



# FSA's Controls Over Its Contract Closeout Process



This report was revised and reissued on August 24, 2021, to correct and clarify some narrative information. These revisions had no material impact on the report's findings, conclusions, recommendations, or post audit actions.

# FSA's Controls Over Its Contract Closeout Process

## Audit Report 03601-0003-41

OIG evaluated FSA's and FPAC-BC's administration and oversight of the contract closeout process.

### OBJECTIVE

Our objective was to evaluate FSA's administration and oversight of the contract closeout process. Specifically, our objective was to determine whether FSA had adequate controls in place to ensure service contracts were timely and correctly closed out and funds were properly deobligated. We expanded the scope of our audit to include FPAC-BC, who assumed responsibility for FSA's contracts beginning in October 2018.

### REVIEWED

We reviewed laws, regulations, policies, and procedures related to the contract closeout process; interviewed key FPAC-BC personnel, including those that transitioned from FSA; and reviewed a sample of six service contracts.

### RECOMMENDS

We recommend that FPAC-BC establish an action plan to clear the contract backlog, ensure contracts are closed timely, develop and implement a mechanism to track closeout dates, require contracting staff to prioritize supervisory and management reviews, and ensure contract files include required documentation.

### WHAT OIG FOUND

The Farm Service Agency's (FSA) mission is to equitably serve all farmers, ranchers, and agricultural partners through the delivery of effective, efficient agricultural programs for all Americans. In fiscal years (FY) 2016–2018, FSA obligated over \$508 million for various contracted products and support services. In May 2017, the Department of Agriculture (USDA) established a new mission area called Farm Production and Conservation (FPAC). USDA also established a business center within FPAC (FPAC-BC) and, in October 2018, FSA transferred responsibility for most of its contracts to FPAC-BC.

We reviewed six closed contracts and found that all six contracts were not closed out timely, with delays ranging from 3 days to over 5 years. This occurred because neither FSA nor FPAC-BC made it a high priority to close out contracts, nor did they have a mechanism in place to track when contracts needed to be closed out and funds deobligated. As a result, \$738,907 in funds were not deobligated timely.

We also found that both FSA and FPAC-BC did not monitor the contract closeout process adequately because neither entity conducted supervisory nor management reviews. In addition, the files for all six of the contracts we reviewed were missing required FAR documentation and the files for five of the six contracts we reviewed lacked a standardized checklist, which could have been used to ensure that contracts were properly closed out. Lastly, for the three contracts we reviewed that required contractor performance evaluations, there was no evidence that the evaluations were completed in the Contractor Performance Assessment Reporting System.

FPAC-BC agreed with our findings and recommendations and we accepted management decision on all 12 recommendations.





## OFFICE OF INSPECTOR GENERAL

United States Department of Agriculture



**DATE:** August 24, 2021

**AUDIT**

**NUMBER:** 03601-0003-41

**TO:** Zach Ducheneaux  
Administrator  
Farm Service Agency

**ATTN:** Gary Weishaar  
Branch Chief  
External Audits and Investigations Division

**FROM:** Gil H. Harden  
Assistant Inspector General for Audit

**SUBJECT:** FSA's Controls Over Its Contract Closeout Process

This report presents revised results of the subject audit. We regret any inconvenience these revisions may have caused FSA, and we appreciate the agency's continuous assistance. Your initial written response to the official draft report, dated March 3, 2020, is included in its entirety at the end of this report. Excerpts from your response and the Office of Inspector General's position are incorporated into the relevant sections of the report. Based on your response, we accepted management decision for all audit recommendations in the report.

As part of an internal quality control process, we identified errors in the report we issued on March 27, 2020. Consequently, we revised the report to address these errors. Ultimately, these revisions resulted in no material impact on the reported findings, conclusions, and recommendations. Therefore, further response from FSA will not be required.

Please continue to follow your agency's internal procedures in forwarding documentation for final action 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.

Again, we appreciate the continued courtesies and cooperation extended to us by members of your staff. This updated 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

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## Background

The Farm Service Agency's (FSA) mission is to equitably serve all farmers, ranchers, and agricultural partners through the delivery of effective, efficient agricultural programs for all Americans. With 50 state offices and 2,124 county offices, including offices in U.S. territories, FSA administers farm programs and farm loans to farmers and ranchers across the country. To accomplish its mission, FSA contracts for products and services to support its overall management of these programs. In fiscal years (FY) 2016–2018, FSA obligated over \$508 million for various product and support services, such as information technology, aerial photography, and other management support services.

In May 2017, the Department of Agriculture (USDA) established a new mission area called Farm Production and Conservation (FPAC). The purpose of the new mission area was to make FPAC the Department's focal point for the Nation's farmers, ranchers, and other stewards of private agricultural lands and non-industrial private forest lands. Three USDA agencies were realigned under the FPAC mission area: FSA, the Risk Management Agency, and the Natural Resources Conservation Service. To accomplish FPAC's overall mission, USDA established a business center within FPAC (FPAC-BC) to carry out the consolidated administrative functions for the three agencies. The administrative functions consolidated within FPAC-BC for the three agencies included acquisition management.<sup>1</sup> FPAC-BC became operational in October 2018, at which time FSA transferred responsibility for most of its contracts, along with the staff that administered them, to FPAC-BC.

Federal agencies must ensure that all awarded contracts comply with the contracting regulations outlined in the Federal Acquisition Regulation (FAR). The FAR identifies the four phases of the contracting process as:

1. preaward;
2. award;
3. contract administration; and
4. contract closeout.<sup>2</sup>

For service contracts, contract closeout occurs when the contractor has completed the required contracting actions and the Government has accepted all services. The FAR requires contracting officers to ensure all contract actions are completed and to verify that the file is ready for closeout.

