



AMS Commodity Purchases for International Food Assistance Programs

Audit Report 03601-0002-41

OIG reviewed AMS' commodity procurement process for international food programs.

OBJECTIVE

We evaluated AMS' commodity procurement process for international food assistance programs to determine if (1) outreach was conducted to prospective vendors to meet the agency's goals of promoting competition, (2) applicable Federal Acquisition Regulation vendor qualification requirements were followed and only qualified vendors were able to submit bids, (3) contract closeout procedures were performed timely, and (4) unliquidated obligations from commodity contracts were monitored and funds deobligated.

REVIEWED

We reviewed applicable laws, regulations, policies, and procedures; interviewed AMS officials; and evaluated a non-statistical sample of 18 FY 2015–2016 contracts and a non-statistical sample of 12 vendor qualification packets.

RECOMMENDS

OIG recommends that IPD develop a method to identify and track when contracts are closed; develop procedures to track completed contracts and monitor closeout status; and develop a report format that shows unliquidated obligations that need review for further action.

WHAT OIG FOUND

The Department of Agriculture (USDA) Agricultural Marketing Service's (AMS) mission is to oversee programs that create domestic and international marketing opportunities. For international commodity purchases, AMS' Kansas City Commodity Operations International Procurement Division (IPD) manages procurement of food assistance on behalf of the United States Agency for International Development and the Foreign Agricultural Service.

Although OIG did not identify any issues with vendor outreach or vendor qualification, there are some controls AMS could strengthen in this program. OIG found, for fiscal years (FY) 2015–2016, that IPD did not close out 1,109 of 1,171 completed commodity contracts within the required 6-month timeframe. This occurred because IPD did not have an established method to track when contract closeout procedures should begin. We also found that IPD did not have a method to monitor whether contracts were closed timely. We identified that unliquidated obligation amounts associated with the backlog totaled over \$640,000.

Further, we found that IPD did not effectively manage unliquidated obligations for completed contracts to ensure that excess funds were released. This occurred because the Fund and Commodity Management Office provided incomplete and inconsistent unliquidated obligation monitoring reports to IPD for review. As of July 2017, there were over \$1.35 million of unliquidated obligations from completed contracts, which includes the \$640,000 from the FY 2015–2016 backlog.

AMS agreed with our findings and OIG accepts the AMS actions proposed to address the recommendations.



United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: September 26, 2018

AUDIT
NUMBER: 03601-0002-41

TO: Bruce Summers
Administrator
Agricultural Marketing Service

ATTN: Frank Woods
Chief, Internal Audits
Compliance Safety & Security Division

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: AMS Commodity Purchases for International Food Assistance Programs

This report presents the results of the subject review. Your written response to the official draft is included in its entirety at the end of the report. We have incorporated excerpts from your response, and the Office of Inspector General's position, into the relevant sections of the report. Based on your written response, we are accepting management decision for all six audit recommendations in the report, and no further response to this office is necessary. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

In accordance with Departmental Regulation 1720-1, final action needs to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publicly available information and will be posted in its entirety to our website (<http://www.usda.gov/oig>) in the near future.

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Background and Objectives

Background

The mission of the Department of Agriculture's (USDA) Agricultural Marketing Service (AMS) is to oversee programs that create domestic and international marketing opportunities for producers of food, fiber, and specialty crops. To support this mission, AMS' Kansas City Commodity Operations (KCCO) manages the acquisition, handling, storage, transportation, and disposition of agricultural commodities on behalf of domestic and international food aid programs such as the Food for Progress Program and the McGovern Dole International Food for Education and Child Nutrition Program. For international commodity purchases, KCCO's International Procurement Division (IPD) manages procurements of commodities for food assistance on behalf of the United States Agency for International Development (USAID) and the Foreign Agricultural Service (FAS).¹

Between fiscal years (FY) 2015 and 2016, IPD procured over \$1.1 billion in commodities for international food assistance programs. To acquire and pay for these commodities, IPD uses fixed-price contracts.² As part of the contracting process, IPD is responsible for ensuring pre-award, post-award, and closeout activities are conducted in accordance with the Federal Acquisition Regulation (FAR). IPD contracting officers, assisted by contracting specialists, are responsible for performing all contractual administrative functions from the beginning of the acquisition process to closeout. Specifically, contracting officers are responsible for ensuring that the contractor is paid for all goods delivered, less any damages/discounts. To track procurements throughout the process, IPD uses the Web-Based Supply Chain Management (WBSCM) system.³

