity's change initiative.[17] For purposes of this report, change management is the process of guiding organizational change from the earliest stages of conception and preparation through implementation and, finally, to resolution. A change management process applies a structure and set of tools for leading people to achieve a desired outcome or change. According to Gartner, organizations can structure their change management process around the five stages of implementing planned changes. The five stages allow organizations to prepare for and implement change initiatives by adopting an inclusive approach that involves employees in creating and implementing change strategies. The five stages also enable leaders and managers to openly discuss changes and facilitate employee understanding, engagement, and acceptance. Figure 3 presents the five stages of a change management process.

[17] GARTNER is the registered trademark and service mark of Gartner Inc., and/or its affiliates in the U.S. and/or internationally and has been used herein with permission. All rights reserved. Gartner is an international consulting firm specializing in best practices related to enhancing organizational performance. The FDIC recognizes Gartner as a trusted resource for best practices.

Figure 3: Five Stages of a Change Management Process



Source: Gartner article *Ignition Guide to Successful Change Management* (May 2022).

Prior FDIC OIG and GAO Reports

Since 2017, the OIG has identified Contract Management as a Top Management and Performance Challenge facing the FDIC.[18] For example, in February 2023, the Top Management and Performance Challenges report highlighted the FDIC's continuing need to strengthen contract oversight. Over the last 4 years, the OIG has also conducted two evaluations and one review that identified weaknesses in the FDIC's contract management processes. Additionally, in 2021, 2022, and 2023, the GAO identified significant internal control deficiencies related to the FDIC's contracting processes.

Our OIG report, *Contract Oversight Management* (October 2019), assessed the FDIC's contract oversight management processes. We focused on the FDIC's oversight and monitoring of contracts using its contracting management information systems (APS and CEFile). We concluded that the FDIC needed to strengthen its contract oversight management by improving its contracting management information system and contract documentation. We made 12 recommendations in this report, one of which remains unimplemented by the FDIC. The unimplemented recommendation pertains to the FDIC enhancing its contract portfolio reports to FDIC executives, senior management, and the

[18] The FDIC OIG identified contract management within the *FDIC OIG Top Management and Performance Challenges* reports issued in February 2018, February 2019, February 2020, February 2021, February 2022, and February 2023.

Board of Directors. The FDIC planned to address this recommendation through the implementation of FAMS.

Our OIG report, *Critical Functions in FDIC Contracts* (March 2021), assessed whether a contractor performed Critical Functions and whether the FDIC retained sufficient management oversight of the contractor to maintain control of its mission and operations.[19] We found that the FDIC did not implement heightened contract monitoring activities, such as conducting periodic reviews and providing formal reports to the FDIC Board of Directors on an individual and aggregate basis. As a result, the FDIC could not be assured that it provided sufficient management oversight of contractors performing critical functions. Ultimately, we noted that if the FDIC did not manage this risk, the Agency may create inefficiencies through increased cost and decreased operational effectiveness. We made 13 recommendations in this report and 2 remain unimplemented by the FDIC. For the two unimplemented recommendations, the FDIC agreed to improve its oversight and reporting of critical functions. For these recommendations, the FDIC committed to provide reports regarding planned and awarded acquisitions of critical functions. These two recommendations could have been addressed by the FDIC's implementation of FAMS.

Lastly, our OIG report, *FDIC Oversight of a Telecommunications Contract* (March 2023), assessed whether the FDIC authorized and paid a contractor for services in accordance with its policies and procedures and its existing contractual agreement. We found that the FDIC did not establish an accountable organizational culture for compliance with FDIC acquisition policies and procedures. The FDIC also did not implement proper internal controls for the contract. As a result, the FDIC was subject to an unauthorized contractual commitment that cost the FDIC $4.2 million and a prolonged increase in operational, monetary, legal, and reputational risks. We made 14 recommendations in this report and 4 remain unimplemented by the FDIC.

From 2021 to 2023, the GAO found that the FDIC had a significant internal control deficiency within its contract oversight, documentation, and invoice review and payment processes.[20] As a result, the GAO concluded that the FDIC could not be reasonably assured that its internal controls over contract payments were operating effectively. Therefore, the FDIC incurred increased risks of improper payments and misstatements in its financial statements. According to the GAO, the FDIC had six open financial audit

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

[20] A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

recommendations intended to improve the FDIC's internal controls over financial reporting as well as to bring the FDIC into conformance with its own policies and *Standards for Internal Control in the Federal Government*.[21]

The FDIC's Internal Reviews on the FAMS Deployment

In December 2022, the FDIC's Legal Division and ORMIC performed a review of the acquisition and deployment of FAMS. They reported [redacted]

[redacted]

The review identified [redacted]; however, it did not make any recommendations.

In December 2022, the CIOO along with other Divisions and Offices conducted a retrospective review of the FDIC's acquisition and deployment of FAMS. This review identified the following weaknesses:

- Inadequate user acceptance testing and usability testing;[22]
- Inadequate stakeholder communication, collaboration, and consideration;
- Undue reliance on a one product solution;
- Failure to follow Agile implementation practices;
- Unclear assignment of roles and responsibilities and transfer of product ownership;
- Inadequate consideration of different architectures and product references;
- Undue emphasis on meeting the timelines established within the FPGs; and
- Absence of change management.

The CIOO identified short-, medium-, and long-term recommendations to improve future projects. The CIOO's recommendations focused on improving testing, implementing Agile methodologies, incorporating strategic goals and outcomes into FPGs, and building a change management practice.

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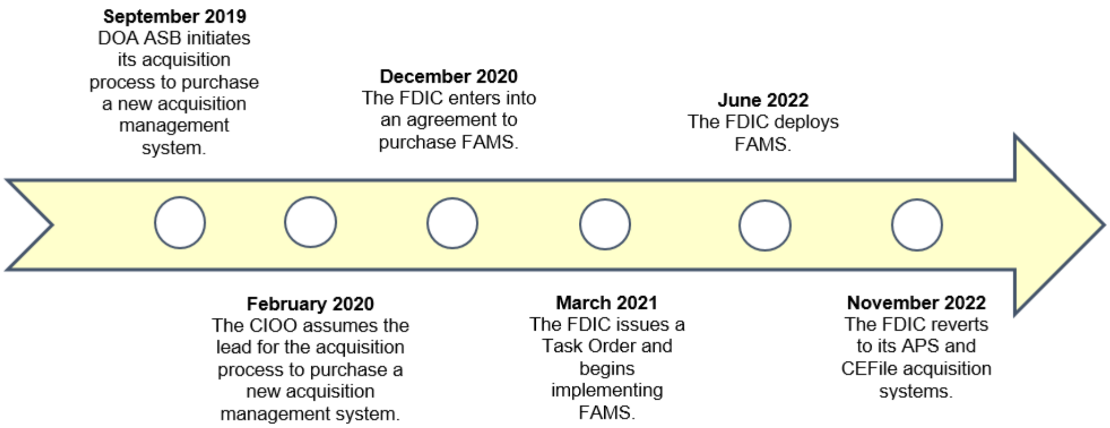
[21] GAO *Management Report: Continued Improvements Needed in FDIC's Internal Control over Contract Documentation and Payment-Review Processes* (May 2023).

[22] For the purpose of this report, we defined user acceptance testing as a step in the development process to verify and accept the software system before moving the application to the production environment. Usability testing is evaluating a product or service by testing it with representative users. Typically, during usability testing, participants will try to complete tasks while observers watch, listen, and takes notes. The goal is to identify any usability problems, collect qualitative and quantitative data, and determine the participants' satisfaction with the product.

Timeline of Significant Events

The FDIC's initiative to modernize and upgrade its acquisition systems represented a significant effort that spanned a 3-year time period. Figure 4 presents a timeline of significant events involving the purchase, implementation, and termination of FAMS.

