

**REVIEW OF SBA'S NATIONAL GUARANTY
PURCHASE CENTER FURNITURE CONTRACT**

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**Prepared by the
Office of Inspector General
U. S. Small Business Administration**



U.S. Small Business Administration
Office Inspector General

Memorandum

To: Ajoy K. Sinha
Acting Deputy Associate Administrator
Office of Management and Administration
/s/ original signed

Date: March 31, 2009

From: Debra S. Ritt
Assistant Inspector General for Auditing

Subject: Review of SBA's National Guaranty Purchase Center Furniture Contract

This report presents the results of our review of SBA's National Guaranty Purchase Center (NGPC) furniture contract. The review was conducted in response to an anonymous complaint and a subsequent investigation by SBA's Office of General Counsel (OGC). The complaint alleged that C-Systems International Corporation (C-Systems), the prime contractor on SBAHQ-07-F-0180, *Moving Services for the Office of Administration*, received an advance payment for the purchase and installation of furniture, which it never delivered to SBA. The complaint also alleged that instead of reimbursing its subcontractor, Potomac Business Environment (PBE), for the furniture, C-Systems inappropriately spent the advance funds to meet its payroll. As a result, PBE repossessed the furniture, causing C-Systems to violate its contract.

The OGC investigation, which was completed in May 2008, confirmed that SBA purchased furniture from C-Systems that it never received. The investigation also disclosed that SBA had expanded the contract after award, and subsequently repurchased the furniture from PBE. Finally, the investigation determined that contract documents were signed by individuals without full knowledge as to what they were approving or authorizing, and decisions were made without adequate information.

Based on issues identified in the OGC investigation, we reviewed the procurement to determine (1) the appropriateness of the award and subsequent modification, (2) whether payments made to the contractor violated Federal regulations, and (3) the adequacy of SBA's efforts to recover funds paid the contractor when it failed to perform.

To determine the appropriateness of the contract award and modification, we reviewed the furniture contract, Federal Acquisition Regulations (FAR), the Competition in Contracting Act of 1984, and OGC's investigative report on the award. We analyzed information in the Central Contractor Registration (CCR) database to determine whether other small businesses were capable of performing the services required by the contract. We also determined, based on a review of the contract files, whether the contracting officer had adequately performed market research to support the sole-source award. To determine whether contract payments violated FAR regulations, we compared FAR requirements to documentation in the contract files. Finally, to determine whether SBA made adequate efforts to recover funds inappropriately advanced to C-systems, we reviewed the contracting officer's administrative files and e-mail correspondence, and interviewed officials from SBA's Office of Management and Administration, Division of Procurement and Grants Management (DPGM), and OGC.

We also reviewed 8(a) Business Development program files and public state records, and interviewed oversight officials at SBA's Washington District Office to determine whether C-Systems and/or PBE attempted to provide misleading or dishonest information to SBA for personal gain. We conducted our review between August 2008 and November 2008 in accordance with *Government Auditing Standards* for attestations as prescribed by the Comptroller General of the United States.

BACKGROUND

As part of a Herndon development initiative, SBA's Office of Capital Access (OCA) initiated a \$256,763 sole-source contract to C-Systems to design, deliver, and install approximately 100 workstations at the NGPC in September 2007. According to SBA officials, C-Systems' subcontractor, PBE, provided the furniture, while C-Systems was responsible for its installation at the Center. The furniture cost [FOIA Ex. 4] to purchase and [FOIA Ex. 4] to install, less applicable discounts. At the time of award, C-Systems was a self-certified, service-disabled veteran-owned (SDVO) company based in Virginia.

SBA awarded the contract to C-Systems on a sole-source basis due to the company's SDVO status. 13 Code of Federal Regulations (CFR) 125.20 provides that a sole-source contract can be awarded to an SDVO small business only when, among other things, there is not a reasonable expectation that at least two SDVO small businesses will submit offers. At the time of the award, C-Systems had three other contracts with SBA. A summary of C-Systems' contracts and modifications that were awarded during fiscal year 2007 is provided in Table 1.