The pre-award process includes soliciting and pre-qualifying prospective commodity vendors to submit bids.⁴ To solicit prospective vendors, IPD conducts outreach at industry functions and maintains vendor qualification information on its website. IPD includes all pre-qualified vendors on a Qualified Bidders List (QBL) and restricts the submission of bids and award of contracts to only those vendors on the list. IPD uses the list to maintain a roster of qualified vendors from which they can procure commodities with a short turnaround time from bid solicitation to

¹ On September 7, 2017, the Secretary transferred Farm Service Agency's (FSA) international commodity procurement function from FSA to AMS.

² A fixed-price contract provides for a price that is not subject to any adjustment on the basis of the contractor's cost experience in performing the contract.

³ WBSCM is an integrated online system used to track the commodities acquired for the various food programs administered by USDA.

⁴ IPD reviews prospective vendors for pre-qualification to ensure they fulfill administrative requirements, meet capability requirements for fulfilling commodity contracts, and demonstrate financial responsibility.

contract award. In FY 2016, there were 88 qualified vendors eligible to submit bids to procure commodities.⁵

For the post-award process, IPD ensures that qualified inspection certificates are included with invoices and commodities were delivered to the international destination. The final step of contract administration is the closeout process, which ensures all contractual and financial matters are settled.

The closeout process includes ensuring all required documentation is attached to the contract file (i.e., pre-award documentation, modifications, justifications, and evidence of physical completion), settling any disputes, obtaining a signed release of claims from the contractor, evaluating contractor performance, and finalizing records for retention and/or disposition. IPD contracting specialists/officers are responsible for closing contracts and utilize a closeout checklist that outlines FAR requirements.

Additionally, one of the elements of closing contracts is the review of unliquidated obligations and the subsequent deobligation of excess funds.^{6, 7} The Fund and Commodity Management Office (FCMO) is responsible for managing financial activities and works in conjunction with IPD to monitor unliquidated obligations. FCMO is responsible for preparing quarterly and annual monitoring reports to identify unliquidated obligations associated with IPD's contracts and IPD uses these reports to determine and certify the validity of the unliquidated obligations. If it is determined that unliquidated obligations are no longer needed, the funds are deobligated.

Objectives

We evaluated AMS' commodity procurement process for international food assistance programs to determine if (1) outreach was conducted to prospective vendors to meet the agency's goals of promoting competition, (2) applicable FAR vendor qualification requirements were followed and only qualified vendors were able to submit bids, (3) contract closeout procedures were performed timely, and (4) unliquidated obligations from commodity contracts were monitored and funds were deobligated.

Based on our review, we did not identify any issues related to AMS outreach or vendor qualification efforts.

⁵ The types of commodities for which vendors are prequalified to submit bids are: (1) bags, (2) bulk grain products, (3) corn products, (4) dehydrated potato products, (5) emergency food products, (6) oil products, (7) peas, beans, and lentils, (8) rice products, (9) soy products, (10) tallow, (11) wheat products, and (12) whole grain products.

⁶ An unliquidated obligation is the balance of excess funds remaining from the contract award after all payments have been made for the goods delivered.

⁷ Deobligations are caused by factors such as: (1) termination of a part of the project, (2) reduction in material prices, (3) cost under-run, or (4) correction of recorded amounts.

Finding 1: IPD Needs to Establish a Method to Monitor Contract Closeouts

For FYs 2015–2016, we found that AMS’ International Procurement Division (IPD) did not close out 1,109 of 1,171 completed commodity contracts within the required 6-month timeframe, resulting in a large backlog.⁸ This occurred because IPD did not have an established method to track when to initiate closeout procedures, nor a method to monitor if contracts were closed timely. As a result, IPD had limited assurance that commodity vendors met all contractual terms and unused funds were released. Over \$640,000 unliquidated obligation amounts are associated with the backlog as of July 2017.⁹