Figure 4: Timeline of Significant Events



Source: OIG analysis of contract documentation and FDIC communications.

EVALUATION RESULTS

In June 2022, the FDIC went live with a new acquisition management system; however, the launch was unsuccessful, resulting in contract and labor-hour costs of nearly $10 million to the FDIC.[23] The OIG is making a recommendation regarding the cost of nearly $10 million representing funds to be put to better use. This amount would be realized over time as the FDIC achieves better outcomes when implementing future change initiatives. Appendix 2 provides details for this calculation. In November 2022, the FDIC reverted to its legacy acquisition system and manual reporting of some acquisition activities.

The deployment of FAMS was unsuccessful because the FDIC did not develop nor implement an effective change management process. A change management process is essential to the success of enterprise-wide initiatives that implement significant changes. Specifically, a change management process that is implemented from the conception of the change and followed throughout the entire change process allows an organization to maximize employee adoption and minimize employee resistance to a significant change. The FDIC did not develop nor implement an effective change

[23] Based on our analysis, these costs include indirect charges related to other contracts that the FDIC used to implement FAMS and charges to subsequently revert to its legacy APS and CEFile applications.

management process for the FAMS deployment because its policies and procedures did not require it to do so. In addition, managers lacked awareness and training on when and how to implement a change management process.

If the FDIC had developed and implemented an effective change management process from conception of the change throughout the entire change process, then FDIC managers and employees would have had the opportunity to:

- Obtain a greater understanding of, and acceptance for, the changes;
- Engage more proactively in the process to develop and implement a new system;
- Implement the desired technological, structural, and procedural changes to ensure the FDIC's performance and achievement of its mission and goals; and
- Ultimately adopt and successfully implement the FDIC's new acquisition management system.

In addition, the FDIC could have mitigated the weaknesses that were identified within its internal reviews of the unsuccessful implementation of FAMS. [redacted] The former COO did not intend to change product ownership. Rather, the former COO expected the responsible Divisions and Offices to work together to implement the system. However, the lack of a change management process to ensure effective co-created decisions and communications negated the former COO's intent.

According to the ASB, the unsuccessful deployment of FAMS delayed its ability to issue new contracts or modifications and caused the FDIC to revert to its legacy systems.

Lastly, the unsuccessful deployment of the new system delayed the FDIC's ability to implement planned corrective actions intended to address certain prior OIG and GAO recommendations.

Elements of a Change Management Process

When implementing a change initiative, such as implementing a new, organization-wide acquisition management system, Gartner states that an organization improves the potential for success by using a change management process. A change management process that is implemented from the conception of the change and followed throughout the entire change process allows organizations to maximize employee adoption and minimize employee resistance to the change. Within the change management process, Executive Managers collaborate with and engage the workforce as participants in making significant changes to the organization and its processes. The change management process also assists Executive Managers in identifying, involving, and communicating to key Divisions and Offices and employees impacted by the change. The process facilitates Executive Managers’ responses to employee concerns and identifies tools for Executive Managers to use in supporting the adoption and continuance of the change.

According to Gartner, a change management process should address the following stages in implementing the proposed change:

- **Setting up for co-created change**.[24] In setting up for co-created change, an organization should identify and understand the change’s impact on its Divisions and Offices. The organization should also identify the employees to be involved in collaborating with senior management on decisions about the change. Lastly, the organization should create a Change Management Team to draft and lead the change management strategy and plan.
- **Preparing for the change**. In preparing for the change, an organization should employ open communication strategies to build employee engagement and capabilities. For example, management can (1) support peer-to-peer interactions where employees are encouraged to share change insights horizontally, (2) address negative emotions openly where employees are allowed to share negative reactions to improve feelings of control, and (3) enable two-way conversations where employees are given questions to use in dialogs with their peers and their managers to help create an action plan for change. An organization should also explain the rationale for the change, establish change goals, and create a project plan timeline.
- **Communicating the change**. In communicating the change, an organization should create a communication strategy to strengthen employee knowledge and understanding of, and commitment to, the change initiative. When creating a communication strategy, management should use centralized and targeted communications and provide opportunities for employees to share reactions to the change.
- **Implementing the change**. In implementing the change, an organization should provide managers tools, such as training materials, talking points, and designated subject matter experts to support employees through the change. The organization should also ensure leaders adapt priorities in response to the change and provide employees support to implement the change.
- **Sustaining the change**. In sustaining the change, an organization should maintain leadership’s focus through the change. Organizational leadership should identify and manage resistance to the change and continually assess and adjust the change management strategy.

[24] According to Gartner, co-created change happens when a workforce is engaged as active participants in making and shaping change decisions. Engaging employees in the change process also ensures a level of transparency around how decisions are made.

The FDIC Did Not Employ an Effective Change Management Process

The FDIC did not employ an effective change management process throughout the course of the acquisition and implementation of FAMS. Although the implementation of FAMS represented a significant, organization-wide change, the FDIC took limited action to ensure that all stakeholder views were considered and that employees supported and adopted the change from conception and throughout the entire change process. While the FDIC developed and implemented system configuration and implementation plans for the technical aspects of implementing the system, it did not implement a change management process that considered the most significant stages of:

- Setting up for co-created change by considering the impact of implementing a new system on FDIC Divisions and Offices and creating a Change Management Team to build an inclusive and collaborative environment;
- Preparing for the system's implementation by employing open communication strategies to build employee engagement and capabilities;
- Communicating the change to impacted employees by using a comprehensive strategy that ensures centralized and targeted communications to build employee commitment;
- Implementing the change by giving managers the tools to support their staff; and
- Sustaining the change by recognizing and responding to users' concerns and identifying opportunities for further improvement.

Setting up for Co-created Change: The FDIC Did Not Identify and Understand the Impact on Its Divisions and Offices, Ensure Effective Collaboration Between Employees and Senior Management, and Form a Change Management Team

In setting up for a significant change, such as a new acquisition management system, the FDIC should identify and understand the system's impacts on Divisions and Offices and address stakeholder concerns, as appropriate. However, the FDIC did not involve all key stakeholders in purchasing and implementing FAMS. The FDIC also did not ensure that it understood the system's impact on all of its Divisions and Offices. Further, when one Office expressed concerns and issues, those concerns and issues were not effectively addressed. Lastly, the FDIC established a Steering Committee and Project Team to implement FAMS; however, the committee and team did not form a Change Management Team to implement change management and ensure effective collaboration on the new system.

Understanding the Impact on Divisions and Offices. The FDIC did not ensure that those leading the implementation of FAMS had an understanding of the new acquisition management system's impact on the Agency's Divisions and Offices. For example, the FDIC did not include the DOF Controller in acquisition planning or on the Steering Committee. The DOF Controller is responsible for the FDIC's financial system, the NFE.

The FDIC's NFE application is an enterprise-wide, integrated financial system that provides accounting, reporting, and management data to support the needs of the FDIC. This system was important to the success of the new acquisition management system because the FDIC wanted an automated and integrated real-time exchange of data between FAMS and NFE.[25] If the FDIC had used an effective change management process, it would have identified and understood the impact of FAMS on DOF and identified the Controller as an employee to be involved in collaborating with senior management on decisions about the system from the start.

The *FDIC Acquisition Management System Project Governance Charter* established an NFE Product Owner. The NFE Product Owner stated that the Agency did not understand its need to coordinate with DOF on the purchase and implementation of FAMS.[26] According to the NFE Product Owner, DOF did not participate in the acquisition process for FAMS and was not asked to provide input. While DOF was invited to some stakeholder meetings during the implementation process, DOF did not have the workload capacity to engage in the implementation process and meet the Project Team's schedule.