Table 1. SBA Contracts with C-Systems During Fiscal Year 2007

Contract Number	Date Signed	Obligation Amount	Services Provided
Contracts			
SBAHQ-07-F-0180	05/13/07	\$175,008	Other Professional Services
SBAHQ-07-M-0350	08/29/07 ^a	\$256,763	Construction
SBAHQ-07-M-0417	09/18/07	\$40,000	Construction
SBAHQ-07-M-0489	09/26/07	\$325,000	Office Furniture
Modifications			
SBAHQ-07-M-0350 modification	09/25/07	\$200,000	Construction
SBAHQ-07-F-0180 modification	09/18/07	\$100,000	Other Professional Services
SBAHQ-07-F-0180 modification	09/20/07	\$33,430	Other Professional Services
Total		\$1,130,201	

^aThe Federal Procurement Data System reports that the NGPC Furniture Contract was signed on August 29, 2007; however, the contract was not signed by all parties until September 8, 2007.

Source: Federal Procurement Data System

As determined by the OGC investigation, by mid-October the furniture had been assembled by the manufacturer and was awaiting delivery in the manufacturer's warehouse. However, disputes with the Herndon building owner led SBA to delay delivery of the workstations. In early November 2007, PBE informed SBA that the manufacturer could not store the furniture any longer, and that SBA would have to take delivery.

During November and December 2007, C-Systems requested the Contracting Officer Technical Representative (COTR) to authorize an advance payment. The COTR initially refused to pay, but subsequently approved the payment with C-Systems' assurance that it had possession of the furniture and because the contractor had a longstanding relationship with the Agency. On December 12, 2007, the contracting officer processed a payment of \$226,678 to the contractor prior to the furniture's installation and inspection. This payment constituted the majority of the \$256,763 contract award amount.

A month later, in late January 2008, a representative from PBE informed SBA that it had repossessed the furniture because C-Systems had used the \$226,678 for purposes other than paying for the furniture. When SBA's attempts to reclaim its

money and furniture from C-Systems failed, it decided to procure the furniture directly from the subcontractor and to pay another company, Greenhill Business Solutions, to install the furniture. In February 2008, SBA awarded sole-source contracts to PBE and Greenhill for \$218,835 and \$45,747, respectively. PBE was selected because it was determined that no other company could provide the furniture in the required time period as PBE was already in possession of the furniture. Greenhill received the installation contract because the owner had formally worked for C-Systems and was familiar with the plans for its installation.

OBO is responsible for the oversight of SBA's acquisition efforts and facilities management. DPGM, which reports to Office of Business Operations (OBO), awards and monitors the contract with assistance from the COTR. DPGM also executes contract actions, including payments, based on requests from SBA's program offices. Since contract events occurred, the responsible COTR and Director of OBO have left the Agency.

RESULTS IN BRIEF

The initial award to C-Systems was inappropriately sole-sourced. Although the contract specialist in DPGM performed superficial market research concluding that C-Systems was the only small business capable of performing the services, a review of CCR showed that there were numerous small businesses capable of purchasing and installing systems furniture. Further, the contracting officer, who signed the contract, did not know that she was awarding a sole-source contract to C-Systems.

In addition, SBA inappropriately modified the contract. Nineteen days after DPGM executed the NPGC contract, DPGM issued a \$200,000 modification, nearly doubling the contract's value without approval from NGPC or OCA, which initiated the original contract. DPGM's ability to unilaterally modify contracts without any involvement by the initiating office constitutes a major internal control weakness.

SBA also violated Federal regulations by advancing a \$226,678 payment to C-Systems prior to the delivery of the workstation furniture and by making two additional payments totaling \$78,856 that were unrelated to the contract. As a result, DPGM executed over \$300,000 in improper payments against the Herndon contract. In requesting the advance payment, the COTR did not inform the contracting officer that the furniture had not been delivered.

C-Systems failed to use the advance to pay the vendor for the furniture, resulting in the furniture being repossessed. Although SBA issued a *Demand Letter for*

Reimbursement for the entire \$226,678 paid, when the contractor could not repay the debt, SBA inappropriately reduced the amount owed to \$66,503. This amount was based on unpaid invoices for work that the contractor claimed had been performed on other contracts, without evidence that the work had been performed. SBA also modified an existing C-Systems' contract to add work to help eliminate the remaining debt.