The Federal Acquisition Regulation (FAR) provides uniform acquisition policies and procedures for all Government agencies and prescribes timeframes for when contracts should be closed out. It states, “Files for firm-fixed-price contracts, other than those using simplified acquisition procedures, should be closed within 6 months after the date on which the contracting officer receives evidence of physical completion.”¹⁰ A contract is considered physically completed if the: (1) vendor has delivered all supplies and the Government has inspected and accepted the supplies and (2) vendor has performed all services to contractual terms and the Government accepted these services.¹¹

At the onset of our review, IPD staff informed us that there was a large backlog of completed contracts that needed closing, but that they were unable to fully address the backlog because awarding new contracts took priority over closing completed contracts. To determine the extent of the backlog, we reviewed the FY 2015–2016 contract data and found—as of July 2017—1,109 of 1,171 commodity contracts 6 months past their delivery dates and that needed to be closed. Additionally, the backlog included 352 contracts with unliquidated obligations totaling over \$640,000 that IPD had not reviewed (see Finding 2).

We reviewed documentation from the completed contracts IPD had closed out during our scope period and found the methods contracting specialists/officers used to determine the date of physical completion were unclear.¹² For instance, IPD’s closeout checklist specifies that the date used for physical completion is the date the commodities are shipped to their destination. However, IPD procurement staff informed us that they determined the date of physical

⁸ During FYs 2015–2016, IPD awarded 1,172 commodity purchase contracts valued at \$1.1 billion. As of July 18, 2017, there were 1,171 completed contracts over 6 months past their delivery dates.

⁹ As of July 18, 2017, unliquidated obligation amounts associated with IPD commodity contracts for FY 2015–2016 totaled \$640,663. This is part of the \$1.35 million total unliquidated obligation amount identified in Finding 2.

¹⁰ IPD uses firm-fixed-price contracts to award all its commodity contracts and does not use simplified acquisition procedures.

¹¹ FAR Part 4.804 (Feb. 2016).

¹² During our initial site visit in March 2017, IPD had closed out only seven contracts for the FY 2015–2016 scope period, which we non-statistically selected for review. For these contracts, we reviewed closeout documentation and interviewed IPD procurement staff responsible for managing the contracts. We subsequently obtained updated data in July 2017, which included an additional 55 contracts that were closed out since March 2017.

completion by using the contract's final invoice date. Nevertheless, for the contracts we reviewed, the physical completion dates indicated on the closeout checklists did not match the ship or final invoice date, and there was no rationale for dates used to determine when contracts were physically completed.

Furthermore, IPD does not have a method to track the dates contracts were closed to determine whether contracts have closed within the 6-month requirement. Currently, to identify the status of contract closeouts, IPD staff would have to review each contract file individually, which is cumbersome and time-consuming. Without a consistent method to track physical completion dates to initiate closeout procedures or determine when closeouts were completed, IPD could not have effectively monitored contracts to determine if they were meeting FAR requirements and timeframes.

If IPD does not address the backlog of contracts that needs closing, the Government can be susceptible to contractual and financial liability. Therefore, IPD should determine what actions constitute evidence of physical completion and communicate this determination to contracting officers and specialists to ensure uniformity when closing contracts. In addition, IPD should establish a method to track the status of contracts past their completion dates to ensure the closeout process can begin in a timely manner and to identify when contract closeout procedures are completed. Furthermore, IPD should provide training to contracting officers and specialists to reinforce their understanding of their roles and responsibilities in meeting FAR closeout requirements. Lastly, after a method to track the status of completed contracts has been established, IPD should address its backlog by determining the number of completed contracts that are over 6 months past their physical completion dates and perform closeout procedures.

IPD officials generally concurred with our findings and have assigned additional resources to address the backlog of completed contracts. Furthermore, IPD officials informed us that, subsequent to our fieldwork, they provided contract closeout training to contracting specialists/officers in September and October 2017 and are developing methods to improve the monitoring of the closeout process.

Recommendation 1

Determine what contract action constitutes evidence of physical completion and communicate this determination to contracting officers and specialists to ensure uniformity when closing contracts.

Agency Response

AMS conducted in-house contract closeout procedure training on October 18, 2017 for all contracting staff in IPD. During this session the contracting staff determined that the date which will be used to establish contract completion for all purchase orders will be the date the final

invoice is paid, and a contract closeout checklist was finalized. This determination was communicated to all contracting officers and specialists.

