



Audit Report



OIG-13-046

GENERAL MANAGEMENT: BEP's Administration of the Burson-Marsteller Public Education and Awareness Contract Was Deficient

August 13, 2013

Office of
Inspector General

DEPARTMENT OF THE TREASURY

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Abbreviations

BEP	Bureau of Engraving and Printing
CO	contracting officer
COR	contracting officer's representative
DTAP	Department of the Treasury Acquisition Procedures
FAR	Federal Acquisition Regulation
FFP	firm-fixed-price
FMFIA	Federal Managers Financial Integrity Act of 1982
FRB	Board of Governors of the Federal Reserve System
IGCE	independent government cost estimate
OMB	Office of Management and Budget
OPE	Treasury's Office of the Procurement Executive
T&M	time and materials

*The Department of the Treasury
Office of Inspector General*

August 13, 2013

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This report provides the results of our audit of the Bureau of Engraving and Printing's (BEP) contracting activities related to the 2006 Public Education and Awareness Program contract with Young & Rubicam, Inc., doing business as Burson-Marsteller (TEP-07-003). We conducted this audit in response to concerns raised by the Board of Governors of the Federal Reserve System (FRB) regarding BEP's contracting practices. FRB became aware of potential problems when reviewing BEP's Burson-Marsteller contract file in preparation for the transfer of responsibility for the public education and awareness program effective October 1, 2011.

Our objective was to determine whether BEP conducted its contracting activities in accordance with federal and Department of the Treasury (Treasury) acquisition requirements and BEP policies and procedures. While we initially intended to sample other BEP contracts as part of this audit, we decided to limit our review to the 2006 Burson-Marsteller contract. This decision was based on (1) BEP's lack of progress in implementing corrective actions related to reviews performed in 2006 and 2008 by Treasury's Office of the Procurement Executive (OPE),¹ (2) the consistency of our findings on the Burson-Marsteller contract with those in OPE's reviews, (3) the transfer of some

¹ OPE is responsible for assisting Bureau Chief Procurement Officers with improving the operational efficiency and effectiveness of programs and providing contracting offices with an acquisition management consulting and support service. OPE schedules bureau acquisition assessments based on risk, with assessments generally conducted every 3 years.

BEP procurement activities to other bureaus within Treasury,² and (4) the concerns raised by FRB. We believe that until BEP management addressed the problems that had been previously identified, additional contract reviews would not be a wise use of our resources and only reinforce the findings in this report and OPE's prior reports.

We performed our audit fieldwork from April 2011 to April 2013. Appendix 1 contains a more detailed description of our audit objectives, scope, and methodology.

Results in Brief

BEP did not maintain complete contract file documentation nor did it properly administer the 2006 contract with Burson-Marsteller. We consider BEP's lack of oversight and management of the contract a significant deficiency in contracting practices that is the result of BEP not addressing known contracting problems, effectively managing acquisition personnel and staffing levels, nor implementing necessary policies and procedures.

Due to the poor condition of the internal control environment over the public education and awareness program contract, we are recommending that BEP determine if the problems are systemic to overall contracting practices and whether the deficiencies should be reported as a material weakness in accordance with Treasury's Federal Managers Financial Integrity Act of 1982 (FMFIA)³ process. We are also recommending that BEP (1) establish standardized acquisition policies and procedures, train employees in the use of the new policies and procedures, and implement an accountability plan to ensure they are followed; (2) perform an inventory of all

² On February 13, 2012, the Treasury Senior Procurement Executive notified bureaus of a Treasury initiative to consolidate all general procurement operations in the Department to a shared service provider. Under this initiative, shared services are to be provided by either the Bureau of the Public Debt's Administrative Resource Center or the Internal Revenue Service. However, procurements in direct support of manufacturing at BEP will remain at BEP. Implementation of the initiative occurred in March 2013. Effective in October 2012, the Bureau of the Public Debt and the Financial Management Service were consolidated and redesignated as the Bureau of the Fiscal Service.

³ FMFIA requires each executive agency to have in effect internal accounting and administrative controls established in accordance with standards prescribed by the Comptroller General. Each year executive agencies must prepare a statement asserting that the agency's system of internal accounting and administrative controls fully complies with the standards.

contract files to identify missing documents and remediate files as necessary; (3) implement an accountability mechanism to ensure that existing policies requiring management to timely address recommendations from internal and external reviews be followed; (4) increase monitoring of the acquisition function's operational effectiveness, internal controls, and compliance with laws and regulations; (5) ensure that staffing levels are commensurate with the bureau's acquisition activities; and (6) determine whether the contractor made a good faith effort to comply with its subcontracting plan for the 2006 contract and take action to assess liquidated damages as appropriate.

Due to BEP's deficient oversight of the 2006 contract with Burson-Marsteller, we have initiated a separate audit of the contractor's records. The objectives of that separate audit are to assess Burson-Marsteller's accounting and labor recording system to ensure it is adequate to track and invoice costs in accordance with the contract and the Federal Acquisition Regulation (FAR). That audit is on-going.

In February 2012, we discussed our preliminary findings with BEP senior management and a representative from OPE. To address these findings and improve BEP's internal controls over procurement, in May 2012 OPE placed conditions limiting BEP's procurement authority.⁴ Since that time, BEP and OPE have jointly developed an action plan to address the identified deficiencies. Actions taken by BEP included hiring a contractor to perform a quality assurance review of contract actions, reviewing file management practices, and identifying and providing training to acquisition staff.

⁴ Conditions placed on BEP's procurement authority included the requirement that BEP's Office of Chief Counsel review all proposed contract awards valued at \$100,000 or greater for legal sufficiency. In addition, BEP was required to fund an OPE quality assurance review of all work-in-process contracts as well as an overall organizational review of the BEP Office of Acquisitions. The first report based on these reviews was issued in January 2013 and addressed quality assurance reviews of work-in-process contracts. Specifically, the report addressed weaknesses in (1) BEP's file structure and documentation, (2) inaccurate Federal Procurement Data System information, and (3) contract writing procedures and use of FAR clauses. As of April 2013, at BEP's request, additional reviews were still being conducted. OPE plans to re-assess the conditions placed on BEP's procurement authority in September 2013.

In a written response, BEP management concurred with our recommendations and provided a summary of actions taken and planned to implement the recommendations. The response also stated that BEP had taken actions to address most, if not all of the recommendations. The management response is summarized in the Recommendations section of the report and the text of the response is included as appendix 2. We believe BEP's corrective actions, taken and planned, are responsive to our recommendations.

Background

Public education and awareness programs are intended to promote a seamless introduction of new currency into global commerce. Before a redesigned denomination of U.S. currency is issued into circulation, BEP and its key partners, FRB and U.S. Secret Service (Secret Service), consider it important that domestic and international users and cash handlers are aware of the changes in the note's features so they will accept and use the currency. Since redesigned currency co-circulates for a period of time with the previously issued designs, the target audiences also need to understand that older currency designs remain valid legal tender and those older notes will not be devalued. Until transferred to FRB in fiscal year 2012, BEP administered the public education and awareness programs in coordination with FRB and Secret Service.