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<sup>1</sup> Other administrative functions include financial management, budgeting, human resources, information technology, internal controls, risk management, and strategic and annual planning.

<sup>2</sup> FAR Parts 4, 9, 14, 15, and 42.

Contracting officers are responsible for overseeing the contract closeout process with assistance from the contracting officer representative (COR) or technical representative.<sup>3</sup> The contracting officer must ensure applicable reports are completed and request that the contractor submit required closeout documents for the contract.<sup>4, 5</sup> If Government property was furnished under the contract, contracting officers must coordinate with the COR to verify the contractor's inventory of Government property is accurate and ensure that the contractor properly disposes of the property. Contracting officers must also ensure the contractor is paid for all work performed and that any outstanding balances the contractor owes the Government are collected in a timely manner. Lastly, contracting officers must ensure that the contract is closed out properly, contract files are retained for storage for the required period, and the contractor's performance evaluation is finalized in the Contractor Performance Assessment Reporting System (CPARS), if applicable.

As part of the contract closeout process, the contracting officer must also determine if any remaining funds on the contract, which were not used, should be deobligated.<sup>6</sup> Deobligated funds regain availability following cancellation and may be reobligated within the period of the appropriation's availability. The contracting officer should review the contract to see if any unliquidated funds remain under the contract or order and confirm that the contractor is paid for all accepted work.<sup>7</sup> If a determination is made to deobligate the funds, the contracting officer must promptly issue a deobligation modification to remove the funds from the contract.

## Objectives

Our objective was to evaluate FSA's administration and oversight of the contract closeout process. Specifically, our objective was to determine whether FSA had adequate controls in place to ensure service contracts were timely and correctly closed out and funds were properly deobligated.

We subsequently expanded the scope of our audit to include FPAC-BC, which assumed responsibility for most of FSA's contracts in October 2018. Since FPAC-BC is now responsible for the contracts, all recommendations in this report will be addressed to FPAC-BC.

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<sup>3</sup> The COR is an individual designated and authorized in writing by the contracting officer to perform specific technical or administrative functions.

<sup>4</sup> Applicable reports could include a patent report, a final royalty report, a plant clearance report, and/or a contract audit.

<sup>5</sup> These documents may include a *Contractor Notification and Release of Claims* and/or the contractor's response to the agency's assessment of the contractor's performance in the Contractor Performance Assessment Reporting System.

<sup>6</sup> Deobligation is the agency's cancellation of any remaining amounts of awarded funds from a contract or order.

<sup>7</sup> Unliquidated obligations are funds not spent at the close of a contract.

## Section 1: Contract Closeout Process

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### Finding 1: Contracts Need to be Closed Out Timely and Remaining Funds Deobligated

We found that all six contracts we reviewed were not closed out timely, with delays ranging from 3 days to over 5 years past the closeout due date. This occurred because neither FSA nor FPAC-BC made it a high priority to close out contracts, nor did they have a mechanism in place to more efficiently and effectively track when contracts needed to be closed out and funds needed to be deobligated.<sup>8</sup> As a result, \$738,907 in funds were not deobligated timely and made available for other agency priorities. In addition, FSA and FPAC-BC were at risk for undelivered services and possible future claims from contractors.

FAR and USDA Procurement Advisory No. 93C, *Contract Closeout Procedures*, establishes time standards for closing out contract files.<sup>9</sup> The time standards for closing contracts vary by contract type and range from 30 days to 36 months, after evidence of completion. A contract is considered complete when the Government has received all required deliverables and has inspected and accepted all supplies, services, or materials. As part of the contract closeout process, the contracting officer must also determine if any remaining funds on the contract should be deobligated. If a determination is made to deobligate the funds, the contracting officer must promptly issue a deobligation modification to remove the funds from the contract.

First, we assessed FSA's controls over contract closeout to determine how the closeout process was managed before the transition to FPAC-BC. To assess FSA's controls over the closeout process, we non-statistically selected three contracts that were closed before the transition. We found that none of the three contracts were closed out timely. We also found that FSA did not deobligate funds on all of the contracts within the required time standards. For example, one of the FSA contracts we reviewed had a closeout date of September 19, 2011, but was not closed out until September 24, 2016—over 5 years later. The contract also had \$3,972 in excess funds that should have been deobligated on March 21, 2013, so that those funds could have been used for other agency priorities. However, the funds were not deobligated until September 6, 2016—over 3 years later.

Due to the transition of FSA into FPAC, we expanded the scope of our audit and assessed FPAC-BC's controls over the contract closeout process for three different contracts. Like FSA's contract closeouts in our sample, we found that none of the contracts were closed timely and FPAC-BC did not deobligate funds within the required time standards. For example, one of the FSA contracts we reviewed had a closeout date of May 26, 2013, but it was not closed out until November 28, 2018—over 5 years later.<sup>10</sup> The contract also had \$621,662 in excess funds that

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<sup>8</sup> Most of the FPAC-BC officials we spoke with were former FSA employees that transitioned over to FPAC-BC in October 2018.

<sup>9</sup> FAR 4.804, *Closeout of Contract Files*, and USDA Procurement Advisory No. 93 C, *Contract Closeout Procedures*, Revision C (May 18, 2017). USDA Procurement Advisory No. 93 C superseded USDA Procurement Advisories Nos. 93 A and B, both of which contained the same time standards for closing out contracts.