OIG Position

We accept AMS' management decision on this recommendation.

Recommendation 2

Establish a method to track the status of contracts that are past their completion dates and when contract closeout procedures are completed.

Agency Response

Reporting functionality currently exists to track when the last invoice from a purchase order was paid. Additionally, newly developed reporting functionality is in the testing phase which will allow AMS greater flexibility to query data based on a date range or specific supplier. The report and the query capability will be utilized to generate a monthly report to track the status of contracts past their completion dates and contract closeout progress. The monthly report will be provided to AMS Commodity Procurement management beginning on October 1, 2018 to track contract closeout status.

OIG Position

We accept AMS' management decision on this recommendation.

Recommendation 3

Provide training to IPD contracting officers and specialists to reinforce their understanding of their roles and responsibilities in meeting FAR closeout requirements.

Agency Response

On September 12 and 13, 2017, the Northwestern Procurement Institute presented a two-day course in the Kansas City office on FAR contract closeout procedures for contracting officers and specialists. On October 18, 2017, AMS conducted additional in-house training on closeout processes. The purpose of these sessions was to discuss the roles and responsibilities of contracting officers and contract specialists in meeting FAR closeout requirements.

OIG Position

We accept AMS' management decision on this recommendation.

Recommendation 4

Determine the number of completed contracts that are over 6 months past their physical completion dates and perform closeout procedures.

Agency Response

Currently, IPD has 1,765 open purchase orders which are at least six months past their physical completion dates. Closeout procedures will be completed on these open purchase orders and others that move 6 months past their physical completion date by June 30, 2019.

OIG Position

We accept AMS' management decision on this recommendation.

Finding 2: AMS Did Not Effectively Manage Unliquidated Obligations

We found that IPD did not optimize contract funds in its management of unliquidated obligations for completed contracts. This occurred because the Fund and Commodity Management Office (FCMO) provided inconsistent monitoring reports for IPD to use in reviewing completed contracts with unliquidated obligations. Specifically, the reports of USAID contracts identified all unliquidated obligations associated with its contracts,¹³ whereas the reports of FAS contracts contained incomplete information and reflected only a portion of its unliquidated obligations for IPD to review. As a result, IPD had limited assurance that all unliquidated obligations, especially those from FAS contracts, were reviewed, and excess funds that could be used for international food assistance were deobligated. As of July 2017, there were over \$1.35 million of unliquidated obligations from completed contracts.¹⁴

According to Departmental Regulation 2230-001, it is important for an agency to review unliquidated obligations to ensure excess funds are deobligated timely. The regulation states that the optimum utilization of funds requires agencies to continuously review all current and prior year obligations and to certify quarterly that reviews and corrective actions are performed for unliquidated obligations inactive for at least 12 months. The regulation also states that financial personnel are responsible for producing reports for program and procurement personnel to review, and it is a shared responsibility of all program, procurement, and financial managers to ensure that agency funds are obligated properly and managed effectively.¹⁵ The procedures outlined in the regulation identify and assign responsibilities for the monitoring of unliquidated obligations to various personnel divisions within the agencies. AMS' unliquidated obligation identification process requires financial personnel from FCMO to generate reports for IPD to review. FCMO, however, divides its accounting function between USAID and FAS with dedicated program accountants responsible for the accounting of contracts issued for each agency and, therefore, provides separate reports for USAID contracts and FAS contracts.

The large backlog of completed contracts awaiting closeout requires effective prioritization of closing out contracts with unliquidated obligations. Our analysis found that 2,793 of 3,133 FY 2011 through 2016 contracts had not been closed out, and 691 of the 2,793 had unliquidated obligations totaling over \$1.35 million in excess funds.¹⁶ Complete and consistent unliquidated obligations monitoring reports will be needed for IPD to effectively reduce the backlog of completed contracts that date back to FY 2011 and ensure excess funds that could be used for international food assistance are deobligated.

¹³ While the reports of USAID contracts were complete, IPD was not able to close all the USAID contracts with unliquidated obligations due to the large backlog of completed contracts as described in Finding 1.

¹⁴ As of July 18, 2017, unliquidated obligations associated with IPD contracts totaled \$1,356,610. This total included amounts from both USAID and FAS contracts between FYs 2011-2016. The amount represented 0.04 percent of the almost \$3.7 billion value of the 3,133 contracts awarded between FY 2011 and 2016.