BEP launched a global public education and awareness program in 2002 for the introductions of the redesigned \$20 note (October 2003), \$50 note (September 2004), and \$10 note (March 2006). To support this effort, BEP awarded a 5-year contract that had a time and materials (T&M)⁵ component and a firm-fixed-price (FFP) component, to Burson-Marsteller. At

⁵ A T&M contract provides for acquiring supplies or services on the basis of direct labor hours, which include wages, overhead, general and administrative expenses, and profit at specified fixed hourly rates; and the actual cost for materials. This type of contract provides no positive profit incentive to the contractor for cost control or labor efficiency. Therefore, appropriate government monitoring of contractor performance is required to provide reasonable assurance that contractors use efficient methods and cost controls. With a T&M contract, the contract provides a ceiling price that the contractor exceeds at its own risk. Due to the relative risk of the contract type to the government, T&M contracts may only be used if the contracting officer provides written justification that no other type of contract is suitable.

completion, expenditures under the contract totaled \$55.2 million.

After the redesigned \$10 note was introduced in March 2006, BEP launched the public education and awareness program for the introduction and release of the redesigned, or NexGen, \$5 and \$100 notes. To assist with this effort, BEP awarded Burson-Marsteller another 5-year contract with a ceiling of \$36.2 million, but only with a T&M component. Over the contract period, the contract ceiling was increased to \$57.5 million. BEP officials told us that the ceiling was increased due to unanticipated costs to provide the public with brochures and other printed materials on the currency redesign (an activity referred to as “materials fulfillment”) as well as an extended period of performance due to delays in the NexGen \$100 note issuance and underestimated program costs.

The scope of work under the 2006 contract included educating the public through completing tasks associated with research, program branding, stakeholder and media outreach, educational material development, materials fulfillment, and an interactive website. While the scope of the contract included the development of public education materials, the printing of all materials was done under a separate agreement between BEP and the Government Printing Office. For the NexGen \$5 and \$100 note public education and awareness program, printing costs totaled \$2.9 million.

For the NexGen \$5 note issued in March 2008, the public education and awareness program emphasized domestic and Latin American markets and the cash handling and transit industries. The public education and awareness program for the yet-to-be issued NexGen \$100 note was anticipated to focus on the gaming industry and international markets. For that effort, printed educational material for the NexGen \$100 note was published in 18 languages. Figure 1 on the next page is an example of a foreign language educational brochure produced for the NexGen \$100 note education program in Vietnamese.

Figure 1. NexGen \$100 Take One Card in Vietnamese (front and back)

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Source: BEP's Public Education and Awareness Program Office

The NexGen \$100 note was unveiled in April 2010 with issuance planned for February 2011. However, this release was delayed due to production problems.⁶ As a result of these problems, FRB announced in April 2013, a new release date of

⁶ *Bill Manufacturing: Improved Planning and Production Oversight Over NexGen \$100 Note Is Critical*, [OIG-12-038](#) (Jan. 24, 2012). As discussed in the report, we found that BEP did not (1) perform necessary and required testing to resolve technical problems before starting full production of the NexGen \$100 note, (2) implement comprehensive project management for the NexGen \$100 note program, nor (3) adequately complete a comprehensive cost-benefit analysis for the disposition of the approximately 1.4 billion finished NexGen \$100 notes already printed but not accepted by FRB.

October 8, 2013. The delay also resulted in planned work under the public education and awareness program contract not being completed. BEP spent about \$33 million for the contracted services. According to BEP, approximately \$9 million and \$24 million were spent on the redesigned NexGen \$5 note and redesigned NexGen \$100 note, respectively.

After the public education and awareness program contract ended in September 2011, FRB assumed responsibility for the program effective October 1, 2011.

Findings

Deficient Administration of the 2006 Burson-Marsteller Contract

BEP did not properly administer the 2006 Burson-Marsteller contract. Contract administration weaknesses included: (1) missing contract documentation; (2) inadequate subcontractor oversight; (3) no evidence of price negotiations for certain task orders; (4) non-compliance with the FAR in soliciting, awarding, and administering the task order for materials fulfillment; (5) a lax process for approving payments; and (6) improper contracting officer's representative (COR) contact with the contractor when developing government cost estimates. We attribute these deficiencies to BEP's failure to (1) correct contracting problems identified by prior reviews and (2) implement necessary contracting policies and procedures. Also impacting contract administration was BEP's inability to maintain adequate acquisition staffing levels, as well as turnover in key acquisition personnel. In terms of turnovers, five different contracting officers (CO) were assigned to the 2006 Burson-Marsteller contract during its 5-year life. While there was some continuity provided by the fact that the same individual served as the COR during that time, we noted problems with the way COR responsibilities were carried out.

Missing Contract Documentation

According to FAR Subpart 4.8 *Government Contract Files*, the head of each office performing contract administration functions shall establish files containing the records of all contractual actions and the documentation in the files shall be sufficient to constitute a complete history of the transaction in the event of litigation or congressional inquiries. The payment office is required to maintain invoices, vouchers, and supporting documents. The Department of the Treasury Acquisition Procedures (DTAP) supplements the FAR and has a Contract File Content Checklist for standardized minimum documentation requirements. The checklist may be tailored to bureau-specific requirements, but should maintain its basic structure and intent.

Consistent with the contract file documentation findings in OPE's 2006 and 2008 reports, BEP's Burson-Marsteller contract file was missing critical documents and was not maintained in accordance with federal and Treasury requirements. Missing contract file documentation included the following:

- type and extent of market research conducted to establish pricing
- justification for the need of a T&M contract
- pre-award legal review of the contract
- contract solicitation
- price proposals
- oral presentation records
- technical proposals
- contractor's subcontracting plan
- technical evaluations of proposals
- record of negotiations
- approval of the award
- an original, signed contract
- post-award conference orientation between Government representatives and the contractor
- security requirements and evidence of required contractor clearances
- CO consent to proposed subcontracts
- subcontracting reports submitted by the contractor

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- chronological list identifying the CO at the time of contract award and all successor COs, with inclusive dates of responsibility
 - original copies of modifications and supporting documents, signed and executed by the contract administration office
 - modification for the increase in the contract ceiling
 - payment file invoice support documentation for 2007 through 2009

Even though the FAR states that contracts and related records or documents for contracts that exceed the simplified acquisition threshold for acquisitions must be retained for 6 years and 3 months after final payment,⁷ BEP was unable to locate the pre-award files for both 2002 and 2006 public education and awareness program contracts. These files should have included all proposals BEP received in response to its solicitations. When asked about this, the BEP Chief of Acquisitions attributed the missing files to employee turnover and the lack of adequate file retention policies and procedures.⁸ In a separate but related discussion, the former BEP Chief of Acquisitions told us that the last employee known to have possession of the pre-award files was no longer working at BEP, and the files were not found after the employee's departure. Without these critical documents, we could not conclude whether BEP adequately planned, solicited, evaluated, and awarded the contracts in accordance with federal and Treasury requirements and BEP policies and procedures.

In an attempt to obtain sufficient documentation for our audit, we requested missing documentation from Burson-Marsteller. The documentation provided by the contractor included their technical and management proposals for the 2002 and 2006 contracts, subcontracting documentation for the 2006 contract, and certain invoice documents. While the documentation provided was of some help to our audit, the contractor could not be expected to provide all documentation necessary for the contract file, especially the pre-award documentation such as the proposals from the unsuccessful bidders.

⁷ FAR 4.805 *Storage, handling, and disposal of contract files*

⁸ The individual serving as BEP Chief of Acquisitions during our audit assumed this position in March 2010. He previously served as the Treasury Department's Director of Procurement Services.