According to the Controller, DOF should have been involved when the initiative's initial requirements were being developed. As previously stated, DOF was not involved early enough in the process to ensure effective collaboration. Similarly, according to the Director of ORMIC, the NFE Team was not consulted when the FAMS project team established the development schedule, and the NFE Team already had a large upgrade planned, which limited the NFE Team's capacity to participate in the FAMS implementation process. From April 2021 to September 2021, the project Risk Manager identified NFE integration as a risk, but it was too late in the initiative's implementation process and after product selection. As a result, DOF was unable to accommodate the FDIC's goal of implementing a real-time exchange of data between FAMS and NFE and had to modify its existing integration processes to maintain its ability to process actions through batch processing.[27]

Ultimately, the FDIC did not include DOF early enough in the decision-making and acquisition processes to influence the acquisition strategy and product selection. When the FDIC did include DOF in the implementation process, DOF did not have the availability and capacity to meaningfully participate. Instead of accommodating DOF's scheduling and staffing limitations, the FDIC engaged NFE contractors directly, further

[25] According to the Statement of Work, the FDIC intended FAMS and NFE to broker transactions in real-time. For example, the FDIC wanted FAMS and NFE to receive requisition/commitments, perform validation checks, post obligations, finalize requests, record expenditures, transmit vendor records and other reference data, and maintain transaction logs and error reports.

[26] According to the *FDIC Acquisition Management System Project Governance Charter* (April 2021), the NFE Product Owner was assigned the responsibility of providing the FAMS Product Owner and Project Team expert knowledge of NFE processes. The NFE Product Owner was also responsible for providing timely expert knowledge of NFE integration requirements and configurations.

[27] Batch processing is the method that computers use to periodically complete high-volume, repetitive data jobs.

limiting DOF's ability to participate in the process and achieve the desired goal of real-time integration.

The FDIC also missed several opportunities to identify and understand the impact on its Divisions and Offices through various internal control points within its existing acquisition process. For example, the FDIC could have enhanced its knowledge and understanding of the system's impact by ensuring that key Divisions and Offices were involved in formulating, or reassessing, the needs assessment and market research.[28] Originally, DOA included the CIOO, DRR, and ORMIC in developing its system needs and in performing market research for the purchase of a new acquisition management system. However, the CIOO did not reassess the Agency's needs and conduct market research based on its revised acquisition objective and goals.

The FDIC could have also informed its acquisition Procurement Planning and Solicitation and Award processes by including, and considering, the views of all Divisions and Offices. For example, ORMIC's Risk Manager could have been included earlier in identifying and assessing the acquisition and implementation risks with the acquisition plan. While the ASB included the Risk Manager in its procurement planning, the CIOO did not include the Risk Manager in its procurement planning or in assessing the initiative's risks. The CIOO only included the Risk Manager after the contract was awarded. In addition, DOF could have informed the acquisition plan, identification of system requirements, and solicitation and award. Specifically, the FDIC could have assigned a DOF representative on the Technical Evaluation Panel to ensure system compatibility with the FDIC's existing applications. Without involvement of key Divisions and Offices, the FDIC missed critical input into the objective and goals of its planned acquisition system to ensure the system met the needs of all stakeholders.

Ensuring Effective Communication Between Employees and Senior Management. When the FDIC was aware of system concerns and issues raised by one of its key offices, it did not effectively address them. The ASB, the primary user of the system, expressed concerns, in July 2021, with the visual layout and design of the system's workflow, lack of automation and functionality, and limited reporting capability. The ASB also expressed concerns with the initiative's aggressive schedule that was set by the FPGs, and the FDIC's lack of flexibility in addressing the ASB's concerns. While the FDIC designated a Project Manager to be the voice of the ASB, it did not assign that employee any decision-making authority. Further, when that employee expressed concerns, the Project Team did not effectively address those concerns and perceived the ASB as resisting the change. When implementing a change management process,

[28] According to the APM, a needs assessment is the Program Office's identified procurement need that is used to initiate and support the acquisition planning process. Specifically, the APM states that "[c]lose coordination and early planning between the Program Office, Contracting Officer, and other members of the Acquisition Team are essential for effective and efficient procurement."

the FDIC must engage in open communication and ensure key Divisions and Offices have equal voices or the Agency's results will be limited.

[redacted] Also, the Risk Manager described the lack of communication between the ASB and the CIOO as "poisoning" relationships. Further, the Risk Manager reported that Contracting Officers stated that FAMS was an "inferior product…." However, the FDIC's Project Team and Steering Committee either took limited action or believed that the concerns could be addressed at a later date.

Forming a Change Management Team. The FDIC did not create a Change Management Team to facilitate discussion, collaboration, implementation, and adoption of the new system. While the FDIC formed a Steering Committee and assigned them the role of "Champion of Change Management" for the implementation, the committee did not develop, implement, or oversee a change management process. According to a Steering Committee member, the committee's role was to serve as an advisor for the Project Team's key decisions, which were focused on the technical aspects of configuring and deploying the new acquisition management system. Although empowered by the Project Governance Charter, the Steering Committee member also stated that, as a body, it did not make decisions. Rather, the Steering Committee provided the Project Team comments and insights and posed questions on the team's tactical implementation plans.

As a result, the Steering Committee did not fulfill all of the elements of a change management process. For example, the Steering Committee did not:

- Ensure that all impacted parties were engaged in the initiative,
- Develop a communication strategy and plan,
- Ensure the sufficiency of resources and tools,
- Consider employee feedback, and
- Assess and adjust the change strategy.

Preparing for the Change: The FDIC Did Not Employ Open Communication and Establish Meaningful Change Goals

The FDIC did not prepare for the new acquisition management system's implementation by engaging in open communication and establishing clear change goals. Open communication could have assisted the FDIC in making informed decisions related to implementing the new system. In addition, open communication could have facilitated the FDIC's development of appropriate change goals, such as establishing quantitative and/or qualitative metrics surrounding the usability, functionality, and operational efficiency of a new system.

The FDIC did not employ open communication to ensure that it made informed and deliberate decisions related to selecting and developing its system acquisition strategy. About a year into the initiative, in early 2020, the CIOO took ownership of the project from the ASB. At that time, the CIOO acted as the Program Office and assumed responsibility for initiating and leading the acquisition process. We were unable to identify or determine what prompted the change in project ownership. While the Executive Managers held numerous meetings about the initiative, no formal documentation or record was identified that showed how the change in ownership occurred or whether it resulted from an intentional, executive management decision.

Also at that time, the FDIC significantly changed its system acquisition strategy from purchasing a customizable commercial off-the-shelf (COTS) system to a low-customizable COTS system. However, the FDIC did not ensure that this change in strategy would meet all FDIC Division and Office needs and correspond to the FDIC's policies and procedures. While FDIC Executive Managers (COO, CIOO, and DOA) met, they did not ensure that the views and opinions of key Divisions were heard, understood, and considered in this change in strategy.

Based on interview statements, employees assumed that Executive Managers directed the change in system ownership and acquisition strategy but the employees did not understand the rationale. In effect, knowingly or unknowingly, the Divisions and Offices treated this as a transfer of product ownership to the CIOO even though senior leadership intended that all Divisions and Offices would work together to select and implement the system. While certain key Divisions and Offices (CIOO, DOA, and Legal) did work together, the main Division impacted by the change (DOA) did not have an equal voice into the acquisition strategy, product selection, and system implementation.

Based on our review, the FDIC's lack of open communication created confusion surrounding the decisions made (or not made) and the roles and responsibilities of the Divisions involved in purchasing and implementing the new acquisition management system. In September 2019, the ASB led an initiative to modernize its APS and CEFile systems (its legacy acquisition systems) with the support of the CIOO. In early 2020, the CIOO took control of the initiative and refocused the FDIC's efforts on purchasing a low-customizable COTS system. Although the former ASB Deputy Director was included in initial discussions about purchasing the low-customizable COTS system, the ASB did not have a strong voice and had limited ability to advocate for its needs with the new system. Also, the CIOO, the Division that was leading the project, was more focused on meeting the initiative's milestones than incorporating feedback from the affected Divisions and Offices.