¹⁵ USDA Departmental Regulation 2230-001—Reviews of Unliquidated Obligations, Oct. 15, 2014, pg. 2.

¹⁶ As part of the contract closeout process, IPD is responsible for reviewing and deobligating unliquidated obligations. As mentioned in Finding 1, IPD had a large backlog of completed contracts that should have been closed out. For more details, see Finding 1.

We found that the USAID unliquidated obligation reports were complete and included all USAID contracts that had outstanding unliquidated obligations for IPD to review. In contrast, the FAS unliquidated obligation reports only included contracts deemed a priority for closeout, as determined by the FCMO accountant, for IPD to review. By providing reports of only the FAS priority contracts, many contracts with unliquidated obligations were not identified for review so the excess funds could be deobligated. For example, the FAS quarterly unliquidated obligation monitoring report, as of July 18, 2017, identified 40 contracts for IPD to review. However, we analyzed IPD's contract data for the same period, and identified 105 FAS contracts with unliquidated obligations.¹⁷ The incomplete information provided in the FAS reports hindered the ability of IPD to identify and review all of the contracts with unliquidated obligations that should be closed out and excess funds deobligated.

Since the proper review of unliquidated obligations is an important procedure to ensure excess funds are put to better use, it is essential that unliquidated obligation reports are complete and consistent between all contracts that IPD manages. In order to effectively prioritize the closeout of the backlog of completed contracts and effectively manage funds moving forward, IPD and FCMO should work together to develop and utilize a report format that captures all unliquidated obligations for review. FCMO should utilize this report for both USAID and FAS contracts to identify all contracts from the backlog of completed contracts to prioritize the closeout of those with unliquidated obligations.

IPD officials generally concurred with our findings and are working with FCMO to develop a consistent unliquidated obligation report format for both USAID and FAS contracts.

Recommendation 5

Develop and utilize a report format for both FAS and USAID contracts that captures all unliquidated obligations from completed commodity contracts that need to be reviewed for deobligation.

Agency Response

The Farm Service Agency (FSA)/Fund and Commodity Management Office (FCMO) currently provides AMS with a Title II unliquidated obligation report approximately every ninety days, which is reviewed for accuracy by the contracting staff. Historically, FAS unliquidated obligations were addressed more on an ad hoc basis, but AMS will utilize the same report and process in the future. In subsequent response received on September 19, 2018, AMS stated that this action was completed on September 14, 2018.

OIG Position

¹⁷ We reviewed WBSCM contract data dating back to the institution of WBSCM as the official contracting system of record in FY 2011. The 105 contracts were completed contracts that were issued in FYs 2011 through 2016.

We accept AMS' management decision on this recommendation.

Recommendation 6

Review all outstanding unliquidated obligations and determine which need to be deobligated.

Agency Response

FSA/FCMO provided a quarterly report in July 2018. The report showed unliquidated obligations of \$210,000, all of which could be deobligated. The contracting staff are generally provided two weeks to review the report and identify and annotate any lines that are determined to be accurate unliquidated obligations. The report is then returned to FCMO where those lines are immediately deobligated. This procedure will continue throughout the closeout of contracts that are over 6 months past their physical completion dates, with outstanding unliquidated obligations reviewed and deobligated no later than July 31, 2019.

OIG Position

We accept AMS' management decision on this recommendation.

Scope and Methodology

We conducted an audit of AMS' IPD process related to commodity procurement activities for international food assistance programs. The scope of our audit work covered FYs 2015–2016. Initially, we performed an audit survey at AMS' Kansas City Commodity Office (KCCO) in Kansas City, Missouri, from March to June 2017 to obtain background information and develop our audit objectives. Subsequently, we performed our audit fieldwork at KCCO from July 2017 to March 2018. During fieldwork, we expanded our scope to include contracts with unliquidated obligations dating back to FY 2011.

For FYs 2015–2016, IPD awarded 1,172 commodity contracts for international food assistance programs, totaling over \$1.1 billion. There were 88 vendors on the Qualified Bidders List at the end of FY 2016. We non-statistically selected samples from two sets of data: (1) commodity contracts and (2) Qualified Bidders List vendor prequalification documentation.