We also identified several FAR violations committed by the contractor, which are bases for terminating the SBA contracts and debarring C-Systems from receiving future Government contracts. Specifically, C-Systems misrepresented to SBA how it would use the advance payment, and failed to perform in accordance with the terms of its contract. Further, because the Vice-President of C-Systems was also the owner of the subcontractor, the subcontractor may not have acted independently in repossessing the furniture.

Finally, the two contracting officers involved with the NGPC furniture contract did not follow applicable rules and regulations, signed documents without full knowledge of what they were approving, and made decisions without informing their superiors or requesting assistance from OGC. These actions raise questions about their performance.

On March 27, 2009, the Acting Associate Administrator, Office of Management and Administration provided verbal comments to the OIG's draft report, agreeing with the report's findings and most of the recommendations. Specifically, he agreed with recommendations 1, 3, 4, 5, and 7; proposed an alternative action to recommendation 2; and neither agreed nor disagreed with recommendation 6. The actions proposed by the Acting Associate Administrator were generally responsive to the recommendations. However, we requested that he consider additional steps to more fully address recommendation 2, and asked that he inform the OIG of pending decisions and planned actions on recommendations 6 and 7.

RESULTS

DPGM's Execution of the Initial Award and Subsequent Modification Were Improper

The original award to C-Systems was inappropriately sole-sourced. 13 CFR 125.20 and FAR 19.1406 provide that the contracting officer may award a sole-source contract to an SDVO small business only when, among other things, there is not a reasonable expectation that at least two SDVO small businesses will submit offers. Based on information in the contract files, a contract specialist in DPGM performed superficial "market research," which incorrectly concluded that

C-Systems was the only small business capable of performing the services. However, a review of CCR showed that there were over 644 small businesses within the Washington Metropolitan Area¹ identified as capable according to the contract's North American Industry Classification System (NAICS) code. Of this number, 94 were SDVO small businesses. Further, the contracting officer, who signed the contract, did not know that she was awarding a sole-source contract to C-Systems. Because this procurement did not adhere to authorized exclusions for competition, it violated the Competition in Contracting Act of 1984.

Nineteen days following the contract award, OBO issued a \$200,000 modification to the NGPC furniture contract. This contract modification, which added funding to an improper sole-source award, gives additional appearances of impropriety as the modification was processed immediately after the initial award and nearly doubled the size of the contract. Finally, DPGM executed the modification at the direction of the former Director of OBO, without providing a statement of work, which presents a financial risk to the Agency as it can result in undefined contract changes and commitments, which can lead to improper payments to unauthorized parties. In following up on this modification, we noted that no one involved in executing the modification could identify whether or where the additional workstations were installed. As a result, SBA may have paid C-Systems for services it never performed.

DPGM Executed Over \$300,000 in Improper Payments to C-Systems

Three payments totaling over \$300,000 were made to C-Systems that either were in violation of the FAR or were not used to pay for goods or services within the scope of the contract. These payments were an advance payment of \$226,678, and two subsequent payments of \$77,448 and \$1,408 that were outside the scope of the contract, which could have been prevented had proper internal controls existed in the contract payment process.

FAR 32.402 limits agency authority to grant advance payments to certain conditions and requires that the determination be evaluated on an executive level. According to the FAR, advance payments may be provided on any contract type; however, agencies are encouraged to authorize advance payments sparingly. The FAR provides that contracting officers can recommend advance payments if the contractor: (1) gives adequate security; (2) payments do not exceed the contract amount; and (3) the agency head or designee determines, based on written findings, that the advance payment is in the public interest or facilitates national defense. This determination ensures that advance payments will not exceed the contractor's interim cash needs, the advance is necessary to supplement other

¹ This area includes Maryland, Washington, DC and Virginia.

funds or credit available to a contractor, the recipient is otherwise qualified as a responsible contractor, and the Government will benefit from performance prospects or other practical advantages.