Although the FDIC established annual FPGs, these goals focused on achieving broad annual strategies and initiatives. While the FPGs did not set quarterly milestones, the CIOO, in coordination with the Project Team, established and tracked expected implementation timeframes. [redacted] In addition, the CIOO did not establish quantitative outcome metrics or qualitative factors such as expectations for system usability and functionality or operational efficiency and effectiveness. In particular, the FDIC could have established and assessed metrics and goals surrounding the results of usability testing and user acceptance testing. In addition to setting system expectations, the FDIC could have used these metrics as another avenue to obtain and consider employee feedback on the change. According to the former COO, the FPGs did not establish metrics related to the initiative's objective(s) and goal(s), because the FDIC focused on annual timeframes to push the initiative forward and have Divisions and Offices work together collaboratively.

As a result of the undue pressure, the FDIC created an environment that limited Division and Office communication, coordination, and collaboration on its objectives and goals. Further, the lack of meaningful metrics created confusion and uncertainty surrounding the initiative's goals and priorities. Ultimately, these factors resulted in competing priorities with one Division focused on implementing a system that met the FDIC's general needs and timeframes at the expense of another Division's specific operational requirements.

Communicating the Change: The FDIC Did Not Prepare or Implement a Communication Strategy

The FDIC did not prepare or implement a communication strategy and plan for impacted Divisions and employees. In addition, the FDIC's manner and timeframes for communications could have been improved. Although the FDIC issued three global communications about the FAMS implementation, these communications were limited to notifying employees of the change, the transition dates, impacted roles or employee groups, and available tools to support the transition. In accordance with Gartner's best practices, the FDIC could have more effectively framed its rationale for implementing the new system by addressing the following:

- What the FDIC was moving away from,
- What the FDIC was moving to,
- Why the FDIC was changing,
- What the goals for the change were,
- How the change tied into the FDIC's mission and values,
- What opportunities the change provided employees, and
- How employees could participate in and provide feedback on the change.

Additionally, the FDIC's communications could have recognized and addressed employee concerns and potential resistance to the change.

Contrary to best practices, the FDIC also did not (1) perform targeted communications through various channels and at various management levels, (2) establish consistent messaging, and (3) provide opportunities for employees to react to the potential impact of implementing a new acquisition management system.

The FDIC's communications did not constitute an overall strategy and plan, which led to employee confusion about many aspects of the implementation and the perception that employees were actively resisting the change. Due to the lack of communication, FDIC employees assumed that product ownership changed but did not know why it changed, from one Division to another early in the process. FDIC employees also did not know why the acquisition strategy had changed from a customizable system to a low-customizable system. Lastly, when the ASB had raised concerns about the visual layout and intuitive design of the system's workflow, lack of automation and functionality, and limited reporting capability, it did not understand why its concerns were not being effectively addressed. A communication strategy and plan would have allowed Executive Managers to inform employees and be informed by employees. In addition, effective communication would build awareness and understanding, mitigate inter-Divisional misunderstandings, and increase acceptance.

Implementing the Change: The FDIC Did Not Provide the Tools Needed for Effective Implementation

The FDIC did not ensure managers had adequate tools to support employees in implementing the new acquisition management system. Based on interview statements, FDIC employees stated that FAMS user guides were inadequate, training was insufficient, and help desk assistance was slow. FDIC employees stated that user guides were inadequate because they were not specific to the FDIC's processes and system configurations. FDIC employees further stated that training on the new system was insufficient. The contractor provided training that consisted of passive instruction, whereby the contractor demonstrated generic tasks within the system. Further, the tasks the contractor demonstrated were not specific to the FDIC's processes and system configuration. Also, the system was not available for employees to have hands-on training; therefore, demonstration was the only method available at the time. In addition, employees noted that job aides, such as user guides, were not available during training to allow them to follow along and retain the information. As a result, once the system went live, the majority of help desk inquiries were for general system functionality questions, and employees reported needing to make multiple inquiries and experiencing slow response times.

Effective tools and resources would have enhanced employee understanding of how to use the system and facilitated employee performance in completing their tasks.

Ultimately, effective tools and resources would have supported employees in adopting the change.

Sustain the Change: The FDIC Did Not Identify and Manage Resistance to the Change and Continually Assess and Adjust the Change Management Strategy

The FDIC did not ensure managers identified and addressed perceived employee resistance to implementing the new acquisition management system. As a result, the FDIC's ability to sustain the change in implementing the new system and associated new processes was limited.

In particular, the FDIC did not identify, or obtain, employee feedback on the new acquisition management system. Although the ASB Program Manager expressed concerns to the Steering Committee and Project Team, the FDIC did not employ a tool to identify employee concerns and analyze the project's health at key intervals. Steering Committee members and the project Risk Manager did not employ a tool because they believed that the issues and concerns were readily discernable during discussions. Although the FDIC was aware of concerns, it was not aware of the significance, depth, and number of people who held those concerns.

In order to sustain the desired change, the FDIC needed to identify and address employee concerns. One way to gain an understanding of the significance of employee concerns during a change initiative is to develop a tool to collect feedback on the change. Such a tool should be independently administered, allow everyone involved to share their views, and facilitate Executive Management's understanding of concerns. In addition, the tool could have allowed the FDIC to assess the effectiveness of its mitigation efforts.

Risk Manager's Identification of Project Risk. According to ORMIC's *Risk Management Guidance* (March 2023), the Risk Manager has overall responsibility for a project's risk management activities and leads the Risk Management Team in identifying, analyzing, monitoring, and responding to project risk.

Based on a review of the FAMS Steering Committee Meeting monthly agendas from April 2021 to June 2022, we noted the following:

- In June 2021, the Risk Manager first identified change management oversight as an "unlikely-moderate risk."
- In July 2021, the Risk Manager elevated the change management oversight rating to a "possible-significant risk." In particular, the Risk Manager increased the risk rating due to concerns expressed by Contracting Officers and corresponding stakeholders related to the lack of usability, automation, and reporting capability. In response, the Steering Committee, Project Team, and Risk Manager's planned risk mitigation strategy included having stakeholders visualizing FAMS's processes, identifying workarounds (outside of FAMS), and addressing concerns at a later date.
- In September 2021, the Risk Manager also identified concerns related to insufficient employee training and user acceptance testing. In response, the Steering Committee, Project Team, and Risk Manager's planned mitigation strategy focused on stakeholders understanding (through additional training) and accepting the change (through additional testing).

Although the Steering Committee expanded testing and training, the Steering Committee, Project Team, and Risk Manager did not address the root cause(s) for the concerns expressed; nor did they track and assess the adequacy of their risk mitigation efforts. Ultimately, the FDIC did not employ a tool to document and track the evolution and continuation of the project's risk(s), and its corrective action(s) either were not effective to address the concerns or were deferred for meaningful action to a later date.

When the ASB expressed concerns, other Divisions and Offices on the Project Team perceived ASB as actively resisting the change and took no meaningful corrective action. The Steering Committee elevated the ASB's concerns to the former COO. However, since the initiative was still early (4 months) in the implementation process, the former COO encouraged the Divisions and Offices to work together to resolve the ASB's issues and concerns. Ultimately, the CIOO, Steering Committee, and Project Team took no meaningful action to manage or address the perceived resistance or issues brought forward because they thought the ASB's concerns could be addressed at a later date.