Inadequate Subcontractor Oversight

BEP did not ensure that Burson-Marsteller's use of subcontractors complied with the contract, the FAR, or the Small Business Act.⁹ Based on our interviews with the various COs responsible at different times for the 2006 contract and our review of the contract files, we found no evidence that any of the COs approved subcontracts awarded or monitored the contractor's compliance with its subcontracting plan.

Subcontracts Not Approved by Contracting Officers

According to FAR Subpart 44.2 *Consent to Subcontracts*, the CO is responsible for ensuring that proposed subcontracts are appropriate for the risks involved and consistent with sound business judgment and contracting practices. If the contractor does not have an approved purchasing system, consent to subcontract by the CO is required for certain subcontracts. Additionally, the FAR states that careful and thorough consideration for a subcontract is necessary when, among other things, close working relationships or ownership affiliations exist between the prime and subcontractor or subcontracts are proposed on a cost-reimbursement, T&M, or labor-hour basis.

BEP did not properly handle 36 subcontracts worth \$7.5 million during the 5-year contract period. Furthermore, Burson-Marsteller awarded 14 of the 36 subcontracts, worth \$5.8 million, to affiliates. Contrary to the FAR, BEP did not verify the adequacy of the contractor's purchasing system or approve the proposed subcontracts.

Instead of a CO approving subcontractors on the 2006 contract, we found the COR, acting outside her authority, approved the subcontractors. The COR communicated directly with Burson-Marsteller regarding the purpose of the proposed subcontracts, the capabilities of the proposed subcontractors, costs, and the basis for the contractor's recommendation of desired subcontractors. When questioned about this, the COR told us that she was not aware that she was acting outside her

⁹ Public Law 85-536

authority and stated that she should have been more knowledgeable. Furthermore, several COs we interviewed told us they did not approve subcontractors because they were unaware it was their responsibility and thought it was Burson-Marsteller's responsibility as the prime contractor.

Subcontracting Plan Not Monitored

The Small Business Act expresses the Government's policy of assisting and protecting the interests of small and specifically classified businesses¹⁰ to preserve free competition and ensure that a fair proportion of Government contracts and subcontracts are awarded to such businesses. FAR Part 19 *Small Business Programs* contains provisions to implement the acquisition-related sections of the Small Business Act by establishing the responsibilities of contracting personnel to evaluate subcontracting plans¹¹ and monitor a contractor's compliance with those plans. According to FAR 19.704 *Subcontracting plan requirements*, the contractor is responsible for submitting annual and semi-annual subcontracting reports for the Government to determine the extent of compliance by the contractor with the subcontracting plan. The CO is responsible for ensuring the reports are completed and submitted.

FAR also states that at the completion of the contract or any option year, the CO is responsible for determining if the contractor made a good faith effort to comply with its subcontracting goals. If a contractor fails to make a good faith effort to comply with its subcontracting plan and goals are not

¹⁰ The Small Business Act has provisions for exclusive competitive participation by small businesses; socially and economically disadvantaged businesses; businesses located in historically underutilized business zones; service-disabled veteran-owned businesses; economically disadvantaged women-owned businesses; and women-owned small businesses.

¹¹ FAR Subpart 19.7 *The Small Business Subcontracting Program* states that subcontracting plans are prepared by the contractor and are required for negotiated non-construction acquisitions that are expected to exceed \$650,000 and that have subcontracting possibilities. Some of the required items in the subcontracting plan include separate percentage goals for using small businesses, statement of the total dollars planned to be subcontracted to small businesses, and a description of the efforts the contractor will make to ensure that small and specifically classified businesses have an equitable opportunity to compete for subcontracts.

achieved, the Government may seek liquidated damages from the contractor.¹²

BEP's contract file did not contain subcontracting reports filed by Burson-Marsteller. However, with the assistance of BEP's Small Business Representative (an employee new to that position at the time of our audit), we obtained the reports from a centralized Government database. Burson-Marsteller's final subcontracting report showed that at the completion of the contract, it did not meet its subcontracting goals. Although the contractor submitted the required subcontracting reports, we found no evidence that BEP's Office of Acquisitions acknowledged receipt of the reports or reviewed them for compliance with the submitted subcontracting plan. As a result, there was no evidence that BEP determined whether Burson-Marsteller had made a good faith effort to comply with the subcontracting plan. In the case of this contract, the potential liquidated damages for a lack of a good faith effort were approximately \$460,000.

When we discussed the lack of subcontractor oversight with the various COs assigned to the contract, we found they lacked an understanding of the requirements to approve and monitor subcontracts. The CO responsible for the contract at the time of our audit acknowledged that BEP did not carry out the required responsibilities.

No Evidence of Price Negotiations for Certain Task Orders

We found no evidence that BEP engaged in price negotiations with Burson-Marsteller before awarding task orders for Option Year 3 (2010) and Option Year 4 (2011). Although the labor rates were established at the time of award of the master contract, the CO provided no explanation for why the contractor's proposed labor hours or mix of labor hours for 2010 and 2011 were considered reasonable. Moreover, the task order

¹² According to FAR 19.705-7 *Liquidated damages*, in determining whether a contractor failed to make a good faith effort to comply with its subcontracting plan, a CO must look to the totality of the contractor's actions, consistent with the information and assurances provided in its plan. Liquidated damages are defined as the amount of damages attributable to the contractor's failure to comply and shall be an amount equal to the actual dollar amount by which the contractor failed to achieve each subcontracting goal.

prices were based on total labor hours that were substantially higher than the independent government cost estimates (IGCE) prepared by the COR.¹³ In the end, the task orders for these 2 years were issued at exactly the same prices or at higher prices than proposed by Burson-Marsteller and were \$5.5 million higher than the IGCE. It should be noted that for Option Year 1 (2008) and Option Year 2 (2009), the IGCE exceeded the contractor's proposed prices but BEP nonetheless was successful in negotiating prices that were below that of the contractor's proposal.

Table 1 shows the awarded amounts compared with the IGCE prepared by the COR and the amount proposed by the contractor for the contract period.

Table 1. Burson-Marsteller Contract Task Order Price Comparison (in millions)

Year	Task Order Price		Awarded
	IGCE	Burson-Marsteller Proposed	
Base Year (2007)	\$7.6	\$7.0	\$7.0
Option Year 1 (2008)	\$18.3	\$15.9	\$15.7
Option Year 2 (2009)	\$20.1	\$18.6	\$17.8
Option Year 3 (2010)	\$14.6	\$19.2	\$19.3
Option Year 4 (2011)	\$2.2	\$3.0	\$3.0

Source: BEP IGCEs and Burson-Marsteller Cost Proposals and Budget Summary Sheets

The FAR states that the CO is responsible for negotiating the final price agreement with the contractor.¹⁴ The FAR also states that to perform a cost analysis, the CO may use techniques such as relying on an IGCE or performing market research.¹⁵ In the case of Burson-Marsteller, the COR provided the CO with an IGCE and a technical review of the cost proposal for each task order. However, the contract file contained limited

¹³ An IGCE is conducted to check the reasonableness of a contractor's cost proposal and to make sure that the offered prices are within the budget range for a particular program. It documents the government's assessment of the program's most probable cost and ensures that enough funds are available to execute it.