In determining the commodity contracts to review, we considered the (1) commodity group¹⁸ and (2) value of the contract. Based on these factors, we non-statistically selected the largest awarded contract for each of the 12 commodity groups, resulting in 12 contracts valued at \$53.5 million. In addition, we reviewed all 7 closed out commodity contracts, valued at \$5.7 million.¹⁹

In determining which vendor prequalification files to review, we considered factors such as (1) vendors that were added during FYs 2014–2017, (2) commodity group, and (3) value of the contract awarded during FYs 2015–2016. Based on these factors, we non-statistically selected 12 vendors, one from each commodity group.

To accomplish our objectives, we performed the following steps and procedures:

- We reviewed pertinent laws, regulations, policies, procedures, and guidance to gain sufficient knowledge of the program. This included the Federal regulations governing agency commodity procurement activities for international food assistance programs, the FAR, Agriculture Acquisition Regulation, Departmental Regulations, and agency procurement guidance.
- We interviewed AMS officials to gain an understanding of AMS' commodity procurement process and to determine if AMS' controls were adequate.
- We reviewed the commodity procurement information system to understand its access controls and to determine whether the data were updated in a timely manner.
- We assessed the management reviews and controls to evaluate AMS oversight of the commodity purchases for international food assistance programs.

¹⁸ The 12 commodity groups were identified by FSA's Commodity Operation statistics as of FY 2016.

¹⁹ When we initially obtained the FY 2015–2016 commodity contract data in March 22, 2017, only 7 of 1,172 contracts were closed out.

- We reviewed 18 of the 1,172 FYs 2015–2016 contract files to ensure they were properly completed and correctly identified that only qualified bidders were able to submit bids. In addition, we analyzed the solicitations to ensure that AMS outreach efforts produced multiple bids and to assess the level of competition for each commodity group.
- We reviewed all 7 contracts that were closed out as of March 22, 2017, from a universe of 1,172 purchase orders, to ensure completed contracts were closed out according to FAR requirements and AMS’ contract closeout procedures.
- We selected 1 vendor from each of the 12 commodity groups and reviewed prequalification documentation to assess whether the determinations met the prequalification requirements.
- We analyzed the Qualified Bidder Lists between FYs 2014 and 2017 to evaluate whether vendors were properly rejected/removed according to the prequalification requirements.
- We analyzed WBSCM contract analysis reports from FYs 2011 to 2016 to determine the number of contracts with unused funds that need to be deobligated.
- We analyzed USAID and FAS unliquidated obligation reports produced by FCMO for our scope period to assess whether AMS was effectively monitoring unliquidated obligations from commodity contracts.
- We gained an understanding of AMS’ commodity contract closeout process through interviews and review of supporting documentation.
- We performed testing to validate the accuracy and completeness of the contract data contained in WBSCM.
- We reviewed prior GAO and OIG audit reports relating to FSA’s commodity procurement process to follow up on prior audit findings.

During the course of our audit, we did not solely rely on or verify information in any agency information systems, and we make no representation regarding the adequacy of any agency computer systems, or the information generated from them because the fundamental processes related to the engagement objective did not rely on information systems or information technology.

We conducted this audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Abbreviations

AMS	Agricultural Marketing Service
FAR	Federal Acquisition Regulation
FAS	Foreign Agricultural Service
FCMO	Fund and Commodity Management Office
FSA	Farm Service Agency
FY	fiscal year
IPD	International Procurement Division
KCCO	Kansas City Commodity Office
OIG	Office of Inspector General
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
WBSCM	Web-Based Supply Chain Management

Exhibit A: Summary of Monetary Results

Exhibit A summarizes the monetary results for our audit report by finding and recommendation number.

Finding	Recommendation	Description	Amount	Category
2	6	IPD did not review unliquidated obligations and deobligate excess funds.	\$1,356,610	Funds To Be Put To Better Use
Total			\$1,356,610	

**AGENCY'S
RESPONSE TO AUDIT REPORT**



1400 Independence Avenue, SW.
Room 3071-S, STOP 0201
Washington, D.C. 20250-0201

TO: Gil H. Harden
Assistant Inspector General for Audit
Office of Inspector General

FROM: Bruce Summers /s/
Administrator

SUBJECT: Agricultural Marketing Service Response to Office of Inspector General (OIG)
Audit #03601-0002-41: AMS Commodity Purchases for International Food
Assistance Programs

We have reviewed the subject audit report and agree with the recommendations. Our detailed response, including actions to be taken to address the recommendations, is attached.