Despite this requirement, on December 12, 2007, DPGM paid C-Systems \$226,678—the entire amount of the cost of purchasing the NPGC furniture—even though the furniture had not been delivered. Although the COTR was aware that the furniture had not been delivered or installed, he certified that the invoice should be paid and did not inform the contracting officer that the request was for an advance payment.

The contracting officer stated that she was unaware that the furniture had not been delivered and had not obtained supporting documentation for work performed prior to payment approval. Instead, she told us that she acted solely on the COTR's payment request and believed that it was the COTR's responsibility to ensure that the furniture had been delivered before requesting processing of the payment.

Standard Operating Procedure (SOP) 00 11 1² places responsibility on the COTR to review the invoice and certify that items billed have been inspected and accepted in accordance with the terms of the contract, but does not require the COTR to submit any other documentation to DPGM when requesting payment. Consequently, the contracting officer did not question the COTR's certification that the invoice was "okay to pay" when it was submitted for payment. Other agencies we contacted told us that COTRs in their organizations are required to submit documentation supporting payment requests, such as receiving reports, to evidence that the goods or services were delivered. Therefore, the improper payment could have been prevented had the SOP required documentation be submitted with COTR certifications demonstrating that the goods or services had been delivered. Instead, the COTR's failure to provide all the necessary information to the contracting officer led to an unauthorized advance payment and paid for goods and services the contractor did not provide. Since contract events occurred, the responsible COTR has left SBA, but still remains a Federal employee.

In addition to the advance payment, we identified two other payments totaling \$78,856 that were improper because they were unrelated to the NGPC contract. The two payments, which were approved by the same contracting officer involved with the advance payment, were for the delivery and installation of work stations associated with a Nashville, Tennessee furniture project. The Tennessee project

² *Small Purchases, Contracts, Grants, and Cooperative Agreements.*

was not included in the scope of work of the original contract or the subsequent modification.

Moreover, the payment requests were submitted to DPGM by a COTR who was not authorized to recommend payment on the NGPC contract. SOP 00 11 1 requires that contractor invoices be submitted to the contract's specified point of contact or COTR. Upon the COTR's approval, the invoice is sent to DPGM for final approval and payment. The contracting officer was negligent in that she did not ensure that payment requests were submitted by an authorized official. She also did not properly review the invoices and match them to the work requirements under the contract. Had she done so, she would have realized that the invoices were for work that was unrelated to the NGPC furniture contract. Also, one invoice included expenses for travel and lodging, which were not specifically authorized by the contract. According to FAR 1.603-4, contracting officers, who are delegated contracting authority, can be terminated for unsatisfactory performance. We believe that SBA should determine whether the contracting officer's approval of the two payments constituted unsatisfactory performance.

Further, because these payments were against the wrong contract, it is possible that C-Systems may have also billed SBA for this work under the contract associated with the Tennessee Project and that SBA paid the contractor twice for the same work. A call to the Tennessee District Office confirmed that the workstations had been delivered.

DPGM Inappropriately Reduced the Contractor's Debt in Pursuing Recovery of the Advance Payment

In April 2008, 4 months after SBA certified the advance payment, DPGM sent the contractor a *Demand for Reimbursement* for \$226,678. At that time, SBA officials were informed that while C-Systems was meeting its payroll, it was unable to pay its debt to SBA. Consequently, OGC and DPGM developed a plan to offset C-Systems' outstanding debt. Under the plan, DPGM agreed to reduce the \$226,678 owed by the amount of unpaid invoices for work that C-Systems performed on its other contracts with SBA as long as C-Systems paid the remaining balance within 5 days of the settlement offer.

C-Systems provided DPGM with invoices totaling \$114,182 that it claimed SBA owed it, which left a remaining balance of \$112,496. Later, when C-Systems was unable to produce the \$112,496 balance owed, DPGM agreed to offset an additional \$45,993 in invoices from other C-Systems' contracts to further reduce the balance owed to \$66,503. We determined that DPGM accepted all of the

invoices at face value without verifying whether C-Systems had actually performed the services for which it was invoicing SBA. Further, we found that the COTR and contracting officer had not approved any of the offset invoices. Consequently, we believe that DPGM improperly released C-Systems from \$160,174 in debt because it lacked the supporting evidence that the work represented by those costs had actually been performed or proof that the invoices had not already been paid.