¹⁴ FAR 15.405 *Price negotiation*

¹⁵ FAR 15.404 *Proposal analysis*

documentation of price information and no evidence that a meaningful analysis or negotiations occurred for 2010 and 2011. In addition, in 2011 the CO did not consider modifying the price of the task order in response to scope changes related to the materials fulfillment task order. Specifically, in July 2011, the COR completed a technical review and recommended reducing the monthly FFP on the materials fulfillment task order from approximately \$70,000 to \$50,000 because of delays associated with the release of the NexGen \$100 note.¹⁶ The CO did not take the COR's recommendation into consideration or renegotiate the monthly FFP amount. From that aspect alone, approximately \$60,000 in costs could have been avoided.

When asked why the task order prices were not negotiated, the CO responsible for the contract from June 2010 through the end of the contract stated that he believed the materials fulfillment task order pricing was established as FFP at the beginning of the contract and could not be modified with each task order. The CO's answer demonstrates a lack of knowledge about the FAR and the contract which provided that task order pricing would be determined when each task order is issued. This part of the contract gives the CO the ability to negotiate each task order in the best interest of BEP. In addition, the FFP amount could have been modified as a result of a change in the scope of the work. Related to the T&M task orders, the CO stated that there was significant time pressure to issue task orders and this was a factor in the lack of meaningful price negotiations.

Non-compliance with the FAR in Soliciting, Awarding, and Administering the Task Orders for Materials Fulfillment

A service provided by Burson-Marsteller under the contract was materials fulfillment. Materials fulfillment included the distribution of educational materials, management of a call center, materials inventory and storage, and administrative oversight of the operation. The task orders awarded for materials fulfillment were collectively the most expensive task orders

¹⁶ The newly designed NexGen \$100 note was scheduled to be issued in February 2011. In April 2010, BEP started to notice creasing issues in the production of the notes. BEP and FRB officials stated that issuing flawed notes could cause the public to question note authenticity. In October 2010, FRB announced a delay in the issuance of the NexGen \$100 notes.

issued under the contract, with billings totaling \$6.2 million over the 5-year contract period. Each annual task order included three categories of charges for materials fulfillment. The total charges by category were (1) \$3.2 million for labor associated with oversight and call center management using a monthly FFP amount, (2) \$1.0 million in direct costs using a fixed-rate-per-box processing fee, and (3) \$2.0 million for other direct costs including shipping and storage.

We noted problems with BEP's process for soliciting, awarding, and administering the \$3.2 million of FFP charges for labor associated with oversight and call center management. The FFP portion ranged from approximately \$55,000 to \$70,000 per month over the 5-year contract period. In 2006, BEP solicited and awarded the contract, including materials fulfillment, as a higher risk T&M contract, but did not document the justification for the contract type.¹⁷ A similar contract was awarded to Burson-Marsteller in 2002 but BEP awarded a contract that included both FFP and T&M task orders. In the 2002 contract, BEP issued the materials fulfillment task orders as FFP for labor associated with oversight and call center management. Given the availability of historical data, we believe BEP contracting personnel should have used the information from the 2002 contract to define the requirements and use a less risky contract type, FFP, for the materials fulfillment task orders when soliciting the 2006 contract. This was not done. In fact, the 2006 contract was solicited and awarded as a T&M contract in its entirety.

For the contract type, the terms of the 2006 contract state "This is a Time and Material Contract;" however, 3 months after award, BEP issued the first materials fulfillment task order as a "FFP with T&M (IDIQ)."¹⁸ According to the FAR, the CO is to ensure compliance with the terms of the contract and to safeguard the interests of the Government in its contractual relationships.¹⁹ Initially in June 2006, in conjunction with the posting of the solicitation on the FedBizOpps.gov website, a

¹⁷ FAR 16.601(c)(1) states that a T&M contract may only be used if the CO prepares a determination and findings that no other contract type is suitable.

¹⁸ IDIQ stands for Indefinite Delivery, Indefinite Quantity.

¹⁹ FAR 1.602-2 *Contracting Officers' Responsibilities*

potential bidder asked BEP to consider changing the contract to an "IDIQ contract using Firm-Fixed-Price and Time and Materials task/delivery orders." BEP responded that the solicitation would not be amended and it would remain a T&M-only contract. While it may appear that BEP's decision to later change the task orders to FFP would reduce the relative contract risk for the Government, in fact, the price agreed to by BEP was not awarded in accordance with the terms established at the time of solicitation, competition, and award of the master contract. Further complicating matters, the solicitation and contract contained inconsistencies in the use of FAR clauses, by including FFP clauses in a T&M contract. The FFP task orders were awarded at the T&M contract ceiling amount, as proposed by Burson-Marsteller, without adequate competition as a FFP award and without evidence of price negotiation.

We interviewed the various COs responsible for the contract from 2006 to 2011 and they told us that they were unaware of the existence of the FFP task orders. The current CO was unfamiliar with the FFP terms of the materials fulfillment invoices even though he approved them for payment. In addition, when asked about how the FFP was established and why BEP agreed to the FFP, the COR stated that the FFP was established as part of the 2002 contract with Burson-Marsteller. She told us that when the 2006 contract was awarded to Burson-Marsteller, the FFP portion of the task order was simply "carried over" from the previous contract. The COR stated that the materials fulfillment task order was confusing to her and was an element of the program she did not monitor. Both the COR and the CO responsible from June 2010 through the end of the contract told us that the contractor would be able to provide a better explanation of the materials fulfillment task order and related charges on the invoices. We believe that these are matters that BEP contracting personnel should be able to explain.

In total, BEP spent \$3.2 million on the FFP portion related to the materials fulfillment oversight and call center management. There was no evidence that the FFP portion of the task order was competed or otherwise negotiated to help ensure the best price for BEP.

Lax Process for Approving Payments

Over the life of the 2006 contract, BEP paid Burson-Marsteller \$32.8 million. The CO responsible from June 2010 to the end of the contract and the COR did not perform thorough reviews of invoices submitted by the contractor thereby increasing the risk of paying for unallowable, unsupported, or unreasonable costs.

FAR requires the CO to make a determination as to the allowability of costs and approve vouchers for payment.²⁰ The 2006 contract states that both the CO and COR should receive a copy of the invoice and support documentation, and no payment should be made until a signature is obtained from both parties. According to guidance from Office of Management and Budget's (OMB) Office of Federal Procurement Policy, *A Guide to Best Practices in Contract Administration*,²¹ CORs are in the best position to assess the reasonableness of costs and expenditures on invoices. The guide also states that contracting and financial officials should always check the mathematical accuracy of the voucher to avoid any overpayment to the contractor. In addition, BEP's Contract Administration Guide provides a list of required steps constituting a proper invoice review by the CO and COR. The list includes a review for accuracy of labor rates, hours billed, other direct costs, subcontractor costs, and support documentation.

Neither the CO nor the COR performed a detailed line-by-line review of the invoices and no one at BEP checked the mathematical accuracy of the invoices. In our interviews, BEP contracting personnel expressed confusion as to their roles and responsibilities related to invoice approval. The COR stated that she spot-checked the invoices for names that looked familiar, the reasonableness of hours charged, and to ensure the task order ceiling was not exceeded. The COR, however, did not, as part of her review, determine that receipts provided by the contractor supported the direct costs being invoiced. The CO stated that he only checked each invoice for correct labor rates and that the

²⁰ FAR 42.302 *Contract administration functions*

²¹ The OMB guidance, dated October 1994, contains best practices in contract administration, including roles and responsibilities of the administrative CO, COR, and payment office in reviewing and processing vouchers.

task order ceiling was not exceeded. According to the CO, the COR was responsible for performing a thorough review of invoices. Another gap in the review of invoices was that personnel in BEP's Office of Financial Management told us they were not checking mathematical accuracy of the invoices and would pay them if they were signed off by the CO and COR.