If you have any questions or need further information, please contact Frank Woods, Internal Audits Branch Chief, at 202-720-8836.

Attachment

Agricultural Marketing Service (AMS) Response to Office of Inspector General (OIG) Audit #03601-0002-41: AMS Commodity Purchases for International Food Assistance Programs

AMS appreciates the OIG's thorough assessment of USDA's process of approving potential commodity suppliers and procuring commodities for use in foreign food assistance programs. AMS is pleased to note that OIG did not identify any issues with vendor outreach or vendor qualification. Additionally, AMS began implementing processes and improvements during the audit and those efforts continue based on OIG recommendations.

We have reviewed the official draft OIG report and agree with the recommendations contained therein. Responses to each finding and recommendation are detailed below.

Finding 1: International Procurement Division (IPD) Needs to Establish a Method to Monitor Contract Closeouts

Recommendation 1

Determine what contract action constitutes evidence of physical completion and communicate this determination to contracting officers and specialists to ensure uniformity when closing contracts.

Agency response:

AMS conducted in-house contract closeout procedure training on October 18, 2017 for all contracting staff in IPD. During this session the contracting staff determined that the date which will be used to establish contract completion for all purchase orders will be the date the final invoice is paid, and a contract closeout checklist was finalized. This determination was communicated to all contracting officers and specialists.

Recommendation 2

Establish a method to track the status of contracts that are past their completion dates and when contract closeout procedures are completed.

Agency response:

Reporting functionality currently exists to track when the last invoice from a purchase order was paid. Additionally, newly developed reporting functionality is in the testing phase which will allow AMS greater flexibility to query data based on a date range or specific supplier. The report and the query capability will be utilized to generate a monthly report to track the status of contracts past their completion dates and contract closeout progress. The monthly report will be provided to AMS Commodity Procurement management beginning on October 1, 2018 to track contract closeout status.

Recommendation 3

Provide training to IPD contracting officers and specialists to reinforce their understanding of their roles and responsibilities in meeting FAR closeout requirements.

Agency response:

On September 12 and 13, 2017, the Northwestern Procurement Institute presented a two-day course in the Kansas City office on FAR contract closeout procedures for contracting officers and specialists. On October 18, 2017, AMS conducted additional in-house training on closeout processes. The purpose of these sessions was to discuss the roles and responsibilities of contracting officers and contract specialists in meeting FAR closeout requirements.

Recommendation 4

Determine the number of completed contracts that are over 6 months past their physical completion dates and perform closeout procedures.

Agency response:

Currently, IPD has 1,765 open purchase orders which are at least six months past their physical completion dates. Closeout procedures will be completed on these open purchase orders and others that move 6 months past their physical completion date by June 30, 2019.

Finding 2: AMS Did Not Effectively Manage Unliquidated Obligations

Recommendation 5

Develop and utilize a report format for both the Foreign Agricultural Service (FAS) and the U.S. Agency for International Development contracts that captures all unliquidated obligations from completed commodity contracts that need to be reviewed for deobligation.

Agency response:

The Farm Service Agency (FSA)/Fund and Commodity Management Office (FCMO) currently provides AMS with a Title II unliquidated obligation report approximately every ninety days, which is reviewed for accuracy by the contracting staff. Historically, FAS unliquidated obligations were addressed more on an ad hoc basis, but AMS will utilize the same report and process in the future.

Recommendation 6

Review all outstanding unliquidated obligations and determine which need to be deobligated.

Agency response:

FSA/FCMO provided a quarterly report in July 2018. The report showed unliquidated obligations of \$210,000, all of which could be deobligated. The contracting staff are generally provided two weeks to review the report and identify and annotate any lines that are determined to be accurate unliquidated obligations. The report is then returned to FCMO where those lines are immediately deobligated. This procedure will continue throughout the closeout of contracts that are over 6 months past their physical completion dates, with outstanding unliquidated obligations reviewed and deobligated no later than July 31, 2019.

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