Further, to provide an opportunity for C-Systems to work off its remaining debt, on June 27, 2008, DPGM modified an existing Office of Administration contract (SBAHQ-07-F-0180) for moving services and workstation reconfiguration. The modification exercised an option year. An e-mail message in the contract file showed that DPGM was attempting to award the option year quickly prior to the departure of the Director of OBO.

The Contractor's Misuse of Funds, Non-performance, [FOIA Ex. 3], and Less than Arm's-Length Subcontracting Are Grounds for Terminating Contracts and Debarment

We identified several issues that serve as bases for terminating C-Systems' contracts with SBA and debaring it from receiving future Government contracts. These issues include its misuse of Government funds and failure to deliver the required services, its possible [FOIA Ex. 3], and less than arm's-length subcontracting relationship. Any one of these issues is grounds for debarment under the FAR.

In November and December 2007, representatives from C-Systems requested that SBA provide advance payment to pay for furniture that it had purchased. After SBA provided C-Systems the advance payment, the contractor did not use the money as intended. Contrary to the terms of the contract and representations made by the contractor when seeking payment, C-Systems used the \$226,678 advance payment for other purposes instead of paying for the furniture. FAR 9.406-2 (a)(3) states that a contractor may be debarred for making false statements. In this case, the contractor clearly misrepresented how it intended to use the payment in fulfilling its contract with SBA.

Further, because C-Systems did not pay for the furniture, the subcontractor repossessed it, and C-Systems was unable to deliver the goods and services required under its contract. FAR 9.406-2 (b)(1)(i)(A) states that willful failure to perform terms of one or more contract is grounds for debarment. We believe that C-Systems' decision to not pay its subcontractor for the furniture demonstrates willful failure to perform the contract.

After SBA realized that it had made an improper advance payment and was seeking recovery, C-Systems' new owner informed DPGM that the company [FOIA Ex. 3]. This raised another red flag that should have been explored by SBA. According to [FOIA Ex. 3

]. Instead of questioning C-Systems about [FOIA Ex. 3], SBA continued its relationship with the contractor. Specifically, it exercised an option year on an existing contract after being informed by C-Systems' new owner that the company [FOIA Ex. 3].

We also determined that the Vice-President of C-Systems, who signed the contract with SBA, was also the owner of the subcontractor. According to corporate and business registrations in the state of Maryland, [FOIA Ex. 6] registered PBE on March 9, 2007. Six months later, as the Vice-President of C-Systems, [FOIA Ex. 6] signed the NPGC furniture contract where her other company, PBE, served as its subcontractor.

[FOIA Ex. 6] executive power over both C-Systems and PBE constituted a conflict of interest because as the Vice-President of C-Systems and the owner of PBE, [FOIA Ex. 6] was in a position to control the actions of both companies. For example, she could have influenced how C-Systems used the advance payment, and as owner of the subcontractor, directed the repossession of the furniture. As a result, no clear distinction existed between C-Systems and PBE, making it difficult to determine whether the subcontractor was acting independently in repossessing the furniture.

Although there is no requirement that such conflicts be disclosed to SBA, the Agency believed that the subcontractor was owned by a different party, and was not aware that there was a less than arms-length transaction between the two companies. Operating under the belief that PBE was independent of C-Systems, SBA subsequently awarded a contract to PBE for the repurchase of the furniture. Therefore, we believe that the conflict of interest created by the Vice-President's ownership of PBE is a business integrity issue, which is also basis for debarment under the FAR.

We believe that C-Systems' misuse of contract funds, nonperformance of its contract, and [FOIA Ex. 3] seriously and directly affect C-Systems' ability to meet its responsibility on existing and future Government contracts. Consequently, SBA should terminate its relationship with C-Systems and seek to debar it from receiving future Government contracts.