<sup>10</sup> In this case, we noted that most of the delay in closing out the contract occurred during the period in which FSA was responsible for the contract.

should have been deobligated on September 27, 2013, so that those funds could have been used for other agency priorities. However, the funds were not deobligated until September 17, 2018—almost 5 years later.

In both examples above, we were unable to determine why the contracts were not timely closed out and funds were not deobligated, since the contract specialists responsible for the contracts were no longer with the agency. For the six contracts we reviewed, delays in deobligating funds ranged from 5 days to almost 5 years. As a result, a total of \$738,907 in funds was not timely deobligated.

In August 2016, prior to FSA transferring responsibility for its contracts to FPAC-BC, FSA established what it referred to as a “Tiger Team,” whose purpose was to clear the backlog of contracts that needed to be closed out.<sup>11</sup> Although agency officials are unclear as to why, FSA disbanded the team before the backlog was cleared. As a result, FPAC-BC inherited from FSA a backlog of 1,184 contracts that needed to be closed out. There have been no other initiatives like the Tiger Team to address the backlog of contracts. As a result, as of June 13, 2019, the backlog of FSA contracts grew to over 1,400 contracts. This represents over 77 percent of the contracts that FPAC-BC administered. However, an FPAC-BC official mentioned during an August 2019 meeting that, since the transition, they have reduced their backlog of unliquidated obligations for FSA contracts from \$156 million to \$85 million, or by 54 percent.<sup>12</sup>

We found that neither FSA nor FPAC-BC had a mechanism in place for tracking when contracts needed to be closed out and funds deobligated. Both FSA and FPAC-BC used reports from the Integrated Acquisition System (IAS) to track the status of their contracts.<sup>13</sup> However, IAS does not currently track either the contract type or the contract’s estimated closeout date. Without a mechanism in IAS to track the contract types and their estimated closeout dates, both FSA and FPAC-BC primarily relied on their acquisition management staff to monitor their own contracts and ensure they were closed out timely. However, we determined that having the acquisition management staff monitor their own contracts for contract closeout was neither efficient nor effective due to high staff turnover and the high volume of contracts they manage.

When we spoke to FPAC-BC agency officials, they acknowledged that, due to limited staff, closing out contracts had not been a high priority. They also noted that they had primarily focused on processing new contracts as opposed to closing out old ones. However, according to an FPAC-BC official, FPAC-BC plans to hire an outside contractor to help them clear the backlog. The official also noted that FPAC-BC plans to redesign its operations branch to focus more on contract management so that contracts are completely closed out. However, the FPAC-BC official did not specify when these actions would be taken. Another FPAC-BC official we spoke to agreed with the need to more efficiently and effectively track estimated contract

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<sup>11</sup> FSA’s Acquisition Management Division created the Tiger Team under its Business Management Tiger Initiative (BMTI). The primary objective of the BMTI was to clear, within a 6-month period, the backlog of contracts needing to be closed out. The Tiger Team was divided into two separate groups: the Contract Closeout Group that focused on closing out contracts and the Unliquidated Obligations Group that focused on deobligating any remaining funds on the contracts closed out.

<sup>12</sup> At the time, FSA had 409 contracts with unliquidated obligations. The reduction in unliquidated obligations pertained to 77 of the 409 contracts.

<sup>13</sup> IAS is the primary system that both FSA and FPAC-BC used to award and manage contracts.

closeout dates. However, this official also noted that pursuing a modification to IAS or establishing some other mechanism to track estimated closeout dates for the contracts they were administering had not been a priority.

To meet this important fiscal responsibility, it is imperative that agencies close out contracts within required timeframes and deobligate any excess funds so that they can potentially be used for other agency priorities. To accomplish this, we recommend that FPAC-BC establish a process that ensures contracts are timely closed out and any remaining funds are deobligated. We also recommend that FPAC-BC develop and implement a mechanism to nationally track the estimated dates for when contracts need to be closed out and any remaining funds need to be deobligated. The development and implementation of such a mechanism would provide the agency valuable information and enable the acquisition management staff to monitor the status of FPAC-BC's performance, with respect to closing contracts and deobligating funds, to ensure these processes occur within required time standards. Finally, we recommend that FPAC-BC establish an action plan to timely and effectively clear its current backlog of contracts that need to be closed out and to deobligate any remaining funds.

## **Recommendation 1**

Establish an action plan to timely and effectively clear the current backlog of contracts that need to be closed out and to deobligate any remaining funds.

## **Agency Response**

In its March 3, 2020, response, FPAC-BC stated:

In fiscal year 2020, FPAC BC hired contractors to assist with the backlog of contract close out. The contractors are completing the USDA contract checklist, drafting modifications, and deobligation documents for FPAC Contracting Officer signature. As of January 31, 2020, over 30% of the outstanding contracts have been closed out. As a result of this recommendation, close out priority will be shifted to close out the oldest contracts first.

FPAC-BC provided an estimated completion date of December 31, 2020, for this action.

## **OIG Position**

We accept management decision on this recommendation.

## **Recommendation 2**

Establish a process that ensures contracts are timely closed out and any remaining funds deobligated.

## **Agency Response**

In its March 3, 2020, response, FPAC-BC stated:

The Integrated Acquisition System (IAS) provides a close out date.<sup>14</sup> The Acquisition Division Policy, Oversight and Accountability (POA) Team will request a financial management report of ULO and combine the report that represents contracts that are scheduled to close out.