Subsequently, the new ASB Deputy Director attempted to gain support for the system implementation; however, the factors that hindered adoption were too substantial to overcome. According to the ASB Deputy Director, from June 2022 through October 2022, the ASB attempted to use FAMS to process and issue contract actions. During this time, the ASB focused on using FAMS and supporting employee adoption, and ASB employees became frustrated with learning how to use FAMS. Specifically, the Deputy Director stated that experienced Contracting Officers became emotionally distressed because they could not use the system or complete basic contracting actions because the system was not intuitive, lacked automation, and was missing basic functionality. In September 2022, the Deputy Director determined that the ASB could no longer continue to use FAMS, and that the application put the Division at risk of mission failure. According to the ASB Deputy Director, in the fall of 2022, the US economy was experiencing economic stress and uncertainty, and there was concern about its impact on consumers and banks. The potential impact to banks meant that the ASB needed to be in a position to react quickly if banks were adversely affected. With the status of FAMS, the Deputy Director stated that the ASB would not be able to react in a timely manner and recommended that the FDIC move away from FAMS. In October 2022, the FDIC supported this recommendation. In November 2022, the FDIC reverted to its legacy APS and CEFile applications.

FDIC Policies and Procedures Did Not Require a Change Management Process

The FDIC did not implement a change management process or develop a change management strategy and plan because the Agency’s policies did not require it.

The FDIC also did not implement a change management process because key FDIC employees (from the CIOO, DOA, and ORMIC, which collectively included members of the Steering Committee and ORMIC’s Process Improvement Section) lacked knowledge of change management concepts and strategies. Based on interviews, key FDIC employees lacked an understanding of “change management” as a concept and how and when a change management process could be applied. In addition, FDIC employees, including Steering Committee members, stated that they did not receive FDIC training on change management even though the Steering Committee’s role was defined as “Champion of Change Management for the implementation.”

Our review found that the FDIC’s ORMIC has a number of online resources, including change management tools and guidance. However, when conducting market research, determining the system acquisition strategy, and implementing FAMS, ORMIC employees involved did not provide or encourage use of those tools and guidance because they were unaware of them or did not think they were pertinent. An ORMIC employee assigned to facilitate the initiative’s risk management focused on risks to the strategic implementation of the change (timeline) and not on the risks resulting from the lack of a change management process, including employees’ concerns with or resistance to the change. In July 2021, once the ORMIC employee became aware of employee concerns and issues with the initiative, the ORMIC employee notified a member of the Steering Committee. The ORMIC employee admitted fault for not picking up earlier “…how negatively the feelings [between the CIOO and DOA] were building up.” In addition, the ORMIC employee stated that the FDIC should not allow the “negative vibes…to fester” and action was needed. As noted elsewhere, early (4 months) into the implementation process, the Steering Committee member elevated the ORMIC employee’s concerns, and the former COO instructed the Steering Committee member to continue implementing FAMS. Although the ORMIC employee continued to report elevated risk surrounding these concerns, the Steering Committee did not raise these concerns to the COO again throughout the implementation.

A Change Management Process Could Have Benefitted the FDIC in Deploying FAMS

If FDIC Executive Management had developed and implemented a change management process, the FDIC could have:

- Ensured employees understood the reasons for the new acquisition management system;
- Ensured that key employees' knowledge and experience informed and supported FDIC decisions about FAMS planning and implementation;
- Considered Divisional needs, views, and concerns;
- Understood Divisional roles and responsibilities related to FAMS;
- Enhanced interdivisional coordination and implementation of acquisition objectives and goals;
- Ensured employees felt respected, heard, and included throughout the project;
- Enhanced the acceptance and inclusion of others toward implementing the new system;
- Increased the FDIC's operational efficiency and effectiveness;
- Adopted the process changes associated with implementing a new acquisition management system, such as ensuring appropriate completion of contract actions, contract documentation, and creating and producing reports; and
- Understood the outcome and impact of the new system on FDIC operations.

ASB's Acquisition of a New Acquisition Management System. In March 2023, the ASB began the process to purchase a new acquisition management system. The ASB's strategy is focused on a "best-in-breed" solution. According to the ASB, the FDIC will select the best available product for each stage of the acquisition process.

The ASB also plans to employ an Agile implementation process deploying and integrating discrete system segments over time. Although not required by FDIC policies, the ASB Deputy Director also intends to employ a change management strategy based on the **A**wareness, **D**esire, **K**nowledge, **A**bility, and **R**einforcement (ADKAR) model.

ADKAR is another model that organizations could use to facilitate change. Although some of the concepts appear to correlate to the change management process promulgated by Gartner, it does not include or consider all of the main principles cited in this report.

As recommended within this report, the FDIC should ensure that its change management process includes the principles we outline in this report.

Due to the unsuccessful deployment of FAMS, the FDIC incurred contract and labor-hour costs of nearly $10 million and reverted to its legacy systems.

According to FDIC Executive Management and the FDIC's internal reviews on the FAMS deployment, [redacted] In an informal response to a draft of this report, FDIC Executive Management stated that a change management process would not have materially influenced the outcome unless it had influenced the system selection. As noted in this report, change management guides organizational change from the earliest stages of conception and preparation through implementation and sustainment. An effective change management strategy would have allowed initial decisions to be made on a co-created basis, including the system selection. Ultimately, a change management process is essential to the success of enterprise-wide or inter-Divisional initiatives that implement significant changes regardless of the change's inclusion of a contract action or procurement.

While a change management process is not limited to the acquisition of a new system, Appendix 3, *Change Management and the Acquisition Process*, illustrates how a change management process could be aligned with the FDIC's current acquisition process. Appendix 3 also illustrates how current control points could be used to inform key parties and encourage open communication. For example, during Procurement Planning, when the Program Office is identifying its contracting needs, it could establish relevant metrics related to the initiative's objective(s) and goal(s). During Solicitation and Award, before the Contracting Officer issues a Request for Quotation or Request for Proposal, the Change Management Team could develop a communication strategy and plan. During Contract Management, when the Oversight Manager inspects and accepts goods and services, the Oversight Manager could ensure that (1) managers obtain sufficient tools and resources to support employees with implementing the change and (2) employees receive sufficient training and guidance.

Recommendations

We recommend that the FDIC COO, in collaboration with the CFO and other FDIC Divisions, as necessary:

1. Develop a change management process and require Divisions and Offices to employ a change management strategy and plan that incorporates relevant elements mentioned in this report when implementing significant changes to business processes. The relevant change management elements should consider the following:

    - Understanding the impact on workforce segments,
    - Identifying and engaging the right people,
    - Assigning a change management leader,
    - Establishing relevant objectives and goals,
    - Establishing a communication strategy and plan,
    - Ensuring open communication and collaboration with employees impacted by the change,
    - Providing effective employee training and tools,
    - Assessing achievement of objectives and goals, and
    - Analyzing and reporting independently and objectively on project health (using tools such as a project sentiment survey or pulse survey) at key intervals.

    Implementation of this recommendation will result in $9.9 million in funds to be put to better use as the FDIC realizes better outcomes over time.[29]

2. Develop and provide training to Executive and Corporate Managers on the change management process and in developing and employing change management strategies and plans.

3. Develop and implement a change management strategy and plan for the acquisition of a new acquisition management system.

FDIC COMMENTS AND OIG EVALUATION

On December 20, 2023, the COO provided a written response to a draft of this report. The response is presented in its entirety in Appendix 5.

In its response, the FDIC concurred with the report and its findings. The FDIC also initiated planning for a new effort to modernize the FDIC's acquisition systems and to address the underlying issues that prompted our recommendations. In particular, the FDIC is working to assign a change management professional to the Acquisition System-Next Generation

[29] The OIG will report this amount in our Semiannual Report to the Congress.

development team, adopt a change management framework, and develop a change management plan.

The FDIC concurred with all three report recommendations. The FDIC plans to complete corrective actions for these recommendations by December 31, 2024. We consider all three recommendations to be resolved.

With respect to the Funds Put to Better Use, FDIC management agreed that, over time, and over multiple projects, the amount of Funds Put to Better Use is $9.9 million.

All of the recommendations in this report will remain open until we confirm that corrective actions have been completed and the actions are responsive. A summary of the FDIC's corrective actions is contained in Appendix 6.

Objective

Our objective was to review the primary factors that led to the FDIC's unsuccessful deployment of the FDIC Acquisition Management System and identify improvements for implementing future significant organizational changes.