As part of our audit, we checked the mathematical accuracy of all invoices related to the 2006 contract and found no errors. Nevertheless, this is a function that should have been done by BEP personnel before payment was made.

Improper COR Contact with the Contractor When Developing Government Cost Estimates

According to the Procurement Integrity Act, the expenditure of public funds requires the highest degree of public trust and an impeccable standard of conduct. Those involved in federal contracting should strictly avoid any conflict of interest or even the appearance of a conflict of interest in Government-contractor relationships.²² In addition, BEP Circular 70-06.15 *Contracting Officer's Representative Certification Program*, states that the COR is to maintain an arm's-length relationship with the contractor.

The COR, in a July 2010 email to Burson-Marsteller representatives, asked the contractor for assistance in preparing a cost justification memorandum requesting \$10.5 million in additional funding for the contract. The email ended with the COR asking contractor personnel to "please keep this close to the vest as it is really intended as an inter-government memo." When asked about this, the COR told us that she sent the email in an attempt to formulate a budget because she felt Burson-Marsteller better understood the costs. She added that obtaining assistance from the contractor when formulating a budget was not how she typically operated. We believe that asking contractor personnel to maintain secrecy about the request for assistance in preparing the cost justification memorandum, and asking for that assistance in the first place,

²² 48 USC §3-101

calls into question the COR's ability to objectively provide contract oversight.

Weak Acquisition Management, Human Capital, and Policies and Procedures

Known Contracting Problems Not Addressed

In July 2006, OPE assessed BEP's acquisition operations and found, among other things, deficiencies with pricing analysis, contract file documentation, small business program participation, and subcontractor monitoring for compliance with small business program goals. Two years later, in July 2008, OPE completed another assessment of BEP's acquisition operations and internal controls and found new, as well as repeat problems. Among the observations highlighted in the 2008 report are (1) a severe staffing shortage, especially in contract administration; (2) a lack of corporate-level policies, processes, and controls; (3) inadequate and missing contract file documentation; (4) concerns with contract administration; and (5) concerns with the acquisition payment process. In the 2008 report, OPE specifically noted that the Burson-Marsteller contract file organization was confusing and many documents were missing.

BEP management was responsible for implementing corrective actions to address findings resulting from the 2006 and 2008 OPE assessments. As of the start of our audit in April 2011, many of the deficiencies reported by OPE had not been corrected. Some are still in the process of being corrected as of the end of our fieldwork in April 2013.

Our audit of the Burson-Marsteller contract administration revealed contract oversight weaknesses consistent with findings from OPE's reports. Our follow-up on the status of recommendations made in OPE's 2006 and 2008 reports revealed that among other problems, corrective actions had not been implemented in the areas of file documentation, subcontractor monitoring for compliance with small business goals, payment approval processes, and policies and procedures.

We also found that BEP management did not effectively communicate the results of OPE's 2006 and 2008 assessments to all appropriate personnel. Specifically, BEP's Office of Financial Management personnel were not notified of findings related to the payment approval process for contracts even though they have an essential role in implementing corrective action in this area. In addition, control weaknesses in OPE's reports were not communicated to BEP's Office of Compliance who was responsible for coordinating BEP's management assurance process in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*.²³ As such, there was no evidence that the Chief Financial Officer or the Office of Compliance (1) assessed the impact of the control weaknesses identified by OPE as part of the OMB Circular A-123 process, (2) monitored corrective actions, or (3) assessed the need for increased monitoring of the acquisition function.

BEP management's lack of timely corrective action and enforcement of regulatory mandates, policies, and internal control guidelines resulted in an increased risk of noncompliant acquisitions and increased costs to the Government.

Contracting Policies and Procedures Lacking

The Office of Acquisitions employees we interviewed expressed confusion as to whether contract administration guidelines existed or were current. The CO responsible for the Burson-Marsteller contract from June 2010 until the end of the contract referred to BEP's Contract Administration Guide as the relevant procedures for administering contracts. The Chief of Acquisitions told us that those procedures are outdated, but have not been revised. Other employees told us that each division within the Office of Acquisitions has its own file maintenance processes and acquisition procedures, and there were differences between divisions in carrying out contract administration activities.

²³ OMB Circular A-123, dated December 2004, provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal controls.

The Chief of Acquisitions acknowledged the lack of uniform/up-to-date policies and procedures and told us that remediation efforts are underway. In 2010 he established a policy division and in mid-2011, the policy division distributed selected FAR checklists and supplements to the acquisition staff. The policy division also issued a Contract Planning Policy Guide in March 2012 to establish uniform procedures for basic contract planning functions as prescribed in the FAR. While these are steps in the right direction, we believe that based on the responses we were given by acquisition personnel during this audit and BEP's track record, senior management will need to continually and closely monitor implementation activities until institutionalized.

Acquisition Staff Vacancies

The 2008 OPE report noted that as of March 2008, the Office of Acquisitions had a staffing vacancy rate of 28 percent. In addition, at that time, there was a vacancy rate in the contract administration division of 63 percent. As a result of high turnover during the life of the Burson-Marsteller contract, the contract was administered by seven different individuals in the Office of Acquisitions, with no one assigned to administer the contract in 2009.

BEP officials told us that the combination of low staffing levels and employee turnover during the Burson-Marsteller contract period resulted in contract administration employees having insufficient resources to perform required functions. In addition, employee skills were not always appropriately aligned with tasks assigned and employee morale was low.

BEP officials also stated that attempts were made to hire additional contract administration resources; however, due to what they described as a highly competitive market for contracting personnel throughout most of the period of the Burson-Marsteller contract, they were unsuccessful. Since 2010, the Chief of Acquisitions cited improvements in human capital management of his section, and pointed to the hiring of a contract administration manager and additional staff, establishing a policy division, and reorganizing current staffing assignments. Additionally, BEP management reassessed staffing needs given

the March 2013 transfer of non-manufacturing procurement functions to a Treasury shared service provider.

Recommendations

We recommend that the BEP Director:

1. Determine whether the problems identified with the Burson-Marsteller contract are systemic to overall contracting practices and constitute a reportable material weakness in program administration under Treasury's FMFIA process.

Management Response

BEP concurred with our recommendation to make this determination. BEP's assessment and determination will be based on results of internal reviews required under OMB Circular A-123. BEP expects to make a final determination by September 30, 2013.

OIG Comment

Management's planned action meets the intent of our recommendation.

2. Direct the Office of Acquisitions to establish standard policies and procedures, train employees in the new policies and procedures, and implement an accountability plan to ensure they are followed. Matters that should be addressed in the policies and procedures include, but are not limited to, roles and responsibilities of COs, CORs, payment officials, and others with respect to (a) ensuring task order awards are consistent with contract type, (b) approving subcontracts and monitoring contractor performance with subcontracting plans, (c) negotiating price on task orders, (d) developing IGCEs, (e) ensuring COR contacts with contractors are for permissible purposes, (f) reviewing and approving contractor invoices for payment, and (g) ensuring proper use of FAR clauses in solicitation and contract award documents.

Management Response

BEP concurred with the recommendation. As of October 2012, BEP's Office of Acquisition established standard policies and procedures in support of the FAR and the Department of the Treasury Acquisition Regulation. BEP also conducted and will continue to provide training to employees to promote adherence to policies and procedures. Among the actions taken to address specific policy and procedure issues, BEP created a Contract Planning Policy Guide, Contract Administration Guidebook, and FAR Check Sheets and Reference Guides.