FPAC-BC provided an estimated completion date of December 31, 2020, for this action.

## **OIG Position**

We accept management decision on this recommendation.

## **Recommendation 3**

Develop and implement a mechanism to nationally track the estimated dates for when contracts need to be closed out and any remaining funds deobligated.

## **Agency Response**

In its March 3, 2020, response, FPAC-BC stated:

IAS tracks the close out date. Therefore, by incorporating the Acquisitions Division/Financial Management reports outlined in Recommendation 2, FPAC BC will fulfill the requirements of this recommendation.

FPAC-BC provided an estimated completion date of December 31, 2020, for this action.

## **OIG Position**

We accept management decision on this recommendation.

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<sup>14</sup> On March 19, 2020, FPAC-BC provided further clarification on what IAS provides. According to FPAC-BC, “The Integrated Acquisition System (IAS) provides a period of performance (POP) end date for each contract. The Acquisition Division Policy, Oversight and Accountability (POA) Team will run a monthly report identifying all contracts where the POP end date has passed and the contract is not in a “Closed” status in IAS. This report will highlight those actions where more than 60 calendar days have passed since the POP end date, since final payment will likely have been made by then for most contracts. The monthly report will also include a flag for those contracts that still have an obligation balance remaining according to the IAS Report (Contract Closeout), which identifies whether an unliquidated obligation remains on a contract according to FMFI. A modification to deobligate excess funds would be completed before the contract is closed.”

## Finding 2: Contract Closeout Process Needs to be Adequately Monitored

Neither FSA nor FPAC-BC adequately monitored the contract closeout process. This occurred because neither FSA nor FPAC-BC conducted supervisory reviews of the contract files to ensure contracts were properly closed out within required timeframes, nor did they conduct management reviews of the contract closeout process. Without adequate monitoring of the contract closeout process, both agencies lacked assurance that the process was performed in accordance with the FAR. Furthermore, the agencies may not have been fully aware of the deficiencies found during our audit.

Office of Management and Budget (OMB) guidance states that management is responsible for establishing and maintaining internal controls to achieve effective and efficient operations and to achieve compliance with applicable laws and regulations.<sup>15</sup> OMB's Office of Federal Procurement Policy has further specified guidelines related to internal controls over the acquisition function. The guidelines involve effectively managing the acquisition process throughout contract performance and close-out, and monitoring and providing oversight to achieve desired outcomes.

Supervisory and management reviews are critical internal controls for monitoring contracts and ensuring compliance with applicable laws and regulations.<sup>16</sup> Supervisory reviews are needed to ensure that the contract files contain all the necessary documentation and that the contracting actions taken comply with the applicable laws and regulations.<sup>17, 18</sup> Management reviews supplement the supervisory reviews by evaluating, on a broader scale, the internal and administrative controls surrounding the program area being reviewed, in this case acquisition management, and identifying any internal control weaknesses and needed corrective actions. They also provide assurance that the control environment surrounding the program area being reviewed is working as prescribed.<sup>19</sup> However, our audit found that neither type of review was conducted.

### *Supervisory Reviews*

For the six contracts we reviewed, there was no evidence in the contract files that supervisors reviewed the contract closeout process. Prior assessments of FSA's contracting process also recognized the lack of supervisory reviews.<sup>20</sup> One of the assessments, completed in February 2018, recommended that a peer review process be

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<sup>15</sup> OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (July 2016); and OMB Office of Federal Procurement, *Conducting Acquisition Assessments under OMB Circular A-123* (May 2008).

<sup>16</sup> OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (July 2016); and OMB Office of Federal Procurement, *Conducting Acquisition Assessments under OMB Circular A-123* (May 2008).

<sup>17</sup> MP 4I-4.804, *Contract Closeout Procedures* (Jan. 2019).

<sup>18</sup> Supervisory reviews are reviews of individual work files created to accomplish the contract closeout process.

<sup>19</sup> GAO-14-704G, *Standards for Internal Control in the Federal Government* (Sept. 2014).

<sup>20</sup> *AMD Assessment of Contract Actions Captured During February 2017–February 2018* (Feb. 22, 2018); and *U.S. Department of Agriculture—Farm Service Agency Acquisition Management Division Assessment* (Sept. 2, 2016, draft).

established that would initiate cross-team reviews with other contracting offices. However, we found no evidence that this recommendation was implemented.

According to a former FSA official familiar with the February 2018 assessment, FSA began to develop procedures for the peer review process as recommended. However, FSA discontinued the development of procedures for the peer review process due to the pending transition of FSA contracts to FPAC-BC, noting that FPAC-BC's acquisition management staff would ultimately have to follow the procedures that FPAC-BC developed for supervisory reviews, as opposed to the ones FSA developed. However, after the transition, FPAC-BC also had not established any policies or procedures for conducting supervisory reviews of the contracting process and did not have plans to conduct them. Both FSA and FPAC-BC relied solely on agency contracting staff to monitor their own contracts. However, peers or supervisors, not the individual(s) responsible for the file, should perform the compliance reviews of the contract closeout process. Had FSA and FPAC-BC conducted supervisory reviews of the files as required, deficiencies—including those mentioned in Finding 3 of this report—could have been timely detected and corrected.

#### *Management Reviews*

Neither agency conducted management reviews of the contracting process during our scope period: FYs 2016–2019. Prior to the transition to FPAC-BC, FSA did not consider management reviews a priority due to limited staff. However, FPAC-BC officials we interviewed recognized the need for the reviews, stating that they were in the process of establishing policies and procedures for conducting them beginning in FY 2020.