We performed our work from February 2023 through November 2023. We performed our work in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Inspection and Evaluation* (December 2020).

Scope and Methodology

The project's scope included our review of (1) the FDIC and contractor's BOA, Task Orders, and Statement of Work; (2) the FDIC pre-award and post-award contract oversight processes and documents; and (3) FDIC processes for implementing and deploying FAMS.

To achieve our objective, we conducted the following procedures:

- Reviewed the contract and contract modifications to understand the contract terms and conditions.
- Reviewed contract files and additional supporting documentation, as well as contractor invoices.
- Reviewed the FDIC acquisition policies and procedures, including:
  - *FDIC Acquisition Policy Manual* (August 2008) and
  - *FDIC Acquisition Procedures, Guidance and Information* (January 2023) document.
- Researched and identified best practices for employing change management.
- Reviewed Gartner's on-line resources for implementing change management, including*, Ignition Guide to Successful Change Management* (May 2022).
- Assessed key FDIC personnel's training on employing change management processes.
- Conducted interviews and assessed statements of key FDIC personnel.
- Reviewed the following GAO reports:

  - GAO Report, *Management Report: Improvements Needed in FDIC's Internal Control over Contract-Payment Review Processes* (GAO-21-420R) (May 2021);
  - GAO Report, *Management Report: Improvements Needed in FDIC's Internal Control over Contract Documentation and Payment-Review Processes* (GAO-22-105824) (May 2022); and
  - GAO Report, *Management Report: Improvements Needed in FDIC's Internal Control over Contract Documentation and Payment-Review Processes* (GAO-23-106656) (May 2023).

- Reviewed the following OIG reports:
  - *Contract Oversight Management* (EVAL-20-001) (October 2019);
  - *Critical Functions in FDIC Contracts* (EVAL-21-002) (March 2021); and
  - *FDIC Oversight of a Telecommunications Contract* (REV-23-002) (March 2023).

- Reviewed the FDIC OIG Top Management and Performance Challenges reports issued in February 2018, February 2019, February 2020, February 2021, February 2022, and February 2023.

- Reviewed the FDIC Legal Division and ORMIC's report *Review of FDIC Acquisition Management System (FAMS) Procurement and Deployment* (December 2022) and the CIOO's findings from its *FAMS Retrospective* (December 2022).

We relied on computer processed information that was used to generate total contract award amounts. The total contract award amounts were generated for and presented within the FDIC's annual reports. The annual reports were audited by the GAO during its annual audit of the FDIC's financial statements and corresponding reviews of the Agency's Deposit Insurance Fund and Federal Savings and Loan Insurance Corporation Resolution Fund. We also relied on employee staff hour and average hourly rate data from the FDIC's official time and attendance system. In addition, for specific contract data, we relied on source documents and NFE data provided by the FDIC. We determined that the information was sufficiently reliable for the purposes of our analysis. Our findings and conclusions were not reliant on the data, only our determination of funds to be put to better use. As a result, we did not test the controls over the systems that generated this data.

Calculation of Funds to Be Put to Better Use

Based on our analysis, we identified $9.9 million in funds to be put to better use. This amount would be realized over time as the FDIC achieves better outcomes when implementing future change initiatives. As noted in our report, implementing an effective change management process increases the success of an entity's change initiative. The actual savings over time are difficult to estimate due to future change initiatives not yet being identified. Therefore, we are using the amount of $9.9 million from this failed project as a conservative estimate.

According to the Inspector General Act of 1978, a recommendation that funds be put to better use is "a recommendation by the [OIG] that funds could be used more efficiently if management of an establishment took actions to implement and complete the recommendation..." including avoidance of unnecessary expenditures noted in preaward reviews of contracts or any other savings which are specifically identified. This includes any other monetary benefits that are specifically identified by the OIG.[30]

In December 2020, the FDIC awarded a BOA for an acquisition management system (FAMS). As of March 2023, the FDIC paid the contractor $6.7 million. The FDIC also paid other contractors that supported the FAMS initiative a total of $1.3 million. After the decision to stop using the new system, the FDIC incurred a cost of $101,000 to revert to its legacy acquisition systems. Further, the FDIC incurred estimated labor costs totaling $1.8 million, which accounted for approximately 10,000 staff hours. These hours represented employee time spent on implementing, training to use, and deploying FAMS and reverting to its prior systems.

As a result, we identified a potential monetary benefit, or funds to be put to better use, of $9.9 million. Figure 5 details the monetary benefit associated with implementing an effective change management process.

Figure 5: Calculation of Funds to Be Put to Better Use

Costs Incurred	Monetary Benefit
Paid Invoices for FAMS	$6.7 million
Paid Invoices for Other Contracts Supporting FAMS	$1.3 million
Cost to Revert to Legacy Systems	$0.1 million
Incurred Labor Cost	$1.8 million
Total Funds to Be Put to Better Use	**$9.9 million**

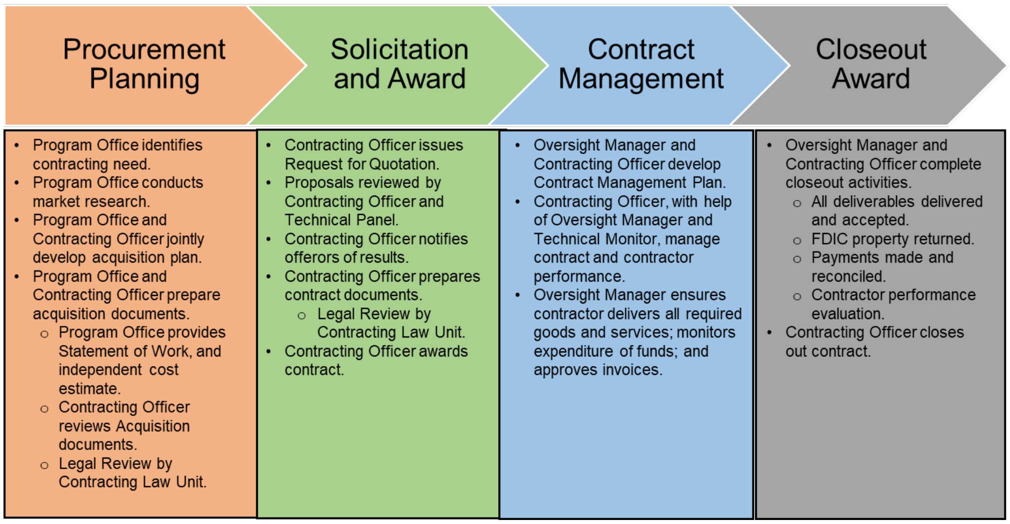
Source: OIG analysis of vendor invoices and FDIC data on charged staff hours and incurred costs.