The management response also identified a number of actions taken for items (a) through (g) in the recommendation.

OIG Comment

BEP's actions generally meet the intent of our recommendation. It will be important going forward for BEP management to exercise continuous oversight of contracting activities to ensure the deficiencies cited in this report do not reoccur.

3. Direct the Office of Acquisitions to inventory all contract files, identify any missing documents, and reconstruct the files as necessary.

Management Response

BEP Management concurred with this recommendation. An inventory of files is ongoing and is expected to be completed by September 30, 2013. All Office of Acquisitions personnel were trained on proper contract filing. The Office of Acquisition, Policy Division was assigned the responsibility for maintaining the file room. BEP also established a standard filing framework. The Policy Division plans to regularly review files to ensure compliance with the File Management Plan.

OIG Comment

Management's actions taken and planned satisfy the intent of our recommendation. We consider this recommendation open until the file review is complete and files have been reconstructed to meet FAR requirements.

4. Implement accountability mechanisms to ensure BEP executives and managers timely and comprehensively address deficiencies and recommendations identified by internal and external reviews, such as acquisition assessments by OPE.

Management Response

BEP concurred with the recommendation and has put accountability mechanisms into place. BEP's Office of Compliance tracks findings and corrective actions from external reviews in the Department of the Treasury's Joint Audit Management Enterprise System (JAMES).²⁴ Additionally, the status of findings reported is reviewed during BEP's Internal Control Policy Committee and Executive Internal Control Policy Committee meetings. The Office of Compliance will add findings from OPE and similar reviews to BEP's findings tracking and management review processes.

OIG Comment

Management's actions taken and planned satisfy the intent of our recommendation.

5. Direct the Office of Compliance to increase the frequency and scope of the monitoring of operational effectiveness, internal control, and compliance with laws and regulations by the Office of Acquisitions.

Management Response

BEP Management concurred with the recommendation and plans to expand its A-123 Appendix A (Internal Controls Over Financial Reporting) testing beginning the first quarter of fiscal year 2014. BEP plans to establish an oversight

²⁴ Auditor's Note: JAMES is Treasury's audit recommendation tracking system.

committee to monitor the Office of Acquisition's progress with respect to establishing and meeting plans of action and milestones to fully address our recommendations and review internal control assessments of BEP's acquisitions.

OIG Comment

BEP's planned actions meet the intent of our recommendation. We consider the recommendation open until the planned actions are implemented; BEP will need to establish a completion date in JAMES.

6. Ensure that staffing in the Office of Acquisitions is commensurate with the BEP's acquisition activities in light of the March 2013 transfer of non-manufacturing activities to a Treasury shared service provider. Going forward, BEP should work with OPE to identify appropriate recruiting and retention strategies when faced with acquisition staffing challenges.

Management Response

BEP concurred with the recommendation. BEP has completed rightsizing (a staffing to workload assessment) in the Office of Acquisitions and has been able to hire staff to address its needs. BEP plans to continue to work with OPE to identify appropriate recruiting and retention strategies. Staffing in the Office of Acquisitions has increased by more than 30 percent over the past 18 months.

OIG Comment

BEP's actions satisfy the intent of our recommendation.

7. Direct the Office of Acquisitions to determine whether Burson-Marsteller made a good faith effort to comply with its subcontracting plan for the 2006 contract. If it is found that a good faith effort was not made, BEP should assess the appropriate liquidated damages against the contractor.

Management Response

BEP's Office of Chief Counsel will review the facts surrounding the contract and assess whether there is a solid

basis for pursuing a claim on these grounds. Based on the assessment, the Office of Acquisitions will pursue any viable claims.

OIG Comment

BEP's planned actions satisfy the intent of our recommendation. We consider the recommendation open until the planned actions are taken; BEP will need to establish a completion date in JAMES.

* * * * *

We appreciate the courtesies and cooperation extended by your staff as we inquired about these matters. Major contributors to this report are listed in appendix 3. A distribution list for this report is provided as appendix 4. If you wish to discuss this report, you may contact me at (202) 927-5904 or Debbie Harker at (202) 927-5762.

/s/

Kieu T. Rubb

Director, Procurement and Manufacturing Audits

The objective of our audit was to determine whether the Bureau of Engraving and Printing (BEP) conducted its contracting activities in accordance with federal and Department of the Treasury (Treasury) acquisition requirements and BEP policies and procedures. Our audit scope was focused on BEP's 2006 Public Education and Awareness Program contract with Young & Rubicam, Inc., doing business as Burson-Marsteller (TEP-07-003).

While our original audit scope included a review of additional contracts, we subsequently decided to limit our review to the 2006 Burson-Marsteller contract. We did so based on (1) BEP's lack of progress in implementing corrective actions related to internal reviews performed in 2006 and 2008 by Treasury's Office of the Procurement Executive (OPE), (2) the consistency of our findings on the Burson-Marsteller contract with those in OPE's reviews, (3) the then potential transfer of BEP's non-manufacturing procurement activities to a Treasury shared service provider that subsequently took place in March 2013, and (4) the concerns raised by the Board of Governors of the Federal Reserve System (FRB) specific to the Burson-Marsteller contract.

BEP was unable to locate its pre-award files for the 2002 and 2006 Burson-Marsteller contracts, certain invoice packages related to the 2006 contract, support documentation for invoices from 2007 to 2009, and numerous other contracting documents. We were able to obtain some of the missing documents from Burson-Marsteller, including their technical and management proposals for both contracts, subcontractor documentation, and invoice documentation. As a result of BEP's incomplete files, we were unable to determine whether BEP conducted the contract pre-award, solicitation, evaluation, and award phases in accordance with federal and Treasury acquisition regulations and BEP policies and procedures.

In addressing our audit objective, we conducted fieldwork at BEP's Eastern Currency Facility and FRB offices in Washington, DC. We conducted our fieldwork from April 2011 to April 2013. As part of our fieldwork,

- We interviewed BEP's contracting officers, contracting officer's representative, and public education program personnel involved

with the 2006 Burson-Marsteller contract. We also interviewed other personnel in BEP's Office of Acquisitions to gain an understanding of their knowledge of BEP's contracting policies and procedures. In addition, we interviewed BEP Office of Financial Management personnel to gain an understanding of BEP's invoice review, approval, and payment processes.