According to an agency official, FPAC-BC was planning to conduct quarterly management reviews of the contracting process. The process would entail randomly selecting and reviewing a sample of contracts. However, the agency official did not specify when in FY 2020 the reviews would begin.

To adequately monitor the contract closeout process, we recommended that FPAC-BC establish policies and procedures for conducting supervisory reviews of the contract files to ensure that contracts are closed out timely and in accordance with FAR requirements. We also recommend that supervisory contracting staff make it a priority to timely complete the supervisory reviews. Furthermore, while FPAC-BC has a plan in place for conducting management reviews, we recommend that the agency establish a timeline for completing those reviews and ensure that the reviews include the contract closeout process.

### **Recommendation 4**

Establish policies and procedures for conducting supervisory reviews of the contract files to ensure that contracts are closed out timely and in accordance with FAR requirements.

## **Agency Response**

In its March 3, 2020, response, FPAC-BC stated:

Will establish policy and procedures for supervisory contract review with an estimated completion date of September 30, 2020.

## **OIG Position**

We accept management decision on this recommendation.

## **Recommendation 5**

Require that supervisory contracting staff prioritize completing the supervisory reviews timely.

## **Agency Response**

In its March 3, 2020, response, FPAC-BC stated:

The certification process outlined in Recommendation 4 will ensure the supervisory review is conducted by established dates.

FPAC-BC provided an estimated completion date of September 30, 2020, for this action.

## **OIG Position**

We accept management decision on this recommendation.

## **Recommendation 6**

Establish a timeline for completing the management reviews FPAC-BC plans for the contracting process.

## **Agency Response**

In its March 3, 2020, response, FPAC-BC stated:

Policy, Oversight and Accountability (POA) developed a contract file review checklist and implemented its first review in February 2020.

FPAC-BC provided an estimated completion date of February 28, 2020, for this action.

## **OIG Position**

We accept management decision on this recommendation.

## **Recommendation 7**

Ensure that the management reviews that FPAC-BC is planning include the contract closeout process.

### **Agency Response**

In its March 3, 2020, response, FPAC-BC stated:

This will be addressed in the supervisory certification and contract compliance review guidance as noted in our response to Recommendation 4.

FPAC-BC provided an estimated completion date of September 30, 2020, for this action.

### **OIG Position**

We accept management decision on this recommendation.

### **Finding 3: Contract Files Need to Include Required Closeout Documentation**

All six of the contracts we reviewed were missing documentation required by the FAR and Departmental guidance. For example, five of the six contracts were missing a standardized checklist documenting that the contract closeout process was properly completed and three of the six contracts that required them were also missing contractor performance evaluations. Neither FSA nor FPAC-BC could account for the missing documentation; therefore, it could not be determined whether the documents were misplaced, discarded, or not prepared by the contracting staff. As a result, both FSA and FPAC-BC were unable to either support their actions regarding the contract closeout process or address future inquiries. Furthermore, without adequate documentation in the contract file, the agency risks paying for products or services that were not received, receiving future claims from contractors, and selecting contractors with a history of poor performance.

The FAR states that contract files shall be sufficient to constitute a complete history of the contract action for the purpose of:

1. providing a complete background as a basis for informed decisions at each step in the acquisition process;
2. providing information for reviews and investigations; and
3. furnishing essential facts in the event of litigation or congressional inquiries.<sup>21</sup>

Additionally, USDA Procurement Advisory No. 93C provides specific guidance about required closeout documentation.<sup>22</sup> The advisory states that the closeout checklist should be completed for all contracts and retained in the contract file. The advisory also states that the contracting officer should complete the contractor performance evaluation assessment in CPARS when the contract exceeds the \$150,000 threshold. Finally, Federal regulations require Federal agencies to implement a records maintenance program so that contract files are archived and easily accessible.<sup>23</sup>

Our review of six non-statistically selected contracts disclosed required FAR and USDA Procurement Advisory No. 93C documentation missing from the contract files.<sup>24</sup> Our findings are detailed below.

#### *Contract Files Missing Required FAR Documentation*

All six of the contracts we reviewed were missing at least one piece of key documentation relating to the contract closeout process. For example, none of the contracts we reviewed contained a signed completion statement.<sup>25</sup>

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<sup>21</sup> FAR 4.801(b).

<sup>22</sup> USDA Procurement Advisory No. 93C, *Contract Closeout Procedures*, Revision C (May 18, 2017).

<sup>23</sup> FAR 4.805 (a).

<sup>24</sup> These were the same six contracts that were discussed in Finding 1 of this report. Three of the contracts were closed before the transition to FPAC-BC and three were closed after the transition.

<sup>25</sup> The completion statement indicates that the contracting officer conducted a final review of the contract file and certified to the best of his or her knowledge that all terms and conditions of the contract were met. The contracting

FPAC-BC officials we interviewed attributed the missing documentation to a number of factors, including the recent transition of the contracts from FSA to FPAC-BC. However, none of these factors could be confirmed causes. For example, an assessment of FSA's contracting process, completed in February 2018, also found required FAR documentation missing from contract files.<sup>26</sup>

#### *Acquisition Staff Not Using Standardized Checklist to Document Contract Closeout Process*

We found that a standardized checklist was not completed for five of the six contracts we reviewed. USDA Procurement Advisory No. 93C states, "The contract closeout checklist shall be included in the contract file to ensure that all applicable contract award and administration actions are included." Appendix A of the advisory contains an example of a standardized checklist that should be included with the contract closeout documentation. These checklist requirements include ensuring the goods and services were received, the final invoice was paid, and any remaining funds were deobligated in a timely manner. FPAC-BC staff we spoke to were generally aware that a checklist was required, but they could not account for why it was missing from the contract files we reviewed.