30 The funds to be put to better use are associated with recommendation 1, as noted in our report.

Change Management and the Acquisition Process

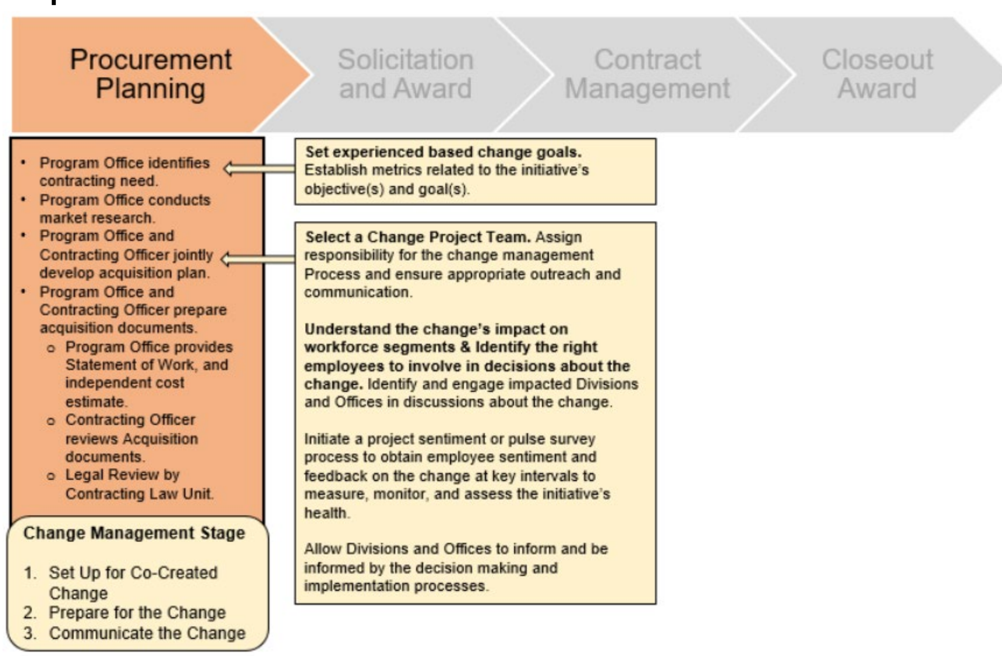
This appendix presents how the change management process could be aligned with the FDIC's existing acquisition process. As appropriate, a change management process should be tailored to the nature of the initiative and desired change.

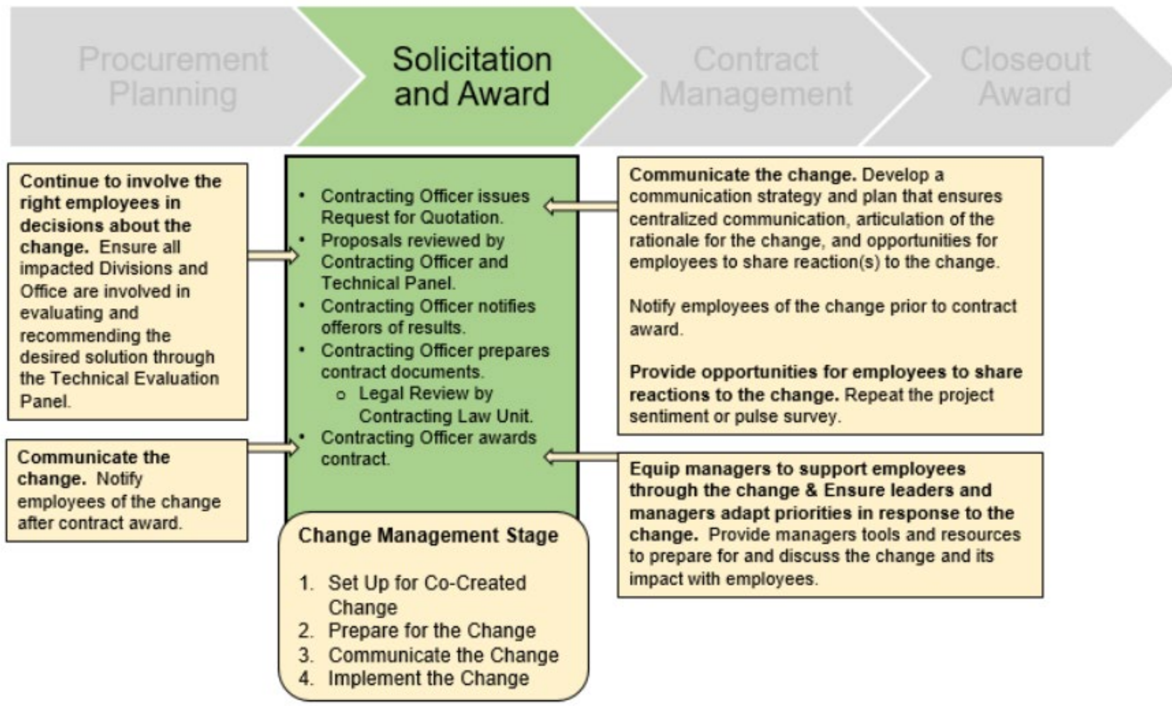
Figure 6: The FDIC's Acquisition Process

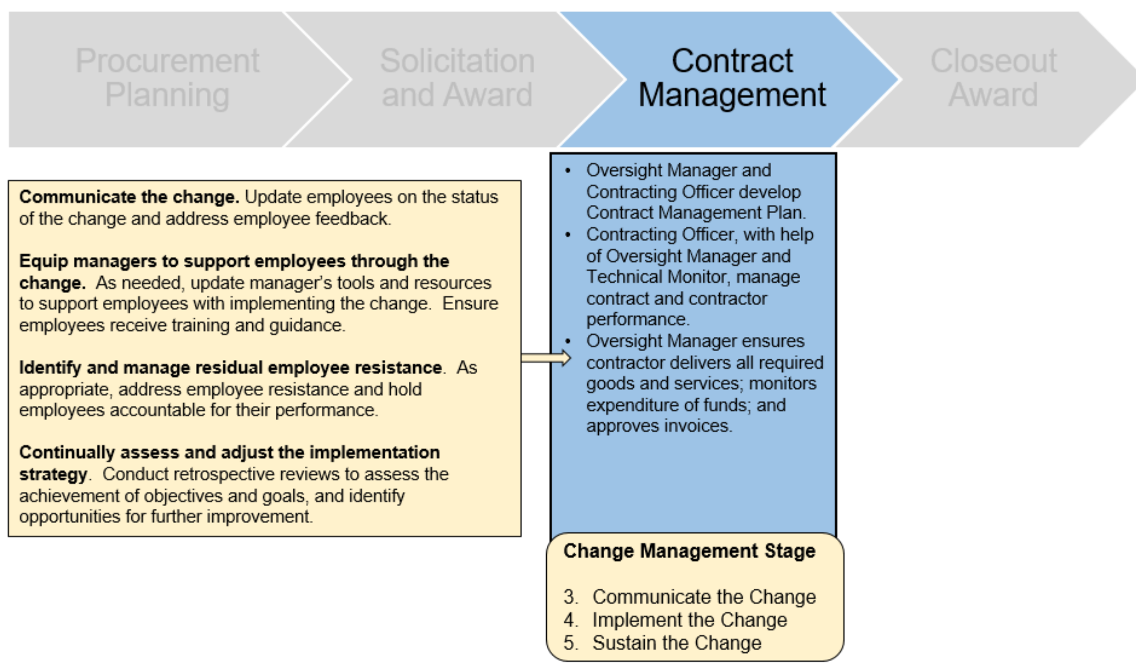


Source: OIG analysis of the APM and PGI document.

Figure 7: How the Change Management Process Could Be Aligned with the FDIC's Acquisition Process







Source: OIG analysis of FDIC acquisition policies and procedures and Gartner's article *Ignition Guide to Successful Change Management* (May 2022).

Appendix 4 — Acronyms and Abbreviations

ADKAR	Awareness, Desire, Knowledge, Ability, and Reinforcement
APM	FDIC Acquisition Policy Manual
APS	Automated Procurement System
ASB	Acquisition Services Branch
BOA	Basic Ordering Agreement
CEFile	Contract Electronic File
CFO	Chief Financial Officer
CIOO	Chief Information Officer Organization
COO	Chief Operating Officer
COTS	Commercial Off-the-Shelf
DOA	Division of Administration
DOF	Division of Finance
DRR	Division of Resolutions and Receiverships
FAMS	FDIC Acquisition Management System
FDIC	Federal Deposit Insurance Corporation
FPG	FDIC Performance Goal
GAO	Government Accountability Office
IT	Information Technology
NFE	New Financial Environment
OIG	Office of Inspector General
ORMIC	Office of Risk Management and Internal Controls
PGI	FDIC Acquisition Procedures, Guidance and Information

Federal Deposit Insurance Corporation

MEMO

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

FROM: Daniel H. Bendler DANIEL BENDLER Digitally signed by DANIEL BENDLER Date: 2023.12.21 07:55:41 -05'00'
Deputy to the Chairman and Chief Operating Officer

DATE: December 20, 2023

RE: Management Response to the Draft Evaluation Report Entitled, *Evaluation of the FDIC's Purchase and Deployment of the FDIC Acquisition Management System* (No. 2023-003)

Thank you for the opportunity to review and comment on the subject Office of Inspector General (OIG) draft evaluation report. The OIG issued the report on December 7, 2023. The objective of the OIG's evaluation was to review the primary factors that led to the FDIC's unsuccessful deployment of the FDIC Acquisition Management System (FAMS) and identify improvements for implementing future significant organizational changes.