Actions Taken by Senior Contracting Officers May Be Grounds for Disciplinary Action, Including Termination of Contract Authority

Contracting authority conveys upon contracting officers the authority to enter into contracts on behalf of the Government and to financially bind the Government up to the limits of their delegated authority. This responsibility is conveyed upon contracting officers through a delegation of warrant authority. According to FAR 1.603-4, an officer's contracting authority can be terminated for unsatisfactory performance, among other reasons. SBA policy governing employee conduct and performance, which covers an employee's failure to carry out his/her duties, includes a variety of disciplinary actions that can be taken, including issuing a Letter of Reprimand and suspending an employee. The two contracting officers involved with the NGPC furniture contract did not follow applicable rules and regulations and signed documents without full knowledge of what they were approving and without adequate and necessary information. Moreover, they made decisions without informing their superiors of their decisions and did not consider whether they or SBA had the legal authority to act. Their actions raise questions about the adequacy of their performance, and are particularly troubling because the two contracting officers were the Chief and Deputy Chief of DPGM.

The Deputy Chief improperly awarded the initial contract and subsequent modification. Specifically, she signed a contract without knowing that it was a sole-source contract to an SDVO small business. Instead, the Deputy Chief relied on the research of, and decisions made by, others and approved the sole-source award contract in violation of the Competition in Contracting Act of 1984. Moreover, 19 days following the contract award, she approved the modification, which added funding to an improper sole-source award without approval from NGPC or OCA, who initiated the original contract.

The Chief of DPGM executed improper payments to C-Systems. Specifically, she certified that SBA had received and inspected the furniture without knowing that the furniture had not been delivered. She also authorized payment for two invoices that were unrelated to the contract. As a result, she improperly approved over \$300,000 on the contract. During the course of the contract, both individuals signed important documents without complete information concerning what they were certifying with their signatures. As a result, the Chief and Deputy Chief placed SBA's property, resources, and interests at risk.

Also of great concern was that after becoming aware that C-Systems could not deliver the furniture, neither individual notified their superiors in OBO or sought advice from OGC before making further decisions on the contract. Instead, the Chief approved the immediate repurchase of the furniture from the subcontractor

without consulting OGC, even though legal issues may have been involved as SBA was paying a company for furniture it arguably already owned. As a result, we believe that the Office of Management and Administration should review the actions taken by the Chief and Deputy Chief of DPGM and determine whether their performance was unsatisfactory, thus meriting disciplinary actions and possibly, termination of their contracting authority.

RECOMMENDATIONS

We recommend that the Associate Administrator for the Office of Management and Administration:

1. Establish internal controls that ensure that OBO and DPGM are unable to modify contracts without the appropriate supporting documentation, including a statement of work.
2. Revise SOP 00 11 1 to require that COTRs submit with their payment requests supporting documentation, such as a receiving report, to show that the contractor has delivered the goods or services that are being submitted for payment.
3. Determine whether the \$78,856 in invoices for Task Order#1-Nashville, TN was paid under the proper contract or purchase order, and if a duplicate payment was made, recover any funds from the contractor as necessary.
4. Determine whether the contractor performed the work supporting SBA's \$160,174 offset of C-Systems' debt and whether the invoices were already paid. Seek reimbursement where work was not performed or duplicate payments were made.
5. Terminate SBA's contractual relationship with C-Systems.
6. Initiate proceedings to debar C-Systems from receiving future Government contracts.
7. Determine whether actions taken by the contracting officers warranted unsatisfactory performance, and require disciplinary actions, including terminating their contract authority, if appropriate.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

On February 23, 2009, we provided a draft of the report to SBA's Office of Management and Administration for comment. On March 27, 2009, the Acting Associate Administrator, Office of Management and Administration, provided verbal comments, agreeing with the report's findings and most of the recommendations. Specifically, he agreed with recommendations 1, 3, 4, 5, and 7; proposed an alternative action to recommendation 2; and neither agreed nor disagreed with recommendation 6. Management's comments and our evaluation of them are summarized below.