Of the three contracts we reviewed that FSA closed out prior to the transition to FPAC-BC, none contained a checklist for the contract closeout process. FPAC-BC established its own standardized checklist for the contract closeout process and included it in its standard operating procedures. However, for the three contracts we reviewed that FPAC-BC closed out, the contracting staff did not use this checklist. For one of the contracts, the contract specialist used another checklist that was not as comprehensive as the one specified in USDA Procurement Advisory No. 93C. Furthermore, the contract specialist did not fully complete the checklist. Staff we spoke to were aware of the standardized checklist that FPAC-BC developed, but were unable to account for why it was not used.

#### *Contractor Performance Evaluations Not Completed in CPARS*

For the three contracts we reviewed that required contractor performance evaluations, we found no evidence in the contract files that the contracting officer completed contractor performance evaluations in CPARS.

OIG reported this issue in an audit dated September 24, 2015.<sup>27</sup> In response to the audit, FSA agreed to establish procedures that ensured performance evaluations for applicable contract actions were completed in CPARS in a timely manner. Although FSA agreed to

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officer statement also attests that a final invoice was received and processed, as well as certifies that all necessary actions required to close out the contract were completed.

<sup>26</sup> Acquisition Management Division Assessment of Contract Actions Captured During February 2017–February 2018 (Feb. 22, 2018).

<sup>27</sup> Audit Report 50601-0002-12, *Farm and Foreign Agricultural Services Compliance with Contractor Past Performance Reporting Requirements*, Sept. 2015.

establish a review process to verify that the performance evaluations were completed in CPARS, as the issue persisted, the procedures were not performed.

As noted in Finding 1 of this report, FSA established a “Tiger Team” in August 2016 to clear the backlog of contracts that needed to be closed out. One of the Tiger Team’s objectives was to clear the backlog of contractor evaluations that needed to be completed in CPARS. However, prior to the transition to FPAC-BC in October 2018, FSA’s Acquisition Management Division acknowledged a backlog of contractor evaluations that still needed to be completed in CPARS. FPAC-BC inherited the backlog, which continued to increase following the transition. As of August 15, 2019, FPAC-BC was behind in completing the contractor performance evaluations for 295 of the 374 contracts it administered that required contractor evaluations.

According to agency officials, FPAC-BC plans to establish a new closeout support contract to assist contracting officers with closeouts. However, agency officials did not specify a timeframe for when the contractor would be hired to assist contracting officers in closing out contracts. We noted that it is imperative that contract files are properly maintained and secured, and represent a complete and accurate history of the contracting actions taken. We recommend that FPAC-BC issue guidance requiring contracting staff to use the standardized checklist that it developed for the contract closeout process. Furthermore, we recommend that periodic training be provided to the contracting staff on the use of the standardized checklist and the contract closeout documents required in the contract files. We also recommend that FPAC-BC establish an action plan to timely and effectively clear the current backlog of contracts that need contractor performance evaluations completed in CPARS and that it reiterate to contracting staff the requirement that, when applicable, they complete the contractor performance evaluations in CPARS. Finally, we recommend that FPAC-BC enforce standard file maintenance procedures to ensure that contract files are properly maintained and secured.

## **Recommendation 8**

Issue guidance requiring contracting staff to use the standardized checklist FPAC-BC developed for the contract closeout process.

## **Agency Response**

In its March 3, 2020, response, FPAC-BC stated:

Closeout checklist has been developed and guidance distributed to Operations Contracting Officers, Contract Specialists and nonfederal Contractors.

FPAC-BC provided an estimated completion date of February 28, 2020, for this action.

## **OIG Position**

We accept management decision on this recommendation.

## **Recommendation 9**

Provide periodic training to contracting staff on the use of the standardized checklist FPAC-BC developed and the contract closeout documents required in the contract files.

### **Agency Response**

In its March 3, 2020, response, FPAC-BC stated:

Policy, Oversight and Accountability (POA) will incorporate this training into Acquisition Division monthly training rotation 2<sup>nd</sup> quarter of FY 2020. POA will also redistribute the contract closeout checklist guidance from our response to Recommendation 8, on a quarterly basis.

FPAC-BC provided an estimated completion date of March 31, 2020, for this action.

### **OIG Position**

We accept management decision on this recommendation.

## **Recommendation 10**

Establish an action plan to timely and effectively clear the current backlog of contracts that need contractor performance evaluations completed in CPARS.

### **Agency Response**

In its March 3, 2020, response, FPAC-BC stated:

Assigned (8) warranted contracting officers to address the backlog of contract close out and CPARS. With the explanation that the NRCS/CPARS will be completed by March 31, 2020. The remainder of the backlog will be addressed according to the priority of the FPAC Chief Financial Officer (CFO). Using the closeout checklist from our response to Recommendation 8 to ensure completion of the CPARS reports.

FPAC-BC provided an estimated completion date of December 31, 2020, for this action.

### **OIG Position**

We accept management decision on this recommendation.

## **Recommendation 11**

Reiterate to contracting staff the requirement that they complete the contractor performance evaluations in CPARS, when applicable.

## **Agency Response**

In its March 3, 2020, response, FPAC-BC stated:

Policy exists in Farm Production and Conservation Operating Procedures (FPACPOP), Mandatory Procedures (MP) documents, that requires the completion of CPARS. A FPAC highlight will be distributed quarterly to remind contracting staff of this responsibility.