FAMS was intended to provide a full life-cycle acquisition management solution that offered the functionality required to plan, prepare, award, and administer contracts. FAMS development began in March 2021, and the first release of the system was deployed in June 2022. Unfortunately, the software underlying FAMS was not sufficiently configurable to meet the FDIC's needs, and the FDIC experienced significant usability issues upon deployment that severely hampered the FDIC's ability to award contracts timely. This created unacceptable operational risk and inefficiencies in the FDIC's acquisition processes. Accordingly, the FDIC paused the implementation of FAMS in mid-October 2022 and reverted to the use of its legacy acquisition systems.

During this pause, an interdivisional team performed a comprehensive FAMS capability analysis to survey users, identify pain points, assess system usability, and estimate the cost and level of effort to address FAMS deficiencies. The capability assessment provided important information that allowed senior leaders to act decisively and discontinue implementing FAMS before entering into an additional contract option year with the vendor and incurring additional software licensing costs.

A second interdivisional team interviewed a number of stakeholders involved in the FAMS effort and identified factors that contributed to the troubled deployment of FAMS and important lessons learned. Similar to the OIG's report, the team identified the absence of effective change management as one of the factors that contributed to the FDIC's unsuccessful deployment of FAMS.

In 2023, the FDIC began planning for the procurement and development of a new effort to modernize the FDIC's acquisition systems, known as the Acquisition System-Next Generation (AS-NG). AS-NG will include enhanced automated functions that span the entire FDIC's acquisition management lifecycle from acquisition planning to contract close-out. AS-NG will be cloud-based and will use a modular approach to integrate the best available products for each stage of the acquisition process. This modular approach will reduce the complexity of the system, while increasing the level of flexibility that is essential to ensuring continuous improvement of the AS-

NG product. It will also allow for easier customization when necessary and justified. The solution will integrate data and manage documents on a platform that also provides the ability to create, maintain and automate acquisition tasks.

The draft report contains three recommendations addressed to the FDIC's Chief Operating Officer, working in collaboration with the Chief Financial Officer and other FDIC Divisions, to incorporate change management processes into the FDIC's policies and procedures and internal controls. FDIC management concurs with the recommendations. Notably, the FDIC has already initiated planning to address the underlying issues that prompted the recommendations. For example, the FDIC is working to assign a change management professional to the AS-NG development team, adopt a change management framework, and develop a change management plan. A summary of management's planned and completed corrective actions and associated milestones follows.

Recommendation 1:

Develop a change management process and require Divisions and Offices to employ a change management strategy and plan that incorporates relevant elements mentioned in this report when implementing significant changes to business processes. The relevant change management elements should consider the following:

- Understanding the impact on workforce segments,
- Identifying and engaging the right people,
- Assigning a change management leader,
- Establishing relevant objectives and goals,
- Establishing a communication strategy and plan,
- Ensuring open communication and collaboration with employees impacted by the change,
- Providing effective employee training and tools,
- Assessing achievement of objectives and goals, and
- Analyzing and reporting independently and objectively on project health (using tools such as a project sentiment survey or pulse survey) at key intervals.

Implementation of this recommendation will result in nearly $10 million in funds to be put to better use as the FDIC realizes better outcomes over time.

Management Decision: Concur

Corrective Action: The FDIC will develop an enterprise change management process. We anticipate this effort will include:

- assigning a change management program coordinator,
- adopting a change management framework,
- developing guidance for divisions and offices,
- developing or recommending relevant training,
- establishing a community of practice, and
- creating a means for periodically monitoring the health of change initiatives and stakeholder sentiment.

We expect that the FDIC change management process will be scalable depending on the complexity, scope, and impact of individual change initiatives, but will generally require the development of a change management strategy and plan and consideration of the items listed under Recommendation 1.

With respect to OIG's conclusion that implementing this recommendation will result in $9.9 million in funds put to better use, we agree that, over time, and over multiple projects, consistent implementation of an effective change management process will better ensure successful project outcomes and result in a more efficient use of project funds. As OIG notes, it is difficult to quantify the impact of an effective change management process, and estimates depend on the size and number of future change management initiatives. In the absence of a methodology to reliably quantify the funds put to better use associated with implementing this recommendation, we agree with the $9.9 million estimate over an indeterminate period of time.

Estimated Completion Date: December 31, 2024

Recommendation 2:

Develop and provide training to Executive and Corporate Managers on the change management process and in developing and employing change management strategies and plans.

Management Decision: Concur

Corrective Action: As part of the change management process to be developed in response to Recommendation 1, the FDIC's change management program coordinator will work with the FDIC's Corporate University to develop and provide training to Executive and Corporate Managers on the FDIC's change management process to include developing and employing change management strategies and plans.

Estimated Completion Date: December 31, 2024

Recommendation 3:

Develop and implement a change management strategy and plan for the acquisition of a new acquisition management system.

Management Decision: Concur

The FDIC is currently planning for an updated effort to develop and implement AS-NG, a set of integrated IT solutions to modernize the FDIC's acquisition process. FDIC's Acquisition Services Branch (ASB) is leading the effort to develop and implement AS-NG. As part of this effort, ASB will ensure that a change management process is implemented to facilitate project success and AS-NG user adoption. Specifically, ASB will include an organization change management professional as part of the AS-NG project implementation team and develop a change management strategy and plan for the AS-NG development and implementation effort.

Estimated Completion Date: September 30, 2024

MEMO 3

Appendix 6

Summary of the FDIC's Corrective Actions

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

Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date	Monetary Benefits	Resolved:[a] Yes or No	Open or Closed[b]
1	The FDIC will develop an enterprise change management process. This process will include: • Assigning a change management program coordinator, • Adopting a change management framework, • Developing guidance for divisions and offices, • Developing or recommending relevant training, • Establishing a community of practice, and • Creating a means for periodically monitoring the health of change initiatives and stakeholder sentiment.	December 31, 2024	$9.9 million	Yes	Open
2	The FDIC will work with FDIC's Corporate University to develop and provide training to Executive and Corporate Managers on the FDIC's change management process.	December 31, 2024	$0	Yes	Open
3	The FDIC will develop and implement a change management strategy and plan for its effort to modernize the FDIC's acquisition process and deploy the Acquisition System-Next Generation.	September 30, 2024	$0	Yes	Open

[a] Recommendations are resolved when —

1. Management concurs with the recommendation, and the OIG agrees the planned corrective action is consistent with the recommendation.
2. Management does not concur or partially concurs with the recommendation, but the OIG agrees that the proposed corrective action meets the intent of the recommendation.
3. For recommendations that include monetary benefits, management agrees to the full amount of OIG monetary benefits or provides an alternative amount and the OIG agrees with that amount.

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

Federal Deposit Insurance Corporation
Office of Inspector General

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

(703) 562-2035

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The OIG's mission is to prevent, deter, and detect waste, fraud, abuse, and misconduct in FDIC programs and operations; and to promote economy, efficiency, and effectiveness at the agency.

To report allegations of waste, fraud, abuse, or misconduct regarding FDIC programs, employees, contractors, or contracts, please contact us via our Hotline or call 1-800-964-FDIC.

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