- We interviewed BEP's Chief Financial Officer and Office of Compliance staff involved in assurance process reviews of the acquisition and payment functions in accordance with the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, dated December 2004. We also reviewed the guidance on internal controls to understand BEP management's responsibility to assess the internal control environment related to the acquisition function.
- We reviewed OPE's 2006, 2008, and 2013 acquisition assessment reports for BEP. We interviewed OPE personnel involved with the reviews to gain an understanding of the assessment process and results of the reviews.
- We interviewed FRB staff involved in the transfer of the public education program from BEP to FRB to gain an understanding of the concerns with BEP's contracting practices.
- We reviewed federal acquisition regulations and laws, Treasury and BEP acquisitions guidance and policies and procedures, and federal guidance on internal controls, including:
 - *Federal Acquisition Regulation*
 - OMB, *Guidelines for Assessing the Acquisition Function* (May 2008)
 - Small Business Act (Public Law 85-536, as amended through Public Law 110-246)
 - *Department of the Treasury Acquisitions Regulation* (June 2002)
 - *Department of the Treasury Acquisitions Procedures* (June 2011)
 - Federal Managers Financial Integrity Act of 1982
 - OMB Circular A-123

- U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government* (November 1999)
- OMB, Office of Federal Procurement Policy, *A Guide to Best Practices in Contract Administration* (October 1994)
- We reviewed BEP's 2006 Burson-Marsteller contract files, contract administration files, and related documents to the extent these were available. We also reviewed the available contract and contract administration files for BEP's 2002 contract with Burson-Marsteller (TEP-02-15) to obtain an understanding of task orders issued during that contract for materials fulfillment as well as the pricing analyses performed for the task orders issued.
- We reviewed BEP's contract payment files for the 2006 Burson-Marsteller contract to assess the completeness of invoicing records and the controls over the invoice review, approval, and payment process.
- We reviewed Burson-Marsteller's documents for the 2002 and 2006 public education awareness program, including the contractor's technical and management proposals for the 2002 and 2006 contracts, subcontractor documentation, invoice documentation, and NexGen note public education materials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



DIRECTOR

DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
WASHINGTON, D.C. 20228

July 11, 2013

MEMORANDUM FOR KJEU T. RUBB
AUDIT DIRECTOR
OFFICE OF INSPECTOR GENERAL

FROM: Larry R. Felix, Director *isi*
Bureau of Engraving and Printing

SUBJECT: Draft Audit Report – BEP’s Administration of the
Burston-Marsteller Public Education and Awareness
Contract was Deficient

Attached are the Bureau of Engraving and Printing’s (BEP) responses to the recommendations in the subject draft report.

If you have any questions, please contact Len Olijar at 202-874-2016.

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The Bureau of Engraving and Printing (BEP) has taken actions to address most, if not all of these recommendations, prior to issuance of this report. Nevertheless, BEP is happy to address the OIG's specific recommendations item by item as follows:

1. Determine whether the problems identified with the Burson-Marsteller contract are systemic to overall contracting practices and constitute a reportable material weakness in program administration under Treasury's FMFIA process.

Management Response

BEP concurs with the recommendation to make this determination. BEP management will make this assessment based upon the results of internal reviews and A-123/SOX testing required under OMB Circular A-123 performed in the Office of Acquisition (OA) during the period covered by and subsequent to this report including the results of the assessment to be performed by Treasury's Office of the Procurement Executive. A final determination will be made by September 30, 2013.

OIG Comment (Placeholder)

2. Direct the Office of Acquisition to establish standard policies and procedures, train employees in the new policies and procedures, and implement an accountability plan to ensure they are followed. Matters that should be addressed in the policies and procedures include, but are not limited to, roles and responsibilities of COs, CORs, payment officials, and others with respect to (a) ensuring task order awards are consistent with contract type, (b) approving subcontracts and monitoring contractor performance with subcontracting plans, (c) negotiating price on task orders, (d) developing IGCEs, (e) ensuring COR contacts with contractors are for permissible purposes, (f) reviewing and approving contractor invoices for payment, and (g) ensuring proper use of FAR clauses in solicitation and contract award documents.

Management Response

BEP concurs with this recommendation. As of October 2012, the BEP's Office of Acquisition (OA) established standard policies and procedures in support of the Federal Acquisition Regulation (FAR) and the Department of the Treasury Acquisition Regulation (DTAR) that will be updated and supplemented as necessary. BEP's OA has conducted and will continue to provide training to employees to promote adherence to policies and procedures.

The following specific actions were taken by OA regarding policies and procedures:

A Contract Planning Policy Guide and Contract Administration Guidebook were created to enhance the quality of contract planning and provide instructions for Contracting Officers (CO). This allows COs and staff to follow to assure proper contractor performance by establishing uniform procedures for basic contract planning functions prescribed in the FAR, DTAR and supplemented in the DTAP.

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The following actions were taken to address the specific issues noted in the OIG's recommendation:

(a) ensuring task order awards are consistent with contract type:

- FAR Parts 8, 12, 13 and 15 Check Sheet and Reference Guides have been created and provided to every OA employee. The check sheets and additional policy directives have been established to reflect the requirements of the FAR and DTAR. In Appendix 3 of the CAG, the Policy Division created file folder templates and mandated via the BCPO that they be used on every contract file.
- Plan of action and milestone templates were created for Acquisition Planning, Contract Chronology, Simplified Acquisition Planning and Federal Supply Schedules. These templates were created to ease the burden for Contract Specialists and Contracting Officers to ensure proper record keeping and adherence to FAR requirements.

(b) approving subcontracts and monitoring contractor performance with subcontracting plans:

- OA has increased subcontractor oversight by ensuring that the Prime Contractor requires subcontractors to enter awards in the electronic Subcontracting Reporting System (eSRS).
- OA employees attended Federal Government Employees eSRS Training. SBA also provided training on the eSRS, which will allow BEP to review and manage Individual Subcontracting Reports (ISR) and Summary Subcontract Reports (SSR) for approved Individual or Commercial plans. The training also provided detailed instructions for subcontractor filing requirements.
- All OA personnel have registered with eSRS to oversee applicable subcontract actions.

(c) negotiating price on task orders:

OA requires vendors to provide a schedule of rates, job categories, and labor rates when entering multiple-award, task-order contracts. If BEP wants specific services performed, the Contracting Officer issues a task order request. The vendors must offer those services at the same or lesser rate than what is specified in the contract. Task orders without the competitive element are utilized for single-award, indefinite-delivery contracts. Similar pricing requirements are also now in place for contracts for supplies (delivery-order contracts).

Steps have been taken to verify that obligations on task order contracts are clearly outlined and performance is carefully reviewed.

(d) developing Independent Government Cost Estimate (IGCE):

- Training is being provided for CORs and Program Managers to prepare proper IGCEs. Emphasis is being placed to ensure IGCEs include reasonable costs that a contractor may bear in performing the required services or providing the supplies. OA is also placing emphasis on receiving proper IGCEs in the procurement packages submitted for processing. As a result, an IGCE is a primary section of the file checklists. This is a new

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procedure added to the file checklist as an added safeguard to ensure IGCEs are in the contract file.

(e) ensuring Contracting Officer Representative (COR) contacts with contractors are for permissible purposes:

- In addition to the mandatory training that all CORs are required to take on an annual basis, OA has recently completed a full range of COR training that addressed a number of subject areas, including an emphasis on the requirement to maintain an arm's length relationship with contractors.
- OA Policy Division has improved its oversight of the COR Program reviewing: COR nomination letters for accuracy and completeness and COR applications meet established guidelines. This Division verifies that CORs are qualified and maintain certification in accordance with required Federal Acquisition Certification training, and are properly designated to assist the Contracting Officer (CO) in the administration of contracts in accordance with Treasury Acquisition Guidance and established internal control procedures.
- OA has formed a COR Network, with the purpose of identifying weaknesses in BEP's COR program and provides recommendations to improve COR administration. This Network will result in improved communications, greater oversight and better qualified CORs monitoring contracts and corresponding properly with contractors.
- BEP has established a dedicated position within the Policy Division, the Acquisition Career Manager, to provide direct oversight of the Federal Acquisition Certification in Contracting (FAC-C) and Federal Acquisition Certification in COR (FAC-COR) programs. In regards to the FAC-COR program the individual will be responsible for, but not limited to:
 - overseeing the COR network;
 - maintaining documentation to support COR certification;
 - managing the list of CORs to personnel changes;
 - providing guidance to CORs regarding training/continuous learning requirements;
 - coordinating and/or conducting training; and
 - responding to OPE requests for information, etc.