FPAC-BC provided an estimated completion date of December 31, 2020, for this action.

## **OIG Position**

We accept management decision on this recommendation.

## **Recommendation 12**

Enforce standard file maintenance procedures to ensure that contract files are properly maintained and secured.

## **Agency Response**

In its March 3, 2020, response, FPAC-BC stated:

POA implemented a contract file compliance review beginning February 2020 to address this recommendation. The Acquisitions Division personnel will be trained using a contract file naming convention on March 3, 2020.

FPAC-BC provided an estimated completion date of March 3, 2020, for this action.

## **OIG Position**

We accept management decision on this recommendation.

## Scope and Methodology

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We conducted an audit of FSA's and FPAC-BC's contract closeout process. The scope of our audit work covered FYs 2016–2019. To accomplish our objectives, we performed fieldwork at FSA and FPAC-BC national offices in Washington, D.C., from April 2019 through August 2019.

To assess both FSA's and FPAC-BC's controls surrounding the contract closeout process, we non-statistically selected and reviewed six contracts: three that were closed before the transition to FPAC-BC and three that were closed after the transition. Contracts were selected based on a number of factors, including the dollar value of the contracts and whether they had new task orders and/or purchase orders issued after the estimated closeout date.<sup>28</sup>

To select our sample of contracts to review, we relied on a FPAC-BC contract specialist's assessment of the information currently in both IAS and the General Services Administration's Federal Procurement Data System—Next Generation (FPDS-NG). The contract specialist used the information in both systems to determine estimated closeout dates for the contracts FSA and FPAC-BC administered during our scope period. We used the contract specialist's estimated closeout dates to non-statistically select our sample of contracts to review.

In developing the findings for this report, we performed the following steps and procedures.

At FSA and FPAC-BC national offices, we:

- Reviewed the pertinent laws, regulations, policies, and procedures related to the contract closeout process, including unliquidated obligations;
- Interviewed key personnel to gain an understanding of their roles and responsibilities relating to the contract closeout process, including unliquidated obligations;
- Ascertained the adequacy and effectiveness of FSA's and FPAC-BC's oversight of the contract closeout process; and
- Selected and reviewed a non-statistical sample of service contracts, including contracts with unliquidated obligations, and assessed the corresponding contract files for completeness and compliance with FAR requirements.

During the course of the audit, we obtained and reviewed information from both IAS and FPDS-NG. We limited reliability verification of information to the sample selected. This was done through interview of knowledgeable agency officials about the data and by comparing it with other available supporting documentation to determine consistency and reasonableness. From these efforts, we believe that our sample was sufficiently reliable for this report. We also make no representation regarding the adequacy of any agency computer systems, or the information generated from them because evaluating the effectiveness of information systems or information technology controls was not one of the audit's objectives.

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<sup>28</sup> As of April 5, 2019, FSA and FPAC-BC had issued 3,297 contracts valued at more than \$2.9 billion. We selected for review 6 of the 179 service contracts that were closed valued at over \$3.2 million.

We conducted this 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.

## Abbreviations

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BMTI.....	Business Management Tiger Initiative
COR .....	contracting officer representative
CPARS .....	Contractor Performance Assessment Reporting System
CFO.....	Chief Financial Officer
FAR.....	Federal Acquisition Regulation
FMMI.....	Financial Management Modernization Initiative
FPAC.....	Farm Production and Conservation
FPAC-BS .....	Farm Production and Conservation Business Center
FPACPOP .....	Farm Production and Conservation Procurement Operating Procedures
FPDS-NG.....	Federal Procurement Data System—Next Generation
FSA .....	Farm Service Agency
FY .....	fiscal year
IAS .....	Integrated Acquisition System
MP.....	Mandatory Procedures
NRCS .....	Natural Resources Conservation Service
OIG .....	Office of Inspector General
OMB .....	Office of Management and Budget
POA.....	Acquisition Division Policy, Oversight and Accountability
POP .....	period of performance
ULO .....	Unliquidated Obligation
USDA.....	Department of Agriculture

## Exhibit A: Summary of Monetary Results

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

<b>Finding</b>	<b>Recommendation</b>	<b>Description</b>	<b>Amount</b>	<b>Category</b>
1	2	Neither FSA nor FPAC-BC timely deobligated excess funds.	\$738,907	Funds to be Put to Better Use
<b>Total</b>			\$738,907	



**AGENCY'S  
RESPONSE TO AUDIT REPORT**



DATE: March 3, 2020

TO: United States Department of Agricultural  
Office of Inspector General

ATTN: Gil H. Harden  
Assistant Inspector General of Audits

FROM: Derek Beavers  
FPAC Acquisitions Division Director

SUBJECT: OIG Audit 03601-0003-41; FSA's Controls Over Its Contract Closeout Process

Attached please find the official response to recommendations identified in the official draft report dated February 13, 2020.

If you have any questions, please contact the Acquisitions Division Policy, Oversight and Accountability Branch Chief at [Heidi.Atkinson@usda.gov](mailto:Heidi.Atkinson@usda.gov).

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As Delegated By Derek Beavers

Attachment

CC:  
Robert Stephenson, Chief Operating Officer, FPAC-BC  
Gary Weishaar, Branch Chief, FPAC External Audits and Investigation  
Heidi Atkinson, POA Branch Chief, FPAC Acquisition Division

## **Attachment**

### **FPAC Acquisitions Division official response to OIG AUDIT 03601-0003-41 FSA's Controls Over its Closeout Process**

#### **What OIG Recommends:**

We recommend that FPAC-BC establish an action plan to clear the contract backlog, ensure contracts are closed timely, develop and implement a mechanism to track closeout dates, require contracting staff to prioritize supervisory and management reviews, and ensure contract files include required documentation.