Recommendation 1

Management Comments

Management agreed to establish controls to ensure that contract modifications are adequately supported, and stated that has initiated steps to address the recommendation. Specifically, DPGM revised its procedures and practices requiring that all *Requisition for Supplies, Services, and Federal Assistance* forms include a statement of work identifying procurement requirements. The Office of Management and Administration also re-emphasized its policy that procurements may not be placed into Oracle without approval from authorized officials. Management also indicated that in addition to communicating this information to all Agency procurement officials, these requirements are clearly outlined in DPGM's draft SOP, which is scheduled to be finalized by September 30, 2009, pending Agency and OGC approval.

OIG Response

We believe management's comments are responsive to the recommendation and that proposed actions, which will be fully implemented once the SOP is finalized, should satisfy the recommendation.

Recommendation 2

Management Comments

Management proposed an alternative to the action identified in recommendation 2 as it believes that requiring COTRs to submit supporting documentation with all payment requests will be too burdensome. In lieu of the recommended action, in FY 2008 the Office of Management and Administration trained Agency COTRs.

The training addressed payment certification, including advance payments. Upon completion of the course, COTRs were tested, received a certificate, and their information was placed in DPGM's authorized COTRs database. The Acting Associate Administrator stated he would provide us the information necessary to close this recommendation by April 30, 2009.

OIG Response

We commend the Agency for taking steps to ensure that COTRs are trained on the proper procedures for authorizing payments. However, we do not believe the actions proposed will fully address the issues identified by the audit, unless management periodically reviews payment transactions to ensure that COTRs follow payment procedures emphasized in training. Therefore, we are asking that management consider taking additional steps to ensure that COTRs comply with Agency procedures and provide those actions to us.

Recommendations 3 and 4

Management Comments

Management agreed with the recommendations, and stated that it is taking steps to ensure that C-Systems' contract invoices are properly reviewed and paid. According to Agency officials, C-Systems mistakenly provided the wrong contract number when it submitted \$78,856 in invoices for Task Order#1-Nashville, TN, causing the payment to be made against the wrong contract. Currently, DPGM is reviewing C-Systems' contract files to ensure that the \$78,856 was not also paid under the correct contract number. The Agency's review of C-Systems' contract files will also address recommendation 4 by ensuring that C-Systems performed the work supporting the offset invoices and determining whether the contractor received duplicate payments. The Agency will complete its review by May 30, 2009.

OIG Response

We consider management's proposed actions to be responsive to the recommendations.

Recommendation 5

Management agreed to terminate its relationship with the contractor, stating that it recently concluded all of its contracts with C-Systems. Management also stated that it would provide us evidence of this by April 15, 2009.

OIG Response

We consider management's comments to be responsive to the recommendation.

Recommendation 6

Management neither agreed nor disagreed with the recommendation, but stated that it plans to consult with its Office of General Counsel (OGC) to determine whether initiating debarment action against C-Systems is feasible, appropriate, and warranted based on the results of this review and OGC's investigation. The Agency will make its final determination on the initiation of debarment proceedings and communicate its decision to the OIG by April 30, 2009.

OIG Response

We do not consider management's comments to be fully responsive to the recommendation as it has not yet reached a decision on whether to initiate debarment proceedings, and request that it provide us its decision by April 30, 2009.

Recommendation 7

Management agreed with the recommendation, stating that since the review was initiated, the two contracting officers have taken other positions within the Agency. At this time neither of the contracting officers has the authority to execute Agency-wide contracts; however, but they may retain their contract authority. The Office of Management and Administration has agreed to determine whether their performance was unsatisfactory and to take appropriate disciplinary action, including terminating their contracting authority, as necessary. These actions will be completed by May 30, 2009.

OIG Response

We consider management's proposed actions to be responsive and request that management inform the OIG of its decision once one is reached.

ACTIONS REQUIRED

We request that by April 30, 2009, management provide written comments that more fully respond to recommendation 3. Specifically, management should indicate whether it will periodically review payment transactions to ensure that

COTR training provided in FY 2008 was effective. We also request that management disclose decisions subsequently rendered and actions planned in response to recommendations 6 and 7.

We appreciate the courtesies and cooperation of the Office of the Management and Administration and General Counsel during this review. If you have any questions concerning this report, please call me at (202) 205-[FOIA Ex. 2].