(f) reviewing and approving contractor invoices for payment:

BEP has improved invoice tracking and oversight through the development of 30 Funding Office Codes to be used on all procurement requests. BEP also uses the Invoice Payment Platform (IPP) which is a web-based system that electronically manages government invoicing from purchase order through payment notification. IPP allows BEP vendors to submit invoices electronically to the BEP Enterprise (BEN) that are then routed to the COR for review/approval prior to submission to the CO. BEN ensures there is no manipulation of the line items which improves accuracy and payment against billed line items which acts as a check and balance system.

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(g) ensuring proper use of FAR clauses in solicitation and contract award documents:

The OA Policy Division's staffing has expanded and now consists of a Division Manager, six Contract Specialists, two Management Analysts and one File Clerk. This staff keeps OA personnel and CORs up-to-date with FAR changes. OA now uses the Contract Lifecycle Management (CLM) automated acquisition system that updates all clauses and provides increased management oversight regarding proper application of the FAR.

OIG Comment (Placeholder)

3. Direct the Office of Acquisition to inventory all contract files, identify any missing documents, and reconstruct the files as necessary.

Management Response

BEP concurs with this recommendation. An inventory of all contract files is ongoing and will be completed by September 30, 2013, with the assistance of an outside contractor. The Office of Acquisition (OA) Policy Division provided mandatory training to all OA personnel on contract filing in accordance with FAR Subpart 4.803. Every step necessary to complete procurements must be documented in the contract file. This includes all steps necessitated by statute, executive order and/or regulation. Accountability for maintaining the file room was assigned by the Bureau Chief Procurement Officer (BCPO) to the Policy Division.

The OA, in conjunction with an Acquisition Quality Assurance Services contractor, has designed a File Management Plan (FMP) that establishes the standard filing framework to enable OA personnel to efficiently locate contract files stored in Lektriers. All inactive contracts have been removed, boxed, and stored in archives. The BCPO has designated the Contract Administration division to be the lead on this process. Contract Administration is officially closing out these contracts and other contract files in accordance with FAR Subpart 4.800. When contracts are completed and awaiting contract closeout they are physically separated and placed on designated shelves marked for closure within the Lektrier room. OA is presently in the final phase of implementing the FMP that includes contract files to be separated by fiscal year and by Contract ID.

The BCPO has also designated a primary contract gatekeeper within OA. This ensures contract files are being recorded when entering/exiting the file room, are accurately reflected in the online inventory, and that the location and status of any particular file can be identified in a consistent and rapid manner.

OA personnel are now being trained on the FMP and the OA Policy Division will regularly review files and the file room to ensure compliance with the FMP.

OA selected the following rigorous combination of FMP Control Options:

- Restrict primary gatekeeper access to a single individual
- Provide secondary access only to OA Managers
- Provide training to OA staff on proper file management procedures.

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OIG Comment (Placeholder)

4. Implement accountability mechanisms that ensure BEP executives and managers timely and comprehensively address deficiencies and recommendations identified by internal and external reviews, such as acquisition assessment reviews by OPE.

Management Response

BEP concurs with this recommendation and such accountability mechanisms are now in place. Findings and corrective actions from external reviews (A-123, OIG, etc.) are tracked in the Department of the Treasury's Joint Audit Management Enterprise Management (JAMES) system. The Office of Compliance (OC) maintains a database to track these items as well as findings from internal reviews and other reviews (ISO 9001 and 14001 audits). The OC provides monthly reporting to BEP functional and Executive Management on the status of corrective actions, highlighting any action past due. Additionally, the status of findings reported on both systems is reviewed during the quarterly Internal Control Policy Committee and Executive Internal Control Policy Committee meetings. The Office of Compliance will add findings from OPE and similar reviews to BEP's findings tracking and management review processes.

OIG Comment (Placeholder)

5. Direct the Office of Compliance to increase the frequency and scope of the monitoring of operational effectiveness, internal control, and compliance with laws and regulations by the Office of Acquisition.

Management Response

BEP concurs with this recommendation. The Office of Compliance's quarterly A-123 Appendix A (Internal Controls Over Financial Reporting) testing will be expanded beginning the first quarter of fiscal year 2014 to provide a greater level of assurance that the Office of Acquisition is operating effectively, as well as determining compliance with internal controls and laws and regulations. BEP's contractor for A-123 testing will assist with this effort. Office of Compliance internal reviews to-date have focused on contracts related to currency printing. The scope of these reviews will be expanded to cover contracts from all sources. Additionally, the Office of Acquisition will expand its testing in accordance with Appendix D of OMB Circular A-123.

In addition, BEP is going to establish an oversight committee composed of the Deputy Director, Chief Financial Officer and a representative from Legal Counsel to monitor OA's continued progress with respect to establishing and meeting plans of action and milestones to fully address these and future recommendations, review internal control assessments of BEP's acquisitions and make a recommendation to the Director regarding the FMFIA assessment that will be performed in accordance with the first recommendation, and drive BEP to becoming the Bureau of Excellence in Procurement.

OIG Comment (Placeholder)

Version Dated 7/10/13

6. Ensure that staffing in the Office of Acquisition is commensurate with the BEP's acquisition activities in light of the March 2013 transfer of non-manufacturing activities to a Treasury shared service provider. Going forward, BEP should work with OPE to identify appropriate recruiting and retention strategies when faced with acquisition staffing challenges.

Management Response

BEP concurs with this recommendation. Current staffing within the Office of Acquisition will be reviewed to assess if it is commensurate with BEP's acquisition activities. Information Technology (IT) services were transitioned to the IRS effective April 1, 2013. Acquisition authority for all manufacturing and non-manufacturing services excluding IT was retained at BEP. BEP has completed rightsizing (a staffing to workload assessment) in the OA and has been able to hire staff to address its needs.

BEP will continue to work with OPE to identify appropriate recruiting and retention strategies when faced with acquisition staffing challenges. OA staff recruitment in the current environment has been very successful. Staffing in OA has increased by more than 30% over the past 18 months. The focus is now on staff training and aligning staff to mission need.

OIG Comment (Placeholder)

7. Direct the Office of Acquisition to determine whether Burson-Marsteller made a good faith effort to comply with its subcontracting plan for the 2006 contract. R If it is found that a good faith effort was not made, BEP should assess the appropriate liquidated damages against the contractor.

Management Response:

BEP concurs with this recommendation. The Office of Chief Counsel will review the facts and circumstances surrounding the contract and assess whether there is a solid basis for pursuing a claim on these grounds. Based upon this assessment, the Office of Acquisition will pursue any viable claims, including a potential claim for liquidated damages.

Appendix 3
Major Contributors to This Report

Deborah L. Harker, Audit Manager
Eileen J. Kao, Auditor-in-Charge
Regina A. Morrison, Auditor
David W. Hash, Auditor
Christen J. Stevenson, Referencer

The Department of the Treasury

Deputy Secretary
Treasurer of the United States
Assistant Secretary for Management
Office of Strategic Planning and Performance Management
Office of Deputy Chief Financial Officer, Risk and Control Group

Bureau of Engraving and Printing

Director
Audit Liaison

Office of Management and Budget

OIG Budget Examiner

Board of Governors of the Federal Reserve System

Inspector General