#### **Finding 1: Contracts Need to be Closed Out Timely and Remaining Funds Deobligated**

##### **Recommendation 1**

Establish an action plan to timely and effectively clear the current backlog of contracts that need to be closed out and to deobligate any remaining funds.

**FPAC Acquisitions Division Response:** In fiscal year 2020, FPAC BC hired contractors to assist with the backlog of contract close out. The contractors are completing the USDA contract checklist, drafting modifications, and deobligation documents for FPAC Contracting Officer signature. As of January 31, 2020, over 30% of the outstanding contracts have been closed out. As a result of this recommendation. Close out priority will be shifted to close out the oldest contracts first.

**Estimated Completion Date:** December 31, 2020

##### **Recommendation 2**

Establish a process that ensures contracts are timely closed out and any remaining funds deobligated.

**FPAC Acquisitions Division Response:** The Integrated Acquisition System (IAS) provides a close out date. The Acquisition Division Policy, Oversight and Accountability (POA) Team will request a financial management report of ULO and combine the report that represents contracts that are scheduled to close out.

**Estimated Completion Date:** December 31, 2020

##### **Recommendation 3**

Develop and implement a mechanism to nationally track the estimated dates for when contracts need to be closed out and any remaining funds deobligated.

**FPAC Acquisitions Division Response:** IAS tracks the close out date. Therefore, by incorporating the Acquisitions Division/Financial Management reports outlined in Recommendation 2, FPAC BC will fulfill the requirements of this recommendation.

**Estimated Completion Date:** December 31, 2020

## **Finding 2: Contract Closeout Process Needs to be Adequately Monitored**

### **Recommendation 4**

Establish policies and procedures for conducting supervisory reviews of the contract files to ensure that contracts are closed out timely and in accordance with FAR requirements.

**FPAC Acquisitions Division Response:** Will establish policy and procedures for supervisory contract review with an estimated completion date of September 30, 2020.

**Estimated Completion Date:** September 30, 2020

### **Recommendation 5**

Require that supervisory contracting staff prioritize completing the supervisory reviews timely.

**FPAC Acquisitions Division Response:** The certification process outlined in Recommendation 4 will ensure the supervisory review is conducted by established dates.

**Estimated Completion Date:** September 30, 2020

### **Recommendation 6**

Establish a timeline for completing the management reviews FPAC-BC plans for the contracting process.

**FPAC Acquisitions Division Response:** Policy, Oversight and Accountability (POA) developed a contract file review checklist and implemented its first review in February 2020.

**Estimated Completion Date:** February 28, 2020

### **Recommendation 7**

Ensure that the management reviews that FPAC-BC is planning include the contract closeout process.

**FPAC Acquisitions Division Response:** This will be addressed in the supervisory certification and contract compliance review guidance as noted in our response to Recommendation 4.

**Estimated Completion Date:** September 30, 2020

## **Finding 3: Contract Files Need to Include Required Closeout Documentation**

### **Recommendation 8**

Issue guidance requiring contracting staff to use the standardized checklist FPAC-BC developed for the contract closeout process.

**FPAC Acquisitions Division Response:** Closeout checklist has been developed and guidance distributed to Operations Contracting Officers, Contract Specialists and nonfederal Contractors.

**Estimated Completion Date:** February 28, 2020

### **Recommendation 9**

Provide periodic training to contracting staff on the use of the standardized checklist FPAC-BC developed and the contract closeout documents required in the contract files.

**FPAC Acquisitions Division Response:** Policy, Oversight and Accountability (POA) will incorporate this training into Acquisition Division monthly training rotation 2<sup>nd</sup> quarter of FY 2020. POA will also redistribute the contract closeout checklist guidance from our response to Recommendation 8, on a quarterly basis.

**Estimated Completion Date:** March 31, 2020

### **Recommendation 10**

Establish an action plan to timely and effectively clear the current backlog of contracts that need contractor performance evaluations completed in CPARS.

**FPAC Acquisitions Division Response:** Assigned (8) warranted contracting officers to address the backlog of contract close out and CPARS. With the explanation that the NRCS/CPARS will be completed by March 31, 2020. The remainder of the backlog will be addressed according to the priority of the FPAC Chief Financial Officer (CFO). Using the closeout checklist from our response to Recommendation 8 to ensure completion of the CPARS reports.

**Estimated Completion Date:** December 31, 2020

### **Recommendation 11**

Reiterate to contracting staff the requirement that they complete the contractor performance evaluations in CPARS, when applicable.

**FPAC Acquisitions Division Response:** Policy exists in Farm Production and Conservation Operating Procedures (FPACPOP), Mandatory Procedures (MP) documents, that requires the completion of CPARS. A FPAC highlight will be distributed quarterly to remind contracting staff of this responsibility.

**Estimated Completion Date:** December 31, 2020

### **Recommendation 12**

Enforce standard file maintenance procedures to ensure that contract files are properly maintained and secured.

**FPAC Acquisitions Division Response:** POA implemented a contract file compliance review beginning February 2020 to address this recommendation. The Acquisitions Division personnel will be trained using a contract file naming convention on March 3, 2020.

**Estimated Completion Date:** March 3, 2020

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